

**MINUTES OF THE REGULAR MEETING OF THE
POWER AUTHORITY OF THE STATE OF NEW YORK**

March 27, 2007

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Closing		

March 27, 2007

Minutes of the Regular Meeting of the Power Authority of the State of New York held via video conference at the following participating locations at 11:05 a.m.:

- 1) New York Power Authority, 30 South Pearl Street, Albany, NY
- 2) New York Power Authority, 123 Main Street, White Plains, NY
- 3) New York Power Authority, Niagara Power Project, 5777 Lewiston Road, Lewiston, NY

The following Members of the Board were present at the following locations:

Frank S. McCullough, Jr., Chairman (Albany, NY)
Elise M. Cusack, Trustee (Lewiston, NY)
Robert E. Moses, Trustee (Albany, NY)
Joseph J. Seymour, Trustee (Albany, NY)
Leonard N. Spano, Trustee (Albany, NY)

Michael J. Townsend, Vice Chairman – Excused
Thomas W. Scozzafava, Trustee – Excused

Timothy S. Carey	President and Chief Executive Officer
Thomas J. Kelly	Executive Vice President and General Counsel
Joseph Del Sindaco	Executive Vice President and Chief Financial Officer
Vincent C. Vesce	Executive Vice President – Corporate Services and Administration
Steven J. DeCarlo	Senior Vice President – Transmission
Angelo S. Esposito	Senior Vice President – Energy Services and Technology
Louise M. Morman	Senior Vice President – Marketing and Economic Development
William J. Nadeau	Senior Vice President – Energy Resource Management and Strategic Planning
Edward A. Welz	Senior Vice President and Chief Engineer – Power Generation
Arnold M. Bellis	Vice President – Controller
John M. Hoff	Vice President – Procurement and Real Estate
Donald A. Russak	Vice President – Finance
William V. Slade	Vice President – Environmental Health and Safety
Daniel Wiese	Vice President and Inspector General – Corporate Security
Anne B. Cahill	Corporate Secretary
Angela D. Graves	Deputy Corporate Secretary
Dennis T. Eccleston	Chief Information Officer
Brian C. McElroy	Treasurer
Lisa Cole	Deputy Treasurer
Joseph J. Carline	Assistant General Counsel – Power and Transmission
Frederick E. Chase	Executive Director – Hydro Relicensing
Thomas J. Concadoro	Director – Accounting
James F. Pasquale	Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing
Michael A. Saltzman	Director – Media Relations
Marilyn J. Brown	Manager – Market and Pricing Analysis
Steven Lockfort	Manager – Risk Reporting
Joanne Wilmott	Manager – Community Relations, Niagara
Lewis Payne	Supervisor – Right of Way/Environmental
Mary Jean Frank	Associate Corporate Secretary
Lorna M. Johnson	Assistant Corporate Secretary
Jeffrey Carey	Special Assistant to the President’s Office
William Helmer	Special Licensing Counsel
Lynnette J. Taylor	Senior Legal Secretary

Steven A. Mitnick	Assistant Secretary for Energy and Telecommunications, Governor Spitzer's Office
Thomas Congdon	Special Assistant for Energy and Telecommunications, Governor Spitzer's Office
Colleen Hurley	Paralegal, Couch White LLP
Steve MacNish	Paralegal, Couch White LLP

Chairman McCullough presided over the meeting. Corporate Secretary Cahill kept the Minutes.

March 27, 2007

1. Approval of the Minutes

The Minutes of the Regular Meeting of February 27, 2007 were unanimously adopted.

March 27, 2007

2. **Financial Reports for the Two Months Ended February 28, 2007**

Mr. Bellis provided the Financial Reports for the two months ended February 28, 2007.

Exhibit "2-A"
March 27, 2007

NEW YORK POWER AUTHORITY
FINANCIAL REPORTS
FOR THE TWO MONTHS ENDED FEBRUARY 28, 2007

Financial Reports
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1	Financial Summary
2	Statement of Net Revenues
3	Statement of Net Revenues by Facility
4	Net Revenues-Variance from Budget
5	Operations & Maintenance
6	Statement of Net Assets
7	Summary of Net Generation
8	Capital Expenditures
9	Demand Side Management Financial Report
10	Operating Fund
11	Portfolio Performance and Financing Rates

NEW YORK POWER AUTHORITY FINANCIAL REPORT FOR THE TWO MONTHS ENDED FEBRUARY 28, 2007

(\$ in millions)

<u>Financial Summary</u>	<u>2007 YTD</u>		<u>February 2007</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Net operating revenues	\$50.6	\$35.9	\$18.7	\$15.3
Net revenues (loss)	46.5	26.0	18.5	10.4
O&M (incl. administrative)	42.9	44.5	20.5	20.6
Generation (gwh's)	4,597	4,383	2,143	2,082
	<u>Current</u>	<u>Prior Month</u>	<u>December 2006</u>	
Reserves	\$363	\$352	\$348	

Net revenues through February 28, 2007 were \$46.5 which was \$20.5 higher than budgeted including higher net operating revenues (\$14.7) and higher non-operating income (\$5.8). Net operating revenues were higher primarily at the hydro (\$6.3) and transmission (\$4.3) facilities. The positive results at the hydro facilities were due to higher than expected water flows resulting in 7% higher production. Transmission revenues included higher than anticipated congestion payments to the Authority due to a higher level of congestion across the central-east interface (assigned to FACTS project TCC's). Non-operating income included a year-to-date mark-to-market gain on the Authority's investment portfolio, higher earnings on investments due to higher balances, and lower than anticipated costs on variable rate debt.

Net revenues for the month of February were \$18.5 which was \$8.1 higher than budgeted resulting from higher non-operating income (\$4.7) and higher net operating revenues (\$3.4). Non-operating income included a mark-to-market gain on the Authority's investment portfolio, higher investment earnings and lower debt costs. Net operating revenues were higher primarily at the transmission facilities (\$3.0) due mainly to higher than anticipated congestion revenues. Production for February (2,143 gwh) was 3% higher than anticipated (2,082 gwh) including higher generation at the fossil facilities (56 gwh) and slightly higher hydro production (5 gwh).

NYPA
Net Revenues
For The Two Months ended February 28, 2007
(\$ in 000'S)

	<u>Annual Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable/ (Unfavorable)</u>
Operating Revenues				
Customer	\$1,826,711	\$313,124	\$295,849	\$17,275
Market-Based Power Sales	737,570	130,649	108,993	21,656
Ancillary Services	67,499	12,273	13,132	(859)
NTAC and Other	81,763	16,846	14,539	2,307
Total Market-Based and ISO	<u>886,832</u>	<u>159,768</u>	<u>136,664</u>	<u>23,104</u>
	2,713,543	472,892	432,513	40,379
Operating Expenses				
Purchased Power:				
Entergy	155,370	27,823	26,395	(1,428)
Other	809,217	145,210	129,056	(16,154)
Ancillary Services	73,733	14,160	12,085	(2,075)
Fuel Consumed - Oil & Gas	519,480	98,379	91,814	(6,565)
Wheeling	325,869	41,909	40,967	(942)
Operations & Maintenance	281,152	42,947	44,456	1,509
Other expenses	142,609	24,166	23,768	(398)
Depreciation & Amortization	176,451	28,895	29,076	181
Allocation to Capital	(12,681)	(1,209)	(1,043)	166
	<u>2,471,200</u>	<u>422,280</u>	<u>396,574</u>	<u>(25,706)</u>
Net Operating Revenues	242,343	50,612	35,939	14,673
Interest Income and Realized Gains	56,743	11,120	9,370	1,750
Mark to Market Adjustment	1,000	1,599	-	1,599
Investment Income	<u>57,743</u>	<u>12,719</u>	<u>9,370</u>	<u>3,349</u>
Interest and Other Expenses	124,192	16,786	19,275	2,489
Net Revenues	<u>175,894</u>	<u>46,545</u>	<u>26,034</u>	<u>20,511</u>

New York Power Authority
Net Revenues by Facility
For the Two Months ended February 28, 2007
(\$ in 000's)

	Niagara/ St. Lawrence	B-G	SENY	SCPP	Market Supply Power	Flynn	Transmission	Eliminations & Adjmts	Total
Operating Revenues									
Customer	\$ 51,150	\$ 1,710	\$ 190,088	\$ 115	\$ 38,865	\$ 22,425	\$ 14,901	\$ (6,130)	\$ 313,124
Market-Based Power Sales	30,427	15,968	84,495	14,942	8,585			(23,768)	130,649
Ancillary Services	10,625	586	926	136					12,273
NTAC and Other							16,846		16,846
Total Market-Based and ISO	41,052	16,554	85,421	15,078	8,585		16,846	(23,768)	159,768
	92,202	18,264	275,509	15,193	47,450	22,425	31,747	(29,898)	472,892
Operating Expenses									
Purchased Power:									
Energy	18,388	10,290	27,823	657	44,396		5	(30,861)	27,823
Other	4,457	53	102,335	12	1,691				145,210
Ancillary Services			73,163	8,347		16,869			98,379
Fuel Consumed - Oil & Gas			38,519		1,482	55			41,909
Wheeling	1,853		8,643	2,216	228	1,184	10,198		42,947
Operations & Maintenance	16,284	4,194	2,587	194	8,416	138	2,226	6,279	24,166
Other expenses	3,736	590	9,802	4,662	143	876	6,550		28,895
Depreciation & Amortization	5,850	1,012	(205)	(5)		(40)	(292)		(1,209)
Allocation to Capital	(521)	(146)							
	50,047	15,993	270,614	16,083	56,356	19,082	18,687	(24,582)	422,280
Net Operating Revenues	42,155	2,271	4,895	(890)	(8,906)	3,343	13,060	(5,316)	50,612
Investment and Other Income			604					12,115	12,719
Interest and Other Expenses	(2,911)	167	(5,920)	(5)	(10)	(432)	(4,541)	(3,134)	(16,786)
Net Revenues (loss)	39,244	2,438	(421) *	(895)	(8,916)	2,911	8,519	3,665	46,545
Budget	31,989	626	(2,207)	(1,262)	(9,666)	2,133	4,140	281	26,034
Variance	\$ 7,255	\$ 1,812	\$ 1,786	\$ 367	\$ 750	\$ 778	\$ 4,379	\$ 3,384	\$ 20,511

* Revenues for SENY include \$19.6 million from the application of an energy charge adjustment to recover variable costs under the LT Supplemental Energy Supply Agreement.

NEW YORK POWER AUTHORITY
VARIANCE FROM BUDGET
MAJOR FACTORS
For the Two Months Ended February 28, 2007
(Millions)

		Better/(Worse) than budget	
Niagara/St. Lawrence	o Higher revenues (higher production resulting in additional market-based sales)	\$ 14.3	
	o Higher purchased power costs (primarily higher prices)	(6.7)	
	o Higher Niagara site O&M (less than anticipated labor charged to capital)	(0.6)	
	o Other	0.3	
			\$ 7.3
Blenheim-Gilboa	o Higher ISO revenues (higher volumes & prices)	4.3	
	o Higher purchased power costs (higher volumes)	(2.8)	
	o Other	0.3	1.8
SENY	o Higher revenues (including higher ECA revenues a higher volume of sales to the ISO)	20.5	
	o Higher purchased power costs (higher volumes)	(16.5)	
	o Higher fuel costs (higher prices partially offset by lower generation)	(2.3)	
	o Other	0.1	1.8
SCPP	o Higher market-based revenues (high volumes and prices)	5.4	
	o Higher fuel costs (higher prices)	(4.0)	
	o Other	(1.1)	0.3
Market Supply Power	o Higher revenues	0.5	
	o Other	0.2	0.7
Flynn	o Higher revenues (higher prices on Long Island)	0.8	
	o Higher fuel costs (higher prices)	(0.3)	
	o Other	0.3	0.8
Transmission	o Higher revenues (primarily TCC revenues for the FACTS project)	4.0	
	o Other	0.4	4.4
Consolidating adjustments (includes mark-to-market gain on NYPA's investment portfolio)			3.4
Net Revenues			\$ 20.5

NYPA
Operations & Maintenance
For the Two Months Ended February 28, 2007

	(\$'s in millions)	
	<u>Actual</u>	<u>Budget</u>
Power Generation		
Headquarters Support	\$2.2	\$1.3
Blenheim-Gilboa	2.1	2.3
Charles Poletti	2.2	2.8
500 MW	2.7	2.3
R.M. Flynn	0.7	0.9
SCPP	2.0	2.5
Small Hydros	0.3	0.6
Niagara	6.2	5.6
St. Lawrence	<u>3.0</u>	<u>3.2</u>
	21.4	21.5
Transmission		
ECC/Headquarters	1.9	1.7
Transmission Facilities	<u>5.5</u>	<u>5.5</u>
	7.4	7.2
Corporate Support		
Executive Office	1.4	1.8
Business Services	4.8	5.3
HR & Corporate Support	3.9	4.4
Marketing & Econ. Devel.	1.0	1.0
Energy Services	<u>0.7</u>	<u>0.8</u>
	11.8	13.3
Research & Development & Other	2.3	2.5
Total	<u>\$42.9</u>	<u>\$44.5</u>

Through February, O&M expenses were \$1.6 million under budget. Power Generation expenditures were slightly lower than budgeted. The underrun at Poletti (\$0.6 million) was due primarily to lower than expected contract costs for routine maintenance. The SCPP's were \$0.5 million under budget due to the delayed start of the Mini Overhaul Project. Blenheim-Gilboa expenditures included less than expected costs for materials and services for routine maintenance and under spending for the Minekill State Park Rehabilitation Project. These positives were offset by overruns at Power Generation HQ and at Niagara. The Power Generation HQ overrun (\$0.9 million) resulted from less than anticipated labor charges to capital projects. Niagara spending was \$0.6 million over budget due to overruns in recurring maintenance projects and less than anticipated labor charged to capital projects (mainly Unit # 4 Standardization). Transmission was slightly over budget due to higher than expected charges for computer software. HQ Corporate Support expenses were collectively \$1.5 million under budget due to early year under spending for the public awareness program, legal consultants, HQ communications, IT contract services and fuel cell maintenance.

**NEW YORK POWER AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
(IN THOUSANDS)**

	FEBRUARY 2007	DECEMBER 2006	NET CHANGE
ASSETS:			
Electric Plant In Service, Less Accumulated Depreciation	\$3,072,211	\$3,078,037	(5,826)
Construction Work In Progress	163,181	163,034	147
Net Utility Plant	<u>\$3,235,392</u>	<u>\$3,241,071</u>	<u>(5,679)</u>
Restricted Funds	68,065	67,487	578
Construction Funds	80,709	105,648	(24,939)
Investment In Decommissioning Trust Fund	930,182	922,778	7,404
Current Assets:			
Cash	72	72	-
Investments In Government Securities	757,734	749,988	7,746
Interest Receivable On Investments	16,384	15,114	1,270
Receivables-Customers	235,895	205,471	30,424
Materials & Supplies-Plant & General	67,619	66,297	1,322
-Fuel	34,307	32,793	1,514
Prepayments And Other	49,364	62,902	(13,538)
Notes Receivable-Nuclear Sale	195,967	192,001	3,966
Deferred Charges And Other Assets	<u>532,674</u>	<u>497,301</u>	<u>35,373</u>
TOTAL ASSETS	<u>\$6,204,364</u>	<u>\$6,158,923</u>	<u>\$45,441</u>
LIABILITIES AND OTHER CREDITS:			
Long-Term Debt - Bonds	\$1,698,546	\$1,735,262	(36,716)
Notes	156,145	156,145	-
Short-Term Notes Payable	262,469	272,282	(9,813)
Accounts Payable And Accrued Liabilities	674,889	636,683	38,206
Spent Nuclear Fuel Disposal	203,276	201,575	1,701
Decommissioning Of Nuclear Plants	930,182	922,778	7,404
Deferred Revenue	<u>198,820</u>	<u>200,706</u>	<u>(1,886)</u>
TOTAL LIABILITIES AND OTHER CREDITS	4,124,327	4,125,431	(1,104)
ACCUMULATED NET REVENUES-JANUARY 1	2,033,492	1,896,548	136,944
NET REVENUES	<u>46,545</u>	<u>136,944</u>	<u>(90,399)</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$6,204,364</u>	<u>\$6,158,923</u>	<u>\$45,441</u>

NYPA
Capital Expenditures
For the Two Months Ended February 28, 2007

(\$'s in millions)

	<u>Actual</u>	<u>Budget</u>
New Generation	\$0.1	\$0.3
Energy Services	20.5	12.6
Existing Facilities	12.6	8.1
Transmission	4.2	7.2
Headquarters	1.8	2.6
General Plant and Minor Additions	<u>1.3</u>	<u>2.2</u>
	<u>\$40.5</u>	<u>\$33.0</u>

Capital expenditures for 2007 were 22.7% higher than the budget. **Energy Services** was \$7.9 million over budget primarily due to unplanned expenditures for the Red Hook Waste Water Treatment Program. **Existing Facilities** was overrunning the budget by \$4.5 million due to timing differences for payments required for procurement of various equipment for the B-G LEM, Robert Moses Generator Stator Rewind and Iron Restock projects. The underrun in **Transmission** of \$3.0 million was primarily due to timing differences with the Gowanus-Greenwood KV project for the procurement of various equipment. **Headquarters** was underrunning the budget by \$0.8 million due to less than planned expenditures related to the Billing System Replacement Project.

Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of \$6.2 million for 2007. There were no new expenditures this month.

**Demand Side Management
Cost Summary (Inception to Date)
February 28, 2007
(\$ in 000's)**

(A) DSM Projects

Authorized	Program	Prog	(A) Projects In-Progress	(B) Completed Projects	(C) Cumulative Cost	(D) Recoveries to Date	(E) Net Investment (C-D)
\$13,000	Distributed Generation	ES-DGN	\$1,787		\$1,787	\$340	\$1,447
183,050	Electrotechnologies LTEPA	ES-EPN	8,922	74,534	83,456	48,000	35,456
433,000	NYP&A Energy Services Program	ES-ESN	59,460	93,984	153,444	45,251	108,193
530,000	SENY Govt Cust Energy Serv	ES-GSN	54,984	9,521	64,505	11,009	53,496
130,000	SENY HELP LTEPA	ES-LTN	12,041	75,667	87,708	62,010	25,698
1,200	MUNI Vehicle Program	ES-MVN		458	458	229	229
140,000	Non-Elect End Use LTEPA	ES-NEN	29,522	57,634	87,156	26,953	60,203
35,000	Peak Load Mgmt	ES-PLN	5,528	165	5,693		5,693
Completed Programs							
5,000	Coal Conversion LTEPA	ES-CCN		5,000	5,000	3,466	1,534
5,000	County & Muni's	ES-CMN		1,919	1,919	1,866	53
14,600	Industrial	ES-IPN		6,875	6,875	6,695	180
51,000	LI HELP	ES-LIN		47,505	47,505	47,094	411
15,000	SENY New Constr	ES-NCN		2,992	2,992	2,992	0
75,000	Public Housing LTEPA	ES-PHN		72,081	72,081	72,081	0
40,000	Public Schools	ES-PSN		38,941	38,941	38,782	159
130,000	SENY HELP	ES-SEN		134,305	134,305	134,305	0
60,000	Statewide	ES-SWN		56,733	56,733	54,896	1,837
4,085	Other			746	746	746	0
7,500	Wattbusters			5,441	5,441	5,441	0
<u>\$1,872,435</u>			<u>\$172,244</u>	<u>\$684,501</u>	<u>\$856,745</u>	<u>\$562,156</u>	<u>\$294,589</u>

(B) POCR Funding

LOANS

Authorized	Program	Loans Issued	Repayments	Outstanding Balance
\$ 16,390	Colleges & Universities	\$ 16,390	\$ 15,995 (1)	\$ 395

GRANTS

Authorized	Program	Issued
\$9,105	Coal Conversion Pilot	\$9,105
4,558	Hybrid Bus Program	4,558
663	Solar Grants	663
3,000	NYSERDA	3,000
25,825 (1)	Energy Services Programs	14,813
30,618 (1)	POCR Grants	12,622
<u>\$ 73,769</u>		<u>\$ 44,761</u>

(C) CASP Funding

Authorized	Program	Issued
\$132,823 (2)	Coal Conversion	\$118,819

(D) Board of Ed Funding

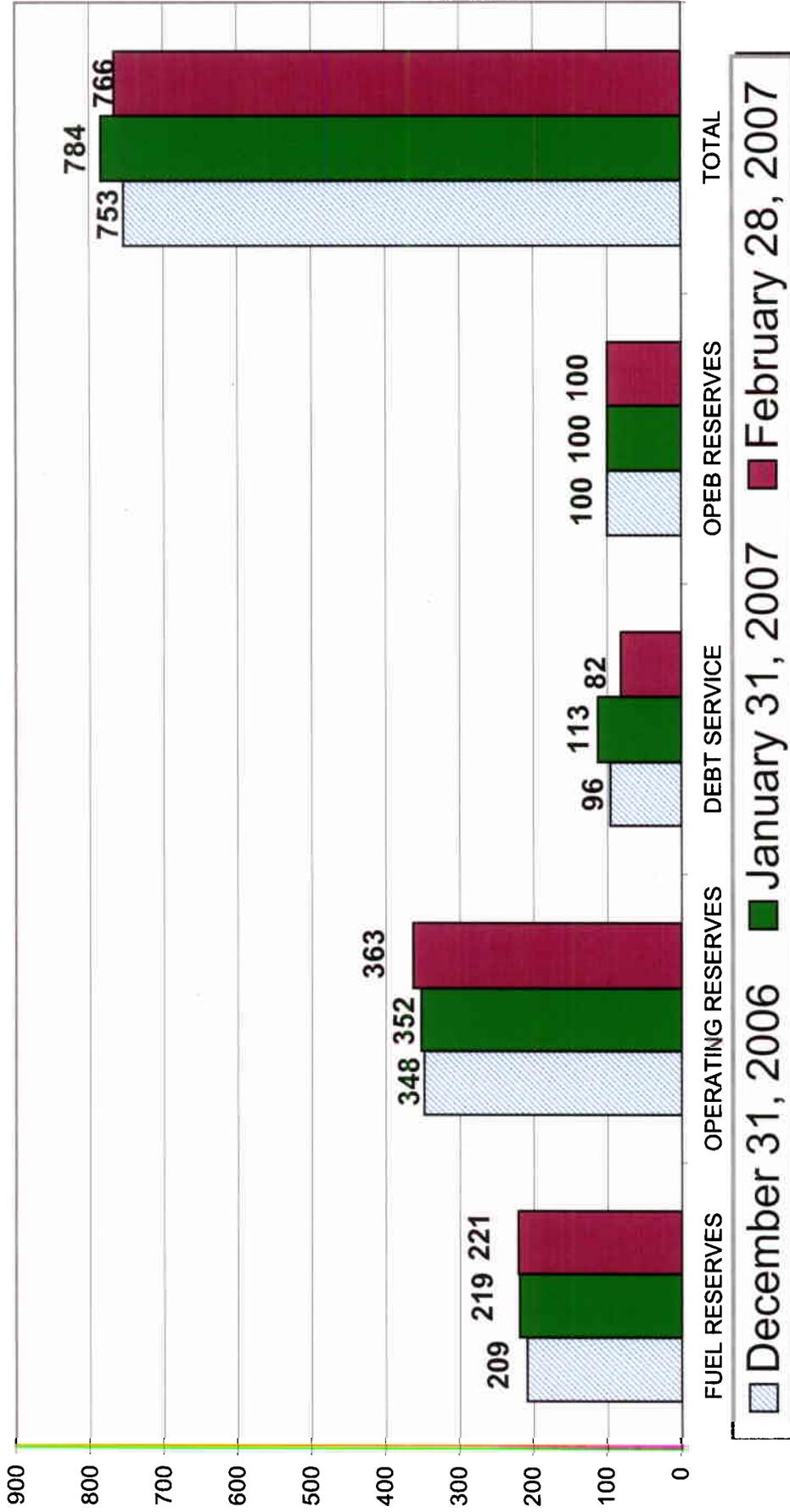
Authorized	Program	Issued
\$38,893 (2)	Climate Controls (NYC BOE)	\$34,837

(D) NYC Housing Auth Funding

Authorized	Program	Issued
\$12,950 (2)	NYCHA Hot Water Heaters	\$11,804

- (1) Funds recovered via loan repayments are available and assigned to be used as grants in the Energy Services Program and for POGR Grant Program.
(2) Authorized funds reflect both principal received and the interest earned on such principal.

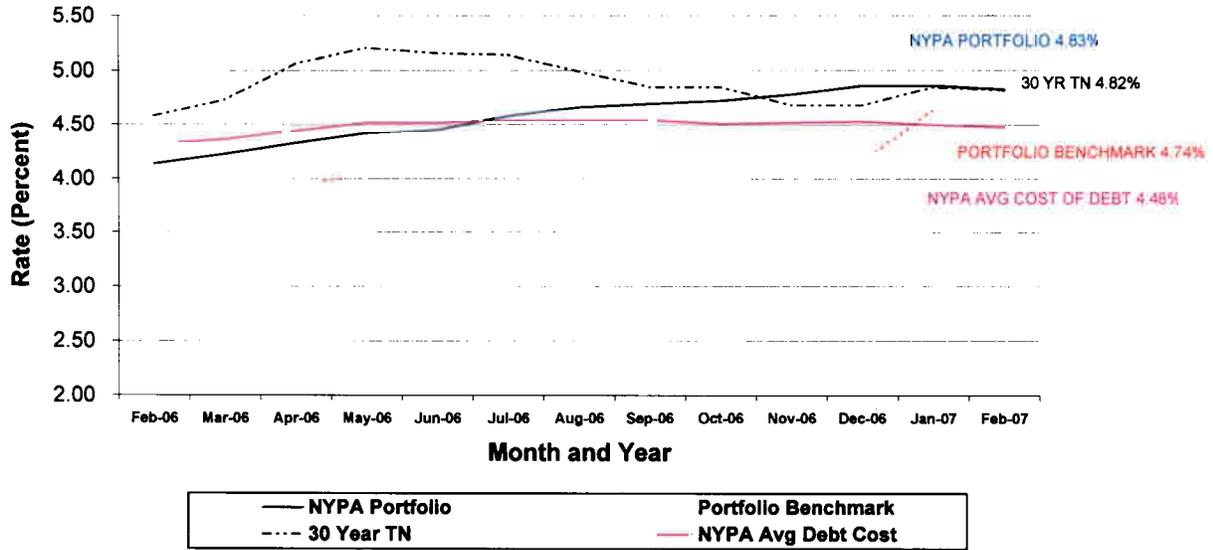
**NEW YORK POWER AUTHORITY
OPERATING FUND
(\$ MILLIONS)**



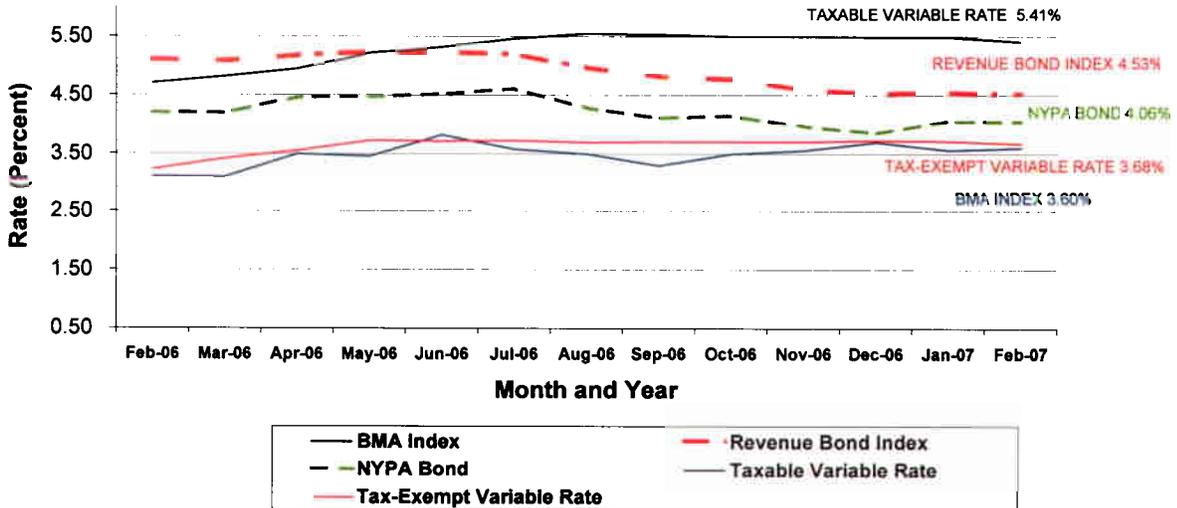
Fuel Reserves include \$203 million for Nuclear Spent Fuel and \$18 million for Energy Hedging Reserve Fund.

OPEB (Other Post Employment Benefits): The Authority's Trustees have authorized staff to initiate the establishment of a trust for its OPEB obligations and have designated \$100 million as a reserve within the Operating fund for this purpose.

Portfolio Performance



Financing Rates



3. Report from the President and Chief Executive Officer

President Carey said that Alan Richardson, the keynote speaker at the Authority's 75th anniversary celebration, was stepping down as President and Chief Executive Officer of the American Public Power Association at the end of the year.

President Carey congratulated Mr. Chase and everyone who was involved in obtaining the new 50-year license from the Federal Energy Regulatory Commission ("FERC") for the Niagara Power Project. Mr. Chase said that FERC had approved the new license on March 15th, nearly six months before it will take effect on September 1, 2007. The new license involves no adverse changes to project operation or expansion of the project's boundaries. The new license also approves a settlement agreement resolving all issues among the critical stakeholders in the relicensing proceeding. Among these items are:

- Eight habitat improvement projects in the vicinity of the project.*
- A habitat enhancement fund.*
- Public access and recreational improvements.*
- Development of a Recreation Plan, a Land Management Plan and a Historic Properties Management Plan.*
- Improvements to the Niagara Water Board's Falls Street Tunnel to minimize groundwater seepage into the tunnel in the project area.*
- Power allocations consistent with the federal Niagara Redevelopment Act.*

Other settlements with the Host Communities, Tuscarora Nation, Niagara University and Erie County/City of Buffalo discussed in the license Order are considered off-license agreements not under FERC's jurisdiction.

After staff's review of the license, the consensus is that it has no fatal flaws that would require the Authority to file a request for rehearing. It is possible, however, that groups that have sought a settlement with the Authority may request a rehearing by the deadline of April 15, 2007. In response to a question from Trustee Seymour, Mr. Chase said that FERC did not approve the off-line settlement agreements, although it had accepted them in the license Order.

Mr. Chase said that the Niagara River Greenway Commission approved the Niagara River Greenway Plan on March 21, 2007 and has sent it to Carol Ash, Acting Commissioner of the New York State Office of

March 27, 2007

Parks, Recreation and Historic Preservation, for her consideration and approval. As part of the settlement agreements reached during the Niagara project relicensing, the Authority will provide \$9 million a year for projects consistent with the Greenway Plan. The \$9 million will be divided into four funds: (1) projects in Niagara County, (2) projects in Erie County, (3) ecological projects and (4) projects in State parks. The Authority must establish the funds after September 1, 2007, the effective date of the new Niagara license.

4. Allocation of 350 kW of Hydro Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve an allocation of available Replacement Power (‘RP’) totaling 350 kW to Cameron Compression Systems.

BACKGROUND

“Under the RP Settlement Agreement, National Grid (‘Grid’) (formerly Niagara Mohawk Power Corporation), with the approval of the Authority, identifies and selects certain qualified industrial companies to receive delivery of RP. Qualified companies are current or future industrial customers of Grid that have or propose to have manufacturing facilities for the receipt of RP within 30 miles of the Authority’s Niagara Switchyard. RP is up to 445,000 kW of firm hydro power generated by the Authority at its Niagara Power Project that has been made available to Grid, pursuant to the Niagara Redevelopment Act (through December 2005) and Chapter 313 of the 2005 Laws of the State of New York.

“Under Section 1005 (13) of the Power Authority Act, as amended by Chapter 313, the Authority may contract to allocate or reallocate directly, or by sale for resale, 250 MW of firm hydroelectric power as EP and up to 445 MW of RP to businesses in the State located within 30 miles of the Niagara Power Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

DISCUSSION

“On October 22, 2003, the Authority, Grid, Empire State Development Corporation and the Buffalo Niagara Enterprise signed a Memorandum of Understanding (‘MOU’) that outlines the process to coordinate marketing and allocating Authority hydro power. The entities noted above have formed the Western New York Advisory Group (‘Advisory Group’) with the intent of better using the value of this resource to improve the economy of Western New York and the State of New York. Nothing in the MOU changes the legal requirements applicable to the allocation of hydro power.

“Based on the Advisory Group’s discussions, staff recommends that the available power be allocated to Cameron Compression Systems as set forth in Exhibits ‘4-A’ and ‘4-A1.’ The Exhibit shows, among other things, the amount of power requested by the company, the recommended allocation and additional employment and capital investment information. This project will help maintain and diversify the industrial base of Western New York and provide new employment opportunities. It is projected to result in the creation of 18 jobs.

RECOMMENDATION

“The Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommends that the Trustees approve the allocation of 350 kW of hydro power to the company listed in Exhibits ‘4-A’ and ‘4-A1.’

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Vice President – Major Accounts Marketing and Economic Development and I concur in the recommendation.”

March 27, 2007

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the allocation of 350 kW of Replacement Power, as detailed in Exhibits "4-A" and "4-A1," be, and hereby is, approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

New York Power Authority
 Replacement Power
 Recommendations for Allocations

Exhibit "4-A"
 March 27, 2007

Exhibit Number	Company Name	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage Benefits	Power Recommended (kW)	Contract Term (1)
A-1	Cameron Compression Systems	Cheektowaga	Erie	370	18	\$7,000,000	\$55,000	350	Until 8/31/07
	Total RP Recommended				18	7,000,000		350	

(1) If the Niagara Project license is extended and a delivery agreement is finalized, the full term of this contract will be for five years.

APPLICATION SUMMARY

Replacement Power

Company:	Cameron Compression Systems
Location:	Cheektowaga
County:	Erie County
IOU:	National Grid
Business Activity:	Manufacturer of air and gas compressors
Project Description:	The project includes investing in new equipment and constructing a new building. The new 13,500-sq.-ft. building will be used as an aftermarket repair center. The company will install new lighting and HVAC in this building, which will house manufacturing and office personnel. In addition, the company will install lathes, motors, mills, crane and testing machinery in its current facility.
Prior Application:	None
Existing Allocation:	None
Power Request:	370 kW
Power Recommended:	350 kW
Job Commitment:	
Existing:	498 jobs
New:	18 jobs
New Jobs/Power Ratio:	51 jobs/MW
New Jobs – Avg. Wage and Benefits:	\$55,000
Capital Investment:	\$7 million
Capital Investment Per MW	\$20 million /MW
Summary:	Cameron produces air and gas compressors used mainly by air separators and the steel industry. The company is considering implementation of this expansion in either Texas or western New York. A low-cost power allocation would help the company expand in western New York. In addition, it would help Cameron's competitive position and bring new jobs to Cheektowaga.

5. Power for Jobs Program – Extended Benefits

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve extended benefits for 37 Power for Jobs (‘PFJ’) customers as listed in Exhibit ‘5-A.’ These customers have been recommended to receive such extended benefits by the Economic Development Power Allocation Board (‘EDPAB’).

BACKGROUND

“In July 1997, the New York State Legislature approved a program to provide low-cost power to businesses and not-for-profit corporations that agree to retain or create jobs in New York State. In return for commitments to create or retain jobs, successful applicants receive three-year contracts for PFJ electricity.

“The PFJ program originally made 400 megawatts (‘MW’) of power available. The program was to be phased in over three years, with approximately 133 MW made available each year. In July 1998, as a result of the initial success of the program, the Legislature amended the PFJ statute to accelerate the distribution of the power, making a total of 267 MW available in Year One. The 1998 amendments also increased the size of the program to 450 MW, with 50 MW to become available in Year Three.

“In May 2000, legislation was enacted that authorized another 300 MW of power to be allocated under the PFJ program. The additional MW were described in the statute as ‘phase four’ of the program. Customers that received allocations in Year One were authorized to apply for reallocations; more than 95% reapplied. The balance of the power was awarded to new applicants.

“In July 2002, legislation was signed into law that authorized another 183 MW of power to be allocated under the program. The additional MW were described in the statute as ‘phase five’ of the program. Customers that received allocations in Year Two or Year Three were given priority to reapply for the program. Any remaining power was made available to new applicants.

“Chapter 59 of the Laws of 2004 extended the benefits for PFJ customers whose contracts expired before the end of the program in 2005. Such customers had to choose to receive an ‘electricity savings reimbursement’ rebate and/or a power contract extension. The Authority was also authorized to voluntarily fund the rebates, if deemed feasible and advisable by the Trustees.

“PFJ customers whose contracts expired on or prior to November 30, 2004 were eligible for a rebate to the extent funded by the Authority from the date their contract expired through December 31, 2005. As an alternative, such customers could choose to receive a rebate to the extent funded by the Authority from the date their contract expired as a bridge to a new contract extension, with the contract extension commencing December 1, 2004. The new contract would be in effect from a period no earlier than December 1, 2004 through the end of the PFJ program on December 31, 2005.

“PFJ customers whose contracts expired after November 30, 2004 were eligible for rebate or contract extension, assuming funding by the Authority, from the date their contracts expired through December 31, 2005.

“Approved contract extensions entitled customers to receive the power from the Authority pursuant to a sale-for-resale agreement with the customer’s local utility. Separate allocation contracts between customers and the Authority contained job commitments enforceable by the Authority.

“In 2005, provisions of the approved State budget extended the period PFJ customers could receive benefits until December 31, 2006. In 2006, a new law (Chapter 645 of the Laws of 2006) included provisions extending program benefits until June 30, 2007.

March 27, 2007

“Section 189 of the New York State Economic Development Law, which was amended by Chapter 59 of the Laws of 2004, provided the statutory authorization for the extended benefits that could be provided to PFJ customers. The statute stated that an applicant could receive extended benefits ‘*only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract.*’

“Chapter 313 of the Laws of 2005 amended the above language to allow EDPAB to consider continuation of benefits on such terms as it deems reasonable. The statutory language now reads as follows:

*An applicant shall be eligible for such reimbursements and/or extensions only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract, **or such other commitments as the board deems reasonable.** (emphasis supplied)*

“At its meeting of October 18, 2005, EDPAB approved criteria under which applicants whose extended benefits EDPAB had reduced for non-compliance with their job commitments could apply to have their PFJ benefits reinstated in whole or in part. EDPAB authorized staff to create a short-form application, notify customers of the process, send customers the application and evaluate reconsideration requests based on the approved criteria. To date, staff has mailed 200 applications, received 109 and completed review of 108.

DISCUSSION

“At its meeting on March 27, 2007, EDPAB recommended that the Authority’s Trustees approve electricity savings reimbursement rebates to the 37 businesses listed in Exhibit ‘5-A.’ Collectively, these organizations have agreed to retain more than 32,000 jobs in New York State in exchange for the rebates. The rebate program will be in effect until June 30, 2007, the program’s sunset.

“The Trustees are requested to approve the payment and funding of rebates for the companies listed in Exhibit ‘5-A’ in a total amount currently not expected to exceed \$3.7 million. Staff recommends that the Trustees authorize a withdrawal of monies from the Operating Fund for the payment of such amount, provided that such amount is not needed at the time of withdrawal for any of the purposes specified in Section 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented. Staff expects to present the Trustees with requests for additional funding for rebates to the companies listed in the Exhibit in the future.

FISCAL INFORMATION

“Funding of rebates for the companies listed in Exhibit ‘5-A’ is not expected to exceed \$3.7 million. Payments will be made from the Operating Fund. To date, the Trustees have approved \$69.6 million in rebates.

RECOMMENDATION

“The Executive Vice President and Chief Financial Officer and the Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommend that the Trustees approve the payment of electricity savings reimbursements to the Power for Jobs customers listed in Exhibit ‘5-A.’

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Public and Governmental Affairs, the Vice President – Major Account Marketing and Economic Development and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve electricity savings reimbursements to the Power for Jobs customers listed in Exhibit “5-A”;

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves the payment of electricity savings reimbursements to the companies listed in Exhibit "5-A," and that the Authority finds that such payments for electricity savings reimbursements are in all respects reasonable, consistent with the requirements of the Power for Jobs program and in the public interest; and be it further

RESOLVED, That based on staff's recommendation, it is hereby authorized that payments be made for electricity savings reimbursements as described in the foregoing report of the President and Chief Executive Officer in the aggregate amount of up to \$3.7 million, and it is hereby found that amounts may properly be withdrawn from the Operating Fund to fund such payments; and be it further

RESOLVED, That such monies may be withdrawn pursuant to the foregoing resolution upon the certification on the date of such withdrawal by the Vice President – Finance or the Treasurer that the amount to be withdrawn is not then needed for any of the purposes specified in Section 503 (1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to negotiate and execute any and all documents necessary or desirable to effectuate the foregoing, subject to the approval of the form thereof by the Executive Vice President and General Counsel; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

New York Power Authority
 Power for Jobs Extended Benefits
 Recommendation for Electricity Savings Reimbursements

Exhibit "5-A"
 March 27, 2007

Line	Company	City	County	IOU	KW	Job Committed	Jobs in			Compliance	Recommended			Service
							Application	Over (under)	% Over (under)		KW	Jobs/MW	Type	
1	Northeast Solite Corp.	Mount Marion	Ulster	CHGE	600	52	49	-3	-6%	Yes	600	82	Large	Manufactures nonmetallic mineral products
	Total Central Hudson		Subtotal	1	600	52	49				600			
2	92nd Street YM-YWHA	New York	New York	Con Ed	200	516	518	2	0%	Yes	200	2,590	NFP	Community/cultural center
3	American Ballet Theater	New York	New York	Con Ed	25	288	297	9	3%	Yes	25	11,880	NFP	Performing arts organization
4	Columbia University - Trustees	New York	New York	Con Ed	750	719	723	4	1%	Yes	750	964	NFP	Educational and Student Services
5	Lincoln Center for the Performing Arts	New York	New York	Con Ed	3,000	2,312	2,328	16	1%	Yes	3,000	776	NFP	Performing Arts Center
6	Memorial Sloan-Kettering Cancer Cen	New York	New York	Con Ed	5,000	8,100	8,472	372	5%	Yes	5,000	1,694	NFP	Medical Center
7	New Museum of Contemporary Art	New York	New York	Con Ed	50	41	47	6	15%	Yes	50	940	NFP	Art Center
8	New York Presbyterian Hospital	New York	New York	Con Ed	5,000	6,958	7,765	807	12%	Yes	5,000	1,553	NFP	Medical care
9	Norampac New York City, Inc.	Maspeth	Queens	Con Ed	600	267	195	-72	-27%	No	600	325	Large	Produces of corrugated paper packaging
10	Pepsi Cola Bottling Company	College Point	Queens	Con Ed	2,200	1,030	990	-40	-4%	Yes	2,200	450	Large	Manufacture & distributes of soft drinks
11	S. R. Guggenheim Museum	New York	New York	Con Ed	475	356	358	2	1%	Yes	475	754	NFP	Art Museum
12	South Street Seaport Museum	New York	New York	Con Ed	175	95	79	-16	-17%	No	150	527	NFP	Museum of historic ships, maritime art
13	The Museum of Modern Art	New York	New York	Con Ed	1,000	741	757	16	2%	Yes	1,000	757	NFP	Museum
	Total Con Ed		Subtotal	12	18,475	21,423	22,529				18,450			
14	Augros, Inc.	Ronkonkoma	Suffolk	LIPA	500	150	132	-18	-12%	No	440	300	Large	Maker of molded plastic container caps
15	EDO Corporation	Bohemia	Suffolk	LIPA	2,700	589	589	0	0%	Yes	2,700	218	Large	Aerospace electronics
16	Enzo Clinical Labs, Inc.	Farmingdale	Suffolk	LIPA	200	256	316	60	23%	Yes	200	1,580	Small	Medical Lab
17	Long Beach Medical Center	Long Beach	Nassau	LIPA	600	967	968	1	0%	Yes	600	1,613	NFP	Community Hospital
18	Madelaine Chocolates	Rockaway Beach	Queens	LIPA	575	500	535	35	7%	Yes	575	930	Large	Manufactures chocolate
19	Photocircuits Corporation	Glen Cove	Suffolk	LIPA	4,000	2,028	983	-1,045	-52%	No	4,000	246	Large	Manufacturer of printed circuit boards
	Total LIPA		Subtotal	6	8,575	4,490	3,523				8,515			
20	Clarkson University	Potsdam	Lawrence	N. Grid	1,500	621	652	31	5%	Yes	1,500	435	NFP	Higher education
21	Glens Falls Hospital	Glens Falls	Warren	N. Grid	700	1,820	1,880	60	3%	Yes	700	2,686	NFP	Hospital Services
22	Intertek Testing Services	Cortland	Cortland	N. Grid	600	278	289	11	4%	Yes	600	482	Large	Independent test lab
23	Mount Saint Mary's Hospital	Lewiston	Niagara	N. Grid	350	492	703	211	43%	Yes	350	2,009	NFP	Medical Center
24	Natrium Products, Inc.	Cortland	Cortland	N. Grid	90	20	20	0	0%	Yes	90	222	Small	Manufacturer of sodium bicarbonate
25	Specialized Packaging Radisson, Inc	Baldwinsville	Onondaga	N. Grid	200	190	148	-42	-22%	No	180	822	Small	Produces printed folding cartons
26	St. Joseph's Hospital Health Center	Syracuse	Onondaga	N. Grid	1,000	2,997	3,071	74	2%	Yes	1,000	3,071	NFP	Healthcare Center
27	Vicks Lithograph & Printing	Yorkville	Oneida	N. Grid	750	169	165	-4	-2%	Yes	750	220	Large	Book printer & distribution
28	Welch Allyn Data Collection Inc.	Skaneateles Falls	Onondaga	N. Grid	2,000	1,294	1,257	-37	-3%	Yes	2,000	629	Large	Medical and dental diagnostic equipment
	Total National Grid		Subtotal	9	7,190	7,881	8,185				7,170			
29	Candlelight Cabinetry, Inc.	Lockport	Niagara	NYSEG	400	200	185	-15	-8%	Yes	400	463	Large	Manufacture custom cabinets
30	Diversified Manufacturing, Inc.	Lockport	Niagara	NYSEG	255	110	116	6	5%	Yes	255	455	Small	Makes heat exch. and press.vessels
31	Hammond & Irving, Inc.	Auburn	Cayuga	NYSEG	450	85	76	-9	-11%	Yes	450	169	Large	Manufacture seamless rolled rings
32	Kennedy Valve	Elmira	Chemung	NYSEG	3,000	363	395	32	9%	Yes	3,000	132	Large	Manufacturer of fire hydrants, and valves
33	TMP Technologies, Inc.	Wyoming	Wyoming	NYSEG	268	60	54	-6	-10%	Yes	268	201	Small	Maker of foam, rubber, plastic products
	Total NYSEG		Subtotal	5	4,373	818	826				4,373			
34	International Business Machines - Sterling Forest	Poughkeepsie,	Orange	O&R	1,350	1,087	566	-521	-48%	No	700	809	Large	Computer Manufacturer
	Total O&R		Subtotal	1	1,350	1,087	566				700			
35	Flower City Printing, Inc.	Rochester	Monroe	RGE	650	245	257	12	5%	Yes	650	395	Large	Commercial printer
36	Gorbel Corp.	Fishers	Ontario	RGE	450	176	137	-39	-22%	No	350	391	Small	Produces jibs, overhead stations & cranes
37	Hammer Packaging Corp.	Rochester	Monroe	RGE	900	222	265	43	19%	Yes	900	294	Large	Labels, box wraps, displays
	Total RG&E		Subtotal	3	2,000	643	659				1,900			
	Total		Subtotal	37	42,563	36,394	36,337				41,708	871		

Note: Some of the companies listed above have had part or all of their allocation restored though the reconsideration process.

**6. PURPA – Compliance with Ratemaking Standard –
Notice of Adoption**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to adopt the Demand Response and Smart Metering Standard (‘Standard’) in Section 1252 of the federal Energy Policy Act of 2005 (‘EPAct’). EPAct required the Authority, as a non-regulated electric utility, to consider and make a determination as to whether to adopt the Standard by August 8, 2007. The Standard centers on application of time-of-use rates and the metering equipment used to implement these rates. Staff analyzed the Authority’s current offerings and has determined that the Authority has already met the intent of the Standard; therefore, staff recommends that the Trustees adopt the Standard in Section 1252 of EPAct to the extent that the Authority already has done so and that the Authority continues to offer the current selection of programs, pricing alternatives and metering to its retail customers.

BACKGROUND

“The Public Utility Regulatory Policies Act (‘PURPA’) is a federal statute first enacted in 1978 for the purposes of encouraging: (1) conservation of energy supplied by electric utilities; (2) optimization of the efficient use of facilities and resources by electric utilities and (3) equitable rates for electric consumers. In August 2005, Congress amended PURPA via EPAct. The Authority is a non-regulated electric utility with respect to the Federal Energy Regulatory Commission (‘FERC’), the agency that implements PURPA. Under EPACT, the Authority was required to provide public notice and conduct a hearing with respect to consideration of the new ratemaking Standard. While not required to adopt the Standard, the Authority was required to consider the Standard in good faith, and to issue a determination as to whether it would be adopted. The law required the Authority to publicly announce the date of the hearing before August 8, 2006, and to make its consideration and determination by August 8, 2007.

“At their meeting of July 25, 2006, the Trustees directed that public notice of the Authority’s consideration of the Standard be published in the *New York State Register* and that a public hearing be held at which customers and the public could make oral statements and/or submit written comments. As directed by the Trustees, staff held a public hearing on January 10, 2007 (the public forum transcript is attached as Exhibit ‘6-A’). The public comment period closed on January 24, 2007. Comments were filed by the City of New York’s Department of Citywide Administrative Services (‘City’).

DISCUSSION

“The new Standard applies only to the Authority’s retail rates. These include rates for the Authority’s retail loads, which by FERC criteria include direct-sale customers, such as governmental customers, customers that receive High Load Factor power and some of the Authority’s other industrial customers. These retail customers account for about half of the Authority’s total load. The other half of the Authority’s customers, in terms of load, is defined as wholesale using FERC criteria. For example, sales to utilities (Consolidated Edison Co. of New York, Inc. (‘Con Edison’), National Grid, New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation), including Replacement Power, Expansion Power, Niagara/St. Lawrence Rural and Domestic Power, Economic Development Power and Power for Jobs, are not subject to the Standard.

“The new Standard has two requirements. First, the Standard requires that the electric utility provide all retail customers with a time-based rate schedule in which the rates reflect the cost of generating and purchasing the power at the wholesale level. Second, the Standard requires that the electric utility provide the customer, on request, a time-based meter enabling the customer to receive such a rate.

“Staff prepared a study detailing the complete analysis of the Standard and its findings relative to the Authority’s compliance, entitled ‘Staff Report on PURPA – Compliance with Ratemaking Standard in Consideration of the Federal Energy Policy Act of 2005 Regarding Demand Response and Smart Metering, December 2006’ (the ‘Report’), which is attached as Exhibit ‘6-B.’ The Standard’s first requirement mandates that

all retail customers have access to time-based rates such as time-of-use pricing and demand-response programs. The Authority has developed and currently offers eight programs that meet the Standard’s criteria, comprising four time-of-use and market-based pricing alternatives that reflect time-of-use pricing and real-time pricing based on wholesale market prices, and four demand-response programs. Staff analyzed the total retail customer population to determine if every retail customer had access to at least one market-based pricing alternative or demand-response program, and determined that every retail customer was eligible for at least two programs. The results are summarized in Table 1: Retail Customer Eligibility for Multiple Offerings.

	# of Customers Eligible	Eligible as % of Total
Eligible for at least 2 programs	160	100%
Eligible for at least 3 programs	141	88%
Eligible for at least 4 programs	32	20%
Eligible for at least 5 programs	14	9%
Eligible for at least 6 or more programs	0	0%

Table 1: Retail Customer Eligibility for Multiple Offerings

Based on this analysis, staff has determined that the Authority has satisfied the Standard’s first requirement to ‘provide individual customers upon customer request, a time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility’s costs of generating and purchasing electricity at the wholesale level.’

“The Standard’s second requirement is that each regulated electric utility provide ‘each customer requesting a time-based rate with a time-based meter capable of enabling the utility and customer to offer and receive such rate.’ The Authority’s retail customers are located mainly in the service territories of other local distribution companies (‘LDCs’). Therefore, in nearly every instance, their LDC, not the Authority, meters the Authority’s customers for billing. The LDCs that serve the Authority’s retail customers are regulated electric utilities, and therefore are subject to the new EAct standard. Staff expects that the LDCs’ implementation of the Standard will provide customer access to advanced metering in any instances where it currently is not available. For the retail customer accounts where the Authority directly owns or controls the billing or revenue metering, the Authority already has interval metering installed that meets EAct’s criteria for advanced metering. Based on this analysis, staff has determined that the Authority meets the second requirement of the Standard.

“The City filed formal written comments (attached as Exhibit ‘6-C’) during the public comment period. A review and analysis of these written comments follows:

Issue: Advanced Metering.

“Comment 1: The City is a direct customer of the Authority only. While local distribution charges come from Con Edison, the LDC, they are billed through the Authority. The Report states that the Authority ‘expects’ the LDC to provide access to advanced metering in implementing the Standard that is the subject of the Report (p. 18). To fully encourage customer response to information about electricity usage, the City asks the Authority to take an active, rather than a passive, role on its customers’ behalf if that is necessary to encourage the LDC to provide customer access.

“Staff Analysis: The Authority works closely with Con Edison and customers to make metering data available to customers.

“Recommendation: At the City’s request, the Authority will actively encourage Con Edison to provide customer access to their metering equipment to facilitate greater flow of usage data directly to customers. This action is not required for the Authority to meet the EAct Standard.

“Comment 2: The Authority is currently undertaking a customer load study that required the installation of advanced metering on a stratified sample of accounts. The program was planned with attention to the main purpose of the study, which is rate design. Right now there is no plan to deliver the real-time usage information that the advanced meters collect directly to the customers once the study is completed in March 2008. ‘Customer access to advanced metering’ has to mean not only installation of meters, but delivery of information to the end-users.

March 27, 2007

Therefore, the City asks the Authority to further its mutual goals of improving demand response by planning now to include data delivery to customers from these meters as soon as the data-gathering phase of load sampling is complete. Based on work that the City would do with their accounts, their belief is that the result will be greater participation in a variety of demand-response programs.

“Staff Analysis: The City is incorrect in stating that the Authority has no plan to make this load research metering information available to customers. The Authority has stated that it will make that information available as soon as the infrastructure is in place, perhaps as soon as mid-2007.

“Recommendation: The Authority may proceed with its plan to provide customers access to the data collected by the Authority’s load research metering to support customers’ demand-response participation. This action is not required to meet the EAct Standard.

“Staff has determined that the Authority has already met the intent of the Standard. Therefore, staff recommends that the Trustees adopt the Standard in Section 1252 of EAct to the extent that the Authority already has done so and that the Authority continue to offer the current selection of programs, pricing alternatives and metering to its retail customers.

FISCAL INFORMATION

“There is no anticipated fiscal impact.

RECOMMENDATION

“The Manager – Market and Pricing Analysis recommends that the Trustees authorize the Corporate Secretary to file a notice with the New York State Department of State for publication in the Miscellaneous Notices/Hearings section of the *New York State Register* that the Authority has adopted the Demand Response and Smart Metering Standard in Section 1252 of the federal Energy Policy Act of 2005 to the extent that the Authority already has done so and that the Authority continue with these offerings and metering practices.

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Vice President – Major Account Marketing and Economic Development and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

WHEREAS, by August 8, 2007, the Authority must consider and make a determination as to whether to adopt the Demand Response and Smart Metering Standard (“Standard”) in Section 1252 of the federal Energy Policy Act of 2005 under the Public Utility Regulatory Policies Act:

NOW THEREFORE BE IT RESOLVED, That the Trustees adopt the Standard to the extent that the Authority already has done so and that the Authority continue with these offerings and metering practices; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

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PUBLIC HEARING
PURPA - COMPLIANCE WITH RATEMAKING STANDARD
-----X

January, 10, 2007
10:30 a.m.

New York Power Authority
123 Main Street
White Plains, New York

Reported by:
NANCY R. SULLIVAN

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SPEAKERS:

ANNE CAHILL, Esq., Corporate Secretary
New York Power Authority
MARILYN BROWN, Manager of Market and
Pricing Analysis
New York Power Authority

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MS. CAHILL: Good morning,
everybody. My name is Anne Cahill. I am
the Corporate Secretary for the New York
Power Authority. It is 10:30. This
public hearing is being conducted by the
Power Authority pursuant to the Energy
Policy Act of 2005, known as EPAct.

EPAct, which modified the Public
Utility Regulatory Policies Act of 1978,
provided for public comment as part of
the Authority's consideration of the
appropriateness of a new Ratemaking
Standard for various customer categories
served under the Authority's retail
rates.

Notice of this hearing was
published in the Miscellaneous
Notices/Hearings Section of the New York
State Register on November 15, 2006.
If you plan to make an oral statement
this morning and have not yet filled out
a card at the sign-in desk, please do so
now. We ask that you give copies of your
written statements to the reporter and me

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either before or after you deliver your

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written remarks. Although your written

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statement can be whatever length you

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like, we would ask those presenting an

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oral statement to limit their remarks to

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10 minutes. If your oral statement

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summarizes a written statement, both will

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appear in the record.

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The record of this hearing will

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remain open through the close of business

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on Wednesday, January 24, 2007, for the

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submission of any additional comments or

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statements. These should be addressed to

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the Authority's Corporate Secretary at

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123 Main Street, 15-M, White Plains, New

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York, 10601 and may be faxed to (914)

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681-6949, or e-mailed to

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anne.cahill@nypa.gov. Please see

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Ms. Lynnette Taylor, the secretary to the

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Corporate Secretary's office, on your way

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out if you have additional questions.

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Full stenographic minutes of the

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hearing will be made and will be

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incorporated, along with the written

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submissions, into the record that will be reviewed by the Authority's trustees.

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Copies of the stenographic transcript of this hearing will be available to the

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public. You should contact the reporter

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to make arrangements to purchase such a

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copy. A copy of today's transcript will

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also be available for review at the

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Authority's Corporate Secretary's office

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in this building.

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At this point, I will turn the

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hearing over to Ms. Marilyn Brown, the

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Authority's Manager of Market and Pricing

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Analysis, who will provide additional

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details on the new Ratemaking Standard.

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I will then call on speakers, starting

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with any elected officials.

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Ms. Brown?

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MS. BROWN: Good morning, my name

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is Marilyn Brown. I am the Manager of

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Market and Pricing Analysis at the New

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York Power Authority. I am here today to

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talk about the Authority's consideration

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of a Demand Response and Smart Metering

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2 Standard (or Standard), as required by
3 Section 1252 of the federal Energy Policy
4 Act of 2005 (or EAct). The Standard
5 centers on application of time-of-use
6 rates and metering equipment used to
7 implement these rates. EAct requires
8 the Authority, as a nonregulated electric
9 utility, to consider and make a decision
10 on whether to adopt the Standard by
11 August 8, 2007. This public hearing will
12 provide interested parties with an
13 opportunity to provide comments to the
14 Authority with respect to whether and how
15 the Standard should be adopted.

16 As background, the Public Utility
17 Regulatory Policies Act (or PURPA) is a
18 federal statute first enacted in 1978 for
19 the purposes of encouraging: (1)
20 conservation of energy supplied by
21 electric utilities; (2) optimization of
22 the efficient use of facilities and
23 resources by electric utilities and (3)
24 equitable rates for electric consumers.

25 In August 2005, Congress amended

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PURPA via EPAct. The Authority is a nonregulated electric utility with respect to the Federal Energy Regulatory Commission (or FERC), the agency that implements PURPA.

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Under EPAct, the Authority is required to provide public notice and conduct a hearing with respect to the consideration of the new ratemaking Standard. While not required to adopt the Standard, the Authority must consider the Standard in good faith, and issue a determination as to whether it will be adopted. The law required the Authority to publicly announce the date of the hearing before August 8, 2006 and to make its consideration and determination by August 8, 2007.

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At their meeting of July 25, 2006, the Authority's Trustees directed that public notice of the Authority's consideration of a Demand Response and Smart Metering Standard as required by EPAct be published in the New York State

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Register and that a public hearing be held at which customers and the public can make oral comments and/or written statements.

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The new Standard applies only to the Authority's retail rates. These include rates for the Authority's retail loads, which by FERC criteria include direct-sale customers, such as governmental customers, customers that receive high-load-factor power and some of the Authority's other industrial customers. These retail customers account for about half of the Authority's total load. The other half of the Authority's customers, in terms of load, is defined as wholesale using FERC criteria. For example, sales to utilities (Consolidated Edison Co. of New York, Inc., National Grid, New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation), including Replacement Power, Expansion Power, Niagara/St. Lawrence Rural and

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Domestic Power and Economic Development

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Power and Power for Jobs, are not subject

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to the Standard.

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The new Standard has two

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requirements. First, the Standard

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requires that the electric utility

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provide all retail customers with a

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time-based rate schedule on which the

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rates reflect the cost of generating and

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purchasing the power at the wholesale

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level.

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Second, the Standard requires that

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the electric utility provide the

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customer, upon request, a time-based

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meter enabling the customer to receive

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such a rate. The statute provides four

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allowable time-based rate schedules:

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1, time-of-use pricing whereby

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prices are set for a specific time period

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on an advance or forward basis; 2,

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Critical peak pricing, whereby

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time-of-use prices are in effect except

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for certain peak days, when prices

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reflect the costs of generating and/or

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2 purchasing electricity at the wholesale
3 level and when consumers may receive
4 additional discounts for reducing
5 peak-period energy consumption; 3,
6 Real-time pricing, reflecting the
7 utility's generating costs and 4,
8 credits for consumers that participate in
9 peak load reduction programs.

10 The Authority's staff has prepared
11 a report, the "Staff Report on PURPA -
12 Compliance with Ratemaking Standard in
13 Consideration of the Federal Energy
14 Policy Act of 2005 regarding Demand
15 Response and Smart Metering, December
16 2006," that advises the Authority's
17 Trustees as to whether the Authority
18 should adopt the Standard.

19 The report's findings are that the
20 Authority complies with the Standard
21 through its current range of offerings
22 and metering. The report recommends that
23 the Trustees adopt the Standard in
24 Section 1252 of EAct to the extent that
25 the Authority already has done so and

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that the Authority continue with these offerings and metering practices. I have copies of the report available with me today.

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Staff will consider the views of interested parties, in particular the Authority's customers, at this public hearing and in writing until Wednesday, January 24, 2007. Authority staff will fully evaluate all comments received and recommend final action on the Standard at the March 27, 2007 meeting of the Authority's Trustees. The Power Authority staff looks forward to your input.

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I will now turn the hearing back over to Ms. Cahill.

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MS. CAHILL: I just want the record to reflect that I don't think anyone has signed in as of yet to speak today. We will wait until 11:00, just in case anyone is running late who wanted to speak, and at that point if no one comes in and signs in, we will close this part

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of the hearing.

(Pause in hearing)

MS. CAHILL: It is now 11 o'clock,
and I would like the record to reflect
that no one appeared to speak, so we are
going to close this part of the hearing,
although the record of the hearing will
remain open until the close of business on
Wednesday, January 24, 2007 for the
submission of any additional comments or
statements. Thank you everybody.

(Time noted: 11:00 a.m.)

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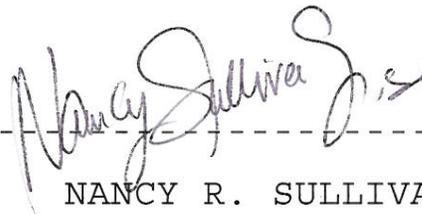
C E R T I F I C A T E

I, NANCY R. SULLIVAN, a Shorthand Reporter and Notary Public do hereby certify:

I reported the proceedings in the within-entitled matter, and that the within transcript is a true record of such proceedings.

I further certify that I am not related, by blood or marriage, to any of the parties in this matter and that I am in no way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of January, 2007.



NANCY R. SULLIVAN

JANUARY 10, 2007

E R R A T A

I wish to make the following changes, for the following reasons:

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123 Main Street
White Plains, NY 10601

Staff Report on PURPA - Compliance with Ratemaking Standard

*In consideration of the Federal Energy Policy Act of 2005
regarding Demand Response and Smart Metering*

December 2006

Staff Report on PURPA - Compliance with Rate Making Standard

*In consideration of the Federal Energy Policy Act of 2005
regarding Demand Response and Smart Metering*

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Staff Report on PURPA - Compliance with Rate Making Standard

In consideration of the Federal Energy Policy Act of 2005 regarding Demand Response and Smart Metering

Executive Summary

The Energy Policy Act of 2005 (EPAc) included amendments to the Public Utility Regulatory Policies Act (PURPA) originally enacted in 1978, setting forth, in three sections, five new standards. These standards are: Section 1251, Net Metering, Fuel Sources, Fossil Fuel Generation Efficiency; Section 1252, Smart Metering, Time-Based Metering and Communications, including time of use rates, demand response programs, and the metering equipment used to implement these, and Section 1254, Interconnection.

These new standards apply only to retail rates. For NYPA, these include rates for governmental customers and direct serve business customers. NYPA's sales, with the exception of the municipal and cooperative customers, are not subject to PURPA. NYPA's retail customers account for about half of NYPA's load. As a "nonregulated electric utility" under PURPA, NYPA must complete consideration of the standards and make a determination as to whether to adopt the standards and to what extent, within the timeframes set out in EPAc.

For Section 1252, NYPA was required to begin consideration by August 8, 2006 and to make a final determination by August 8, 2007. The standards in Section 1251 will be addressed in a subsequent process. By complying with the provisions set forth in the New York Independent System Operator's (NYISO) Open Access Transmission Tariff (OATT), NYPA is also compliant with the Section 1254 Interconnection Standard. This report addresses NYPA's consideration of Section 1252.

Section 1252 Smart Metering provided for a "Demand Response and Smart Metering Standard" (Standard) which requires regulated electric utilities to provide customers with Time of Use (TOU) pricing and metering capabilities to record their energy consumption in order to bill such a pricing structure. The first requirement under this Standard requires regulated electric utilities to provide retail customers with a time-based rate schedule in which the rates reflect the cost of generating and purchasing the power at the wholesale level. Second, the Standard requires regulated electric utilities to provide the customer, upon request, a time-based meter enabling the customer to receive such a rate. The statute listed the four types of time-based rate schedules that are allowable:

1. Time-of-use pricing whereby prices are set for a specific time period on an advance or forward basis;
2. Critical peak pricing whereby time-of-use prices are in effect except for certain peak days, when prices reflect the costs of generating and/or purchasing electricity at the wholesale level and when consumers may receive additional discounts for reducing peak period energy consumption;
3. Real-time pricing, reflecting the utility's generating costs;
4. Credits for loads who participate in peak load reduction programs.

Under EAct, nonregulated electric utilities, like NYPA, are required to provide public notice and conduct a hearing with respect to consideration of the new ratemaking Standard concerning Time-Based Metering and Communications. While not required to adopt the Standard, NYPA must consider the Standard in good faith, and issue a determination as to whether it will be adopted and to what extent.

As required by Section 1252 of EAct, NYPA's Trustees have authorized a public hearing for the purpose of commencing consideration of a Demand Response and Smart Metering Standard. NYPA staff is issuing this report to allow interested parties an opportunity to comment on NYPA's determination with respect to whether and how this Standard should be adopted. The public may comment at the public forum to be held January 10, 2006 at 10:30 a.m. at NYPA's White Plains Office or in writing.

The goal of this staff report and the public hearing process is to fulfill NYPA's obligations under PURPA to conduct a thorough consideration of the Standard as well as to make a recommendation upon which NYPA's Trustees may base a final determination. In so doing, this report provides a comprehensive evaluation of the extent to which current pricing and load reduction programs fulfill the Standard for NYPA's retail sales. This report evaluates NYPA's compliance status with respect to these retail customer groups and provides a recommended determination on whether NYPA is already in compliance with the new Standard through existing pricing structures, such as time of use pricing for our governmental customers and current demand response initiatives, such as NYPA's Peak Load Management program and programs offered through NYPA from the NYISO.

Analysis as to the extent to which NYPA's retail customers have access to demand response programs and time of use options indicates that all customers have the opportunity to participate in at least two alternatives through NYPA. In addition, all NYPA retail customers can choose to participate in demand response programs through other providers independent of NYPA.

With respect to advanced, or "smart metering," the revenue metering for nearly all NYPA's retail customers is the responsibility of their local distribution company (LDC). For the retail customers where NYPA directly owns or controls the billing meters, NYPA already has installed advanced metering with interval recorders that allows for time-based metering.

Based on these findings, staff has determined that NYPA complies with the Standard through its current range of offerings and metering. Staff recommends that NYPA adopt the Standard in Section 1252 of EAct to the extent that NYPA has to date and that NYPA continue with these offerings and metering practice.

Demand Response and Smart Metering

Background

The federal statute known as the Public Utility Regulatory Policies Act (PURPA) was first enacted in 1978 for the purposes of encouraging: (1) conservation of energy supplied by electric utilities; (2) optimization of the efficient use of facilities and resources by electric utilities and (3) equitable rates to electric consumers.

In August 2005, Congress amended PURPA through the Energy Policy Act of 2005 (EPAc) Subtitle E - "Amendments to PURPA." Subtitle E has four sections, three of which address additional PURPA standards:

- Section 1251, Net Metering and Additional Standards;
- Section 1252, Smart Metering, Time-Based Metering and Communications, including time of use rates, demand response programs, and the metering equipment used to implement these;
- Section 1254, Interconnection.

With respect to the Federal Energy Regulatory Commission (FERC), the agency that implements PURPA, NYPA is a nonregulated electric utility. As a nonregulated utility, NYPA must consider and make a specific determination on whether implementation of the new federal standards is appropriate. NYPA may either implement any standard or decline to implement any standard. If NYPA declines, NYPA is required to state in writing the reason for that decision and make that available to the public. Nonregulated electric utilities are not prohibited from modifying any standard, adopting additional standards, more or less stringent, or adopting only some of the standards.

For Section 1251, NYPA must begin consideration by August 8, 2007 and make its final determination by August 8, 2008. Conversely, for Section 1252, NYPA was required to begin consideration by August 8, 2006 and to make a final determination by August 8, 2007. The Standards in Section 1251 will be addressed in a subsequent process. By complying with the provisions set forth in the New York Independent System Operator's (NYISO) Open Access Transmission Tariff (OATT), NYPA is also compliant with the Section 1254 Interconnection Standard. Subtitle E is included in Appendix A.

Sec 1252 Smart Metering provides for a "Demand Response and Smart Metering Standard" (Standard) which requires regulated electric utilities to provide customers with Time of Use (TOU) pricing and metering capabilities to record their energy consumption in order to bill such a pricing structure. Under EPAc, nonregulated electric utilities, like NYPA, are required to provide public notice and conduct a hearing with respect to consideration of the new ratemaking Standard, and issue a determination as to whether, and to what extent, it will be adopted. The law required NYPA to announce publicly the date of the hearing before August 8, 2006, and to make its consideration and determination by August 8, 2007. To be responsive, NYPA has completed this staff report and has set up a public forum on January 10, 2006 to solicit customer comments. By August 2007, NYPA is required to complete its determination.

This report addresses NYPA's consideration of Section 1252 as applied to its own retail rates. These customers include all NYPA's retail loads, which by FERC criteria include the direct sale customers, such as the governmental customers, customers who receive High Load Factor power, and other direct serve industrial customers. These retail customers represent about 1/2 NYPA's total load. The other half of NYPA's customers, in terms of loads, is defined as wholesale using FERC criteria. For example, sales to utilities for resale (Consolidated Edison, National Grid, New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation) including Replacement Power, Expansion Power, Niagara/St.

Lawrence Rural and Domestic Power, Economic Development Power and Power for Jobs, are not subject to the Standard.

NYPA also is a regulator of rates charged by ten municipal and four cooperative customers. PURPA sections 1251, 1252 and 1254 of the Act require State regulatory authority, and non-state rate regulated electric utilities (i.e. utilities with annual retail sales over 500 million kWh), to comply. Furthermore, section 1291 (c) of the Act also adds to the list of exempt entities in the Federal Power Act section 201 (f) any cooperative that sells less than 4 million MWh of electricity per year, (this is referred to as the "small utility exemption").¹ Therefore, the mandatory standards apply to NYPA's customers, the full requirement municipals and cooperatives, but only if their annual sales exceed this threshold. Only two full requirement municipals exceed this threshold, Solvay and Fairport. These municipals are performing their own consideration of the standard.

Discussion

The new EAct Standard "Smart Metering, Time-Based Metering and Communications"¹ applies to and requires each FERC-regulated electric utility to (1) "provide individual customers upon customer request, a time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility's costs of generating and purchasing electricity at the wholesale level." The Standard also requires that each regulated electric utility provide (2) "each customer requesting a time-based rate with a time-based meter capable of enabling the utility and customer to offer and receive such rate."

The statute sets forth the following four types of time-based rate schedules allowable under requirement (1) above:

(i) time-of-use pricing whereby electricity prices are set for a specific time period on an advance or forward basis, typically not changing more often than twice a year, based on the utility's cost of generating and/or purchasing such electricity at the wholesale level for the benefit of the consumer. Prices paid for energy consumed during these periods shall be pre-established and known to consumers in advance of such consumption, allowing them to vary their demand and usage in response to such prices and manage their energy costs by shifting usage to a lower cost period or reducing their consumption overall;

(ii) critical peak pricing whereby time-of-use prices are in effect except for certain peak days, when prices may reflect the costs of generating and/or purchasing electricity at the wholesale level and when consumers may receive additional discounts for reducing peak period energy consumption;

(iii) real-time pricing whereby electricity prices are set for a specific time period on an advanced or forward basis, reflecting the utility's cost of generating and/or purchasing electricity at the wholesale level, and may change as often as hourly; and

(iv) credits for consumers with large loads who enter into pre-established peak load reduction agreements that reduce a utility's planned capacity obligations.

¹ Found in §111(d) (14); 16 U.S.C. 2621(d) (14).

According to this provision, each regulated electric utility must provide its retail customers with time-based rate schedules by February 8, 2007. NYPA, as a nonregulated electric utility, has initiated this process “considering” the Standard² to determine whether and to what extent it should adopt the Standard.

This report addresses NYPA’s consideration of this Standard with respect to its retail rates. NYPA’s retail sales include the downstate governmental customers, High Load Factor customers and other direct sales to industrial companies. During the course of this investigation, staff analyzed whether the demand response programs, Time of Use (TOU) and market-based pricing alternatives offered by NYPA satisfy the new Standard and to what extent these are available to NYPA’s retail customers. The first step was to determine under what category NYPA’s offerings fall.

NYPA’s Time-Based Rates

The statute sets forth the following four types of time-based rate schedules allowable under requirement (1) of the Standard. First considered is:

(i) time-of-use pricing whereby electricity prices are set for a specific time period on an advance or forward basis, typically not changing more often than twice a year, based on the utility’s cost of generating and/or purchasing such electricity at the wholesale level for the benefit of the consumer. Prices paid for energy consumed during these periods shall be pre-established and known to consumers in advance of such consumption, allowing them to vary their demand and usage in response to such prices and manage their energy costs by shifting usage to a lower cost period or reducing their consumption overall;

NYPA offers time of use pricing under its Government Service Tariff, as described below:

Government Service Tariff

Government Service Tariffs are time of use rates applicable to any government account whose monthly demand exceeds 1,500 kW in any annual period ending September 30. On-peak demand is weekdays from 8 am to 6 pm; on-peak energy is weekdays from 8 am to 10 pm; off-peak demand and energy is all other hours. Demand rates apply to peak demand during on-peak period.

The second type listed in the Standard, Critical Peak Pricing, is not offered by NYPA. The third type, Real-Time Pricing, which does cover alternatives offered by NYPA, is:

(iii) real-time pricing whereby electricity prices are set for a specific time period on an advanced or forward basis, reflecting the utility’s cost of generating and/or purchasing electricity at the wholesale level, and may change as often as hourly;

² PURPA, §§ 111(a), 112(b) (4) (A), 112(b) (4) (B); §§ 16 U.S.C. 2621(a), 16 U.S.C. 2621(b).

NYPA offers three market-based pricing alternatives, Day Ahead Market Price, Alternative Energy and Substitute Energy, as described below:

Day Ahead Market Price

For Day Ahead Market Price (DAMP), NYPA procures from the marketplace all energy and related products on behalf of the customers. NYPA makes these market-based energy purchases from either the New York Independent System Operator (NYISO) Day Ahead Market or Real Time Market, as appropriate, to ensure delivery of the required amount of energy to the point of interconnection between the customer site and the LDC. NYPA has agreed to coordinate and consult with the customers concerning all energy and related product purchases. As directed by the customers, NYPA will also enter into bilateral contracts for the procurement of energy products for the benefit of the customers.

Alternative Energy

Alternative Energy (AE) is energy purchased in the marketplace on behalf of customers with interruptible hydro contracts. The availability of interruptible power and energy is contractually based on a seven-day rolling average of the net generation of certain NYPA hydro facilities. Should interruptible energy not be available, the customers can request that NYPA facilitate the purchase of their power on the open market or they can curtail.

Substitute Energy

The Substitute Energy (SE) Provision results when river flows are reduced and NYPA must implement a reduction in the firm hydro energy sales. The curtailment decisions are made on a month-to-month basis and communicated to the customers. In the event that NYPA needs to curtail firm hydro power, each customer has the choice to (a) ask NYPA to facilitate the purchase of their power on the open market, for which the customer will pay NYPA the cost of the purchased power; (b) use their own resources (i.e. ask their local utility) to obtain the needed power; or (c) curtail use.

When the actual shortfalls exceed forecasted shortfalls, customers receive demand credits based on the forecasted shortfall percent and no energy credits are given. When actual shortfalls are less than forecasted, customers receive demand credits based on actual shortfall percents and energy credits based on the difference between the forecast and actual percents. When there is a forecasted shortfall and there is no actual shortfall, customers receive energy credits based on the forecasted percent and no demand credits are given.

These four TOU or market-based pricing alternatives are summarized in Table 1: Summary of NYPA's Time of Use and Market Based Pricing Alternatives.

	Program	Acronym	Customers	Description
1	Government Service Tariffs	GST-TOU	Government	Time of Use (TOU) Pricing for customer accounts > 1,500kw
2	Day Ahead Market Price	DAMP	High Load Factor	Meet customer firm load requirements
3	Alternative Energy	AE	Direct serve industrial	Market purchases during curtailment of interruptible hydro
4	Substitute Energy	SE	Firm hydro	Market purchases during curtailment of firm hydro

Table 1: Summary of NYPA's Time of Use and Market Based Pricing Alternatives

NYPA's Demand Response Programs

The final type listed in the Standard, which covers the demand response programs offered by NYPA, is:

(iv) credits for consumers with large loads who enter into pre-established peak load reduction agreements that reduce a utility's planned capacity obligations.

NYPA offers customers a robust selection of demand response programs, described as peak load reduction agreements in EPCAct. These programs range from the fixed \$40/kW commitment under Peak Load Management (PLM) to the voluntary paid-as-performed under Emergency Demand Response to market-based mandatory performance programs for capacity and energy. The four demand response programs offered, Peak Load Management, Emergency Demand Response, Special Case Resources and Day Ahead Demand Response are summarized in Table 2: Summary of NYPA's Demand Response Programs, and are described in more detail in the following sections.

	Program	Acronym	Admin	Location	Length	Minimum Load Reduction Enrollment	Frequency	Incentive	Penalties
1	Peak Load Management	PLM	NYPA	New York City	Summer	none	15 events/90 hours per year	\$40/kW	No
2	Emergency Demand Response Program	EDRP	NYISO	Statewide	Annual	100 kW	unlimited	Minimum of \$0.45/kWh or 90% of LBMP	No
3	Special Case Resources Program	SCR	NYISO	Statewide	Annual	100 kW	unlimited	<u>Capacity:</u> 80% of UCAP price for commitment < 4 MWs, 90% for commitment of 4 MWs or more. <u>Energy:</u> 100% LBMP	Yes
4	Day Ahead Demand Response Program	DADRP	NYPA	Statewide for High Load Factor	Annual	1 MW	unlimited	Day Ahead Market (DAM) price	No

Table 2: Summary of NYPA's Demand Response Programs

Originally, PLM was conceived as a short-term solution to the capacity deficiency and load pocket problems in New York City (NYISO Zone J) at the start of New York State's newly deregulated wholesale electric marketplace in 1999. There were no new significant capacity or transmission upgrades planned for the area in the short term. After several effective years of PLM, and recognizing that installed capacity constraints will continue, NYPA has recognized the value of PLM as a reliable avoided cost alternative.

NYPA has increased its demand response program choices by adding the programs more recently set up by the NYISO. Retail customers cannot participate directly in the NYISO programs. These customers must enroll through a service provider. Therefore, NYPA became a service provider for each program and now offers these not only to NYPA's retail customers, but also to all NYPA's customers who qualify. The customers are free to participate in any program, or set of programs, that best meets their needs. For customers enrolled in multiple programs, NYPA coordinates all program notifications and handles all administrative paperwork, registrations, event data analysis, payments, and any submittals to NYISO.

Participants in any of the offered programs must have interval metering, or "advanced metering". Most participants have the correct metering already in place, but there can be issues around proper

connections and totalizing meters. NYPA provides significant assistance with trouble-shooting any metering issues, and facilitates the installation of interval metering for PLM participants if needed at no charge.

Peak Load Management Program

The Peak Load Management (PLM) program, now in its eighth year, is NYPA's flagship load reduction program. Through PLM, NYPA has created a significant, reliable and cost-effective demand response resource, available to reduce our customer's aggregate load at the time of the system peak load.

PLM is open to any customer facilities located within the five boroughs of New York City that receive NYPA power, and is not restricted to only NYPA's retail customers. NYPA's participating customer base includes governmental customers who provide essential services such as public transportation, municipal infrastructure, health care, and education, as well as business customers, such as major financial services companies, telecommunication and media companies.

To ensure reliability of the electric system throughout New York State, Load Serving Entities (LSEs) like NYPA are required to meet established installed capacity requirements. In addition, certain areas, such as New York City, have been designated "load pockets" due to insufficient transmission capacity into the area to meet the load, resulting in more stringent installed capacity requirements. The NYISO adopted an in-city installed capacity requirement that requires each LSE operating in the load pocket to have enough installed capacity within the zone to meet approximately 80% of their contribution to the peak load. As the LSE for its customers, NYPA is therefore obligated to meet this 80% in-city capacity requirement.

NYPA uses a balanced approach to meeting this in-city capacity requirement, incorporating into supply planning both generation resources and demand response resources available from systematically reducing customer loads through the PLM program. By reducing NYPA's customer loads at the time of system peak through PLM, NYPA captures a valuable alternative to purchasing installed capacity. It is more cost effective to pay customers in PLM for verified load reductions than to purchase the corresponding amount of capacity in the market. In 2002, NYPA's PLM program received the Peak Load Management Alliance (PLMA) award in the government agency/ entity category.

NYPA provides an incentive payment of \$40/kW committed per season to customers who have participating facilities located within New York City. In exchange for the incentive payment, customers provide load reductions at NYPA's request, either by reducing their discretionary loads or by operating their on-site generation. The PLM season runs from June 1 to September 30. Each event is from 2 to 6 hours in duration, weekdays between the hours of 11 am and 7 pm. NYPA can request a maximum of 15 events or 90 hours of curtailment per season. NYPA alerts participants one business day ahead of an event day and provides two-hour advance notice on the day of reduction. For more program information, please refer to the Program Summary for Peak Load Management in Appendix B.

While PLM's fundamental parameters have not changed since the program's inception, NYPA always looks for opportunities to both expand and improve PLM. In 2004, a comprehensive program process survey was conducted with participants to determine customer attitudes towards the PLM program and to see if there were any modifications that should be made to increase customer satisfaction or participation rates. Nearly 90% of the participants responded to the survey. The level of satisfaction with the program was outstanding with customers rating the program at 3.63 out of a possible 5.0 (see Figure 1: Customer Satisfaction with PLM Program Features).

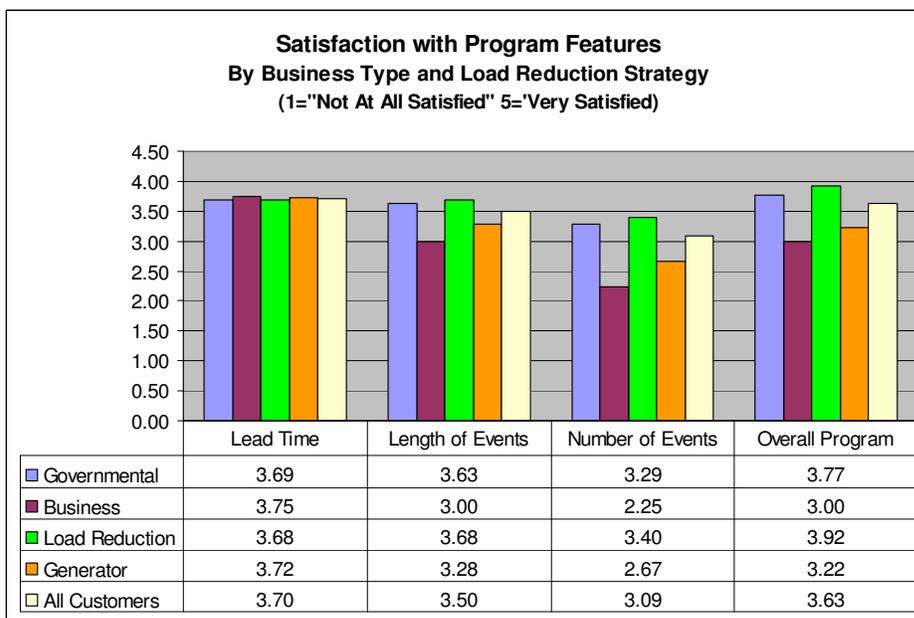


Figure 1: Customer Satisfaction with PLM Program Features

The customers involved in the process survey all indicated that they were highly satisfied with the simplicity of the PLM program, particularly the fact that the level of incentive is known in advance (\$40/kW committed per season). Additionally the participants were pleased that the start time of the events (typically 12:00 PM) and the duration of the events (six hours) were known ahead of time so that communication with facility staff implementing load reductions were greatly simplified.

Customers also indicated that they liked the flexibility of the program with regard to the “one strike” rule, which allows the customer to have one event miscue without being penalized. The flexibility of using different event verification protocols was also viewed in a highly favorable manner, particularly if the NYISO load reduction protocol is not providing an accurate estimate of the load reduction at the facility.

One of NYPA’s program features that customers viewed extremely favorably was the customer performance report that NYPA provides, typically within a few days of an event. Participants are given reports with performance feedback graphs to help them monitor and adjust operations to maximize their peak load reductions. These reports provide a clear, concise, and easy to understand graphical representation of the customer’s load reduction performance during an event. Customers are able to troubleshoot their PLM event day procedures to adjust their performance.

In fact, NYPA’s customers were extremely impressed with the level of service provided for the program and commented that all they had to do was indicate a desire to participate in the program and the NYPA staff took care of the rest.

Emergency Demand Response Program

The Emergency Demand Response Program (EDRP) is a voluntary emergency energy curtailment program set up by the NYISO to help facilitate the reliability of the New York State electric system. EDRP was designed to assist by reducing load during emergency conditions when called upon by the NYISO System Operators.

As one of the NYISO's Curtailment Service Providers (CSPs), NYPA contracts with qualifying customers to reduce load at NYISO's request. NYPA offers EDRP to any NYPA customer in New York State, not limiting participation to NYPA's retail customers. All customers are also free to sign up to participate in EDRP through another CSP, independent of NYPA.

Customers enrolled in EDRP are paid for their verified energy reduction when they respond to EDRP curtailment events called in their area (NYISO Zone). If the EDRP event is 4 hours or longer, the payment will be the greater of \$0.50/kWh or the market value of electricity during the hour(s) of verified performance. If the event is less than 4 hours, the payment will be the greater of \$0.50/kWh or the market value of electricity during the first two hours and the market value of electricity during hours 3 and 4 of verified performance. Payments for NYPA's enrollees are made directly to NYPA by NYISO and are passed on to participants minus a minimal NYPA program administration fee of 10%. NYPA coordinates all program notifications and handles all administrative paperwork, registrations, event data analysis, and submittals to NYISO.

EDRP is strictly voluntary and there is no penalty for non-compliance or under-performance in any event. NYPA customers enrolled in PLM can also enroll in EDRP, receiving payments for performance under both programs. Nearly all NYPA's PLM participants currently are enrolled in EDRP. Because of their PLM participation, NYPA's EDRP response rate is outstanding and among the highest for voluntary demand response.

As a voluntary program, EDRP provides a key entry point to demand response for customers who are hesitant or unsure of their ability to reduce load during events. Customers also recognize that participating provides the opportunity to review, test and effectively revise their facility emergency plans. For more detailed program information, please refer to the Program Summary for the Emergency Demand Response Program in Appendix B.

Special Case Resources Program

The Special Case Resources (SCR) Program, like EDRP, helps facilitate the reliability of the New York State electric system. SCR is a capacity program designed to assist the NYISO by reducing load during emergency conditions.

As one of NYISO's Responsible Interface Parties (RIPs), NYPA contracts with qualifying customers to reduce their load at NYISO's request. NYPA offers SCR to any NYPA customer in New York State, not limiting participation to NYPA's retail customers. Because of the differential in the market price for capacity, participants tend to be located in the New York City area. All customers also have the option to participate in SCR through another RIP, independent of NYPA. Each RIP is free to structure its own customized SCR offering within the NYISO guidelines.

SCR offers customers an opportunity to sell the capacity value from their load reduction into the New York State Capacity Market. Customers earn incentives for both capacity and energy. NYPA's capacity payment for the facility's pledged capacity is the average UCAP auction clearing price for the same period and location where the facility commits capacity minus a minimal program administration fee. NYPA retains a 20% fee for the customer's pledged capacity commitment up to 4 MWs, with a reduced fee of 10% where the customer's pledged capacity is 4 MWs or more. NYPA's energy payment for verified performance by the facility during an SCR Event is 100% of the LBMP for energy during the event.

Customers who have committed their capacity are obligated to perform in all SCR events called by the NYISO in their zone and to demonstrate their ability to provide that capacity during tests if no events were called during the six-month capability period. Any penalties assessed by NYISO are passed through by NYPA to the participant. Customers who cannot meet their obligation are subject to the following penalties:

- **Deficiency Penalty** – If the participant does not demonstrate its ability to reduce the full committed amount for one full hour during an event in each capability period (or test when events are not called during the capability period), the participant may face a penalty of 1.5 times the spot market price for the deficient capacity.
- **Derating Penalty** – If the participant does not demonstrate its ability to reduce the full committed amount during all events (or test when events are not called during the capability period), the participant may face a derating penalty; which could limit their potential commitment amount in future Capability Periods.

For more program information, please refer to the Program Summary for the Special Case Resources Program in Appendix B.

Day Ahead Demand Response Program

The Day Ahead Demand Response Program (DADRP) allows energy users to bid their ability to reduce load in megawatts into the day-ahead energy market, in the same way that generators bid in their supply. DADRP provides customers an opportunity to participate in New York State's electricity marketplace by giving them the ability to offer to NYISO their load reduction to alleviate the NYISO's load commitment. Customers submit their offers in the form of a bid, detailing when and how much they could curtail, along with the costs and payments they require. If their bids are selected by NYISO, customers must curtail load and will be paid for their reduction. Offers that are determined to be economic and selected by NYISO to run are paid the market-clearing price minus a minimal NYPA program administration fee of 10%. DADRP allows flexible loads to effectively increase the amount of supply in the market and thereby moderate prices.

NYPA offers DADRP to retail customers who purchase power in the Day Ahead Market (DAM). The program is appropriate for those customers interested in bidding their ability to reduce load into the day-ahead energy market. NYPA contracts with qualifying customers to facilitate their participation in DADRP, handling the administrative submittal of bids, confirmation of performance and distribution of NYISO payments to the customer. Currently NYPA has five retail customers enrolled in DADRP, but only recently have any considered submitting market bids. For more program information, please refer to the Program Summary for the Day Ahead Demand Response Program in Appendix B.

FERC Surveys 727: Demand Response and Time Based Rate Programs/Tariffs and 728: Advanced Metering Infrastructure

In spring 2006, NYPA responded to two FERC surveys, Federal Energy Regulatory Commission Survey 727 on Demand Response and Time Based Rate Programs/Tariffs and Federal Energy Regulatory Commission Survey 728 on Advanced Metering Infrastructure. The purpose of these questionnaires was to seek information about advanced metering saturation and demand response programs. In August, the DOE released its report, Report to Congress: Demand Response and Advanced Metering, August 7, 2006, summarizing the results of these surveys. The report is available at <http://www.ferc.gov/legal/staff-reports/demand-response.pdf>.

The surveys required that each utility categorize its customers into 4 different groups – Industrial, Commercial, Transportation and Other and surveyed the Time Of Use (TOU) pricing and load reduction programs available to each customer group. Table 3: NYPA Customers Categorized by FERC-Defined Groups shows the number of NYPA customers and their maximum load categorized into each of the FERC defined groups.

Group	Number of Customers	Maximum Load (MW)	Description of NYPA Power
Industrial	21	592	Direct serve industrial, High Load Factor
Commercial	132	1,821	Government, High Load Factor
Transportation	7	719	Government
Total Retail	160	3,132	All Retail
Other (non-retail)	69	3,025	Hydro Preference, Replacement Power, Expansion Power, Power For Jobs, Economic Development Power
Grand Total	229	6,157	All

Table 3: NYPA Customers Categorized by FERC-Defined Groups

These FERC-defined groups provide an effective way to look at NYPA's customer base. Industrial, Commercial, and Transportation groups are NYPA's direct sale customers. The rates of these 160 customers are those being considered under the Standard. The "Other" classification includes all sales for resale, and therefore the new Standard does not apply to this group.

Analysis

The Standard intends that all retail customers have access to time-based rates such as time of use pricing and demand response programs. Therefore, staff analyzed the total retail customer population to determine if every retail customer had access to at least one pricing alternative or demand response program, and found that every retail customer was eligible for at least two programs. These results are summarized in Table 4: Retail Customer Eligibility for Multiple Offerings.

	Number of Customers Eligible	Eligible as % of Total
Eligible for at least 2 programs	160	100%
Eligible for at least 3 programs	141	88%
Eligible for at least 4 programs	32	20%
Eligible for at least 5 programs	14	9%
Eligible for at least 6 or more programs	0	0%

Table 4: Retail Customer Eligibility for Multiple Offerings

Staff then analyzed the number of retail customers enrolled to determine how many customers participate in one or more programs. Table 5: Retail Customer Enrollment in Multiple Offerings shows that overall, even though 100% of the retail customer base is eligible for at least two programs, 83% currently are not participating in any program with NYPA. Since all customers have the option of enrolling in demand response programs with other entities, staff cannot know for sure how many customers may have chosen to participate in that way.

	Number of Customers	% Of Total
Not enrolled	133	83%
Enrolled in at least 1 program	14	9%
Enrolled in at least 2 programs	5	3%
Enrolled in at least 3 programs	6	4%
Enrolled in at least 4 programs	2	1%
Enrolled in at least 5 or more programs	0	0%

Table 5: Retail Customer Enrollment in Multiple Offerings with NYPA

To get a better understanding of participation rates, staff analyzed whether and to what extent NYPA's retail customers can participate in each of the eight programs offered by NYPA. Table 6: Retail Customer Eligibility and Enrollment by NYPA Offering breaks down the number of retail customers eligible for each NYPA program, the number enrolled in each program, and provides the percentage of eligible customers actually enrolled in each program.

Pricing Alternative or Demand Response Program	Number of Eligible Customers	Number of Enrolled Customers	Enrollment as % of Eligible
GST – TOU	131	12	9%
DADMP	1	1	100%
AE	2	2	100%
SE	21	5	24%
PLM	24	9	38%
EDRP	160	13	8%
SCR	160	3	2%
DADRP	8	5	63%

Table 6: Retail Customer Eligibility and Enrollment by NYPA Offering

Staff has determined based on these analyses that NYPA has satisfied the Standard’s first requirement to “provide individual customers upon customer request, a time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility’s costs of generating and purchasing electricity at the wholesale level.”

NYPA’s Advanced Metering

The Standard also requires that each regulated electric utility provide “each customer requesting a time-based rate with a time-based meter capable of enabling the utility and customer to offer and receive such rate.” Advanced metering or smart metering as described by EPAct, is metering that has the capability to record a customer’s energy consumption in order to bill a time of use pricing structure. Such a meter needs to record customer use in intervals of one hour or less.

Unlike typical utilities, NYPA has no large franchise service territory. NYPA’s retail customers are located mainly in the service territories of other local distribution companies (LDCs). Therefore, in nearly every instance, their LDC, not NYPA, meters NYPA’s customers for billing. Many customers already have advanced metering in place. The LDCs that serve NYPA’s retail customers are regulated electric utilities, and therefore are subject to the new EPAct standard. NYPA staff expects that the LDCs’ implementation of the Standard will provide customer access to advanced metering in any instances where it currently is not installed.

NYPA’s total retail load is billed under nearly 12,000 accounts. Of these, NYPA directly owns or controls the billing or revenue meters at only 34 accounts. For these 34 retail accounts, NYPA already has interval metering installed recording data at 15-minute intervals or less. Therefore, NYPA currently provides advanced metering for 100% of its retail customers where NYPA directly owns or controls the billing or revenue metering.

Based on this analysis, staff has determined that NYPA meets the second requirement of the Standard to provide “each customer requesting a time-based rate with a time-based meter capable of enabling the utility and customer to offer and receive such rate.”

Conclusions

As the electricity market in New York State proceeded through deregulation, NYPA developed a strong portfolio of demand response programs and market-based pricing alternatives for its customers. NYPA has not differentiated between its retail and non-retail customers, choosing instead to provide these offerings based on the appropriateness for the end use customer. In response to a process survey, NYPA's PLM participants have indicated they are very satisfied with the PLM program and demand response options that NYPA provides.

NYPA Customers Benefit from Participating in Demand Response

Aside from the monetary incentives for participating, NYPA's customers receive many other benefits from participating in demand response programs with NYPA. Customer education is an especially important benefit and NYPA provides a full range of services. NYPA sponsors a customer kick-off meeting in early spring, prior to each PLM season. The meeting serves to educate program participants and prospects about the need for demand response programs, details the menu of programs offered by NYPA, and describes supporting services offered. Participants present the benefits of participation and potential load curtailment strategies through the use of actual examples and case studies. These types of interaction help to break down barriers to participation – helping to eliminate any negative perceptions regarding load curtailment and the natural reluctance to get involved.

NYPA has fostered participant education and increased involvement by sponsoring expert workshops in environmental permitting solutions, and setting up a participant website. The PLM Web Link is used to communicate with customers, providing general program information, bulletins on program "event days", links to contracts and forms, links to weather information and access to their current year and historical performance reports and graphs through NYPA-assigned "password access" to their own facility's information.

Another key is the technical support that NYPA provides to participants and potential participants free of charge. The technical support includes on-site engineering assessments to identify and quantify feasible load curtailment strategies, resulting in facility load reduction plans. NYPA also offers expert assistance with environmental permitting for participating generators.

Interval metering is required for program participation, and therefore, another key area where NYPA provides a full range of services. Most newly enrolled PLM participants have existing interval metering to record their load reductions, but for those who do not, NYPA will facilitate the installation of the interval metering at no charge. For facilities that have metering that is not working correctly, NYPA staff provides technical assistance in trouble-shooting and resolving metering problems.

A significant indication of the viability and success of NYPA's PLM program comes from the customer perspective: many of the process survey respondents indicated that they got involved with PLM because they were on a short list of facilities at their company or agency that weren't enrolled in the program. Several customers now ask their facility managers to justify why they are not enrolled in the program as opposed to the early years, when they had to explain why they were.

NYPA customers are on-board with demand response, as demonstrated in the next section highlighting the 2006 performance of the retail customers in NYPA's demand response programs.

2006 Demand Response Program Results

In 2006, NYPA once again demonstrated that PLM operates like a cost-effective, small clean power plant. Table 7: PLM Program History shows the total MWs committed by all participants, both retail and non-retail customers, and summarizes the PLM events called in the past six years. In 2006 NYPA called five PLM events for a total of 30 hours. The 2006 MW commitment decreased slightly from 62 to 45 MW due to customer migration to NYPA's SCR program. This migration occurred because 2006 was the first summer when NYPA offered SCR. Even with the lower commitment of 45 MWs, PLM delivered the highest load reduction results to date, with 84 MW of load reduction on the 2006 system peak day, August 2.

	2001	2002	2003	2004	2005	2006
Peak Day	Thurs, Aug 9	Wed, July 3	Thurs, June 26	Wed, June 9	Wed, July 27	Wed, Aug 2
Consolidated Edison Peak Demand (MWs)	12,207	12,083	11,875	11,327	13,059	13,141
PLM MWs Committed	46	57	66	62	62	45
PLM Total Hours	47	69.5	30	30	60	30
Number of PLM Events	8	12	5	5	10	5

Table 7: PLM Program History

In 2006, retail customers accounted for 89 out of 92 facilities in PLM with a total commitment of 38 MW, or 84% of the total program commitment. Figure 2: Retail Customer Performance in PLM Event on August 2, 2006 shows the performance of NYPA's retail customers participating in PLM on the system peak day, when the retail customers provided an average reduction of 73.9 MWs, or 194% of commitment. The PLM program has consistently delivered real megawatts of demand relief within the NYC load pocket, performing as a "virtual power plant."

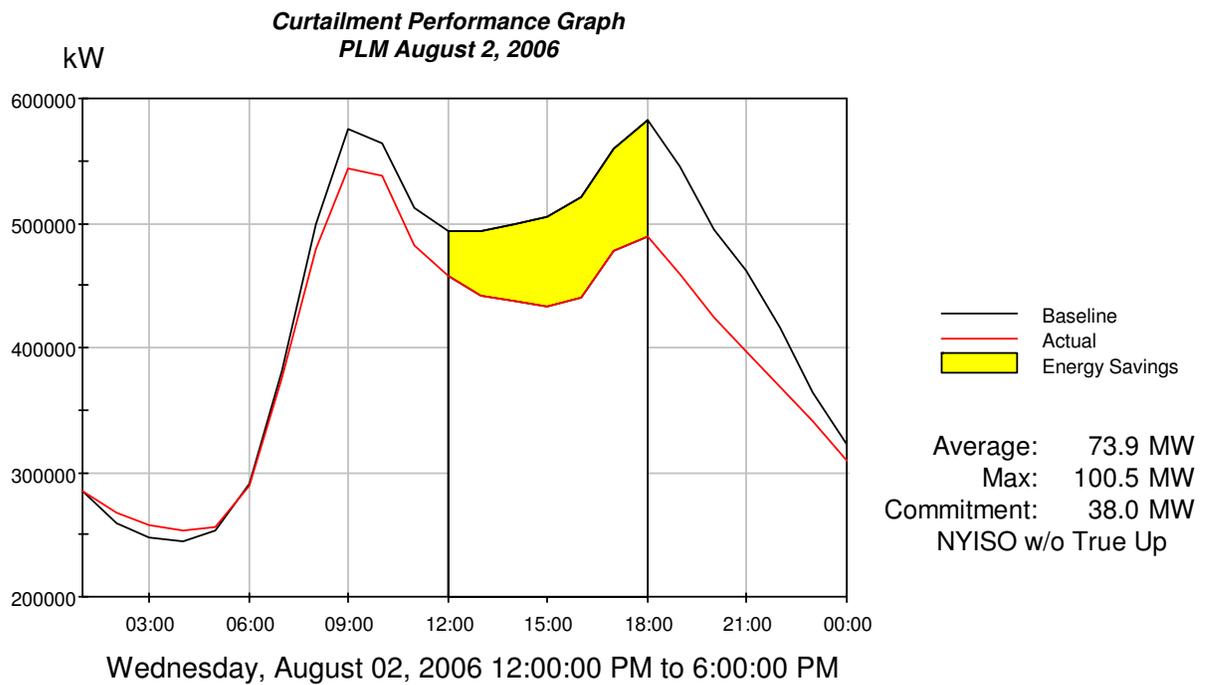


Figure 2: Retail Customer Performance in PLM Event on August 2, 2006

The EDRP and SCR programs were activated by NYISO for 35 hours on five different days in 2006. NYPA had retail customers participating in Zones I (lower Westchester County), J (New York City) and K (Long Island). Zone J was called for all five events, and Zone K for four events, while Zone I was called only for the first event. NYPA had a total of 226 retail customer facilities committed to 98.8 MW of load reduction participating in EDRP in zones I, J and K. These customers provided a total energy reduction of over 2,225,000 kWh during the five EDRP events. On the peak day, August 2, 2006, the EDRP customers in Zones J and K provided an average load reduction of 83.7 MWs, or 85% of commitment, (see Figure 3: Retail Customer Performance in EDRP Event on August 2, 2006).

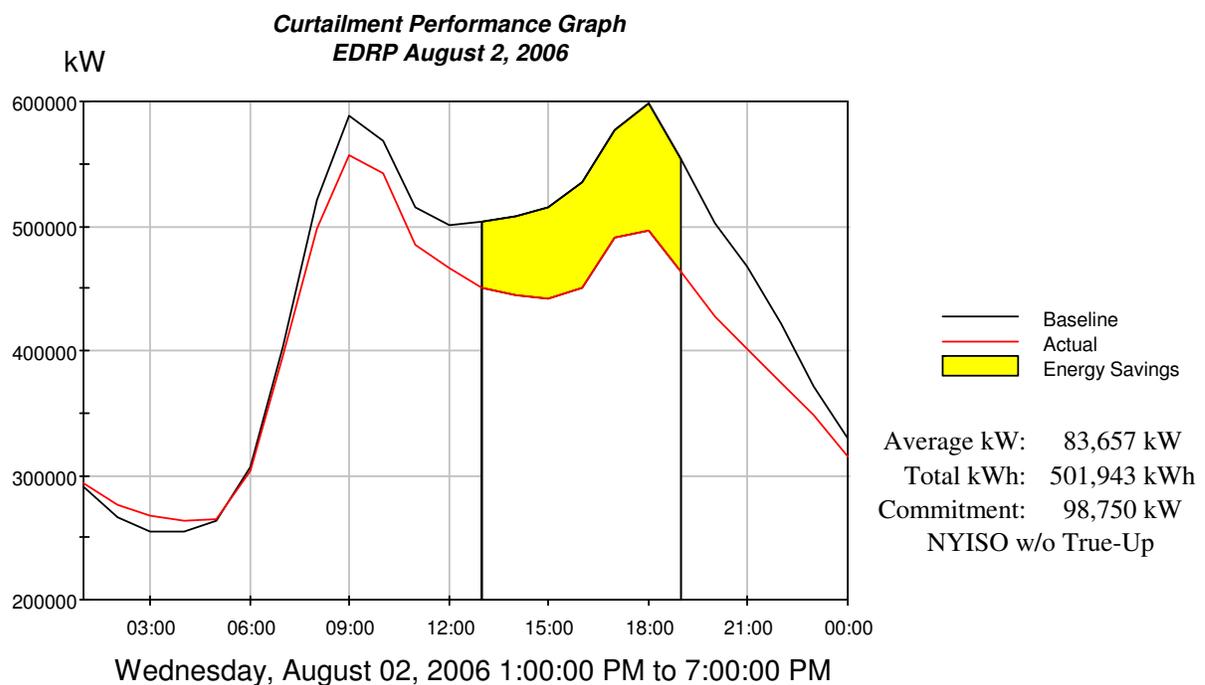


Figure 3: Retail Customer Performance in EDRP Event on August 2, 2006

The summer of 2006 was the first summer that NYPA offered the SCR program to its customers. NYPA's retail customers committed to provide 20.4 MWs of load reduction for SCR. These customers provided 22.7 MWs, or 111% of committed load reduction on the peak day, as shown in Figure 4: Retail Customer Performance in SCR Event on August 2, 2006. Note that in the figure, the baseline is significantly higher than the actual load on August 2nd. This is because one customer with a load reduction of approximately 4.6 MWs began curtailment around noon on August 1st and stayed off until around 9 pm on August 3rd, due to the conditions in New York City during that first week of August.

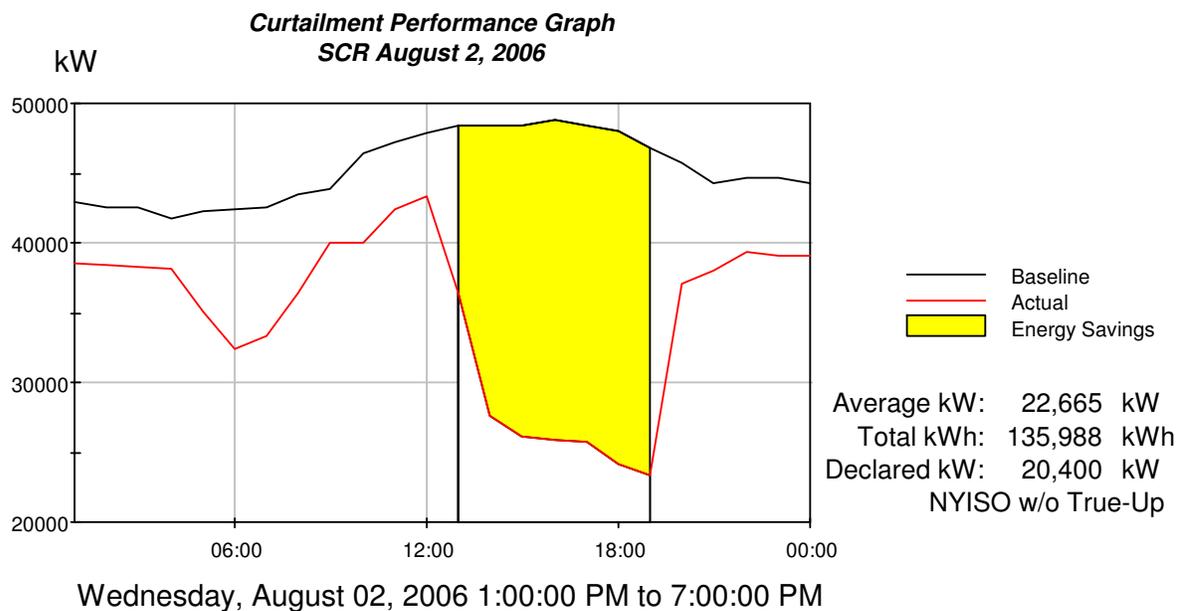


Figure 4: Retail Customer Performance in SCR Event on August 2, 2006

Recommendations

The intent of the new Standard described in Section 1252 of EAct is to ensure that retail customers have access to time-based rates, including time of use rates, demand response programs and time-based meters. NYPA currently provides a full range of demand response programs, in conjunction with a variety of supporting services to promote demand response. As a result, NYPA has a mature demand response portfolio that is a proven reliable resource.

Recognizing PLM's contribution to system reliability in the New York City "load pocket", NYPA senior management and customers fully support the PLM program. In early 2004, NYPA Trustees approved an extension of the program through April 2010. PLM continues to be a reliable demand response resource, effectively providing significant load relief in the New York City "load pocket" in 2006. Similarly, the programs set up by NYISO originally had sunset dates, but as they have proven their value to New York State, the sunset dates have been eliminated.

With deregulation, NYPA has developed a number of time of use and market-based alternatives that reflect time of use pricing and real-time pricing based on wholesale market prices. NYPA offers at least two of these demand response programs or rates to each of NYPA's retail customers, and most have even more alternatives. NYPA already provides advanced metering to all customers where NYPA owns or controls the revenue metering.

In conclusion, staff has determined that NYPA already has met the intent of the Standard. Staff recommends that NYPA adopt the Standard in Section 1252 of EAct and continue to offer the current selection of programs, pricing alternatives and metering to its retail customers.

*Appendix A
Subtitle E "Amendments to PURPA"*

“(A) all prudently incurred costs necessary to comply with mandatory reliability standards issued pursuant to section 215; and

“(B) all prudently incurred costs related to transmission infrastructure development pursuant to section 216.

“(c) INCENTIVES.—In the rule issued under this section, the Commission shall, to the extent within its jurisdiction, provide for incentives to each transmitting utility or electric utility that joins a Transmission Organization. The Commission shall ensure that any costs recoverable pursuant to this subsection may be recovered by such utility through the transmission rates charged by such utility or through the transmission rates charged by the Transmission Organization that provides transmission service to such utility.

“(d) JUST AND REASONABLE RATES.—All rates approved under the rules adopted pursuant to this section, including any revisions to the rules, are subject to the requirements of sections 205 and 206 that all rates, charges, terms, and conditions be just and reasonable and not unduly discriminatory or preferential.”.

42 USC 16441.

SEC. 1242. FUNDING NEW INTERCONNECTION AND TRANSMISSION UPGRADES.

The Commission may approve a participant funding plan that allocates costs related to transmission upgrades or new generator interconnection, without regard to whether an applicant is a member of a Commission-approved Transmission Organization, if the plan results in rates that—

- (1) are just and reasonable;
- (2) are not unduly discriminatory or preferential; and
- (3) are otherwise consistent with sections 205 and 206 of the Federal Power Act (16 U.S.C. 824d, 824e).

Subtitle E—Amendments to PURPA

SEC. 1251. NET METERING AND ADDITIONAL STANDARDS.

(a) ADOPTION OF STANDARDS.—Section 111(d) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2621(d)) is amended by adding at the end the following:

“(11) NET METERING.—Each electric utility shall make available upon request net metering service to any electric consumer that the electric utility serves. For purposes of this paragraph, the term ‘net metering service’ means service to an electric consumer under which electric energy generated by that electric consumer from an eligible on-site generating facility and delivered to the local distribution facilities may be used to offset electric energy provided by the electric utility to the electric consumer during the applicable billing period.

“(12) FUEL SOURCES.—Each electric utility shall develop a plan to minimize dependence on 1 fuel source and to ensure that the electric energy it sells to consumers is generated using a diverse range of fuels and technologies, including renewable technologies.

“(13) FOSSIL FUEL GENERATION EFFICIENCY.—Each electric utility shall develop and implement a 10-year plan to increase the efficiency of its fossil fuel generation.”.

(b) COMPLIANCE.—

(1) TIME LIMITATIONS.—Section 112(b) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622(b)) is amended by adding at the end the following: Deadlines.

“(3)(A) Not later than 2 years after the enactment of this paragraph, each State regulatory authority (with respect to each electric utility for which it has ratemaking authority) and each nonregulated electric utility shall commence the consideration referred to in section 111, or set a hearing date for such consideration, with respect to each standard established by paragraphs (11) through (13) of section 111(d).

“(B) Not later than 3 years after the date of the enactment of this paragraph, each State regulatory authority (with respect to each electric utility for which it has ratemaking authority), and each nonregulated electric utility, shall complete the consideration, and shall make the determination, referred to in section 111 with respect to each standard established by paragraphs (11) through (13) of section 111(d).”.

(2) FAILURE TO COMPLY.—Section 112(c) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622(c)) is amended by adding at the end the following: “In the case of each standard established by paragraphs (11) through (13) of section 111(d), the reference contained in this subsection to the date of enactment of this Act shall be deemed to be a reference to the date of enactment of such paragraphs (11) through (13).”.

(3) PRIOR STATE ACTIONS.—

(A) IN GENERAL.—Section 112 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622) is amended by adding at the end the following:

“(d) PRIOR STATE ACTIONS.—Subsections (b) and (c) of this section shall not apply to the standards established by paragraphs (11) through (13) of section 111(d) in the case of any electric utility in a State if, before the enactment of this subsection—

“(1) the State has implemented for such utility the standard concerned (or a comparable standard);

“(2) the State regulatory authority for such State or relevant nonregulated electric utility has conducted a proceeding to consider implementation of the standard concerned (or a comparable standard) for such utility; or

“(3) the State legislature has voted on the implementation of such standard (or a comparable standard) for such utility.”.

(B) CROSS REFERENCE.—Section 124 of such Act (16 U.S.C. 2634) is amended by adding the following at the end thereof: “In the case of each standard established by paragraphs (11) through (13) of section 111(d), the reference contained in this subsection to the date of enactment of this Act shall be deemed to be a reference to the date of enactment of such paragraphs (11) through (13).”.

SEC. 1252. SMART METERING.

(a) IN GENERAL.—Section 111(d) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2621(d)) is amended by adding at the end the following:

“(14) TIME-BASED METERING AND COMMUNICATIONS.—(A) Deadline.
Not later than 18 months after the date of enactment of this paragraph, each electric utility shall offer each of its customer

classes, and provide individual customers upon customer request, a time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility's costs of generating and purchasing electricity at the wholesale level. The time-based rate schedule shall enable the electric consumer to manage energy use and cost through advanced metering and communications technology.

“(B) The types of time-based rate schedules that may be offered under the schedule referred to in subparagraph (A) include, among others—

“(i) time-of-use pricing whereby electricity prices are set for a specific time period on an advance or forward basis, typically not changing more often than twice a year, based on the utility's cost of generating and/or purchasing such electricity at the wholesale level for the benefit of the consumer. Prices paid for energy consumed during these periods shall be pre-established and known to consumers in advance of such consumption, allowing them to vary their demand and usage in response to such prices and manage their energy costs by shifting usage to a lower cost period or reducing their consumption overall;

“(ii) critical peak pricing whereby time-of-use prices are in effect except for certain peak days, when prices may reflect the costs of generating and/or purchasing electricity at the wholesale level and when consumers may receive additional discounts for reducing peak period energy consumption;

“(iii) real-time pricing whereby electricity prices are set for a specific time period on an advanced or forward basis, reflecting the utility's cost of generating and/or purchasing electricity at the wholesale level, and may change as often as hourly; and

“(iv) credits for consumers with large loads who enter into pre-established peak load reduction agreements that reduce a utility's planned capacity obligations.

“(C) Each electric utility subject to subparagraph (A) shall provide each customer requesting a time-based rate with a time-based meter capable of enabling the utility and customer to offer and receive such rate, respectively.

“(D) For purposes of implementing this paragraph, any reference contained in this section to the date of enactment of the Public Utility Regulatory Policies Act of 1978 shall be deemed to be a reference to the date of enactment of this paragraph.

“(E) In a State that permits third-party marketers to sell electric energy to retail electric consumers, such consumers shall be entitled to receive the same time-based metering and communications device and service as a retail electric consumer of the electric utility.

“(F) Notwithstanding subsections (b) and (c) of section 112, each State regulatory authority shall, not later than 18 months after the date of enactment of this paragraph conduct an investigation in accordance with section 115(i) and issue a decision whether it is appropriate to implement the standards set out in subparagraphs (A) and (C).”

Deadline.

(b) STATE INVESTIGATION OF DEMAND RESPONSE AND TIME-BASED METERING.—Section 115 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2625) is amended as follows:

(1) By inserting in subsection (b) after the phrase “the standard for time-of-day rates established by section 111(d)(3)” the following: “and the standard for time-based metering and communications established by section 111(d)(14)”.

(2) By inserting in subsection (b) after the phrase “are likely to exceed the metering” the following: “and communications”.

(3) By adding at the end the following:

“(i) TIME-BASED METERING AND COMMUNICATIONS.—In making a determination with respect to the standard established by section 111(d)(14), the investigation requirement of section 111(d)(14)(F) shall be as follows: Each State regulatory authority shall conduct an investigation and issue a decision whether or not it is appropriate for electric utilities to provide and install time-based meters and communications devices for each of their customers which enable such customers to participate in time-based pricing rate schedules and other demand response programs.”.

(c) FEDERAL ASSISTANCE ON DEMAND RESPONSE.—Section 132(a) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2642(a)) is amended by striking “and” at the end of paragraph (3), striking the period at the end of paragraph (4) and inserting “; and”, and by adding the following at the end thereof:

“(5) technologies, techniques, and rate-making methods related to advanced metering and communications and the use of these technologies, techniques and methods in demand response programs.”.

(d) FEDERAL GUIDANCE.—Section 132 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2642) is amended by adding the following at the end thereof:

“(d) DEMAND RESPONSE.—The Secretary shall be responsible for—

“(1) educating consumers on the availability, advantages, and benefits of advanced metering and communications technologies, including the funding of demonstration or pilot projects;

“(2) working with States, utilities, other energy providers and advanced metering and communications experts to identify and address barriers to the adoption of demand response programs; and

“(3) not later than 180 days after the date of enactment of the Energy Policy Act of 2005, providing Congress with a report that identifies and quantifies the national benefits of demand response and makes a recommendation on achieving specific levels of such benefits by January 1, 2007.”.

Deadline.
Reports.

(e) DEMAND RESPONSE AND REGIONAL COORDINATION.—

16 USC 2642
note.

(1) IN GENERAL.—It is the policy of the United States to encourage States to coordinate, on a regional basis, State energy policies to provide reliable and affordable demand response services to the public.

(2) TECHNICAL ASSISTANCE.—The Secretary shall provide technical assistance to States and regional organizations formed by two or more States to assist them in—

(A) identifying the areas with the greatest demand response potential;

(B) identifying and resolving problems in transmission and distribution networks, including through the use of demand response;

(C) developing plans and programs to use demand response to respond to peak demand or emergency needs; and

(D) identifying specific measures consumers can take to participate in these demand response programs.

(3) REPORT.—Not later than 1 year after the date of enactment of the Energy Policy Act of 2005, the Commission shall prepare and publish an annual report, by appropriate region, that assesses demand response resources, including those available from all consumer classes, and which identifies and reviews—

(A) saturation and penetration rate of advanced meters and communications technologies, devices and systems;

(B) existing demand response programs and time-based rate programs;

(C) the annual resource contribution of demand resources;

(D) the potential for demand response as a quantifiable, reliable resource for regional planning purposes;

(E) steps taken to ensure that, in regional transmission planning and operations, demand resources are provided equitable treatment as a quantifiable, reliable resource relative to the resource obligations of any load-serving entity, transmission provider, or transmitting party; and

(F) regulatory barriers to improve customer participation in demand response, peak reduction and critical period pricing programs.

(f) FEDERAL ENCOURAGEMENT OF DEMAND RESPONSE DEVICES.—It is the policy of the United States that time-based pricing and other forms of demand response, whereby electricity customers are provided with electricity price signals and the ability to benefit by responding to them, shall be encouraged, the deployment of such technology and devices that enable electricity customers to participate in such pricing and demand response systems shall be facilitated, and unnecessary barriers to demand response participation in energy, capacity and ancillary service markets shall be eliminated. It is further the policy of the United States that the benefits of such demand response that accrue to those not deploying such technology and devices, but who are part of the same regional electricity entity, shall be recognized.

Deadlines.

(g) TIME LIMITATIONS.—Section 112(b) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622(b)) is amended by adding at the end the following:

“(4)(A) Not later than 1 year after the enactment of this paragraph, each State regulatory authority (with respect to each electric utility for which it has ratemaking authority) and each nonregulated electric utility shall commence the consideration referred to in section 111, or set a hearing date for such consideration, with respect to the standard established by paragraph (14) of section 111(d).

“(B) Not later than 2 years after the date of the enactment of this paragraph, each State regulatory authority (with respect to each electric utility for which it has ratemaking authority),

and each nonregulated electric utility, shall complete the consideration, and shall make the determination, referred to in section 111 with respect to the standard established by paragraph (14) of section 111(d).”.

(h) FAILURE TO COMPLY.—Section 112(c) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622(c)) is amended by adding at the end the following:

“In the case of the standard established by paragraph (14) of section 111(d), the reference contained in this subsection to the date of enactment of this Act shall be deemed to be a reference to the date of enactment of such paragraph (14).”.

(i) PRIOR STATE ACTIONS REGARDING SMART METERING STANDARDS.—

(1) IN GENERAL.—Section 112 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622) is amended by adding at the end the following:

“(e) PRIOR STATE ACTIONS.—Subsections (b) and (c) of this section shall not apply to the standard established by paragraph (14) of section 111(d) in the case of any electric utility in a State if, before the enactment of this subsection—

“(1) the State has implemented for such utility the standard concerned (or a comparable standard);

“(2) the State regulatory authority for such State or relevant nonregulated electric utility has conducted a proceeding to consider implementation of the standard concerned (or a comparable standard) for such utility within the previous 3 years; or

“(3) the State legislature has voted on the implementation of such standard (or a comparable standard) for such utility within the previous 3 years.”.

(2) CROSS REFERENCE.—Section 124 of such Act (16 U.S.C. 2634) is amended by adding the following at the end thereof: “In the case of the standard established by paragraph (14) of section 111(d), the reference contained in this subsection to the date of enactment of this Act shall be deemed to be a reference to the date of enactment of such paragraph (14).”.

SEC. 1253. COGENERATION AND SMALL POWER PRODUCTION PURCHASE AND SALE REQUIREMENTS.

(a) TERMINATION OF MANDATORY PURCHASE AND SALE REQUIREMENTS.—Section 210 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 824a-3) is amended by adding at the end the following:

“(m) TERMINATION OF MANDATORY PURCHASE AND SALE REQUIREMENTS.—

“(1) OBLIGATION TO PURCHASE.—After the date of enactment of this subsection, no electric utility shall be required to enter into a new contract or obligation to purchase electric energy from a qualifying cogeneration facility or a qualifying small power production facility under this section if the Commission finds that the qualifying cogeneration facility or qualifying small power production facility has nondiscriminatory access to—

“(A)(i) independently administered, auction-based day ahead and real time wholesale markets for the sale of electric energy; and (ii) wholesale markets for long-term sales of capacity and electric energy; or

“(B)(i) transmission and interconnection services that are provided by a Commission-approved regional transmission entity and administered pursuant to an open access transmission tariff that affords nondiscriminatory treatment to all customers; and (ii) competitive wholesale markets that provide a meaningful opportunity to sell capacity, including long-term and short-term sales, and electric energy, including long-term, short-term and real-time sales, to buyers other than the utility to which the qualifying facility is interconnected. In determining whether a meaningful opportunity to sell exists, the Commission shall consider, among other factors, evidence of transactions within the relevant market; or

“(C) wholesale markets for the sale of capacity and electric energy that are, at a minimum, of comparable competitive quality as markets described in subparagraphs (A) and (B).

“(2) REVISED PURCHASE AND SALE OBLIGATION FOR NEW FACILITIES.—(A) After the date of enactment of this subsection, no electric utility shall be required pursuant to this section to enter into a new contract or obligation to purchase from or sell electric energy to a facility that is not an existing qualifying cogeneration facility unless the facility meets the criteria for qualifying cogeneration facilities established by the Commission pursuant to the rulemaking required by subsection (n).

“(B) For the purposes of this paragraph, the term ‘existing qualifying cogeneration facility’ means a facility that—

“(i) was a qualifying cogeneration facility on the date of enactment of subsection (m); or

“(ii) had filed with the Commission a notice of self-certification, self recertification or an application for Commission certification under 18 CFR 292.207 prior to the date on which the Commission issues the final rule required by subsection (n).

“(3) COMMISSION REVIEW.—Any electric utility may file an application with the Commission for relief from the mandatory purchase obligation pursuant to this subsection on a service territory-wide basis. Such application shall set forth the factual basis upon which relief is requested and describe why the conditions set forth in subparagraph (A), (B), or (C) of paragraph (1) of this subsection have been met. After notice, including sufficient notice to potentially affected qualifying cogeneration facilities and qualifying small power production facilities, and an opportunity for comment, the Commission shall make a final determination within 90 days of such application regarding whether the conditions set forth in subparagraph (A), (B), or (C) of paragraph (1) have been met.

“(4) REINSTATEMENT OF OBLIGATION TO PURCHASE.—At any time after the Commission makes a finding under paragraph (3) relieving an electric utility of its obligation to purchase electric energy, a qualifying cogeneration facility, a qualifying small power production facility, a State agency, or any other affected person may apply to the Commission for an order reinstating the electric utility’s obligation to purchase electric energy under this section. Such application shall set forth the factual basis upon which the application is based and describe

Notice.
Deadline.

why the conditions set forth in subparagraph (A), (B), or (C) of paragraph (1) of this subsection are no longer met. After notice, including sufficient notice to potentially affected utilities, and opportunity for comment, the Commission shall issue an order within 90 days of such application reinstating the electric utility's obligation to purchase electric energy under this section if the Commission finds that the conditions set forth in subparagraphs (A), (B) or (C) of paragraph (1) which relieved the obligation to purchase, are no longer met.

Notice.
Deadline.

“(5) OBLIGATION TO SELL.—After the date of enactment of this subsection, no electric utility shall be required to enter into a new contract or obligation to sell electric energy to a qualifying cogeneration facility or a qualifying small power production facility under this section if the Commission finds that—

“(A) competing retail electric suppliers are willing and able to sell and deliver electric energy to the qualifying cogeneration facility or qualifying small power production facility; and

“(B) the electric utility is not required by State law to sell electric energy in its service territory.

“(6) NO EFFECT ON EXISTING RIGHTS AND REMEDIES.—Nothing in this subsection affects the rights or remedies of any party under any contract or obligation, in effect or pending approval before the appropriate State regulatory authority or non-regulated electric utility on the date of enactment of this subsection, to purchase electric energy or capacity from or to sell electric energy or capacity to a qualifying cogeneration facility or qualifying small power production facility under this Act (including the right to recover costs of purchasing electric energy or capacity).

“(7) RECOVERY OF COSTS.—(A) The Commission shall issue and enforce such regulations as are necessary to ensure that an electric utility that purchases electric energy or capacity from a qualifying cogeneration facility or qualifying small power production facility in accordance with any legally enforceable obligation entered into or imposed under this section recovers all prudently incurred costs associated with the purchase.

“(B) A regulation under subparagraph (A) shall be enforceable in accordance with the provisions of law applicable to enforcement of regulations under the Federal Power Act (16 U.S.C. 791a et seq.).

“(n) RULEMAKING FOR NEW QUALIFYING FACILITIES.—(1)(A) Not later than 180 days after the date of enactment of this section, the Commission shall issue a rule revising the criteria in 18 CFR 292.205 for new qualifying cogeneration facilities seeking to sell electric energy pursuant to section 210 of this Act to ensure—

Deadline.

“(i) that the thermal energy output of a new qualifying cogeneration facility is used in a productive and beneficial manner;

“(ii) the electrical, thermal, and chemical output of the cogeneration facility is used fundamentally for industrial, commercial, or institutional purposes and is not intended fundamentally for sale to an electric utility, taking into account technological, efficiency, economic, and variable thermal energy requirements, as well as State laws applicable to sales of electric energy from a qualifying facility to its host facility; and

“(iii) continuing progress in the development of efficient electric energy generating technology.

Applicability. “(B) The rule issued pursuant to paragraph (1)(A) of this subsection shall be applicable only to facilities that seek to sell electric energy pursuant to section 210 of this Act. For all other purposes, except as specifically provided in subsection (m)(2)(A), qualifying facility status shall be determined in accordance with the rules and regulations of this Act.

Applicability. “(2) Notwithstanding rule revisions under paragraph (1), the Commission’s criteria for qualifying cogeneration facilities in effect prior to the date on which the Commission issues the final rule required by paragraph (1) shall continue to apply to any cogeneration facility that—

“(A) was a qualifying cogeneration facility on the date of enactment of subsection (m), or

“(B) had filed with the Commission a notice of self-certification, self-recertification or an application for Commission certification under 18 CFR 292.207 prior to the date on which the Commission issues the final rule required by paragraph (1).”.

(b) ELIMINATION OF OWNERSHIP LIMITATIONS.—

(1) QUALIFYING SMALL POWER PRODUCTION FACILITY.—Section 3(17)(C) of the Federal Power Act (16 U.S.C. 796(17)(C)) is amended to read as follows:

“(C) ‘qualifying small power production facility’ means a small power production facility that the Commission determines, by rule, meets such requirements (including requirements respecting fuel use, fuel efficiency, and reliability) as the Commission may, by rule, prescribe;”.

(2) QUALIFYING COGENERATION FACILITY.—Section 3(18)(B) of the Federal Power Act (16 U.S.C. 796(18)(B)) is amended to read as follows:

“(B) ‘qualifying cogeneration facility’ means a cogeneration facility that the Commission determines, by rule, meets such requirements (including requirements respecting minimum size, fuel use, and fuel efficiency) as the Commission may, by rule, prescribe;”.

SEC. 1254. INTERCONNECTION.

(a) ADOPTION OF STANDARDS.—Section 111(d) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2621(d)) is amended by adding at the end the following:

“(15) INTERCONNECTION.—Each electric utility shall make available, upon request, interconnection service to any electric consumer that the electric utility serves. For purposes of this paragraph, the term ‘interconnection service’ means service to an electric consumer under which an on-site generating facility on the consumer’s premises shall be connected to the local distribution facilities. Interconnection services shall be offered based upon the standards developed by the Institute of Electrical and Electronics Engineers: IEEE Standard 1547 for Interconnecting Distributed Resources with Electric Power Systems, as they may be amended from time to time. In addition, agreements and procedures shall be established whereby the services are offered shall promote current best practices of interconnection for distributed generation, including but not limited to practices stipulated in model codes adopted by

associations of state regulatory agencies. All such agreements and procedures shall be just and reasonable, and not unduly discriminatory or preferential.”

(b) COMPLIANCE.—

(1) TIME LIMITATIONS.—Section 112(b) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622(b)) is amended by adding at the end the following:

Deadlines.

“(5)(A) Not later than 1 year after the enactment of this paragraph, each State regulatory authority (with respect to each electric utility for which it has ratemaking authority) and each nonregulated utility shall commence the consideration referred to in section 111, or set a hearing date for consideration, with respect to the standard established by paragraph (15) of section 111(d).

“(B) Not later than two years after the date of the enactment of the this paragraph, each State regulatory authority (with respect to each electric utility for which it has ratemaking authority), and each nonregulated electric utility, shall complete the consideration, and shall make the determination, referred to in section 111 with respect to each standard established by paragraph (15) of section 111(d).”

(2) FAILURE TO COMPLY.—Section 112(d) of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622(c)) is amended by adding at the end the following: “In the case of the standard established by paragraph (15), the reference contained in this subsection to the date of enactment of this Act shall be deemed to be a reference to the date of enactment of paragraph (15).”

(3) PRIOR STATE ACTIONS.—

(A) IN GENERAL.—Section 112 of the Public Utility Regulatory Policies Act of 1978 (16 U.S.C. 2622) is amended by adding at the end the following:

“(f) PRIOR STATE ACTIONS.—Subsections (b) and (c) of this section shall not apply to the standard established by paragraph (15) of section 111(d) in the case of any electric utility in a State if, before the enactment of this subsection—

“(1) the State has implemented for such utility the standard concerned (or a comparable standard);

“(2) the State regulatory authority for such State or relevant nonregulated electric utility has conducted a proceeding to consider implementation of the standard concerned (or a comparable standard) for such utility; or

“(3) the State legislature has voted on the implementation of such standard (or a comparable standard) for such utility.”

(B) CROSS REFERENCE.—Section 124 of such Act (16 U.S.C. 2634) is amended by adding the following at the end thereof: “In the case of each standard established by paragraph (15) of section 111(d), the reference contained in this subsection to the date of enactment of the Act shall be deemed to be a reference to the date of enactment of paragraph (15).”

*Appendix B
Program Summaries for Peak Load Management and other NYPA-
offered Demand Response Programs*

Peak Load Management Program

The Peak Load Management (PLM) Program is designed to help the New York Power Authority (NYPA) manage the aggregate electrical demand of its customers at times of system peak load. NYPA contracts with qualifying customers located within the City of New York to reduce their load at NYPA's request either by operating their on-site generation or by reducing their discretionary load (e.g., turning off equipment such as lights, elevator banks, etc.). The program is intended to decrease NYPA's portion of the in-city peak load. It also assists in reducing the amount of in-city capacity NYPA needs to serve the requirements of its customers. Participation in the Peak Load Management Program provides customers with monetary compensation, benefits in the area of contingency planning, and adds value to customer operations. The program gives customers the opportunity to review and test their emergency plans and upgrade metering equipment, with NYPA's assistance.

<p>Requirements</p> <p><i>Minimum kW</i></p> <p><i>Curtailment method</i></p> <p><i>Permitting</i></p> <p><i>Location</i></p> <p><i>Curtailment period</i></p>	<p>No minimum, but Load Reduction Commitment must be measurable</p> <p>On-site generation or interruptible loads</p> <p>Generators require proper permitting by NYS DEC</p> <p>Within New York City</p> <p>June 1st – September 30th; Weekdays, between hours of 11 am – 7 pm</p>
<p>Incentive</p>	<p>\$40/kW per season based on verified performance of contract commitment.</p> <p>Payments will be made at the end of the season in the form of a check or bill credit once performance has been verified.</p>
<p>Notification</p>	<p>Two hour notification with business day-ahead alert.</p>
<p>Number of Events</p>	<p>Up to 15 events or 90 hours</p>
<p>Duration of Event</p> <p><i>Min</i></p> <p><i>Max</i></p>	<p>2 hours</p> <p>6 hours</p>
<p>Penalties</p>	<p>Each participant is allowed one waiver per season.</p> <p>If participant is unable to perform due to hardship, a prorated incentive may be given.</p> <p>Non-compliance results in no incentive payment.</p>
<p>Monitoring & Verification</p> <p><i>Method</i></p> <p><i>Required Equipment</i></p> <p><i>Cost of Equipment</i></p>	<p>Review of hourly interval metering data will validate performance</p> <p>Installed integrated hourly metering device</p> <p>No cost to participants</p>

Emergency Demand Response Program

The Emergency Demand Response Program (EDRP) Program helps to facilitate the reliability of the New York State electric power system. EDRP is designed to assist the New York Independent System Operator (NYISO) by reducing load during emergency conditions. The New York Power Authority contracts with qualifying customers to reduce load upon request from the NYISO. Participants will be contacted to curtail their load either by operating their on-site generation or by curtailing their discretionary electricity usage. Monetary compensation is paid to customers enrolled in this program when they participate in curtailment events. This program is strictly voluntary and there is no penalty for non-compliance. The program also gives customers the opportunity to review and effectively revise emergency plans.

<p>Requirements</p> <p><i>Minimum kW</i></p> <p><i>Curtailment method</i></p> <p><i>Permitting</i></p> <p><i>Location</i></p> <p><i>Curtailment period</i></p>	<p>Minimum of 100 kW (must be measurable)</p> <p>On-site generation or interruptible loads</p> <p>Generators require proper permitting by NYS DEC</p> <p>New York State</p> <p>January 1st – December 31st, Any day, all hours or Business Hours Only.</p>
<p>Incentive</p>	<p>If the Emergency is 4 hours or longer, the payment will be the greater of \$0.50/kWh or the market value of electricity during the hour(s) of verified performance.</p> <p>If the Emergency is less than 4 hours, the payment will be the greater of \$0.50/kWh or the market value of electricity during the first two hours and the market value of electricity during hours 3 and 4 of verified performance.</p> <p>If Emergency is called, participant is given a minimum four-hour payment for verified performance.</p> <p>Payments are made directly to NYPA by NYISO and will be passed on to participants minus a minimal program administration fee (currently 10%).</p>
<p>Notification</p>	<p>2 Hours; Same day of event</p>
<p>Duration of Event</p>	<p>Depending on nature of emergency</p>
<p>Penalties</p>	<p>No Penalties</p>
<p>Monitoring & Verification</p> <p><i>Method</i></p> <p><i>Required Equipment</i></p> <p><i>Cost of Equipment</i></p>	<p>Review of hourly interval metering data will validate performance</p> <p>Installed integrated hourly metering device</p> <p>Participant is responsible for cost of installation of metering equipment (if necessary).</p>

Special Case Resources Program

The Special Case Resources (SCR) Program helps facilitate the reliability of the New York State electric power system. SCR is designed to assist the New York Independent System Operator (NYISO) by reducing load during emergency conditions. The New York Power Authority (NYPA) contracts with qualifying customers to reduce their load at the NYISO's request either by operating their on-site generation or by reducing their discretionary load (e.g., turning off equipment such as lights, elevator banks, etc.). SCR is appropriate for customers interested in providing load reduction for monetary compensation year round.

<p>Requirements</p> <p><i>Minimum kW</i></p> <p><i>Curtailement method</i></p> <p><i>Permitting</i></p> <p><i>Location</i></p> <p><i>Curtailement period</i></p>	<p>Minimum of 100 kW (must be measurable)</p> <p>On-site generation or interruptible loads</p> <p>Generators require proper permitting by NYS DEC</p> <p>New York State</p> <p>January 1st – December 31st, Any day, any hours</p>
<p>Incentive</p>	<p>1) Capacity Payments: The capacity payment for the facility's pledged capacity will be the average UCAP auction clearing price for the same period and location where the facility commits capacity minus NYPA's program administration fee. NYPA retains a 20% fee where the customer's pledged capacity commitment is less than 4 MWs. NYPA's fee will be reduced to 10% where the customer's pledged capacity is equal to or greater than 4 MWs.</p> <p>2) Energy Payments: The energy payment for verified performance by the facility during an SCR Event will be 100% of the LBMP of energy (kWh) during the hour(s) of the event. There is no payment for participating in mandatory SCR tests called by the NYISO.</p> <p>Payment will be made at the end of each capability period, provided that NYPA has been paid by or received a credit from NYISO.</p>
<p>Notification</p>	<p>Two hour notification of activation with day-ahead advisory alert (21 hours).</p>
<p>Number of Events</p>	<p>Unlimited</p>
<p>Duration of Event</p> <p><i>Min</i></p> <p><i>Max</i></p>	<p>1 hour</p> <p>Unlimited</p>
<p>Penalties</p>	<ul style="list-style-type: none"> ➤ Deficiency Penalty – If the participant does not demonstrate its full committed amount for one full hour during all events (or test when events are not called during the capability period), it may face a penalty of 1.5 times the spot market price of the capacity deficient. ➤ Derating Penalty – If the participant does not demonstrate its full committed amount during all events (or test when events are not called during the capability period) it may face a derating penalty; which could limit the potential commitment amount in future Capability Periods. <p>Any penalties assessed by NYISO will be passed through to the participant.</p>
<p>Monitoring & Verification</p> <p><i>Method</i></p> <p><i>Required Equipment</i></p> <p><i>Cost of Equipment</i></p>	<p>Review of hourly interval metering data will validate performance</p> <p>Installed integrated hourly metering device</p> <p>Participant is responsible for cost of installation of metering equipment (if necessary).</p>

Day Ahead Demand Response Program

The Day Ahead Demand Response Program (DADRP) provides customers an opportunity to participate in New York State’s electricity marketplace by allowing them the ability to offer to the New York Independent System Operator (NYISO) a reduction in their electric usage to alleviate the NYISO’s load commitment. Customers submit their offers in the form of a bid, detailing when and how much they could curtail, along with the costs and payments they require. If the bids are selected by NYISO, customers will curtail load and be paid for their reduction.

The New York Power Authority (NYPA) contracts with qualifying customers to facilitate their participation in DADRP, handling the administrative submittal of bids, confirmation of performance and distribution of NYISO payments back to the customer. DADRP is appropriate for customers interested in bidding their ability to reduce load into the day-ahead energy market.

<p><i>Requirements</i></p> <p><i>Minimum kW</i></p> <p><i>Curtailment method</i></p> <p><i>Location</i></p> <p><i>Curtailment period</i></p>	<p>Bids in minimum increments of 1 MW in contiguous strips of one to eight hours.</p> <p>Interruptible loads</p> <p>Within New York State</p> <p>January 1st – December 31st, Any day, any hours</p>
<p><i>Incentive</i></p>	<p>Minimum bid price is \$75/MWh. The actual payment will be the day-ahead market price for energy in participant’s zone for the hours the bids are selected by NYISO upon verified performance. Participants may structure bids to recover additional fixed curtailment initiation costs.</p> <p>Payments are made directly to NYPA by NYISO and will be passed on to participants minus a minimal program administration fee (currently 10%).</p>
<p><i>Notification</i></p>	<p>Day-ahead (21 hours) notification posted by NYISO when participant’s bids are selected.</p>
<p><i>Number of Events</i></p>	<p>Determined by frequency of participant bidding and NYISO selection of participant bids.</p>
<p><i>Duration of Event</i></p>	<p>Duration determined by structure of participant bids.</p>
<p><i>Penalties</i></p>	<p>If the participant does not provide its full committed reduction for the hours when the bid was selected by NYISO, the participant will be charged the higher of the day-ahead or real-time zonal LBMP of energy for non-curtailed load.</p> <p>Any penalties assessed by NYISO will be passed through to the participant.</p>
<p><i>Monitoring & Verification</i></p> <p><i>Method</i></p> <p><i>Required Equipment</i></p> <p><i>Cost of Equipment</i></p>	<p>Review of hourly interval metering data will validate performance.</p> <p>Installed integrated hourly metering device.</p> <p>Participant is responsible for cost of installation of metering equipment (if necessary).</p>



DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES
DIVISION OF FISCAL MANAGEMENT AND OPERATIONS

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New York, NY 10007
(212) 669-7346 • Fax: (212) 669-2299
Email: dbrosen@dcas.nyc.gov

Martha K. Hirst
Commissioner

Donald P. Brosen
Deputy Commissioner

VIA E-MAIL AND EXPRESS MAIL

January 24, 2007

Anne Cahill, Corporate Secretary
New York Power Authority
123 Main Street
White Plains, NY 10601

Comments on: Staff Report on PURPA – Compliance with
Ratemaking Standard, December 2006

Dear Ms. Cahill:

The Department of Citywide Administrative Services (DCAS) is the account holder of record for over 4,000 electricity accounts for New York City agencies, libraries and a number of cultural institutions, the Health and Hospitals Corporation, and City University of New York (collectively, "City") for which the New York Power Authority (NYPA) is the electricity provider. I submit this as head of the DCAS Office of Energy Conservation, which manages the City's electricity accounts and oversees the long-term agreement with NYPA, running through 2017, that governs rates.

These two comments are with respect to Advanced Metering:

The City is a direct customer of NYPA only. While local distribution charges come from Con Edison, the local distribution company (LDC), they are billed through NYPA. The Report says that NYPA "expects" the LDC to provide access to advanced metering in implementing the Standard that is the subject of the Report (pg. 18). To fully encourage customer response to information about electricity usage, I would ask NYPA to take an active rather than a passive role on its customers' behalf if that is necessary in encouraging the LDC to provide customer access.

NYPA is currently undertaking a customer load study that has required the installation of advanced metering on a stratified sample of accounts. The program was planned with attention to the main purpose of the study, which is rate design. Right now there is no plan to deliver the real-time usage information that the advanced meters collect directly to the customers, once the study is completed (March 2008). "Customer access to advanced metering" has to mean not only installation of meters, but delivery of

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information to the end-users. Therefore I would ask NYPA to further our mutual goals of improving demand response by planning now to include data delivery to customers from these meters as soon as the data-gathering phase of load sampling is complete. Based on work that my agency would do with City accounts, I believe the result will be greater participation in a variety of demand response programs.

Sincerely,

Susan M. Cohen

Susan M. Cohen
Executive Director, Energy and Evaluation

copy: D. Brosen; I. Lees/DCAS
G. Quiniones/EDC

7. 2006 Financial Reports Pursuant to Section 2800 of the Public Authorities Law and New Regulations of the Office of the State Comptroller

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the financial report for the year ended December 31, 2006 and authorize the Corporate Secretary to submit this report to the Governor, legislative leaders and the State Comptroller pursuant to Section 2800 of the Public Authorities Law, as amended by the Public Authorities Accountability Act of 2005. In accordance with new regulations adopted by the Office of the State Comptroller (‘OSC’), the Trustees are also requested to approve a report of actual versus budgeted results for the year 2006 and authorize making this report available for public inspection at not less than five convenient public places throughout New York State, and posting it on the Authority’s website.

BACKGROUND

“On January 15, 2006, Governor Pataki signed the Public Authorities Accountability Act of 2005 (Chapter 766 of the Laws of 2005) (‘PAAA’) into law. The PAAA reflects the State’s commitment to maintaining public confidence in public authorities by ensuring that the essential governance principles of accountability, transparency and integrity are followed at all times. To facilitate these objectives, the PAAA established an Authority Budget Office (‘ABO’) that will monitor and evaluate the compliance of State authorities with the requirements of the PAAA. The ABO has advised the Authority that it is subject to the PAAA effective with the Authority’s fiscal year beginning January 1, 2006. As one of its many changes, the PAAA amended Section 2800 of the Public Authorities Law to require that financial reports submitted by a State authority under Section 2800 be certified by the chief executive officer and chief financial officer and approved by the authority’s board.

“Following rulemaking proceedings undertaken pursuant to the State Administrative Procedure Act, OSC implemented new regulations on March 29, 2006 that address the preparation of annual budgets and related reporting requirements by ‘covered’ public authorities, including the Authority. These regulations establish various new procedural and substantive requirements relating to the budgets and require the chief financial officer to report publicly not later than 90 days after the close of each fiscal year on actual versus budgeted results.

DISCUSSION

“The Trustees are requested to approve the financial report for the year ended December 31, 2006 (Exhibit ‘7-A’) and authorize the Corporate Secretary to submit this report to the Governor, legislative leaders and State Comptroller pursuant to Section 2800 of the Public Authorities Law, as amended by the PAAA. This report was reviewed by the Audit Committee at its February 27, 2007 meeting. The Trustees are also requested to approve a report of actual versus budgeted results for the year 2006 (Exhibit ‘7-B’) and authorize making this report available for public inspection at not less than five convenient public places throughout New York State, and posting it on the Authority’s website.

FISCAL INFORMATION

“There is no anticipated fiscal impact.

RECOMMENDATION

“The Vice President – Controller recommends that the Trustees approve and authorize submittal of the attached reports (Exhibits ‘7-A’ and ‘7-B’) as discussed herein.

“The Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer and I concur in the recommendation.”

March 27, 2007

Mr. Concadoro presented the highlights of staff's recommendations to the Trustees. Chairman McCullough said that he had spoken with Vice Chairman Townsend, Chairman of the Audit Committee, who told him that at their last meeting the Audit Committee met with staff and representatives from Ernst & Young, the Authority's independent auditing firm, as well as with the Ernst & Young representatives alone, to discuss the financial reports and that Vice Chairman Townsend fully supports this resolution.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to Section 2800 of the Public Authorities Law, the Corporate Secretary be, and hereby is, authorized to submit to the Governor, the Chairman and Ranking Minority Member of the Senate Finance Committee, the Chairman and Ranking Minority Member of the Assembly Ways and Means Committee, the State Comptroller, the Division of the Budget and the Authority Budget Office the attached financial report for the year ending 2006 in accordance with the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That pursuant to 2 NYCRR Part 203, the attached report of actual versus budgeted results for the year 2006 is approved in accordance with the foregoing report of the President and Chief Executive Officer; and the Corporate Secretary be, and hereby is, authorized to make the approved report available for public inspection at not less than five convenient public places throughout New York State, and post the report on the Authority's website; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

FINANCIAL REPORT

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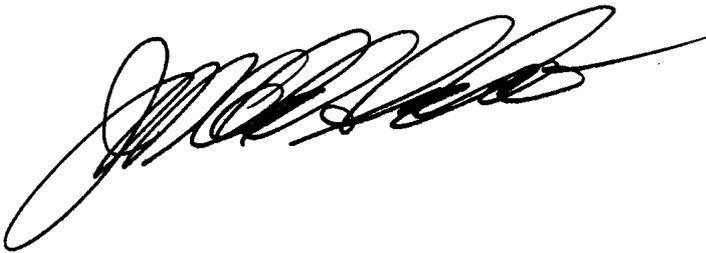
Report of Management

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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States 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. In addition, the Authority's Inspector General is responsible for investigating allegations of wrongdoing; monitoring compliance with the Authority's rules and regulations; and initiating reviews and investigations into areas of special concern or vulnerability. Additionally, as part of its audit of the Authority's financial statements, Ernst & Young LLP, 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 the 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, 2006 and 2005, 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 Compliance 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 Compliance, the Inspector General and the Vice President of Ethics & Employee Resources have direct access to the Audit Committee.



Joseph M. Del Sindaco
Executive Vice President & Chief Financial Officer

Report of Independent Auditors

 ERNST & YOUNG LLP

To the Board of Trustees
Power Authority of the State of New York

We have audited the accompanying balance sheets and related statements of revenues, expenses, and change in net assets and of cash flows of the Power Authority of the State of New York (the "Authority") as of and for the years ended December 31, 2006 and 2005. 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, assessing the accounting principles used and significant estimates made by management, and 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, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2007 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.

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 4 to 9 and page 36, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.



5 Times Square
New York, NY 10036

February 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment

The Authority's mission is to provide clean, economical and reliable energy consistent with its commitment to safety, while promoting energy efficiency 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 significant reduction of outstanding debt; and (e) 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 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 has been addressed and mitigated by both the cost-sharing provisions in the new long-term supplemental electricity supply agreements and the newly constructed 500-MW plant. It should be noted that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

(in Millions)

	2006	2005	2004	2006 vs. 2005 Favorable/ (Unfavorable)	2005 vs. 2004 Favorable/ (Unfavorable)
Operating Revenues	\$2,666	\$2,506	\$2,215	6%	13%
Operating Expenses					
Purchased power	1,067	1,158	1,015	8%	(14%)
Fuel	523	378	260	(38%)	(45%)
Operations & Maintenance	432	448	356	4%	(26%)
Wheeling	296	299	277	1%	(8%)
Depreciation	173	147	148	(18%)	1%
Asset impairment charge			64	n/a	100%
Total Operating Expenses	2,491	2,430	2,120	(3%)	(15%)
Net Operating Revenues	175	76	95	130%	(18%)
Investment and other income	72	60	64	20%	(6%)
Interest expense, net	110	78	77	(41%)	(1%)
Net Revenues	137	58	82	136%	(29%)
Net Assets – Beginning	1,896	1,838	1,756	3%	5%
Net Assets – Ending	\$2,033	\$1,896	\$1,838	7%	3%

The following summarizes the Authority's financial performance for the years 2006 and 2005:

The Authority had net revenues of \$137 million in the year 2006, compared to \$58 million in 2005. This \$79 million increase in net revenues is attributable to higher revenues (\$160 million) partially offset by increases in operating expenses (\$61 million) and net non-operating items (\$20 million). The increase in revenues was primarily due to higher market-based sales to the New York State Independent System Operator (NYISO) combined with an increase in rates charged to its New York City Governmental customers. The increase in operating expenses (primarily fuel and depreciation) was primarily attributable to costs associated with the Authority's 500-MW plant which went into commercial operation on December 31, 2005. Non-operating expenses were higher due to an increase in interest cost associated with the new plant partially offset by an increase in investment income.

The Authority continued to prudently manage its capital structure. During 2006, long-term debt, net of current maturities, decreased by \$189 million, or 10%, primarily due to scheduled maturities and early extinguishment of debt. The Authority also refinanced \$178 million of debt. Total debt decreased by \$152 million which reflects an increase in short-term debt. Interest expense increased by \$32 million, primarily due to a decrease in the capitalization of interest costs after the 500-MW plant was placed into operation (\$26 million) and to a lesser extent, higher interest rates on variable rate debt. During the period 1996 to 2006, the Authority reduced its total debt/equity ratio from 2.03 to 1.06, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

The Authority had net revenues of \$58 million in the year 2005, compared to \$82 million in 2004. This \$24 million decrease in net revenues was primarily attributable to an increase in Operations & Maintenance costs (\$92 million) primarily due to the Authority's increased voluntary contributions to the State and higher rebates to customers related to the Power for Jobs (PFJ) program (\$82 million). These items were partially offset by the lack of an asset impairment charge in 2005, whereas a \$64 million charge was recognized in 2004. In addition, higher revenues (\$291 million) were partially offset by higher purchased power (\$143 million) and fuel costs (\$118 million). Revenues for 2005 were higher than those in the prior year period primarily due to higher sales volume and higher rates charged to certain customers along with higher sales to the NYISO and increased revenues from ancillary services. Non-operating income was lower in 2005 due to rising interest rates which lowered the market value of interest sensitive investments.

Operating Revenues

Operating revenues of \$2,666 million in 2006 were \$160 million or 6% higher than the \$2,506 million in 2005, primarily due to higher sales volume and higher rates charged to certain customers along with higher market-based sales to the NYISO and higher revenues from ancillary services.

Purchased Power and Fuel

Purchased power costs decreased by 8% in 2006 to \$1,067 million from \$1,158 million in 2005, primarily due to the decreased volume and lower prices related to purchased power for the NYC Governmental Customer market area. Fuel costs were \$145 million (38%) higher during 2006, reflecting higher fossil-fuel production resulting from the initial year of operation of the 500-MW plant partially offset by lower prices for natural gas and fuel oil

Operations and Maintenance

O&M expenses decreased by 4% in 2006 to \$432 million. Lower accrued voluntary contributions to New York State were partially offset by higher rebates associated with the PFJ program and expenses incurred at the 500-MW plant.

Depreciation and Asset Impairment Charge

Depreciation expense for the year 2006 increased by 18% to \$173 million due to the initial year of operation of the 500-MW plant. Depreciation expense in recent years has been at a lower level due to a significant reduction in the book value of the Small Clean Power Plants (SCPPs) since the units were installed in the year 2001. This reduction resulted from the pre-2005 asset impairment provisions discussed below and the continued application of accelerated depreciation for these facilities. Effective January 1, 2005, the Authority implemented Governmental Accounting Standard (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 impairment.

The Authority had previously recognized asset impairment charges prior to 2005. These pre-2005 impairments were recognized based on the standards promulgated by the Financial Accounting Standards Board. Such standards require the recognition of an impairment charge and a reduction of an asset's carrying value to fair value when the cash flows resulting from the operation of a plant asset are expected to be less than its book value.

Cash Flows

During 2006, the Authority generated cash flows of \$358 million from operations compared to \$188 million in 2005. Cash flows from operating activities for 2006 were higher than 2005 primarily due to the initial year of operation of the 500-MW plant and related higher volume of sales to the NYISO partially offset by lower prices; a decrease in purchased power cost due to decreases in volume and price; and an increase in accounts payables offset partially by higher fuel costs due to higher volume related to the initial year of operation of the 500-MW plant.

Net Generation

Net generation for 2006 was 26.9 million megawatt-hours (MWh) compared to the 24.6 million MWh generated in 2005. The 9% increase was attributable to first year production at the Authority's 500-MW plant, which was partially offset by lower production at the Authority's hydroelectric facilities, Poletti and the SCPP facilities. Combined net generation from the Niagara and St. Lawrence facilities at 20.3 million MWh was 1% lower than 2005 (20.5 million MWh). During 2006, initial year net generation of the 500-MW plant was 3.1 million MWh. Net generation at Poletti and the SCPPs decreased by 22% (to 2.5 million MWh).

Beginning in 1999 and continuing through 2003, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR projects, thereby requiring the periodic curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions have improved such that hydroelectric generation levels have returned to near long-term average from 2004 through 2006.

Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its NYC Governmental Customers 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. A fixed rate was applied in 2005, and beginning that year, the Authority implemented a new annual price setting process under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Under the Agreements, such market-risk hedging options include a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging.

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. In 2006, the NYC Governmental Customers chose a market-risk hedging price option designated a "sharing option," and the customers and the Authority will share equally in actual cost variations (up to \$60 million) above a projected amount for the year and cost variations in excess of \$60 million are borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority share equally in such savings after the NYC Governmental Customers receive the first \$10 million in savings, in aggregate over the term of the Agreement.

For 2007, the NYC Governmental Customers have selected an "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all Variable Costs are passed on to them. Since an ECA mechanism was selected, Authority invoices will include an addition or subtraction each month that reflects changes in the cost of energy as described in the Agreement. The Authority will incorporate the Trustee-approved Fixed Costs, the Variable Costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new tariffs effective for 2007 billings. Under the Agreement, the ECA mechanism, once elected, applies for two consecutive years. Thus, an ECA will also apply during calendar year 2008. Beginning in 2009, the Authority will also offer the NYC Governmental Customers a minimum volatility pricing option.

The NYC Governmental Customers are committed to pay for any supply secured for them by the Authority which resulted from a collaborative effort. 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.

Late in 2006, the Authority and Westchester County (County) reached agreement on a new supplemental electricity supply agreement that will commence on January 1, 2007 once executed by the County. Among other things, under the agreement the County will remain a full requirements customer of the Authority through at least December 31, 2008 and an energy charge adjustment mechanism will be applicable. This form of agreement is also being offered to the remaining governmental customers in Westchester County.

Energy Cost Savings Benefits

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the "2005 Act") which amends 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 new 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, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and up to an additional 20 MW of unallocated St. Lawrence-FDR Project power 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 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. Initially, and through December 31, 2006, the ECS Benefits were available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. There were no ECS Benefits paid by the Authority in 2005 and 2006 from internal funds, as opposed to funds derived from the sale of hydroelectric power.

In August 2006, legislation was enacted into law that extends the ECS Benefits through June 30, 2007 and also provides that the Authority make available for allocation to customers the 90 MW of hydropower that has been utilized as a source of funding the ECS Benefits. It is uncertain whether any ECS Benefits would be paid from Authority internal funds in the first half of 2007.

Summary Balance Sheet

(in Millions)

	2006	2005	2004
Capital Assets	\$3,427	\$3,444	\$3,255
Other Assets	2,972	2,945	2,780
Total Assets	\$6,399	\$6,389	\$6,035
Long-term Liabilities	\$3,456	\$3,739	\$3,556
Other Liabilities	910	754	641
Total Liabilities	4,366	4,493	4,197
Net Assets	2,033	1,896	1,838
Total Liabilities and Net Assets	\$6,399	\$6,389	\$6,035

Capital Asset and Long-term Debt Activity

The Authority currently estimates that it will expend approximately \$1,492 million for various capital improvements over the five-year period 2007-2011. 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:

Projects	(in Millions)
Niagara Relicensing Compliance/Implementation	\$ 415
St. Lawrence-FDR Modernization Program	101
St. Lawrence-FDR Relicensing Process/ Implementation	40
Blenheim-Gilboa Modernization Program	89
Energy Services and Technology Projects	493
Transmission	55
Other	299
Total	\$1,492

In connection with the licensing of its newly constructed 500-MW plant, the Authority entered into an agreement which will require the closure of its existing Poletti project by no later than 2010 and possibly as early as 2009. The agreement also imposes restrictions on the Authority's fuel oil use at the existing Poletti project and limitations on the overall amount of potential generation from such project each year. The 500-MW plant began commercial operation on December 31, 2005 with direct construction and overhead costs of the Project of approximately \$745 million.

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license (New License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately \$210 million of which approximately \$148 million has already been spent or will be spent in near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

In connection with the Authority's filing on August 18, 2005 of an application for a new, 50-year FERC license for its Niagara Project, the Authority has reached settlement agreements with various public and private entities. Pursuant to these agreements, the Authority would, among other things, provide monies for the establishment of a Greenway fund, a host communities fund, and certain ecological and land acquisition funds, as well as for a groundwater infiltration abatement project. The Authority would also provide 25 MWs of power to certain host communities, provide 1 MW of power and certain land and other benefits to the Tuscarora Nation, undertake a series of improvements in recreational areas, and provide for continued out-of-state power allocations from the Project. In May 2006, the Authority reached a settlement agreement with Niagara University under which the Authority would provide certain funds and an allocation of up to 3 MW of power among other things. In June 2006, the Authority reached an additional relicensing settlement agreement with the City of Buffalo and Erie County pursuant to which the Authority would provide monies for establishment of a Greenway fund, a waterfront development fund, and other specified purposes. On December 29, 2006, FERC issued its Final Environmental Impact Statement for the relicensing of the Project. The Authority currently expects that the costs associated with the relicensing of the Niagara Project for a period of 50 years will be at least \$495 million (2007 dollars), which does not include the value of the power allocations and operation and maintenance expenses associated with certain habitat and recreational elements of the settlement agreements. The \$495 million figure includes \$50.5 million in administrative costs associated with the relicensing effort.

In addition to internally generated funds, the Authority will issue additional debt obligations in the future to fund Niagara relicensing costs. The Authority believes that it will be feasible to collect in its rates for the sale of Niagara power amounts necessary to fund such relicensing costs.

On December 21, 2006, the Authority completed a \$298 million, 15-year program to upgrade the Authority's Niagara Project. Because of the added efficiency, it is expected that the Niagara Project will be able to produce about 32 additional megawatts of power that will be available on a firm, or assured, basis. Half of this power will be provided to municipal and rural cooperative customers as required by federal law. The remainder is expected to be used for a portion of the allocations to be made to local entities as part of the agreements reached in the Niagara Project relicensing process.

More detailed information about the Authority's capital assets is presented in Notes B and E to the financial statements.

Capital Structure

(in Millions)

	2006	2005	2004
Long-term debt			
Senior			
Revenue bonds	\$1,052	\$1,167	\$1,299
Adjustable rate tender notes	150	156	162
Subordinated			
Subordinate revenue bonds	75	78	110
Commercial paper	474	540	405
Total long-term debt	\$1,752	\$1,941	\$1,976
Net assets	2,033	1,896	1,838
Total Capitalization	\$3,785	\$3,837	\$3,814

During 2006, long-term debt, net of current maturities, decreased by \$189 million, primarily due to scheduled maturities (\$140 million), and early extinguishments of commercial paper debt (\$49 million). During 2005, long-term debt, net of current maturities, decreased by \$35 million, primarily due to scheduled maturities (\$156 million), and early extinguishments of debt (\$32 million), which were partially offset by an increase in commercial paper (\$153 million). Total Debt to Equity as of December 31, 2006, decreased to 1.06 to 1 from 1.22 to 1 as of December 31, 2005. The Total Debt to Equity ratio as of December 31, 2006 is the lowest ratio since the Authority implemented proprietary accounting in 1982.

In January 2006, the Authority issued \$172.5 million principal amount of Series 2006 A Revenue Bonds (2006 A Bonds) at a premium of \$10.2 million for a total of \$182.7 million. The 2006 A Bonds are due in various amounts beginning on November 15, 2007 through November 15, 2020 with interest rates ranging from 3.20% to 5.00%. Principal and interest payments on \$144.3 million (84%) of the 2006 A Bonds are insured (Insured Bonds) by Financial Guaranty Insurance Company and are rated "AAA" by Standard & Poor's Rating Services and Fitch Ratings; and "Aaa" by Moody's Investors Service, Inc. The Insured Bonds are due November 15, 2010 through 2020. The uninsured \$28.2 million (16%) of the 2006 A Bonds (due November 15, 2007 through 2009) is rated the same as the Authority's senior long-term debt in the Debt Ratings table below. The proceeds of the 2006 A Bonds were used to redeem \$178.2 million of Series 2000 A Revenue Bonds on February 23, 2006, and to pay the costs of issuance of the 2006 A Bonds.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
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+
Weekly Rate Bonds	Aa3/VMIG1	A+/A-1	AA/F1+
Municipal Bond Insurance Support:			
Series 2006 A Revenue Bonds (Senior Debt) due 2010 to 2020	Aaa	AAA	AAA
Series 2003 A Revenue Bonds (Senior Debt)	Aaa	AAA	AAA
Auction Rate Bonds (Subordinate Debt)	Aaa	AAA	AAA

The Authority has a \$800 million line of credit with a syndicate of banks supporting the Commercial Paper Notes and the Weekly Rate Bonds. The line expires January 31, 2008.

More detailed information about the Authority's debt is presented in Note F to the financial statements.

Risk Management

The objective of the Authority's risk management program is to manage the impact of interest rate, energy price and fuel cost changes 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 hedging instruments.

The Vice President and Chief Risk Officer - Energy Risk Assessment and Control reports to the Executive Vice President and Chief Financial Officer and is responsible for establishing policies and procedures for identifying, reporting and controlling energy-price and fuel-price-related risk exposure and risk exposure connected with energy- and fuel-related hedging transactions. This type of assessment and control has assumed greater importance in light of the Authority's participation in the NYISO energy markets.

New York State Budget Matters

As part of the State Fiscal Year 2005-2006 budget bill enacted into law in April 2005, the PFJ Program, including the PFJ electricity savings reimbursement (PFJ Rebate) provisions, was extended to December 31, 2006, and the Authority was authorized to make additional voluntary contributions to the State of \$75 million, with the cap on such contributions increasing to \$394 million.

In August 2006, the Governor signed into law legislation (Chapter 645 of the Laws of 2006) that (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2007; (2) authorizes the Authority to make an additional voluntary contribution of \$100 million to the State for the 2006-2007 fiscal year with the aggregate amount of such contributions remaining at \$394 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility. The August 2006 legislation also authorizes the Authority to waive payment of voluntary contributions to the State if sufficient funds for that purpose and PFJ Program and ECS Benefit Program purposes are not available, with any such waiver being subject to subsequent audit by the State Comptroller and State Division of Budget. The Governor's Executive Budget for the State Fiscal Year 2007-2008 reflects the movement of the \$175 million in voluntary payments from the Authority scheduled for prior years into the State Fiscal Year 2007-2008.

As of December 31, 2006, the Authority had made voluntary contributions to the State totaling \$219 million. The Authority's Trustees have not as of the date hereof authorized additional voluntary contributions but have taken the position that the total amount of Authority monies to be applied to the estimated cost of extensions of the PFJ and ECS Benefit Programs and 2006-2007 State Fiscal Year voluntary contribution to the general fund be limited to an aggregate amount of \$100 million. Accordingly, the financial statements for the year ended December 31, 2006 reflect an accrued liability and charge against net revenues determined on that basis.

However, the ultimate decision as to the amount of the additional voluntary contributions made by the Authority will also be based on future events and the potential resolution of uncertainties regarding (1) possible further extensions of the current PFJ and ECS Benefit Programs, (2) the possible creation of new power programs based on the December 2006 recommendations of the Temporary Commission on the Future of New York State Power Programs for Economic Development, and (3) the possible related actions on the part of the State Legislature with regard to these items. In addition, prior to making any voluntary payment contemplated by Chapter 645, under the Authority's general bond resolution the Authority must determine that the moneys applied to such voluntary payment are not needed for the payment of certain expenses or the funding of certain reserves specified in the general bond resolution. The Authority is unable to predict the ultimate outcome of the matters described above and it is possible that future net revenues will be impacted by their resolution.

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.

BALANCE SHEETS

December 31, 2006 and 2005 (in Millions)

Assets		2006	2005
Utility Plant	Electric plant in service	\$5,586	\$5,471
	Less accumulated depreciation	2,297	2,138
	Net electric plant in service	3,289	3,333
	Construction work in progress	138	111
	Net utility plant	3,427	3,444
Restricted Funds	Cash and cash equivalents	4	13
	Investment in securities (Notes D, J and L)	985	917
	Total restricted funds	989	930
Capital Funds	Cash and cash equivalents	45	46
	Investment in securities	61	100
	Total capital funds	106	146
Current Assets	Cash and cash equivalents	157	108
	Investment in securities	594	466
	Interest receivable on investments	15	13
	Accounts receivable	222	231
	Materials and supplies:		
	Plant and general	66	63
	Fuel (Notes H and M(4))	33	26
	Risk management assets (Note H)	62	273
	Miscellaneous receivables and other	151	130
	Total current assets	1,300	1,310
Other Noncurrent Assets	Unamortized debt expense	13	14
	Deferred charges, long-term receivables and other	446	356
	Notes receivable - nuclear plant sale (Note L)	118	189
	Total other noncurrent assets	577	559
Total Assets		\$6,399	\$6,389
Liabilities and Net Assets			
Long-term Debt	Long-term debt (Notes C and F):		
	Senior		
	Revenue bonds	\$1,053	\$1,167
	Adjustable rate tender notes	150	156
	Subordinated		
	Subordinate revenue bonds	75	78
	Commercial paper	474	540
Total long-term debt	1,752	1,941	
Current Liabilities	Long-term debt due within one year	140	156
	Short-term debt (Note G)	272	218
	Accounts payable and accrued liabilities	498	380
	Total current liabilities	910	754
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note L)	923	851
	Disposal of spent nuclear fuel (Note L)	202	192
	Deferred revenues and other	579	755
	Total other noncurrent liabilities	1,704	1,798
Net Assets	Invested in capital assets, net of related debt	1,677	1,653
	Restricted	28	23
	Unrestricted	328	220
	Net assets - sub-total	2,033	1,896
Total Liabilities and Net Assets		\$6,399	\$6,389

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended December 31, 2006 and 2005 (in Millions)

		2006	2005
Operating Revenues	Power sales	\$2,223	\$2,063
	Transmission charges	147	144
	Wheeling charges	296	299
	Total Operating Revenues	2,666	2,506
Operating Expenses	Purchased power	1,067	1,158
	Operations	351	369
	Fuel oil and gas (Notes H and M(4))	523	378
	Maintenance	81	79
	Wheeling	296	299
	Depreciation	173	147
	Total Operating Expenses	2,491	2,430
	Net Operating Revenue	175	76
Other Income	Investment income (Note D)	55	42
	Other	17	18
	Total Other Income	72	60
Other Expenses	Interest on long-term debt	110	105
	Interest - other	10	8
	Interest capitalized	(5)	(31)
	Amortization of debt discount/ (premium) and expense	(5)	(4)
	Total Other Deductions	110	78
	Net Revenues	137	58
	Net Assets at January 1	1,896	1,838
	Net Assets at December 31	\$2,033	\$1,896

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005 (in Millions)

		2006	2005
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	\$2,678	\$2,440
	Paid to suppliers and employees for:		
	Purchased power	(1,060)	(1,181)
	Operations and maintenance	(434)	(389)
	Fuel oil and gas	(534)	(389)
	Wheeling of power by other utilities	(292)	(293)
	Net Cash Provided by Operating Activities	358	188
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	11	4
	Sale of commercial paper	110	239
	Issuance of bonds	173	
	Repayment of notes	(5)	(5)
	Retirement of bonds	(311)	(150)
	Repayment of commercial paper	(177)	(88)
	Gross additions to utility plant	(106)	(254)
	Interest paid, net	(98)	(92)
	Net Cash Used in Capital and Related Financing Activities	(403)	(346)
Cash Flows From Noncapital-Related Financing Activities	Energy conservation program payments received from participants	63	32
	Energy conservation program costs	(62)	(75)
	Sale of commercial paper	104	52
	Repayment of commercial paper	(50)	(31)
	Interest paid on commercial paper	(8)	(5)
	Entergy notes receivable	94	94
	Net Cash Provided by Noncapital-Related Financing Activities	141	67
Cash Flows From Investing Activities	Earnings received on investments	32	29
	Purchase of investment securities	(11,654)	(9,108)
	Sale of investment securities	11,565	9,214
	Net Cash Provided by/(Used in) Investing Activities	(57)	135
	Net increase in cash	39	44
	Cash and cash equivalents, January 1	167	123
	Cash and Cash Equivalents, December 31	\$206	\$167
Reconciliation to Net Cash Provided by Operating Activities	Net Operating Revenues	\$175	\$76
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Provision for depreciation	173	147
	Change in assets and liabilities:		
	Net increase in prepayments and other	(17)	(10)
	Net (increase)/decrease in receivables and inventory	(3)	(60)
	Net (decrease)/increase in accounts payable and accrued liabilities	30	35
	Net Cash Provided by Operating Activities	\$358	\$188

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A - General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State by Chapter 772 of the Laws of 1931, as last amended by Chapter 645 of the Laws of 2006.

The Authority is authorized by the Power Authority Act (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. 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," 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.

Note B - Accounting Policies

The Authority's accounting policies include the following:

(1) Accounts of the Authority are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). 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 non-governmental entities (i.e., Financial Accounting Standards Board (FASB) statements) that do not conflict with GASB pronouncements. The Authority also complies with Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended. This standard allows utilities to capitalize or defer certain costs or revenue based on management's ongoing assessment that it is probable these items will be recovered through the rate making process.

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.

(2) Utility plant is stated at original cost and consists 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 utility plant retired less salvage is charged to accumulated depreciation.

(3) With the exception of the Authority's Small Clean Power Plants (SCPPs), depreciation of plant assets is provided on a straight-line basis over the estimated useful lives of the various classes of plant. The Authority is providing for depreciation of the SCPPs using the double-declining balance method based on the expectation that the revenue-earning power of those units will be greater during the earlier years of the units' lives. The Authority installed these eleven 44-MW natural-gas-fueled electric generation units at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the Summer of 2001 to meet capacity deficiencies and to meet ongoing local reliability requirements in the New York City metropolitan area.

(4) Net electric plant in service at December 31, 2006 and 2005, and the related depreciation provisions expressed as a percentage of average depreciable electric plant on an annual basis were:

<i>(in Millions)</i> Type of Plant	Net Electric Plant in Service		Average Depreciation Rate	
	2006	2005	2006	2005
Production:				
Steam	\$ 35	\$ 57	5.1%	5.1%
Hydro	1,022	992	1.8%	1.8%
Gas Turbine\ Combined Cycle	951	1,057	5.2%	4.8%
Transmission	961	926	2.8%	2.8%
General	320	301	4.2%	4.5%
	\$3,289	\$3,333	3.3%	3.1%

(5) Effective January 1, 2003, the Authority implemented 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 SCPPs in New York City and, accordingly, has recorded a liability for the retirement of this asset. As of January 1, 2003 the liability calculated under the provisions of FAS No. 143 was approximately \$15.8 million, which was charged to the cumulative effect of a change in accounting principle. This charge represents the amount that would have been recorded at January 1, 2003 if FAS No. 143 had always been applied to the existing legal obligations.

In addition to the FAS No. 143 asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers, and, under the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation," were previously included in accumulated depreciation. The Authority has estimated that the balance of such regulatory liabilities included in accumulated depreciation at December 31, 2006 and 2005 were approximately \$189 million and \$179 million, respectively, and has reclassified such amounts to Other Noncurrent Liabilities on the Balance Sheet.

Asset retirement obligations (ARO) and regulatory amounts included in Other Noncurrent Liabilities are as follows:

<i>(in Millions)</i>	ARO Amounts	Regulatory Amounts
Balance – December 31, 2005	\$18	\$179
Accretion expense	1	--
Depreciation expense	--	10
Balance – December 31, 2006	\$19	\$189

(6) Effective January 1, 2005, the Authority implemented 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 impairment.

The Authority had previously recognized asset impairment charges prior to 2005. These pre-2005 impairments were recognized based on the standards promulgated by the FASB. Such standards require the recognition of an impairment charge and a reduction of an asset's carrying value to fair value when the cash flows resulting from the operation of a plant asset are expected to be less than its book value.

(7) 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.

(8) 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 has adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities", as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," to the extent appropriate under Governmental Accounting Standards. These financial accounting standards establish accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The standard requires that the Authority recognize the fair value of all derivative instruments as either an asset or liability on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges.

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

(10) Material and supplies are valued at the lower of average cost or market. These inventories are charged to expense during the period in which the maintenance or repair occurs.

(11) At December 31, 2006 and 2005, deferred charges included \$117.0 million and \$80.4 million, respectively, of energy-services-program costs. In addition, the deferred charges relating to the fair value of derivatives are included in this classification. See Note B(8) above and Note H for more detailed information. These deferred costs are being recovered from customers.

(12) 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."

(13) 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 Sheet.

(14) 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 such as related risk management assets and liabilities. 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.

(15) Revenues are recorded when 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 three NYC Governmental Customers and three investor-owned utilities operating in the State accounted for approximately 45 and 46 percent of the Authority's operating revenues in 2006 and 2005, respectively. The Authority distinguishes operating revenues and expenses from non-operating 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, 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 other income and expenses.

(16) 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."

Note C - Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (the Bond Resolution). The Bond Resolution covers all of the Authority's projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest authorized by the Act or by other applicable State statutory provisions, provided, however, that the term "Project" shall not include any Separately Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available therefor (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

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

Note D - Cash and Investments

Credit Risk

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. 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) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's) and AAA by Standard & Poor's (S&P) and Fitch Ratings (Fitch). All of the Authority's investments in U.S. debt instruments are issued or explicitly guaranteed by the U.S. Government.

The Authority does not engage in securities lending or reverse repurchase agreements.

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.

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, 2006, 14 percent of the Authority's investments were in FNMA securities.

Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see Note L), 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 required to be administered in accordance with the Authority's or New York State investment guidelines.

Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2006 and 2005, the Authority had investments in repurchase agreements of \$50.0 million and \$84.9 million, respectively. The bank balances were \$3.5 million and \$6.9 million, respectively, of which \$2.5 million and \$5.4 million, respectively, were collateralized.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2006 and 2005, is in the Investment Summary.

Investment Summary*(in Millions)***Estimated Fair Value**

December 31, 2006

	Total	Total Restricted Funds	Restricted Funds			Capital Fund	Current Assets
			Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve		
Cash and equivalents	\$ 206	\$ 4		\$ 4		\$ 45	\$157
U.S. Government /Agencies							
Treasury Bills	76	42		42			34
Treasury Notes	38					12	26
GNMA	82						82
	196	42		42		12	142
Other debt securities							
FNMA	251	6			\$ 6	12	233
FHLMC	73	13			13	25	35
FHLB	35					7	28
FFCB	82						82
All Other	75	1		1		5	69
	516	20		1	19	49	447
Repurchase Agreements	5						5
Portfolio Manager	923	923	923				
Total Investments	1,640	985	923	43	19	61	594
	\$1,846	\$989	\$923	\$47	\$19	\$106	\$751

**Summary of Maturities
Years**

0-1	\$581	\$ 74	\$ 24	\$47	\$ 3	\$ 94	\$413
1-5	336	136	120		16	8	192
5-10	114	59	59				55
10+	486	391	391			4	91
Common Stock	329	329	329				
	\$1,846	\$989	\$923	\$47	\$19	\$106	\$751

Estimated Fair Value
December 31, 2005

	Total	Total Restricted Funds	Restricted Funds			Capital Fund	Current Assets
			Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve		
Cash and equivalents	\$ 167	\$ 13		\$13		\$ 46	\$108
U.S. Government /Agencies							
Treasury Bills	45	45		45			
Treasury Notes	17					17	
GNMA	87						87
	149	45		45		17	87
Other debt securities							
FNMA	193	6			\$ 6	18	169
FHLMC	98	8			8	35	55
FHLB	81					17	64
FFCB	33						33
All Other	73	7		1	6	13	53
	478	21		1	20	83	374
Repurchase Agreements	5						5
Portfolio Manager	851	851	\$851				
Total Investments	1,483	917	851	46	20	100	466
	\$1,650	\$930	\$851	\$59	\$20	\$146	\$574

Summary of Maturities
Years

0-1	\$ 455	\$ 114	\$ 35	\$59	\$20	\$105	\$236
1-5	371	130	130			28	213
5-10	82	66	66				16
10+	435	313	313			13	109
Common Stock	307	307	307				
	\$1,650	\$ 930	\$ 851	\$59	\$20	\$146	\$574

Note E – Changes in Capital Assets
(in Millions)

The changes in Capital Assets are as follows:

	2006	2005
Gross utility plant, beginning balance	\$5,471	\$4,461
Add: Acquisitions	118	1,023
Less: Dispositions (including retirements) and impairments, if any	3	13
Gross utility plant, ending balance	5,586	5,471
Less: Accumulated depreciation	2,297	2,138
Add: Construction work in progress	138	111
Net utility plant, ending balance	\$3,427	\$3,444

Note F - Long-term Debt

(in Millions)

Components

Long-term debt at December 31, 2006 and 2005 consists of:

	2006	2005
Senior Debt		
Revenue Bonds	\$1,053	\$1,167
Adjustable Rate Tender Notes	150	156
Subordinated Debt		
Subordinate Revenue Bonds	75	78
Commercial Paper	474	540
	\$1,752	\$1,941

Senior Debt	2006 Amount	2005 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds					
Series 1998 A	\$ 118	\$ 167	4.5% to 5.0%	2/15/2007 to 2016	2/15/2008
Series 2000 A Revenue Bonds					
Serial Bonds		187	4.4% to 5.50%	11/15/2007 to 2020	11/15/2005
Term Bonds	10	10	5.25%	11/15/2030	11/15/2010
Term Bonds	67	67	5.25%	11/15/2040	11/15/2010
Series 2001 A Revenue Bonds					
Serial Bonds	85	136	4.00% to 5.50%	11/15/2007 to 2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	479	500	2.50% to 5.25%	11/15/2007 to 2022	11/15/2012
Series 2003 A Revenue Bonds					
Serial Bonds	27	28	3.69% to 4.83%	11/15/2008 to 2013	Any date
Term Bonds	186	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
Series 2006 A Revenue Bonds					
Serial Bonds	173		3.2% to 5.0%	11/15/2007 to 2020	11/15/2015
	1,145	1,281			
Plus: Unamortized premium	37	33			
Less: Deferred refinancing costs	15	17			
	1,167	1,297			
Less: Due within one year	114	130			
	\$1,053	\$1,167			

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

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, 2006 and 2005, \$300 million and \$400 million, respectively, of outstanding bonds were considered defeased.

In January 2006, the Authority issued \$172.5 million principal amount of Series 2006 A Revenue Bonds (2006 A Bonds) at a premium of \$10.2 million for a total of \$182.7 million. The 2006 A Bonds are due in various amounts beginning on November 15, 2007 through November 15, 2020 with interest rates ranging from 3.20% to 5.00%. Principal and interest payments on \$144.3 million (84%) of the 2006 A Bonds are insured (Insured Bonds) by Financial Guaranty Insurance Company and are rated "AAA" by Standard & Poor's Rating Services and Fitch Ratings; and "Aaa" by Moody's Investors Service, Inc. The Insured Bonds are due November 15, 2010 through 2020. The uninsured \$28.2 million (16%) of the 2006 A Bonds (due November 15, 2007 through 2009) is rated the same as the Authority's senior long-term debt (See Debt Ratings table on page 8). The proceeds of the 2006 A Bonds were used to redeem \$178.2 million of Series 2000 A Revenue Bonds on February 23, 2006, and to pay the costs of issuance of the 2006 A Bonds. The present value of the economic savings from this refunding is approximately \$14 million.

Senior Debt	2006 Amount	2005 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
2. Adjustable Rate Tender Notes (Notes)					
2007 Notes	\$ 6	\$ 12	At 12/31/06: 3.60 %	3/1/2007	May be tendered by holder on any adjustment date.
2016 Notes	75	75	At 12/31/06: 3.60 %	3/1/2016	
2020 Notes	75	75	At 12/31/06: 3.60 %	3/1/2020	
	156	162			
Less: Due within one year	6	6			
	\$150	\$156			

The 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 Dexia Credit Local, acting through its New York Agency, to provide a supporting line of credit. Under the Agreement, which terminates on September 4, 2007, the Authority may borrow up to \$156 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2006 and 2005) 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 is confident 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 H for the Authority's risk management program relating to interest rates.

Subordinated Debt	2006 Amount	2005 Amount	Interest Rate At 12/31/06	Maturity
3. Subordinate Revenue Bonds				
Series 3	\$39	\$ 40	Auction Rate: 3.50%	02/15/2025
Series 4	39	40	Auction Rate: 3.50%	02/15/2025
	78	80		
Less: Due within one year	3	2		
	\$75	\$78		

Senior and Subordinate 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, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date. Series 2003 A Revenue Bonds (2003 A Bonds) are subject to optional redemption on any date. The 2003 A Term Bonds are subject to sinking fund redemptions in specified amounts beginning four years prior to their respective maturities. Subordinate Revenue Bonds, Series 3 and 4, may be redeemed on any interest payment date.

At December 31, 2006 and 2005, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately \$1.26 billion and \$1.41 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinated Debt	Availability	2006	2005	Interest Rate At 12/31/06	Maturity
4. Commercial Paper (Long-term portion)					
EMCP (Series 1)	\$ 100	\$95	\$ 39	3.56%	2007 to 2025
CP (Series 2)	450	261	248	3.51%	2007 to 2037
CP (Series 3)	350	135	271	5.38%	2007 to 2037
CP (Series 4)	220				
	\$1,120	491	558		
Less: Due within one year		17	18		
		\$474	\$540		

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 \$100 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. The proceeds of the EMCP Notes issued in 2006 were used to refund Series 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 2007 to 2037, as indicated in table above.

The Authority has a line of credit under a revolving credit agreement (the RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing \$800 million for such CP Notes and for other purposes until January 31, 2008, which succeeded another revolving credit agreement (the Prior RCA) in January 2004. No borrowings have been made under the

RCA or the Prior 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 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, and the Adjustable Rate Tender Notes.

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

**Long-term Debt
Maturities and Interest Expense**

(in Millions)

Year	Principal	Interest	Total
2007	\$ 140	\$ 85	\$ 225
2008	128	79	207
2009	118	73	191
2010	135	68	203
2011	115	63	178
2012-2016	476	248	724
2017-2021	420	143	563
2022-2026	137	70	207
2027-2031	90	45	135
2032-2036	69	20	89
2037-2040	42	6	48
	1,870	900	2,770
Plus : Unamortized bond premium	37		37
Less: Deferred refinancing cost	15		15
	\$1,892	\$900	\$2,792

Interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2006.

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 (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.

Subordinate Revenue Bonds

The Authority determines the rate period (or auction rate period) based on needs and/or advice of the Remarketing Agent (or the Auction Agent).

Series 3 and 4 Bonds - The Auction Agent appointed under the Subordinate Resolution determines the Auction Rate for each Auction Period based on the Auction Procedures set forth in the supplemental resolution authorizing the issuance of the Bonds.

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 $(1.35 \times \text{BMA}) + E$, where BMA is the Bond Market Association Municipal Swap Index, which is calculated weekly, and where "E" is a fixed percentage rate expressed in basis points (each basis point being 1/100 of one percent) that is determined based on the Authority's debt ratings. As of December 31, 2006, the reset rate would have been 6.45%.

Changes in Long-term Liabilities

(in Millions)

Changes in Long-term Debt	2006	2005	Changes in Other Long-term Liabilities	2006	2005
Long-term debt, beginning balance	\$1,941	\$1,976	Other long-term liabilities, beginning balance	\$1,798	\$1,580
Increases	347	243	Increases	152	277
Decreases	(396)	(122)	Decreases	(246)	(59)
	1,892	2,097			
Due within one year	140	156			
Long-term debt, ending balance	\$1,752	\$1,941	Other long-term liabilities, ending balance	\$1,704	\$1,798

Note G - Short-term Debt

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

(in Millions)	December 31, 2006		December 31, 2005	
	Availability	Outstanding	Availability	Outstanding
CP Notes (Series 1)	\$400	\$272	\$350	\$218

Under the Commercial Paper Note Resolution adopted June 28, 1994, as amended and restated on November 25, 1997, and as subsequently amended, 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 F - Long-term Debt for Series 2, 3 and 4 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:

(in Millions)

Year	Beginning Balance	Increases	Decreases	Ending Balance
2006	\$218.2	\$103.9	\$49.8	\$272.3
2005	\$197.9	\$51.8	\$31.5	\$218.2

CP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, and the Adjustable Rate Tender Notes.

Note H - Risk Management and Hedging Activities

In addition to insurance, which is described in item (4) herein, 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 hedging instruments that are considered derivatives under FAS No. 133. These standards establish accounting and reporting requirements for derivative instruments and hedging activities (see Note B (8)). The fair values of all Authority derivative instruments, as defined by FAS No. 133, are reported in Assets or Liabilities on the Balance Sheet.

(1) Interest Rate Risk Management

(a) Series 1998 B Revenue Bonds

In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations expected to be issued to refinance \$499.4 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 and 2001 (the 2002 SWAPS and 2001 SWAPS, respectively). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7 percent to 5.1 percent) to the counterparties. In return, the counterparties would pay interest to the Authority based upon the Bond Market Association municipal swap index (BMA Index) on the established reset dates. In 2001, upon completion of the \$231.2 million mandatory redemption of the Series 1998 B Revenue Bonds, the Authority terminated the 2001 SWAPS at a cost of \$12.7 million. On November 15, 2002 the Authority completed the remaining mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 and Series 3 CP Notes. The 2002 SWAPS became active on November 15, 2002 and are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes that were issued to make the mandatory payments. The Authority intends to refinance the Series 2 and Series 3 CP Notes with fixed rate debt when it is advantageous to do so in the future.

During 2006 and 2005, net settlement payments on the 2002 SWAPS resulted in increases of \$4.4 million and \$7.2 million, respectively, in interest costs. On December 31, 2006 and 2005, the unrealized losses on the 2002 SWAPS were \$14.7 million and \$17.5 million, respectively. Since the Authority anticipates the recovery from customers of the remaining unamortized \$1.5 million termination cost and the future settlement costs of the 2002 SWAPS, the termination cost and these unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet. The cost of terminating the 2001 SWAPS is being amortized as

an adjustment to the hedged debt's interest cost over the shorter of the original Series 1998 B Revenue Bonds debt (hedged) period or the refinanced period.

(b) Series 2000 A Revenue Bonds

In 2000, the Authority entered into fixed-to-floating interest rate swaps related to the issuance of the fixed rate Series 2000 A Revenue Bonds. The Authority's objective was to create a synthetic floating rate issue to reduce the cost of the debt issue over its life. The swaps require the counterparties to pay the Authority a rate of 5.03 percent on the notional amount (\$296 million) of the swap and for the Authority to pay a rate based upon the BMA Index. During 2005 the net settlement payments and receipts of these fixed-to-floating interest rate swaps resulted in reduction of \$5.9 million to interest cost. In 2001 and 2002, the Authority entered into floating-to-fixed interest rate swaps designed to mirror the Series 2000 A Revenue Bond interest rate swaps notional amounts. The objective was to lock-in the lower interest costs on the Series 2000 A Revenue Bond interest rate swaps resulting from lower interest rate trends since their execution through July of 2001. The swaps require the Authority to pay the counterparties rates ranging between 3.149 percent and 3.50 percent on the total notional amount (\$296 million) of the swaps and for the counterparties to pay a rate based upon the BMA Index. During 2005, the net settlement payments and receipts of these floating-to-fixed interest rate swaps resulted in a charge of \$1.6 million to interest cost.

In November and December of 2005 the counterparties to the fixed-to-floating interest rate swaps elected the option within the instruments to terminate their respective swaps. In December of 2005 the floating-to-fixed interest rate swaps expired. As of December 31, 2005, the fair value loss of \$2.7 million on the related caps which range from 8% to 12.125% through 2030 was charged to interest cost. Subsequently, the Authority entered into a combination of cancellation and novation agreements to terminate our obligations under the cap agreements.

(c) Adjustable Rate Tender Notes

In 2002 the Authority entered into a forward interest rate swap with the objective of limiting exposure to rising interest rates on the Authority's Adjustable Rate Tender Notes (Notes) for the period September 2, 2003 to September 1, 2006. Based upon the terms of this forward interest rate swap, the Authority paid interest calculated at a fixed rate of 3.48 percent. In return, the counterparty paid interest to the Authority based upon 66 percent of the six-month LIBOR established on the reset dates that coincide with the Notes rate reset dates. On July 27, 2006 the Authority entered into a new forward interest rate swap to continue the stated objectives of the expiring forward interest rate swap for the period September 1, 2006 to September 1, 2016. Based upon the terms of the new forward interest rate swap, the Authority pays interest calculated at a fixed rate of 3.7585 percent on the initial notional amount of \$156 million. In return, the counterparty pays interest to the Authority based upon 67 percent of the six-month LIBOR established on the reset dates that coincide with the Notes rate reset dates. In 2006 and 2005, the net settlement payments and receipts on these forward interest rate swaps resulted in increases of \$0.4 million and \$2.2 million, respectively, in interest cost. As of December 31, 2006 and 2005 the fair values of these forward interest rate swaps were unrealized losses of \$2.7 million and \$0.8 million, respectively. Since the Authority anticipates the recovery of these losses from customers these unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

(d) Anticipated 2007 A Revenue Bonds

On February 15, 2006, the Authority entered into a forward interest rate swap to effectively fix rates on long-term obligations anticipated to be issued in October of 2007 or before for the relicensing and modernization costs of the St. Lawrence/FDR and Niagara Power Projects. The forward interest swap has an initial notional amount of \$290 million coinciding with the anticipated 2007 Revenue Bond issuance and a commencement date of October 16, 2007 and ending November 15, 2037. The terms of the forward interest rate swap call for a mandatory termination on October 16, 2007. The termination calculation is based upon the Authority paying interest at a fixed rate of 5.1923 percent to the counterparty and the counterparty paying interest to the Authority using LIBOR. On December 31, 2006 the unrealized gain on the forward interest rate swap was \$3.0 million. Since the Authority anticipates the recovery from customers of any termination fees of the interest rate swap, this unrealized gain has been deferred in Other Noncurrent Liabilities on the Balance Sheet.

(e) Series 1 CP Notes

In 2004, an interest rate cap was purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes. During 2006 and 2005, interest rate market conditions did not exceed the contractual cap. The interest rate for the Series 1 CP Notes is capped at 5.9 percent based upon the BMA Index for a notional amount (\$250 million) through July 1, 2007. The fair values of the interest rate cap as of December 31, 2006 and December 31, 2005 were not significant.

Relating to items (1)(a) to (1)(d), if any of the underlying hedged debt were retired prior to maturity, the unamortized gain or loss of the related interest rate swaps would be included in the gain or loss on the extinguishment of the obligation.

(2) Energy Market Risk Management

(a) Customer Load Requirements

In 2001, the Authority entered into a long-term forward energy swap agreement to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. During 2006 and 2005 net settlements on this forward energy swap resulted in a decrease of \$22.3 million and \$89.7 million in Purchased Power costs, respectively. On December 31, 2006 and 2005, the fair values of this forward energy swap were unrealized gains of \$16.7 million and \$89.8 million, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers and the pass-through of any benefits, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2003, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2005 and 2008. During 2006 and 2005, net settlements on this forward energy swap resulted in decreases of \$10.9 million and \$24.5 million in Purchased Power costs, respectively. On December 31, 2006 and 2005, the fair values of this forward energy swap were unrealized gains of \$28.6 million and \$76.0 million, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers and the pass-through of any benefits, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2005, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2008 and 2010. On December 31, 2006 and 2005 the fair values of this forward energy swap were unrealized gains of \$13.1 million and \$25.5 million, respectively. Since the Authority anticipates recovery of any net settlements costs of this forward energy swap from customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

On September 25, 2006 and December 6, 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparty's wind-farm-power-generating facilities between 2008 and 2017. The fixed prices ranging from \$74 to \$75 per megawatt include the purchase of the related environmental attributes. The intent of the swap and purchase agreements is to assist specific governmental customers in acquiring such environmental attributes. On December 31, 2006 the fair value of these forward energy swaps was an unrealized loss of \$12.5 million. Since the customers are contractually obligated to pay the Authority for any net settlement costs resulting from these forward energy swaps the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

In 2006 and 2005, the Authority entered in to a number of short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the New York Independent System Operator (NYISO) electric market to meet short-term forecasted load requirements for the Authority's Power for Jobs program. During 2006 and 2005, the net settlements of these short-term energy swaps resulted in an increase of \$22.0 million and a decrease of \$15.4 million in Purchased Power cost, respectively. On December 31, 2006 and 2005, the fair values of these short-term energy swaps were unrealized losses of \$1.2 million and \$5.6 million, respectively. Since the Authority anticipates recovery of any net settlements of the short-term energy swaps from customers, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheets.

In 2006 and 2005, the Authority entered into a number of additional short-term energy swaps. The objective of these short-term energy swaps was to either (a) fix the cost of energy purchases or (b) fix the margin between the prices of purchases and sales of energy in the NYISO electric market to the benefit of the Authority's NYC Governmental Customers. During 2006 and 2005, net settlements of these short-term energy purchases and sales swaps resulted in a net increase of \$37.4 million and a net decrease of \$6.3 million in Purchased Power costs, respectively. On December 31, 2006 and 2005, the fair values of these short-term energy swaps were an unrealized loss of \$31.9 million and unrealized gain of \$6.8 million, respectively. Since the Authority anticipates recovery of any net settlements of these short-term energy swaps from customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets on the Balance Sheets.

In 2005, the Authority purchased a number of short-term energy options. The objective of these short-term energy options is to cap the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's NYC Governmental customers in 2006. During 2006 the Authority exercised a number of these short-term energy options that resulted in a decrease in Purchased Power costs of \$1.5 million. On December 31, 2005, the intrinsic value of these short-term energy options was zero. The premiums of \$7.2 million associated with the 2006 short-term energy options were amortized to Purchased Power costs during 2006.

In 2006 the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps is to fix the price of power to meet the forecasted load requirements of certain Economic Development Program customers. During 2006 the net settlements of these short-term energy swaps resulted in an increase of \$1.5 million in Purchased Power cost. On December 31, 2006 the fair value of these short-term energy swaps was an unrealized loss of \$0.4 million. Since the Authority anticipates recovery of any net settlements of these short-term energy swaps from Economic Development Program customers, the unrealized loss has been deferred in Other Noncurrent Assets on the Balance Sheet.

(b) Generating Capacity

In 2006 and 2005, the Authority entered into a number of energy fixed-to-floating energy swaps relating to a portion of the SCPPs' generation, with the objectives of hedging prices in a rising market and mitigating the effect of falling market prices on revenue during the summer period. In 2006 and 2005, net settlements with counterparties on these energy fixed-to-floating energy swaps resulted in decreases of \$0.2 million and \$1.4 million in Operating Revenues, respectively. There were no open positions relating to the SCPPs held on December 31, 2006 and 2005.

In 2006 and 2005, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for operating the Authority's Lewiston Pump facility. During 2006 and 2005, net settlements of these short-term energy swaps resulted in an increase of \$5.4 million and a decrease of \$16.2 million in Purchased Power costs, respectively. On December 31, 2006 there were no open positions relating to the Lewiston Pumps. On December 31, 2005 the fair value of these short-term energy swaps was an unrealized gain of \$19.8 million. Since the Authority anticipates recovery of any net settlements of these short-term energy swaps from customers, the unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheet.

(3) Fuel Market Risk Management

In 2006 and 2005, the Authority purchased a number of natural gas swaps and NYMEX contracts with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Flynn facility. During 2006 the net settlements for these natural gas swaps and NYMEX contracts resulted in an increase in fuel cost of \$2.7 million. During 2005 the

net settlements did not have a significant impact on fuel costs. On December 31, 2006 and 2005 the fair values of these natural gas swaps and NYMEX contracts and their impact on fuel cost were not significant.

In 2006 and 2005, the Authority purchased a number of natural gas swaps and NYMEX gas and oil futures contracts with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Poletti facilities. During 2006 and 2005, net settlements and liquidation of these natural gas swaps and gas and oil NYMEX futures contracts resulted in an increase of \$36.9 million and a decrease of \$29.7 million in fuel costs, respectively. On December 31, 2006 and 2005 the fair values of these natural gas swaps and NYMEX gas and oil futures contracts were an unrealized loss of \$29.4 million and an unrealized gain of \$48.1 million, respectively. Since the Authority anticipates recovery of any net settlements and liquidations of these natural gas swaps and NYMEX gas and oil futures contracts from customers, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities on the Balance Sheets.

In 2006 and 2005 the Authority entered into a number natural gas basis swaps with the objective of limiting exposure to the floating market natural gas pipeline transportation costs to the New York City Gate. During 2006 and 2005, the net settlements of these natural gas basis swaps resulted in an increase of \$12.5 and \$4.5 million to fuel expense, respectively. On December 31, 2006 and 2005, the fair values of these natural gas basis swaps were unrealized losses of \$4.2 million and \$9.0 million, respectively. Since the Authority anticipates recovery of any net settlements of these natural gas basis swaps from customers, these unrealized losses have been deferred in Noncurrent Assets on the Balance Sheets.

(4) Insurance

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. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. In addition, the Authority pursues subrogation claims against any entities that cause damage to its property.

Note I - Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

Pension Plans:

Substantially all employees of the Authority are members of the New York State and Local Employees Retirement System (System), which is a cost-sharing, multiple-public-employer defined-benefit pension plan. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average salary, and, effective July 17, 1998, all benefits generally vest after five years of accredited service.

Members of the System with less than "10 years of service or 10 years of membership" contribute 3% of their gross salaries, and the Authority pays the balance of the annual contributions for these employees. The Authority pays the entire amount of the annual contributions for employees with at least 10 years of service. The Authority's contributions to the System are paid in December of each year on the basis of the Authority's estimated salaries for the System's fiscal year ending the following March 31. Contributions are made in accordance with funding requirements determined by the actuary of the System using the aggregate cost method.

In May, 2003, legislation was passed by the New York State Legislature, and signed into law by the Governor, that established, among other things, a minimum annual contribution by employers commencing with the System's fiscal year ending March 31, 2004. The new law will reduce the volatility of employer contributions, in future years, by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible. Under this plan, the Authority's required contributions to the System were \$ 12.7 million, \$15.3 million, and \$15.9 million for the years ended March 31, 2007, 2006, and 2005, respectively (paid on or about December 15, 2006, 2005, and 2004). For detailed information concerning the System, reference is made to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 2006.

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 non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working at the Authority. Approximately 1,800 participants were eligible to receive these benefits at December 31, 2006. Prior to January 1, 2002, the cost of these benefits was charged to expense, as paid. Effective January 1, 2002, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GAS No. 27, "Accounting for Pensions by State and Local Government Employers." The Authority subsequently implemented GAS No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," when it was issued in June 2004. Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. Beginning in 2007, the Authority has been authorized by its Trustees to initiate the establishment of a trust for OPEB obligations and the Authority intends to fund such trust fund beginning in 2007. The trust fund will be held by an independent custodian.

The most current actuarial valuation date is January 1, 2006. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. 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 to past expectations and new estimates are made about the future. The required schedule of funding progress presented, as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<i>(In Millions)</i>	2006	2005	2004
Unfunded Actuarial Accrued Liability (UAAL):			
Beginning Balance	\$322	\$300	\$317
Medicare adjustment	24		(29)
Discount rate change (6% to 7%)	(45)		
Actuarial adjustment			(9)
Adjusted beginning balance	301	300	279
Accrual	35	32	31
Payments to retirees during year	(11)	(10)	(10)
Ending Balance	\$325	\$322	\$300
Covered payroll	\$134	\$131	\$129
Ratio of UAAL to covered payroll	243%	246%	233%

In December 2003, President George W. Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (2003 Medicare Act). To reflect the effect of the 2003 Medicare Act and actuarial adjustments, the present value of the Authority's prior service OPEB obligation, as of January 1, 2004, of \$317 million, was reduced by \$29 million and \$9 million respectively, to \$279 million, resulting in a decrease of \$38 million from the prior year. In 2004, the Authority continued recognizing this prior service obligation over a remaining 18 -year period (based on a 20-year period begun in 2002) using level dollar amortization of \$24.3 million annually. In 2004, the Authority also continued utilizing the projected unit credit method and a discount rate of 6%. In June 2006, GASB issued GASB Technical Bulletin No. 2006 -1, "Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D" (TB 2006-1). Under TB 2006-1, payments from the Federal Government are accounted for as other revenue and are not used to offset current or future OPEB expenditures. The present value of the Authority's prior service OPEB obligation, as of January 1, 2006, of \$322 million, has been reduced by \$21 million to \$301 million. The \$21 million reduction includes the impact of an increase in the discount rate from 6% to 7% to reflect a higher estimated investment return after the establishment of the trust, partially offset by an increase to reflect TB 2006-1. Additional changes result from a decrease in the assumed medical inflation rates and updated demographics and claims experience. The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The 2006, 2005 and 2004 OPEB provisions of \$35 million, \$32 million and \$31 million, respectively, include the amortization of the prior service obligation, a provision for active employees as of the beginning of the year, and an interest charge on the unfunded balance at year end. The Authority's net OPEB obligation as of December 31, 2006, 2005, and 2004 are as follows:

<i>(In Millions)</i>	2006	2005	2004
Annual required contribution	\$35	\$32	\$31
Contributions made (payment to retirees during year)	(11)	(10)	(10)
Increase in net OPEB obligation	24	22	21
Net OPEB obligation – beginning of year	89	67	46
Net OPEB obligation – end of year	\$113	\$89	\$67

The Authority does not issue a publicly available financial report for the plan.

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, with a minimum of one year of service, up to limits specified in the plan. Such matching annual contributions for 2006 and 2005 totaled \$2.1 million and \$2.2 million respectively.

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 non-union employees and a committee of non-union 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.

Note J - Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds

Legislation enacted into State law from 1995 to 2002 authorizes the Authority to utilize \$59.6 million in petroleum overcharge restitution (POCR) funds and \$0.6 million in 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 \$60.2 million to date, took place annually from 1996 to 2003. The POCR funds are included in restricted funds in the Balance Sheet. 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. CAS Projects totaling \$125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

Note K - 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 non-discriminatory transmission services and to administer an open, competitive and non-discriminatory 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 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 Poletti plant and its 500-MW plant (discussed in Note M(6)) because of their 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.

Note L - Nuclear Plant Divestiture and Related Matters

(1) 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 Corp. (collectively Entergy or the Entergy Subsidiaries) for cash and non-interest 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, 2006 and 2005, the present value of the notes receivable were:

<i>(in Millions)</i>	2006	2005
Notes receivable - nuclear plant sale	\$189	\$254
Less: Due within one year	71	65
	\$118	\$189

As a result of competitive bidding, the Authority has agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 500 MW during the period 2005 to 2008.

On September 6, 2001, a subsidiary of Entergy Corp. 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 Corp. 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, 2006 and 2005 payments were received and are included in Other Income.

As part of the Authority's sale of its nuclear projects to Entergy in November 2000, the Authority entered into two Value Sharing Agreements (VSA) with Entergy. 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, a dispute arose concerning the calculation of the amounts due the Authority for 2005 and the Authority served its arbitration demand on November 2, 2006. At Entergy's request, on November 14, 2006, the Supreme Court, New York County, issued an order staying arbitration until the Supreme Court can decide whether the dispute raised by the Authority is within the scope of the arbitration clause of the VSA. No decision has been reached.

(2) 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 and retains the funds collected from customers to cover such fee. As of December 31, 2006, the liability to Entergy totaled \$201 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.

(3) 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.

Some 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 Corp. 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. In November 2006, Entergy Corp. announced that it will seek to relicense IP3 for an additional 20 years. The current license for IP3 expires in 2015.

Decommissioning Funds of \$923 million and \$851 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2006 and 2005, 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.

Note M - Commitments and Contingencies

(1) Competition

The Authority's mission is to provide clean, economical and reliable energy consistent with its commitment to safety, while promoting energy efficiency 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 eleven 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 significant reduction of outstanding debt; and
- (e) implementation of an energy and fuel risk management program.

The Authority's restructuring of its long-term debt through open-market purchases and refundings, begun prior to the adoption of the Bond Resolution, has resulted in, and is expected to continue to result in, cost savings and increased financial flexibility. Since December 31, 1996, the Authority has reduced its total debt by \$0.9 billion, or 29%, resulting in the reduction of its debt/equity ratio from 2.21 to 1.06, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982. During 2006, long-term debt, net of current maturities, decreased by \$189 million, or 10%, primarily due to scheduled maturities (i.e., reclassifications to long-term debt due within one year of \$140 million) and early extinguishments of commercial paper debt (\$49 million). The Authority expects to continue debt retirements in the future to the extent funds are available and not needed for the Authority's expenses, reserves, or other purposes.

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's ability to market its power and energy on a competitive basis is limited by provisions of the Act that restrict the marketing of Poletti and the 500-MW plant outputs, restrictions under State and Federal law as to the sale and pricing of a large portion of the output from the Niagara and St. Lawrence-FDR projects, and restrictions on marketing arising from Federal tax laws and regulations.

(2) 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. A fixed rate was applied in 2005, and beginning that year, the Authority implemented a new annual price setting process under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Under the Agreements, such market-risk hedging options include a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging.

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. In 2006, the NYC Governmental Customers chose a market-risk hedging price option designated a "sharing option," and the customers and the Authority will share equally in actual cost variations (up to \$60 million) above a projected amount for the year and cost variations in excess of \$60 million are borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority share equally in such savings after the NYC Governmental Customers receive the first \$10 million in savings, in aggregate over the term of the Agreement.

For 2007, the NYC Governmental Customers have selected an "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all Variable Costs are passed on to them. Since an ECA mechanism was selected, Authority invoices will include an addition or subtraction each month that reflects changes in the cost of energy as described in the Agreement. The Authority will incorporate the Trustee-approved Fixed Costs, the Variable Costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new tariffs effective for 2007 billings. Under the Agreement, the ECA

mechanism, once elected, applies for two consecutive years. Thus, an ECA will also apply during calendar year 2008. Beginning in 2009, the Authority will also offer the NYC Governmental Customers a minimum volatility pricing option.

The NYC Governmental Customers are committed to pay for any supply secured for them by the Authority which resulted from a collaborative effort. 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.

At their November 28, 2006 meeting, the Authority's Trustees authorized entering into negotiations for the execution of long-term supply agreements with Hudson Transmission Partners, LLC (Hudson) and FPL Energy, LLC (FPLE), as the winning bidders in response to the Authority's Request for Proposals (RFP) for Long -Term Supply of In-City Unforced Capacity and Optional Energy issued on March 11, 2005. These supply agreements are intended to serve the long -term requirements of the NYC Governmental Customers under the Agreement.

The Authority would secure these long-term supplies through the transmission rights associated with Hudson's proposed transmission line extending from Bergen County, New Jersey, to Con Edison's West 49th Street substation and the Unforced Capacity associated with FPLE ownership of capacity produced at the existing Red Oak combined cycle power plant in Sayreville, New Jersey. In accordance with the bidders' proposals, the purchases would qualify as 500 MW of locational capacity in New York City, and facilitate the purchase of energy from the neighboring PJM Interconnection for resale into New York City. Subject to approval of the final negotiated contract terms by the NYC Governmental Customers, the costs associated with the contracts will be borne by the customers.

Late in 2006, the Authority and Westchester County (County) reached agreement on a new supplemental electricity supply agreement that will commence on January 1, 2007 once executed by the County. Among other things, under the agreement the County will remain a full requirements customer of the Authority through at least December 31, 2008 and an energy charge adjustment mechanism will be applicable. This form of agreement is also being offered to the remaining governmental customers in Westchester County.

(3) Power for Jobs

In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized 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 State 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. Under the 2000 legislation, the Authority is authorized to provide power through an alternate method to the competitive procurement process if the cost of the power through the alternate method is lower than the cost of power available through a competitive procurement process, provided that the use of power from Authority sources does not reduce the availability of, or cause an increase in the price of, power provided by the Authority for any other PFJ Program. If the Authority decides to not make power available to an entity whose allocation has been recommended by EDPAB, the Authority must explain the reasons for such denial. The PFJ Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are based on the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into New York Law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer 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 Rebates) from termination until December 31, 2005. 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. In 2005, provisions of the approved State budget extended the period PFJ customers could receive benefits until December 31, 2006; and in 2006, a new law (Chapter 645 of the Laws of 2006) included provisions further extending PFJ Program benefits until June 30, 2007. As of December 31, 2006, 348 PFJ Program customers have opted to extend their contracts and 177 PFJ Program customers have opted to receive PFJ Rebates. (See Note M (8), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.)

Two Authority PFJ customers have initiated an Article 78 proceeding challenging the Authority's implementation of Chapter 645 of the Laws of 2006, signed by the Governor on August 16, 2006. The Authority was served on February 8, 2007, and the initial court appearance is scheduled for March 2, 2007. The petition alleges three Authority misinterpretations of the new law: (a) the Authority limited the restitution benefits provided by the new law only to PFJ customers who chose to continue with the standard PFJ contracts; (b) the Authority refuses to pay those restitution benefits until late 2007; and (c) the Authority computes the rebates available to petitioners who now elect the PFJ reimbursement option (in lieu of the standard contract) based on 2006 rates rather than 2003 and 2005 rates. The petition does not quantify the damages it seeks but asks the court to order an inquest to determine the amount.

(4) Legal and Related Matters

a. In 1982 and again in 1989, several groups of Mohawk Indians 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. These islands are within the boundary of the Authority's St. Lawrence-FDR project. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal Government intervened on behalf of the Mohawk Indians.

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 (the Tribe) 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. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims.

Settlement discussions produced a land claim settlement, which 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 have 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. The Court-appointed magistrate, at the request of all parties, had agreed to stay the litigation and postpone discovery until February 15, 2006, 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.

That legislation was never enacted and once the Cayuga and Oneida appellate decisions were issued in 2006, efforts to obtain legislative approval for the settlement ceased. Because the recently issued decisions had 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 on November 6, 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 are expected to file papers opposing those motions by March 1, 2007.

The Authority had previously accrued an estimated liability based upon the provisions of the settlement described in the previous paragraph. This liability is reflected in the Balance Sheet as of December 31, 2006.

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.

b. 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.

(5) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately \$136 million at December 31, 2006.

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

<i>(in Millions)</i>	Total	2007	2008	2009	2010	2011	2012 to 2014
Gross Operating Leases	\$19.4	\$7.5	\$7.2	\$2.0	\$1.4	\$0.4	\$0.9
Less: Subleases/Assignments	14.5	6.0	6.5	1.5	.5	-	-
Net Operating Leases	\$4.9	\$1.5	\$0.7	\$0.5	\$0.9	\$0.4	\$0.9

Subleases/assignments resulted primarily from consolidation of Authority headquarters' offices and assignment of a certain office lease to an Entergy subsidiary.

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

To meet capacity deficiencies and ongoing local 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 New York City governmental load 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. The 500-MW plant is centered around two

combustion turbines, each exhausting to a dedicated heat recovery steam generator, and also includes a steam turbine, and an air-cooled condenser. The resolution of issues relating to the construction of the Authority's 500-MW plant has resulted in a commercial operation date of the plant on December 31, 2005 at a cost of approximately \$745 million.

The Authority also intends to enter into a long-term service agreement (LTSA) for the 500-MW plant, which will cover scheduled maintenance, including parts and labor, on the turbine generators and specified related controls on a fixed price basis for a term of approximately twelve to fourteen years depending on the maintenance intervals. The cost of the LTSA is estimated to be at least \$70 million, and may be higher depending on the outcome of ongoing negotiations, with payments made over the term of the LTSA.

In connection with the licensing of the 500-MW plant, the Authority has entered into an agreement which will require the closure of the Authority's existing Poletti Project no later than January 31, 2010 and possibly as early as 2009, and imposes restrictions on the Authority's fuel oil use at the existing Poletti Project and on the overall amount of potential generation that could be generated from the existing Poletti Project each year.

In October 2006, the Authority filed a complaint, in the Supreme Court, Albany County, against General Electric (GE) and five of its subcontractors in connection with the construction of the Authority's 500-MW plant. This action seeks to recover damages due to delays and cost overruns attributable to inadequate engineering and design services, and defective equipment provided by GE and its subcontractors. GE has asserted that it will seek recovery of damages it incurred due to delays in construction caused by the Authority. The Authority and GE have agreed to suspend pursuit of the lawsuit while attempts are made to resolve the dispute through mediation. Similar "stand still" agreements are being discussed with GE's co-defendants.

(7) Sound Cable Repair

The Iroquois Gas Transmission System, L.P. (Iroquois) contracted with Horizon Offshore Contractors, Inc. (Horizon) for the construction of a 24-inch diameter gas pipeline between Northport, Long Island, and Hunts Point, New York. It appears that on February 27, 2003, while working on the project, a barge owned by Horizon damaged one of the four underwater lines of the Authority's Sound Cable (the Cable) by dragging an anchor of the barge over the Cable line. The damaged portion of the Cable was located about two miles from New Rochelle, New York, in about 90 feet of water.

Under the terms of the Authority's contract with LIPA, the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair were \$17.8 million. The Authority is relying on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and is also seeking compensation from Horizon and other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance coverage in the amount of \$10 million, all of which has been paid to the Authority to help cover the costs of repair.

On August 15, 2003, the owners of the vessel which likely caused the damage to the Cable filed a pleading (later amended) which seeks to have the Texas Federal District Judge considering the matter exonerate and/or limit their liability to the value of the vessel and its contents. The Authority and LIPA were named as parties to this admiralty action due to their obvious interest in the relief sought. The parties are now involved in pretrial discovery. On October 14, 2004, the Authority and its insurer filed a motion seeking partial summary judgment against Iroquois on the question of Iroquois' legal obligation to indemnify the Authority for the damages it has incurred to repair the Cable. On May 12, 2005, the Magistrate issued a decision recommending that the motion for partial summary judgment filed by the Authority and its insurer be denied and on August 4, 2005, the District Court affirmed the Magistrate's ruling.

In the meantime, discovery has continued, and various parties filed several motions. Among them was (a) a renewed motion by NYPA and its insurer for partial summary judgment against Iroquois based on its indemnity obligation; (b) Iroquois' motion seeking dismissal of LIPA's damage claims; and (c) a motion by NYPA and others to increase the security posted by Horizon. Between August and November 2006, the Magistrate issued decisions (thereafter adopted by the District Court) denying NYPA's motion for partial summary judgment and granting Iroquois' motion for dismissal of LIPA's damage claim. LIPA has appealed that order. The Magistrate also granted NYPA's motion to increase security, ordering Horizon to post another \$10.5 million. The District Court has ordered the parties to submit a pretrial order by March 2, 2007, and scheduled a pretrial conference on March 9, 2007, at which time a trial date will likely be set.

(8) New York State Budget Matters and Other Issues

a. Section 1011

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. Several bills have been introduced into the State Legislature, some of 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 of 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.

b. Budget / Power for Jobs

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003, and 2004, provides that the Authority “as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund,” in connection with PFJ Program in an aggregate amount not to exceed \$275 million.

As part of the State Fiscal Year 2005-2006 budget bill enacted into law in April 2005, the Power for Jobs Program, including the PFJ Rebate provisions, was extended to December 31, 2006, and the Authority was authorized to make additional voluntary contributions to the State of \$75 million, with the cap on such contributions increasing to \$394 million.

In August 2006, the Governor signed into law legislation (Chapter 645 of the Laws of 2006) that (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2007; (2) authorizes the Authority to make an additional voluntary contribution of \$100 million to the State for the 2006-2007 fiscal year with the aggregate amount of such contributions remaining at \$394 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility. The August 2006 legislation also authorizes the Authority to waive payment of voluntary contributions to the State if sufficient funds for that purpose and PFJ Program and Energy Cost Savings Benefit Program purposes are not available, with any such waiver being subject to subsequent audit by the State Comptroller and State Division of Budget. The Governor’s Executive Budget for the State Fiscal Year 2007-2008 reflects the movement of the \$175 million in payments from the Authority scheduled for prior years into the Fiscal Year 2007-2008.

As of the December 31, 2006, the Authority had made voluntary contributions to the State totaling \$219 million. The Authority’s Trustees have not as of the date hereof authorized additional voluntary contributions but have taken the position that the total amount of Authority monies to be applied to the estimated cost of extensions of the Power for Jobs and Energy Cost Savings Benefit Programs and 2006-2007 State Fiscal Year voluntary contribution to the general fund be limited to an aggregate amount of \$100 million. Accordingly, the financial statements for the year ended December 31, 2006 reflect an accrued liability and charge against net revenues determined on that basis.

However, the ultimate decision as to the amount of the additional voluntary contributions made by the Authority will also be based on future events and the potential resolution of uncertainties regarding (1) possible further extensions of the current Power for Jobs and Economic Cost Savings Benefit programs, (2) the possible creation of new power programs based on the December 2006 recommendations of the Temporary Commission on the Future of New York State Power Programs for Economic Development, and (3) the possible related actions on the part of the State Legislature with regard to these items. In addition, prior to making any voluntary payment contemplated by Chapter 645, under the Authority’s general bond resolution the Authority must determine that the moneys applied to such voluntary payment are not needed for the payment of certain expenses or the funding of certain reserves specified in the general bond resolution. The Authority is unable to predict the ultimate outcome of the matters described above and it is possible that future net revenues will be impacted by their resolution.

c. Accountability Act and Other Issues

Legislation entitled “Public Authorities Accountability Act of 2005” (PAAA), which addresses public authority reform, was signed into law by the Governor in January 2006. The PAAA is effective for and applies to the Authority’s 2006 calendar year. The Authority’s current procedures include many of the practices and information submittals now required by PAAA including adoption of a code of ethics; filing of an annual report, independent audits by a certified public accounting firm; oversight by an audit committee; and the posting of key information on a website available to the general public. Other provisions including additional reporting requirements, accelerated filing of budgetary information; report certification by management; and the expanded role of the Board of Trustees are being addressed and the Authority expects to be in compliance with the PAAA on a timely basis. The PAAA also establishes a State Inspector General’s office and a public authority budget officer.

Effective March 29, 2006, the Office of the State Comptroller (OSC) issued regulations that are applicable in whole or in part to many public authorities in New York State, including the Authority. Among other things, the regulations require public authorities, including the Authority, to adhere to prescribed budgeting and financial plan procedures, certain financial reporting and certification requirements, and detailed investment guidelines and procedures, including obtaining the approval of the OSC before adoption of certain changes in accounting principles.

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the “2005 Act”) which amends 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 new 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, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and up to an additional 20 MW of unallocated St. Lawrence-FDR Project power 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 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. Initially, and through December 31, 2006, the ECS Benefits were available only for business customers served under the Authority’s High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. The ECS Benefits paid by the Authority in 2005 and 2006 from internal funds, as opposed to funds derived from the sale of hydroelectric power, was zero. In August 2006, legislation was enacted into law that extends the ECS Benefits through June 30, 2007 and also provides that the Authority make available for allocation to customers the 90 MW of hydropower that has been utilized as a source of funding the ECS Benefits. It is uncertain whether any ECS Benefits would be paid from Authority internal funds in the first half of 2007.

(9) St. Lawrence Relicensing

On October 23, 2003, the FERC issued to the Authority a new 50 -year license (New License) for the St. Lawrence -FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project, compliance with license conditions, and compliance with settlement agreements, for a period of 50 years will be approximately \$210 million, of which approximately \$ 148 million has already been spent or will be spent in the near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

(10) Niagara Relicensing

The Authority's original license for the Niagara Project expires on August 31, 2007. The Authority filed its application for a new, 50-year Niagara Project license with FERC on August 18, 2005.

The Authority currently expects that the costs associated with the relicensing of the Niagara Project for a period of 50 years will be at least \$495 million (2007 dollars), which does not include the value of the power allocations and certain operation and maintenance costs associated with the relicensing settlement agreements agreed to by the Authority. (See "Capital Asset and Long-Term Debt Activity" for a further description of the Niagara Project relicensing settlement agreements and costs.) The \$495 million figure includes \$50.5 million in administrative costs associated with the relicensing effort

In addition to internally generated funds, the Authority will issue additional debt obligations in the future to fund Niagara relicensing costs. The Authority believes that it will be feasible to collect in its rates for the sale of Niagara power amounts necessary to fund such relicensing costs.

(11) Advanced Clean Coal Power Plant Initiative

On September 1, 2006, as part of New York State's Advanced Clean Coal Power Plant Initiative, the Authority issued a non-binding request for proposals that solicited up to 600 MW of electric capacity and energy from one or more clean coal facilities that may be developed in the State by one or more private sector entities and which would be subject to one or more purchased power agreements with the Authority. On December 19, 2006, the Authority's Trustees, in response to proposals from four bidders, determined that NRG Energy, Inc. (NRG) was the highest evaluated bidder but that the pricing terms of NRG's bid (and the other highly evaluated bidders) were too high to be workably competitive for the Authority. The Trustees authorized the Authority to negotiate a strategic alliance with NRG, to explore approaches for bringing down the cost of the project and its output, including securing additional financial assistance, grants, or tax credits. The Trustees also conditionally awarded a power purchase agreement to NRG, contingent upon, among other things, the success of the strategic alliance and future Trustee approval. Depending on the success of the strategic alliance and other subsequent developments, Authority staff in the future may seek authorization from the Trustees to establish a clean coal initiative fund in the amount of \$50 million, to be financed by deposits of \$10 million per year for five years, which would be available to be awarded to NRG for the actual deployment of carbon sequestration technologies at the project.

(12) Natural Gas Contract

In 1990, the Authority entered into a long-term contract (Enron Contract) with Enron Gas Marketing, Inc., which was succeeded in interest by Enron North America Corp. (Enron NAC).

On November 30, 2001, pursuant to the terms of the Enron Contract, the Authority issued its notice of termination of the Enron Contract, with an effective termination date of December 14, 2001. On December 2, 2001, Enron Corp. and certain of its subsidiaries, including Enron NAC, filed for Chapter 11 bankruptcy protection. It appears from bankruptcy court filings that Enron NAC had listed the Enron Contract as one of its executory contracts.

By letter to the Authority dated February 12, 2003, counsel to Enron NAC asserted that the Authority's attempted termination of the Enron Contract was invalid and that the Authority owes Enron NAC a termination payment. In the letter, it was also asserted that the termination was invalid because of the intervening bankruptcy filing between the date that notice of termination was given by the Authority and the termination date. The letter also asserted that, even if the Enron Contract had terminated, Enron NAC should be entitled to a termination payment, notwithstanding the fact that the Enron Contract had no provision which would have allowed Enron NAC such a termination payment. The letter stated that "NYPA's failure to comply with its contractual provisions will force Enron to pursue its rights under the contract and the Bankruptcy Code."

By letter dated February 28, 2003, the Authority responded to Enron NAC's assertions by restating its view that the termination of the Enron Contract was valid and by asserting that no termination payment was due because the Enron Contract did not provide for such termination payment.

In a subsequent letter to the Authority dated March 21, 2003, counsel for Enron NAC proposed a reduction in Enron NAC's termination payment claim to settle the dispute. The Authority determined that it would not respond to this proposal.

On July 15, 2004, the Enron Contract was not included as an assumed executory contract in the reorganization plan for Enron Corp. and its subsidiaries confirmed by the bankruptcy court. By the terms of the reorganization plan, all contracts not assumed are deemed rejected. It should be noted that the disclosure statement filed in connection with the reorganization plan listed the Authority as a party against whom Enron NAC held a potential collection action for accounts receivable.

On December 8, 2006, counsel for Enron sent a letter to counsel for the Authority and presented a previously unasserted theory to the effect that the Authority's November 30, 2001 notice establishing a termination date for the Enron Contract constituted a violation of the automatic stay that was effective as of the filing of Enron's bankruptcy petition on December 2, 2001. Enron's counsel claimed the Authority's notice, which was dispatched on November 30, 2001, did not arrive at Enron's offices in Houston until after the time of the bankruptcy petition. Enron's counsel also demanded that the Authority provide access to the Authority's historical gas purchase records in order for an amount of damages to be ascertained.

Based on various sources including contemporaneous documentation, the Authority refuted Enron's factual assertions and rejected the request for access to business records. Enron's counsel has not replied to the Authority's response.

No formal action on this matter was commenced in the bankruptcy proceeding, and no litigation on this matter has yet been commenced. The Authority is unable to predict the outcome of the matter described above, but believes that the Authority has meritorious defenses or positions with respect thereto. The Authority is not involved in any transaction with Enron Corp. or any of its subsidiaries, except for the terminated gas contract and a small claim by the Authority against an Enron Corp. subsidiary for certain NYISO-related services provided by the Authority.

New York Power Authority
Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
For the Retiree Health Plan
(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)
1/1/06	\$0	\$301	\$301	0.0%	\$130	232%
1/1/04	0	279	279	0.0%	116	240%
1/1/02	0	271	271	0.0%	107	254%

KEY TO ABBREVIATIONS

A-C

AAL - Actuarial Accrued Liability
Act - Power Authority Act
ARO - Asset Retirement Obligation
ART Notes - Adjustable Rate Tender Notes
Authority - Power Authority of the State of New York or New York Power Authority
B-G -Blenheim-Gilboa Pumped Storage Power Project
CAS Projects Funds - Clean Air for Schools Projects Funds
Con Ed - Consolidated Edison Company of New York, Inc.
CP - Commercial Paper

D-H

DOE - U.S. Department of Energy
ECS Benefits - Energy Cost Savings Benefits
EDPAB - New York State Economic Development Power Allocation Board
EMCP - Extendible Municipal Commercial Paper
Entergy - as used herein refers to Entergy Nuclear FitzPatrick, LLC and Entergy Nuclear Indian Point 3, LLC, which are subsidiaries of Entergy Nuclear Inc.
FAS - Financial Accounting Standards
FASB - Financial Accounting Standards Board
FERC - Federal Energy Regulatory Commission
FFCB - Federal Farm Credit Bank
FHLB - Federal Home Loan Bank System
Flynn - Richard M. Flynn Power Plant
GAAP - Generally Accepted Accounting Principles
GAS - Governmental Accounting Standards
GASB - Governmental Accounting Standards Board
GNMA - Government National Mortgage Association, also known as Ginnie Mae

I-L

IP3 - Indian Point 3 Nuclear Power Plant
ISO - Independent System Operator
JAF - James A. FitzPatrick Nuclear Power Plant
KW - Kilowatt: 1,000 watts
KWh - Kilowatt-hour: a unit of electrical energy equal to one kilowatt of power supplied or taken from an electric circuit steadily for one hour. A kilowatt-hour is the amount of electrical energy necessary to light ten 100-watt light bulbs for one hour.
LIBOR - London Interbank Offered Rate
LILCO - Long Island Lighting Company
LIPA - Subsidiary of Long Island Power Authority used to acquire the transmission and distribution system of LILCO.
LISC - Long Island Sound Cable transmission facility

M-O

MD&A - Management's Discussion & Analysis
MDC - Maximum Dependable Capability
MW - Megawatt: 1,000,000 watts
NRC - U.S. Nuclear Regulatory Commission
NYC Governmental Customers – Governmental customers served by Authority that are located mainly in the City of New York that have signed long-term supplemental electricity supply agreements
NYISO - New York Independent System Operator
NYPA - New York Power Authority
O&M - Operations and Maintenance
OPEB - Other Postemployment Benefits

P-Z

PFJ Program - Power for Jobs program
POCR Funds - Petroleum Overcharge Restitution Funds
Poletti - Charles Poletti Power Project
PSC - New York State Public Service Commission
RTO - Regional Transmission Operator
SCPPs - Small, Clean Power Plants

March 27, 2007

Exhibit "7-B"
March 27, 2007

**New York Power Authority
Net Revenues - Actual vs. Budgeted
For the Year ended December 31, 2006
(\$ in 000s)**

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable/ (Unfavorable)</u>
Operating Revenues			
Customer	\$1,735,778	\$1,829,029	(\$93,251)
NYISO Market Revenues	<u>931,367</u>	<u>1,092,059</u>	<u>(160,692)</u>
	2,667,145	2,921,088	(253,943)
Operating Expenses			
Purchased Power:	1,066,621	1,290,802	224,181
Fuel Consumed - Oil & Gas	523,043	623,649	100,606
Wheeling	296,351	302,119	5,768
Operations & Maintenance	256,395	251,171	(5,224)
Other expenses	180,170	137,904	(42,266)
Depreciation & Amortization	<u>173,338</u>	<u>176,402</u>	<u>3,064</u>
	2,495,918	2,782,047	286,129
Net Operating Revenues	171,227	139,041	32,186
Investment Income	74,453	61,763	12,690
Interest and Other Expenses	108,609	114,874	6,265
Net Revenues	<u>\$ 137,071</u>	<u>\$ 85,930</u>	<u>\$ 51,141</u>

Net revenues for the year ended December 31, 2006 were \$137.1 million which was \$51.1 million higher than budgeted. This positive variance included higher net operating revenues (\$32.2 million), higher investment income (\$12.7 million) and a lower than budgeted interest expense (\$6.3 million) for the year. Operating expenses were \$286.1 million lower than anticipated primarily due to lower prices for purchased power and fuel consumed at the Authority's facilities. In addition, higher production at the Authority's hydro projects resulted in a reduction in volumes purchased to meet customer load requirements. These reductions were partially offset by a higher than anticipated estimated potential voluntary contribution to New York State's general fund for the State's 2006/7 fiscal year.

Operating revenues were \$253.9 million lower primarily due to lower than anticipated prices on market-based sales to the New York State ISO and lower average prices on sales to certain economic development and business customers. Investment income was higher than budgeted mainly due to higher than anticipated asset balances. Interest expense was lower than budgeted primarily due to lower rates on outstanding variable rate debt.

Net generation at the Authority's production facilities totalled 26.9 million megawatt-hours, which was 9% higher than the budget. This was primarily attributable to higher generation at the Authority's Niagara and St. Lawrence facilities (10%) due to higher than anticipated water flows. Production at the Authority's fossil fuel facilities also increased due to the operation of the new 500 mw plant in Astoria.

8. 2006 Annual Report on Investment of Authority Funds

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to review and approve the attached 2006 Annual Report on Investment of Authority Funds (Exhibit ‘8-A’).”

BACKGROUND

“Section 2925 of the Public Authorities Law requires the review and approval of an annual report on investments. Pursuant to the statute, the attached report includes Investment Guidelines that set standards for the management and control of the Authority’s investments, a summary of the Guidelines, the total investment income earned in 2006, a statement on fees paid for investment services, the results of an independent audit, a detailed inventory report for each of the Authority’s eight portfolios at December 31, 2006 and a summary of purchases from dealers and banks. The approved annual report is filed with the State Division of the Budget, with copies to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon written reasonable request.

DISCUSSION

“In 2006, the Authority’s investment portfolio averaged approximately \$772 million and earned approximately \$34 million. This level of earnings is \$9 million more than in 2005. The increase in investment earnings is due to an increase in the average size of the portfolio combined with higher re-investment rates in 2006. Income for the year from the Authority’s portfolios had an average yield of 4.50%, exceeding the Authority’s established performance measure by 41 basis points (41/100 of 1%). The performance benchmark for 2006 was the three-year rolling average yield of the two-year Treasury note plus an average of 90 basis points.

“At December 31, 2006, the portfolio consisted of 14% in direct obligations of the U.S. government; 4% in mortgages guaranteed by the U.S. government (‘GNMAs’); 68% in agencies of the U.S. government; 6% in Certificates of Deposit and Repurchase Agreements and 8% in Municipal Bonds.

“Investment management fees associated with the Nuclear Decommissioning Trust Fund, which is required to be managed by external managers, totaled \$740,441 in 2006.

“In connection with its examination of the Authority’s financial statements, Ernst & Young LLP performed tests of the Authority’s compliance with certain provisions of the Investment Guidelines, the State Comptroller’s Investment Guidelines and Section 2925 of the Public Authorities Law. Ernst & Young LLP’s report, a copy of which is attached as Exhibit ‘8-B,’ states that the results of its examination disclosed no instances of noncompliance by the Authority. Consequently, staff believes the Authority is in compliance with the Investment Guidelines, the State Comptroller’s Investment Guidelines and Section 2925 of the Public Authorities Law.

“The Investment Guidelines and procedures have not been amended since last presented and approved by the Trustees at their meeting of May 23, 2006. They remain fundamentally sound and meet the requirements of the Authority. Furthermore, these Guidelines continue to meet the requirements of Section 2824 (1)(e) of the Public Authorities Accountability Act of 2005, which requires the Authority’s Trustees to establish written policies and procedures with respect to investments.

RECOMMENDATION

“The Treasurer recommends that the Trustees approve the attached 2006 Annual Report on Investment of Authority Funds.

“The Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Vice President – Finance and I concur in the recommendation.”

March 27, 2007

Mr. McElroy presented the highlights of staff's recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. McElroy said that the Guidelines attached as an exhibit are the ones that were approved by the Trustees at their meeting of May 23, 2006.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the 2006 Annual Report on Investment of Authority Funds be, and hereby is, approved; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

**2006 Annual Report on
Investment of Authority Funds**

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Section II	Explanation of the Investment Guidelines
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Section V	Summary of Dealers and Banks from Which Securities Were Purchased

Section I

New York Power Authority Guidelines for the Investment of Funds

I. General

These Guidelines for the Investment of Funds (the “Guidelines”) are intended to effectuate the applicable provisions of the General Resolution Authorizing Revenue Obligations, adopted February 24, 1998 (the “Resolution”), the lien and pledge of which covers all accounts and funds of the Authority and that governs the Authority's existing policies and procedures concerning the investment of funds as contained in these Guidelines. In a conflict between the Guidelines and the Resolution, the latter shall prevail. In addition, these Guidelines are intended to effectuate the provisions of Section 2925 of the New York State Public Authorities Law.

II. Responsibility for Investments

The Treasurer and Deputy Treasurer have the responsibility for the investment of Authority funds under the general supervision of the Executive Vice President and Chief Financial Officer. The Treasurer shall ensure that an operating manual is maintained that provides a detailed description of procedures for maintaining records of investment transactions and related information.

III. Investment Goals

The Treasurer and Deputy Treasurer are responsible for maximizing the yield on investments consistent with requirements for safety, liquidity and minimization of risk. Monies will not be invested for terms in excess of the projected use of funds.

IV. Authorized Investments

A. Monies in funds established pursuant to the Resolution shall be invested in Authorized Investments or Authorized Certificates of Deposit, defined as follows:

“Authorized Investments” shall mean:

1. Direct obligations of or obligations guaranteed by the United States of America or the State of New York;
2. Bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Financing Bank, Federal Home Loan Mortgage Corporation and

Federal Home Loan Banks, Federal Housing Administration, Federal Farm Credit Banks Funding Corporation, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks or any other agency controlled or supervised by and acting as an instrumentality of the United States government;

3. Obligations of any state of the United States of America or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision that shall be rated at the time of the investment in any of the three highest long-term Rating Categories, as such term is defined in the Resolution, or the highest short-term Rating Category by a Rating Agency, as such term is defined in the Resolution.
4. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America; or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided that such Bonds or Notes are guaranteed by the United States of America.

“Authorized Certificate of Deposit” shall mean a certificate of deposit authorized by the Resolution as an “Authorized Investment.”

B. The Authority, as an issuer of tax-exempt obligations, must not engage in any arbitrage practice prohibited by the arbitrage regulations promulgated under the Internal Revenue Code. In no event shall Authority funds be invested in a manner that would violate the provisions of such arbitrage regulations.

V. Provisions Relating to Qualifications of Dealers and Banks

- A.1. The purchase and/or sale of Authorized Investments shall be transacted only through banks, trust companies or national banking associations (herein collectively termed “Banks”) that are members of the Federal Reserve System and government security dealers (herein termed “Dealers”), which are Banks and Dealers reporting to, trading with and recognized as primary dealers by the Federal Reserve Bank of New York. A list of authorized Banks and Dealers shall be maintained. Banks and Dealers shall have demonstrated an ability to:
 - a) offer superior rates or prices on the types and amounts of securities required;
 - b) provide a high degree of attention to the Authority's investment objectives; and
 - c) execute trades in a timely and accurate manner.

- A.2. Authorized Investments may also be purchased or sold through minority- and women-owned firms authorized to transact business in the U.S. government and municipal securities markets. Such qualified firms shall demonstrate the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- A.3.A. Municipal securities qualifying as Authorized Investments may also be purchased or sold through any municipal bond dealer registered in the State of New York that demonstrates the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- B. Authorized Certificates of Deposit and time deposits (“Time Deposits”) shall be purchased directly from Banks that:
 - (1) are members of the Federal Reserve System transacting business in the State of New York;
 - (2) have capital and surplus aggregating at least \$50 million; and
 - (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- C. Authorized Investments purchased by the Authority or collateral securing its investments shall be deposited only with custodians designated by the Authority. Such custodians shall be Banks that are members of the Federal Reserve System transacting business in the State of New York.
- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business and (3) delivery instructions for the safekeeping of investments.
- E. The Authority shall enter into a written contract with any (1) Dealer from which Authorized Investments are purchased subject to a repurchase agreement and (2) Bank from which Authorized Certificates of Deposit are purchased.

VI. General Policies Governing Investment Transactions

- A. Competitive quotations or negotiated prices shall be obtained except in the purchase of government securities at their initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and/or Banks, except as indicated above, and the most favorable quote accepted. The Treasurer or Deputy Treasurer may waive this requirement on a single-transaction basis only if warranted by market conditions and documented in writing.
- B. Authorized Investments purchased shall be either delivered to the Authority's designated custodian or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, recorded in the Authority's name or in the name of a nominee agent or custodian designated by the Authority on the books of the Federal Reserve Bank of New York or the Depository Trust Company. Payment shall be made to the

Dealer or Bank only upon receipt by the Authority's custodian of (1) the securities or (2) in the case of securities held in a book-entry account, written advice or wire confirmation from the Federal Reserve Bank of New York or the Depository Trust Company that the necessary book entry has been made.

- C. Each purchase or sale of Authorized Investments or Authorized Certificates of Deposit shall be authorized by the Treasurer or Deputy Treasurer. Investment orders may be placed by Authority employees as designated by the Treasurer. The custodian shall have standing instructions to send a transaction advice to the Authority's Controller for purposes of comparison with internal records. The Controller shall advise the Treasurer of any variances, and the Treasurer shall ensure appropriate corrections are provided.

VII. Policies Concerning Certain Types of Investment Diversification Standards Required

A. Authorized Certificates of Deposit and Time Deposits

1. Authorized Certificates of Deposit and Time Deposits shall be purchased directly from a Bank in the primary market.
2. Authorized Certificates of Deposit and Time Deposits shall be continuously secured/collateralized by Authorized Investments defined in subsection (1) or (2) of Section IV.A., having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such Certificates of Deposit or Time Deposits. Such Authorized Investments shall be segregated in a separate custodian account on behalf of the Authority. Collateral pledged for Certificates of Deposit or Time Deposits held as investments shall be market valued (marked to market) not less than once per week.
3. Investments in Authorized Certificates of Deposit or Time Deposits shall not exceed 25% of the Authority's invested funds. The par value of Authorized Certificates of Deposit purchased from any one Bank shall not exceed \$25 million.

B. Repurchase Agreements

The Authority may from time to time elect to enter into arrangements for the purchase and resale of Authorized Investments (known as "Repurchase Agreements"). This type of investment transaction shall be used only when there is no other viable, short-term investment alternative.

1. A Repurchase Agreement shall be transacted only with a Dealer or Bank qualified to sell Authorized Investments to the Authority that is recognized by the Federal Reserve Bank as a primary dealer.

2. Authorized Investments purchased subject to a Repurchase Agreement shall be marked to market daily to ensure their value equals or exceeds the purchase price.
3. A Repurchase Agreement shall be limited to a maximum fixed term of five business days. Payment for the purchased securities shall be made against delivery to the Authority's designated custodian (which shall not be a party to the transaction as seller or seller's agent) or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, written advice that the securities are recorded in the Authority's name or in the name of a nominee, agent or custodian designated by the Authority on the books of the Federal Reserve Bank or the Depository Trust Company.
4. No more than \$50 million of Authorized Investments shall be purchased under a Repurchase Agreement with any one Dealer or Bank. This requirement may be waived by the Vice President – Finance on a single-transaction basis only if warranted by special circumstances and documented in writing.
5. The aggregate amount invested in Repurchase Agreements may not exceed the greater of 5% of the investment portfolio or \$100 million. The Executive Vice President and Chief Financial Officer may waive this requirement on a single-transaction basis only if warranted by cash-flow requirements and documented in writing.
6. The Authority may not enter into arrangements (known as Reverse Repurchase Agreements) for the purpose of borrowing monies by pledging Authorized Investments owned by the Authority.

VIII. Review

These Guidelines and any proposed amendments shall be submitted for Trustee review and approval at least once a year.

In addition to the Authority's periodic review, the Authority's independent auditors, in connection with their examination of the Authority, shall perform an annual audit of the investment portfolio, review investment procedures and prepare a report, the results of which will be made available to the Trustees.

IX. Reports

- A. The Treasurer shall submit an investment report to the Trustees, at least quarterly. Such report shall contain a (1) detailed description of each investment; (2) summary of the dealers and banks from which such securities were purchased and (3) a list of fees, commissions or other charges, if any, paid to advisors or other entities rendering investment services.
- B. The Treasurer shall submit an annual report for approval by the Trustees. In addition to the information provided quarterly, the Annual Report shall include (i) a copy of the Guidelines; (ii) an explanation of the Guidelines and any amendments thereto since the last annual report; (iii) the results of an annual independent audit of investment inventory and procedures and (iv) a record of income earned on invested funds. The approved report shall be submitted to the State Division of the Budget with copies distributed to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. Copies shall be made available to the public upon written reasonable request.
- C. Any waivers that occurred during the prior month shall be reported to the Executive Vice President and Chief Financial Officer.

X. Miscellaneous

- A. These Guidelines are intended for guidance of officers and employees of the Authority only, and nothing contained herein is intended or shall be construed to confer upon any person, firm or corporation any right, remedy, claim or benefit under, or by reason of, any requirement or provision thereof.
- B. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.
- C. No provisions in these Guidelines shall be the basis of any claim against any Trustee, officer or employee of the Authority in his or her individual or official capacity or against the Authority itself.

Section II

EXPLANATION OF INVESTMENT GUIDELINES

Section II Responsibility for Investments

Establishes responsibility for the Investment of Authority Funds and limits the number of individuals authorized to place investment orders.

Section III Investment Goal

Establishes the policy that earning a reasonable return on investments must be consistent with standards set for minimization of risk and availability of funds when needed.

Section IV Authorized Investments

Details the types of investments the Authority can undertake as prescribed in Section 101 of the Resolution.

This section also requires that investments made in each of the Funds established under the Resolution be invested for a term commensurate with cash-flow expectations and that such investments not violate the arbitrage regulations of the Internal Revenue Code.

Section V Provisions Relating to Qualifications of Dealers and Banks

Establishes criteria for the selection of banks and dealers from which the Authority may buy or sell investments. Business is transacted with firms that have demonstrated financial strength and a high degree of reliability with respect to servicing the Authority's needs. This section also directs that custody of Authority investments be maintained by banks that are members of the Federal Reserve System transacting business in the State of New York.

This section also addresses the subject of contracts with banks and dealers for the purchase or sale of Authorized Investments. The Authority has written Letters of Agreement with authorized dealers that specify the types of securities in which the Authority may invest and identify those Authority individuals authorized to give instructions related to the purchase and sale of securities. In addition, the Authority shall have a written form of agreement for use in repurchase transactions with any authorized dealer with which the Authority may transact this type of investment.

Section VI General Policies Governing Investment Transactions

Requires that the Authority solicit no less than three bids for the purchase or sale of securities in order to ensure the most favorable rate except when securities are purchased at their initial auction, upon new issue or through negotiated prices.

Requires that the Authority or its custodian, prior to payment, take possession of such securities, or in the case of book-entry securities, obtain written advice or wire confirmation that transfer or ownership has been recorded.

Establishes authorized employees to approve the purchase or sale of securities.

Establishes control procedures whereby the Controller shall compare the custodian's confirmation to Authority records.

Section VII Policy Concerning Certain Types of Investment Diversification Standards Required

Establishes a policy concerning the purchase of Authorized Certificates of Deposit and Time Deposits intended to minimize the risk associated with such transactions. Authorized Certificates of Deposit or Time Deposits may be purchased directly from a bank that is a member of the Federal Reserve System transacting business in the State of New York. Such deposits shall be continuously secured by Authorized Investments as outlined in subsection (1) or (2) of Section IV.A. This collateral shall be regularly priced to current market to assure the Authority's security interest is continuously protected. Aggregate holdings of Authorized Certificates of Deposit shall not exceed 25% of the Authority's total investment. Authorized Certificates of Deposit purchased from any one bank shall not exceed \$25 million.

Establishes a policy intended to minimize the risk associated with arrangements for the purchase and resale of Authorized Investments known as Repurchase Agreements ("Repos"). Repos purchased from any one qualified dealer or bank shall not exceed \$50 million and shall be limited to a maximum fixed term of five business days. Aggregate investments in Repos shall not exceed the greater of 5% of the Authority's total investments or \$100 million. All securities purchased under the terms of a Repo shall be held in safekeeping by a designated custodian for the Authority. Such securities shall be priced to market on a daily basis to assure the Authority's security interest. Reverse Repurchase Agreements are not authorized transactions.

Section VIII Review

Establishes policy requiring review of the Guidelines at least once a year. Requires an annual audit by the Authority's independent auditors of the Authority's investment portfolio and compliance with the guidelines established by the Authority and the State Comptroller.

Section IX Reports

Establishes policy requiring submission of reports to the Authority's Trustees concerning the management and performance of the Authority's portfolio.

This Section also requires that an annual report be submitted for approval by the Authority's Trustees. Copies of the approved report shall be sent to the State Division of the Budget, Office of the State Comptroller, Senate Finance Committee and Assembly Way and Means Committee.

Section III

A. Investment Income Record

During 2006, the Authority's investment portfolio averaged approximately \$772 million and earned approximately \$34 million.

The earnings, by fund, were as follows (dollars in millions):

Operating Fund	\$29
Capital/Construction Funds	4
Other (Energy Con./Note Res.)	1
Total	<u>\$ 34</u>

The 2006 investment income is \$9 million more than in 2005. The average size of the portfolio increased by \$49 million in 2006. The increase in the size of the portfolio, combined with higher re-investment rates in 2006, accounts for the increase in earnings.

B. Fees Paid for Nuclear Decommissioning Trust Fund Investment Services

\$319,803	Blackrock Financial Management, Inc.
\$327,247	Tattersall Advisory Group, Inc.
\$ 93,391	The Bank of New York

Investment management fees were paid by the Nuclear Decommissioning Trust Fund. By Nuclear Regulatory Commission mandate, the Trust is beyond the Authority's administrative control and is therefore not part of this Annual Report.

C. Results of the Annual Independent Audit

In connection with its examination of the Authority's financial statements, Ernst & Young, LLP, performed tests of the Authority's compliance with certain provisions of the Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Ernst & Young LLP's report, a copy of which is attached as Exhibit "8-B," states that the results of its examination disclosed no instances of noncompliance by the Authority. Consequently, staff believes the Authority is in compliance with the Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law.

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

EY ERNST & YOUNG LLP

Power Authority of the State of New York
White Plains, New York

We have audited the financial statements of the Power Authority of the State of New York (the Authority), as of and for the year ended December 31, 2006, and have issued our report thereon dated February 16, 2007. We have also audited the Statement of Investments as of and for the year ended December 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the standards for financial and compliance audits contained in the *Investment Guidelines for Public Authorities*, issued by the Office of the State Comptroller of the State of New York; and the investment guidelines established by the Authority.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated February 16, 2007.

This report is intended solely for the information and use of the Audit Committee, management and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

5 Times Square
New York, NY 10036

February 16, 2007

9. Annual Review and Approval of Guidelines and Procedures for the Disposal of Personal Property, Guidelines and Procedures for the Disposal of Real Property and the 2006 Annual Reports of the Disposal of Personal and Real Property

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to review and approve the following two Guidelines, which comply with the requirements of the Public Authorities Accountability Act (‘PAAA’) of 2005: (1) Guidelines and Procedures for the Disposal of Personal Property (hereinafter ‘Personal Property Guidelines’) for the disposition of surplus or obsolete material, equipment and supplies and (2) Guidelines and Procedures for the Disposal of Real Property (hereinafter ‘Real Property Guidelines’) for transfers of land or interests in land. Such Guidelines are set forth in Exhibits ‘9-A’ and ‘9-B,’ respectively, as attached hereto. The Trustees are also requested to review and approve the 2006 Annual Reports of the Disposal of Personal and Real Property, as set forth in Exhibits ‘9-A1’ and ‘9-B1,’ respectively, as attached hereto.

BACKGROUND

“On January 13, 2006, Governor Pataki signed the PAAA into law. The subject law codified the Model Governance Principles established for public authorities in 2004 by the Governor’s Advisory Committee on Authority Governance, which was chaired by Ira Millstein. Among its provisions, the PAAA established new rules for the disposal of public authority real property, as well as the disposal of personal property owned by public authorities. The law also required each authority to draft guidelines consistent with the legislation dealing with these issues, to review and approve such guidelines annually, and to prepare an annual report of the disposal of personal and real property (including the full description, price received and name of the purchaser for all such property disposed of by the Authority during such period).

DISCUSSION

“In order to comply with the PAAA, staff drafted the Guidelines set forth in Exhibits ‘9-A’ and ‘9-B,’ which were approved by the Authority’s Trustees at their meeting of March 28, 2006.

“The Personal Property Guidelines set forth the methodology detailing the Authority’s policy and procedures regarding the use, award, monitoring and reporting of contracts for the disposal of personal property, and designate a Contracting Officer responsible for the Authority’s compliance with, and enforcement of, such Guidelines.

“Staff has reviewed the Personal Property Guidelines and recommends the following changes:

- (i) Modify Section XI, ‘Authorization Levels,’ to eliminate reference to original contract price and instead base approval of disposition of personal property on fair market value. Since personal property to be disposed of will include original plant equipment and materials, in some cases purchased as long as 50 years ago, information regarding original contract price is not always available. The PAAA requires fair market valuation of personal property to be disposed of, and therefore it is appropriate to base internal management approval of such disposition on fair market valuation.
- (ii) Modify Section II.D, ‘Fair Market Value,’ to include appraisals as a method by which the fair market value may be determined, since obtaining an appraisal is also a common method for determining the fair market value of property.
- (iii) Modify Section VI.B.2.a to specifically list methods such as the New York State Contract Reporter and internet services typically used for advertising for bids to

promote full and free competition consistent with the value and nature of the personal property.

- (iv) Modify Section XII.A to eliminate the reference to the definition of 'fair market value,' as it is a previously defined term.
- (v) Modify Section X to reflect the requirements of Governor Spitzer's Executive Order Nos. 1 and 2 relating to politics and nepotism in contracting matters.

"The Real Property Guidelines set forth the methodology Authority will use in the following specific areas:

- Maintaining inventory of the real property interests owned or under the jurisdiction of the Authority.
- Disposing of such interests when they become surplus to the Authority's needs.
- Making annual reports of such transactions.
- Designating an Authority representative ('Contracting Officer') responsible for implementing such guidelines.

"Staff has reviewed the Real Property Guidelines and recommends that Section V be modified to reflect the requirements of Governor Spitzer's Executive Order Nos. 1 and 2 relating to politics and nepotism in contracting matters.

"Such Guidelines and corresponding Annual Reports will be reviewed annually and approved by the Trustees on or before the 31st day of March and will be filed with the State Comptroller, the Director of the Budget, the Commissioner of General Services and the State Legislature, as well as being posted on the Authority's website.

FISCAL INFORMATION

"There will be no financial impact on the Authority.

RECOMMENDATION

"The Vice President – Procurement and Real Estate and the Director – Real Estate recommend that the Trustees approve the Guidelines and Procedures for the Disposal of Personal Property for the disposition of surplus or obsolete material, equipment and supplies; the Guidelines and Procedures for the Disposal of Real Property for transfers of land and the corresponding 2006 Annual Reports of the Disposal of Personal and Real Property, as set forth in Exhibits '9-A' and '9-A1' and '9-B' and '9-B1,' respectively.

"The Executive Vice President and General Counsel, the Executive Vice President – Corporate Services and Administration, the Vice President – Internal Audits and Corporate Compliance and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the provisions of the Public Authorities Accountability Act of 2005, the Authority hereby reviews and approves the Guidelines and Procedures for the Disposal of Personal Property and the Guidelines and Procedures for the Disposal of Real Property, as amended and set forth in Exhibits "9-A" and "9-B," respectively, and attached hereto; and be it further

March 27, 2007

RESOLVED, That pursuant to the provisions of the Public Authorities Accountability Act of 2005, the Authority hereby reviews and approves the 2006 Annual Reports for the Disposal of Personal and Real Property, as set forth in Exhibits “9-A1” and “9-B1,” respectively, and attached hereto; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

Exhibit "9-A"
March 27, 2007

GUIDELINES

AND

PROCEDURES

FOR THE

DISPOSAL OF PERSONAL PROPERTY

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GUIDELINES AND PROCEDURES
FOR THE
DISPOSAL OF PERSONAL PROPERTY

I. **PURPOSE**

These Guidelines and Procedures for the Disposal of Personal Property (hereinafter “Guidelines”), which comply with the applicable provisions of Title 5-A, Article 9 of the Public Authorities Law, establish the procedures which detail the Authority’s policy and instructions regarding the use, award, monitoring and reporting of the disposal of personal property. In addition, the Guidelines designate a Contracting Officer who shall be responsible for the Authority’s compliance with, and enforcement of, the Guidelines.

II. **DEFINITIONS**

- A. “Contracting Officer” shall mean the officer or employee of a public authority who shall be appointed by resolution of the Authority’s Board of Trustees to be responsible for the disposition of personal property. The “Contracting Officer” is hereby designated to be the Vice President - Procurement & Real Estate, or a designee so stated in writing.
- B. “Dispose” or “disposal” shall mean transfer of title or any other beneficial interest in personal property in accordance with these Guidelines.

- C. "Property" shall mean personal property owned by the Authority, and any other interest in such property, to the extent that such interest may be conveyed to another person for any purpose, excluding an interest securing a loan or other financial obligation of another party. For the purposes of these Guidelines, personal property includes, but is not limited to, materials, tools, equipment, or vehicles which are not expected to be of any future use to the Authority, i.e., typically surplus or obsolete materials and supplies.
- D. "Fair Market Value" shall mean the estimated dollar amount that a willing buyer would pay to a willing seller for the material in an arms-length transaction in the appropriate marketplace. Fair Market Value may be determined by consulting industry-recognized sources, contacting original suppliers, depreciation analysis, appraisals, or other methods, as may be approved by the Vice President – Procurement & Real Estate.
- E. "Family Member" is defined in Section X.F.2. of these Guidelines.

III. OBJECTIVE

The objective of these Guidelines is to identify those Authority personnel responsible for authorizing the disposal of Property owned by the Authority and to insure that the Authority receives fair and reasonable value for such Property. The transfer or sale of Property shall be accounted for in accordance with the Authority's Corporate Accounting Policy No. CAP 4.3 dated 6/30/05, Revision 2 -- "Accounting for Materials and Supplies."

IV. TRANSACTIONS NOT COVERED

These Guidelines shall not apply to any of the following transactions:

1. Disposal of real property interests
2. Exchange of Property with other utilities or power plant owners, where such owners will provide an identical or in-kind replacement.
3. Disposal of rubbish or scrap materials, contracts for which are subject to the Authority's Guidelines for Procurement Contracts.
4. Transfer/re-deployment of Property from one Authority facility to another Authority facility.

V. DESIGNATION OF PROPERTY DISPOSAL COORDINATORS AND DISPOSAL OPTIONS

- A. The Contracting Officer (hereinafter referred to as the Vice President – Procurement & Real Estate) shall be responsible for the Authority's compliance with, and enforcement of, the Guidelines.
- B. The overall disposal coordinator of all Property at the Authority's operating facilities shall be the Facilities Materials Superintendent ("FMS") currently located at the Clark Energy Center. The FMS reports organizationally directly to the Vice President – Procurement & Real Estate.
- C. The Purchasing and Warehouse Manager from each Operating Facility will function as the local Property Disposal Coordinator for his or her facility or location ("Facility PDC"). The Facility PDC reports to the FMS.

- D. The Vice-President - Procurement & Real Estate shall designate an individual from the White Plains office's Procurement Division to function as the Property Disposal Coordinator for the White Plains, Albany and New York corporate offices ("WPO PDC"). The WPO PDC will confer and interface with the Vice President – Procurement & Real Estate.
- E. For the purposes of these Guidelines, disposal options include, but are not limited to: sale (directly to the Buyer, through a third party or on a centralized basis); return to the original equipment manufacturer or to the source; trade-ins; or disposal through the New York State Office of General Services ("OGS"). Use of the internet, in conjunction with the foregoing options, may also be utilized, as applicable. The Authority's Environment, Health and Safety Division shall be consulted, on a case-by-case basis, regarding disposal of those items that may be potentially considered to be hazardous waste.
- F. The Facility PDC shall confer with the FMS to determine if a "centralized" sale of Property, as outlined in Section VII, is being planned. If agreed, the Facility PDC shall arrange for shipment of the property to be sold from the facility to the location of the sale. If no sale is being planned, the Facility PDC shall proceed in accordance with the "decentralized" procedures, as outlined in Section VIII.

VI. BIDDING PROCEDURES

The responsible PDC shall cause the solicitation of proposals from at least 5 bidders, whenever practicable, for the purchase of the Property to be sold, whatever its

estimated Fair Market Value, and shall maintain records of his or her solicitations. Attachment “A” is appended hereto and shall be utilized by the PDC for soliciting proposals.

A. FOR PERSONAL PROPERTY VALUED AT \$15,000 OR LESS

Telephone notices and/or mailings may be used where the estimated Fair Market Value of the Property to be disposed of is equal to or less than \$15,000. All bids must be submitted in writing on the forms and in the manner prescribed by this procedure and by the date and time (the “Bid Due Date”) included in the solicitation.

B. FOR PERSONAL PROPERTY IN EXCESS OF \$15,000 IN VALUE

1. All disposals or contracts of Authority Property to be disposed of in excess of \$15,000 in value shall be made after publicly advertising for bids except as provided in paragraph 3 below.
2. Whenever public advertising for bids is required under paragraph 1:
 - a. the advertisement for bids (Attachment “B” is appended hereto and shall be utilized for all such advertisements) shall be made at such time prior to the disposal or contract, through such methods, and on such terms and conditions as shall permit full and free competition consistent with the value and nature of the Property. Typically, this will include advertisements in one or more of the following publications, depending on the nature of the property: local newspapers at the facility where the sale is taking place, trade

journals, regional or nationwide publications (if the market for such sale is a regional or nationwide one), the New York State Contract Reporter or internet services;

- b. all bids must be submitted in writing on the forms and in the manner prescribed by this procedure and by the Bid Due Date included in the solicitation;
- c. all bids shall be publicly disclosed, by posting on the Authority's website accessible to the public, at the time and place stated in the advertisement; and
- d. the award shall be made with reasonable promptness by notice to the responsible bidder whose bid, conforming to the invitation for bids, will be most advantageous to the Authority, price and other factors considered; provided, that all bids may be rejected when it is in the public interest to do so.

3. Disposals and contracts for disposal of property may be negotiated or made by public auction without regard to paragraphs 1 and 2 above, but subject to obtaining such competition as is feasible under the circumstances, if:

- a. the Property involved is of a nature and quantity which, if disposed of under paragraphs 1 and 2 of this subdivision, would adversely affect the state or local market for such Property, and the estimated Fair Market Value of such Property and other satisfactory terms of disposal can be obtained by negotiation;

- b. bid prices after advertising therefore are not reasonable, either as to all or some part of the Property, or have not been independently arrived in open competition;
 - c. the disposal will be to the state or any political subdivision, and the estimated Fair Market Value of the Property and other satisfactory terms of disposal are obtained by negotiation;
 - d. the disposal is for an amount less than the estimated Fair Market Value of the Property, the terms of such disposal are obtained by public auction or negotiation, the disposal of the Property is intended to further the public health, safety or welfare or an economic development interest of the state or a political subdivision (to include but not be limited to, the prevention or remediation of a substantial threat to public health or safety, the creation or retention of a substantial number of job opportunities, or the creation or retention of a substantial source of revenues, or where the Authority's enabling legislation permits), and the purpose and the terms of such disposal are documented in writing and approved by Authority's Board of Trustees; or
 - e. such action is otherwise authorized by law.
4. An explanatory statement shall be prepared of the circumstances of each disposal by negotiation of any Property which has an estimated Fair Market Value in excess of fifteen thousand dollars. In addition, an explanatory statement shall be prepared of the circumstances of each

disposal by negotiation of any property disposed of by exchange, regardless of value. Each such statement shall be transmitted to the Commissioner of General Services, the State Legislature, the State Comptroller, and the Division of the Budget, not less than ninety days in advance of such disposal, and a copy thereof shall be preserved in the Authority's files.

C. **DISPOSAL OPTIONS IF NO BIDS ARE RECEIVED**

If bidding pursuant to paragraphs VI.A. and VI.B. does not result in the submittal of proposals to purchase the Property from the Authority, or if all such proposals received are less than the Authority's Fair Market Value estimate, the appropriate PDC shall confer with the FMS and the Vice President – Procurement & Real Estate to decide (i) if re-bidding is feasible; (ii) if shipment to a third-party contractor would result in higher-priced proposals; (iii) if disposal by other methods would be appropriate; and/or (iv) if the Fair Market Value estimate requires review and possible adjustment.

VII. CENTRALIZED DISPOSAL

A. Subject to the approval of the Vice President - Procurement & Real Estate, Property may be disposed of using any of the following methods:

1. Shipment of the material to a third-party vendor(s), selected by competitive bidding, which, pursuant to these Guidelines, will market the material for sale or dispose of such material in accordance with environmental and any other Authority requirements.

2. Consolidation of such Property at one of the Authority's facilities or an offsite warehouse for the purpose of conducting a sale to be managed by Authority staff, possibly with the assistance of an outside contractor.
3. Participation in auctions at other utility company facilities (e.g., Con Edison, National Grid (formerly Niagara Mohawk), NYSEG).

VIII. DECENTRALIZED DISPOSAL

- A. The Regional Manager, Project Manager, or head of a Department or Division requiring disposal of Property which he or she believes to be surplus, shall submit to the appropriate PDC a written description of the material, with the original price (if known), and estimate of the material's Fair Market Value (if available). If practical, a photograph of the material or equipment in question should be provided. Such submission shall be made to the PDC designated at the location at which the Property is located, the responsible PDC.
- B. If the responsible PDC, in conference with the FMS, determines that other Authority facilities may have an interest in the material, a notice shall be sent to the other Authority facilities advising them of its availability and requesting a response within a specified time frame. A record of the notice shall be maintained by the responsible PDC. In the event that the PDC and FMS conclude that there would be no interest in such material at other Authority facilities, a written explanation should be prepared by the PDC to that effect and maintained in the file for that transaction.

- C. If no response to the notice is received, the responsible PDC shall arrange for the solicitation of bids for the purchase of such Property in accordance with the procedures described in Section VI.

IX. PARTIES PROHIBITED FROM BIDDING

- A. All current and former employees of the Authority and relatives of such employees or third parties acting on behalf of such employees shall not be eligible to bid for the purchase of such Property and are prohibited from subsequently acquiring it in any manner. Each bidder will be required, as part of his or her bid, to certify, by signing Attachment "B", that he or she is not a current or former employee of the Authority, is not related to any current or former employee of the Authority and is not acting on behalf of a current or former employee of the Authority or a relative of any such employee. No bid will be accepted unless accompanied by such certification.
- B. The term "related to" as used in paragraph A above means the relationship of spouse, child, parent, sister, brother, grandparent, grandchild, aunt, uncle, cousin, niece, nephew, stepchild, stepparent, stepsister, stepbrother, mother-in-law, father-in-law, sister-in-law, brother-in-law, daughter-in-law or son-in-law.

X. EVALUATION OF PROPOSALS; AWARD OF CONTRACT

- A. Following the receipt of proposals for the property, the responsible PDC shall evaluate the proposals submitted and determine whether the highest of such proposals is reasonable, given the estimate of the Fair Market Value of the

Property.

- B. If the responsible PDC determines that the highest of such bids is reasonable, the responsible PDC shall recommend to the Responsible Officer(s), as hereinafter defined in Section IX, that such bid be accepted, and upon the written approval of the Responsible Officer(s), the sale shall be made to the person offering such proposal. Appended as Attachment "C" is a Sales Agreement which must be executed, after obtaining all necessary approvals in accordance with Section XI "Authorization Levels", by the responsible PDC, FMS or VP – Procurement & Real Estate and the successful bidder prior to completion of the transaction.
- C. If either (a) the responsible PDC determines that the highest of such bids is not reasonable or (b) the Responsible Officer(s) decline(s) to authorize the sale, the Property shall, except as provided in paragraph D below, be retained for future disposal in accordance with these procedures. Factors to be considered in determining whether a bid is reasonable include, but are not limited to: adequacy of the estimate of the Fair Market Value, anticipated improved future market conditions, potential for other means of disposal or redeployment, financial viability of the bidder, and condition of Property.
- D. Notwithstanding any determination by the responsible PDC, the Responsible Officer(s), with the review and approval of the Vice President - Procurement & Real Estate, may direct the sale of the Property to the person or firm submitting the highest bid.
- E. No individual who is involved in the award of Authority grants or contracts, may ask any officer or director of such current or prospective contractor or

grantee to reveal: (a) the party affiliation of the individual; (b) whether the individual or entity has made campaign contributions to any party, elected official, or candidate for elective office; or (c) whether the individual or entity voted for any elected official or candidate for elective office.

1. Any violation of this section E may result in disciplinary action up to and including termination.

F. No Authority employee may take part in any contracting decision: (i) relating to a Family Member; or (ii) relating to any entity in which a Family Member owns or controls 10% or more of the stock of such entity. If a contracting matter arises relating to a Family Member, then the employee must advise his or her supervisor of the relationship, and must be recused from any and all discussions or decisions relating to the matter.

1. Any violation of this section F may result in disciplinary action up to and including termination.

2. For purposes of this section F, the term "Family Member" shall mean any person living in the same household as the Authority employee or any person related to the employee within the third degree of consanguinity or affinity to the Authority employee (e.g., the employee's spouse, child, parent, sibling, half-sibling or step-relative in the same relationship; the spouse of the employee's child, parent, sibling, half-sibling or step-relative; the employee's in-laws, aunt, uncle, niece, nephew, grandparent, grandchild or first cousin.

G. Restrictions E and F above also apply to procurements which are governed by the Authority's Procurement Guidelines.

XI. AUTHORIZATION LEVELS

A. For the purposes of these procedures, the Responsible Officer(s) shall in each case review the appropriateness of the Fair Market Value estimate and the recommendation for contract award for disposal of the Property. Responsible Officers are designated as follows:

1. The Trustees, if the Fair Market Value of the Property is greater than \$1,000,000; or
2. The President or the Chief Operating Officer, if the Fair Market Value of the Property is greater than \$500,000 but less than \$1,000,000; or
3. The Executive Vice President – Corporate Services & Administration, if the Fair Market Value of the Property is greater than \$250,000 but not greater than \$500,000; or
4. The Vice President - Procurement & Real Estate, if the Fair Market Value of the Property is greater than \$50,000 but not greater than \$250,000; or
5. The FMS, if the Fair Market Value of the Property is greater than \$5,000 but not greater than \$50,000; or
6. With the prior written approval of FMS, the Purchasing & Warehouse Manager, if the Fair Market Value of the Property is \$5,000 or less.

XII. OTHER METHODS FOR DISPOSAL OF PERSONAL PROPERTY

A. Trade-Ins

This procedure is not intended to restrict the trade-in of equipment (i.e., computer or office equipment), materials, and/or vehicles for replacements from dealers furnishing replacement equipment, materials, and/or vehicles, where reasonable value can be obtained for the trade-in. Any such proposed trade-in must be included as part of the solicitation of bids for the replacement equipment, materials and/or vehicles and the trade-in value must be stated in the proposals from solicited bidders. No trade-in shall be made unless the value of the trade-in is equal to or exceeds the Fair Market Value.

B. Return to the Original Equipment Manufacturer (“OEM”) or to the Source

Return of materials to the OEM or the source is permissible provided that the Authority receives full value for any materials equal to the price paid by the Authority. In the event a re-stocking fee is charged by the OEM or the source, the FMS and Vice President – Procurement & Real Estate shall be consulted to determine if such a re-stocking fee is reasonable and if there are other opportunities for sale of such material. The Vice President – Procurement & Real Estate must approve all returns to the OEM or the source when a re-stocking fee is charged, subject to the Authorization Levels delineated in Section XI.

C. Disposal through the New York State Office of General Services (OGS)

When it is determined to be advantageous to the Authority, the Authority may enter into an agreement with OGS for OGS to dispose of Authority-owned Property, including but not limited to use of on-line disposal methods by OGS. In addition, in accordance with New York State law, surplus computers and accessories (monitors and keyboards) and surplus office furniture and other equipment may, with the approval of the Vice President - Procurement & Real Estate, may be transferred to OGS for disposition, and in the case of computers and accessories to school districts located near Authority operating and headquarters' facilities, or in the case of office furniture and office equipment, to other state agencies. Disposal of these items in this manner represents the best value to New York State in lieu of attempted re-sale of such materials.

XIII. METHODS OF PAYMENT

The proceeds from the sale of Property in the form of cash or a certified check made payable to the Authority shall be forwarded to the Authority's Treasurer by the Facility PDCs and to the Authority's Controller's Office by the FMS and WPO PDC. In certain cases involving a transfer of Property to other state agencies or authorities, the performance of documented services to the Authority equal to or greater in value to the Fair Market Value of the Property, will serve as payment for such Property. The authorization limits of Section XI shall apply to such transactions.

XIV. REPORTING REQUIREMENTS

- A. The Authority shall publish, not less frequently than annually, a report of all Property disposed of during the reporting period, including the full description, price (if any) received and the name of the purchaser for all such Property disposed of by the Authority during such period. Such report shall be prepared in conjunction with the report required by the Authority's "Guidelines and Procedures for the Disposal of Real Property."
- B. Such report, as approved by the Trustees, shall be submitted to the Comptroller, the Director of the Budget, the Commissioner of General Services and the Legislature.
- C. These Guidelines, as approved by the Trustees, shall be reviewed and approved annually by the Authority's Board of Trustees. On or before the thirty-first day of March in each year, the Authority shall file with the Comptroller a copy of the Guidelines most recently reviewed and approved by the Trustees, including the name of the Authority's designated Contracting Officer. At the time of filing such Guidelines with the Comptroller, the Authority shall also post such Guidelines on the Authority's internet website and maintain such Guidelines on the website.
- D. For disposal by negotiation or exchange (except when an identical or in-kind replacement is provided to the Authority) an explanatory statement shall be prepared and submitted to the parties described more fully in Paragraph VI.B.4.

BID SHEET

The following personal property is available for sale "AS IS, WHERE IS" and the Power Authority gives no warranty whatsoever as to its condition.

LUMP SUM BID AMOUNT* \$ _____

Subject to all terms and conditions set forth on the reverse hereof, the undersigned offers and agrees to purchase the above-described personal property at the bid amount indicated.

Signature

Company Name

Name (Printed)

Street Address

Date

City, State, Zip Code

FAX number

Telephone number

* All sales are subject to New York State Sales Tax and Compensating Use Tax unless the Purchaser furnishes the Authority with an exemption certificate.

PERSONAL PROPERTY SALE
SALE NO. _____
NEW YORK POWER AUTHORITY
(ADDRESS OF PROJECT)
Telephone: () _____
FAX: () _____

Subject to the terms and conditions stated below, bids will be received on the personal property, either by mail, fax or hand delivery at the (Location) _____ no later than (Date) _____.

The personal property is available for inspection, by appointment, at the (Project) _____
_____. For an appointment, please contact the Property Disposal Coordinator, (Name) _____
_____ at (Telephone no.) _____.

Successful bidders will be required to pay by certified check, on notice from the Authority that the bid has been accepted, and remove the personal property from the Authority's premises within ten (10) calendar days after receipt of notice of award.

Envelopes containing bids submitted by mail should be marked on the outside to indicate that a bid on Sale No. ____ is enclosed.

Current and former employees of the Power Authority or relatives of such employees or third parties acting on behalf of such employees or relatives are ineligible to bid and are prohibited from subsequently acquiring such personal property in any manner.

1. **INSPECTION.** Bidders are invited, urged and cautioned to inspect the personal property being sold prior to submitting a bid. The personal property will be available for inspection at the time and place specified above. In no case will failure to inspect constitute grounds for the withdrawal of a bid after opening.
2. **CONDITION OF PROPERTY.** All personal property listed is offered for sale "AS IS, WHERE IS". The Authority does not in any way warrant the fitness of the personal property for any particular use or its merchantability and disclaims any other representations or warranties, express or implied, including, but not limited to, quality, character, performance or condition of the personal property or any of its component parts, assemblies, or accessories.
3. **CONSIDERATION OF BIDS.** Bids must be submitted in writing on the form provided by the Authority (see reverse side) and shall be submitted on all items listed. The Authority reserves the right to reject any and all bids, to waive technical defects in bids and to award sale of the items as may be in the best interest of the Authority.
4. **PAYMENT.** The Purchaser agrees to pay for the awarded personal property in accordance with the prices quoted in his/her bid. Payment of the full purchase price must be made within the time allowed for removal, and prior to the release of any personal property to the Purchaser.
5. **NEW YORK STATE SALES AND COMPENSATING USE TAX.** All sales will be subject to New York State Sales and Compensating Use Tax unless the Purchaser furnishes the Authority with an exemption certificate.

ADVERTISEMENT FOR PROPOSALS

The following described personal property, shall be sold "AS IS, WHERE IS" by the New York Power Authority ("the Authority").

1. Sealed bids are invited for the above, which will be available for inspection by inquiry at the (Location/Building) at the (Project and Address) between the hours of _____ a.m. to ___ p.m. on (Date/s). Bids must be submitted on the Authority's bid form, which can be obtained by calling (Telephone no.). No bid will be accepted unless it is on such form. Bids shall be accepted on or before ___ p.m. on (Date).
2. Current and former employees of the Authority or relatives of such employees or third parties seeking to act on behalf of such employees or relatives shall be ineligible to bid.
3. Successful bidders, on notice from the Authority, shall be required to pay by certified check and shall promptly remove the personal property from the Authority's property.
4. The Authority reserves the right to reject any and all bids.

**PERSONAL PROPERTY
SALES AGREEMENT**

_____, the Buyer, and the Power Authority of the State of New York ("the Authority"), agree as follows:

- 1) The personal property identified herein is sold by the Authority and purchased by Buyer "AS IS, WHERE IS" at the price(s) shown, plus any applicable sales tax.
- 2) **THE AUTHORITY DOES NOT IN ANY WAY WARRANT THE FITNESS OF THE PERSONAL PROPERTY FOR ANY PARTICULAR USE OR ITS MERCHANTABILITY AND DISCLAIMS ANY OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED INCLUDING, BUT NOT LIMITED TO, THE QUALITY, CHARACTER, PERFORMANCE, OR CONDITION OF THE PERSONAL PROPERTY OR ANY OF ITS COMPONENT PARTS, ASSEMBLIES, OR ACCESSORIES.**
- 3) The Bidder warrants that he/she/it is not a current or former Authority employee, is not related to an Authority employee and did not bid on behalf of an Authority employee. Bidder is aware that Authority employees and their family members are precluded from subsequently receiving, or acquiring, in whole or in part, by any manner including gift, sale, loan or lease, the personal property acquired by the Bidder pursuant to this sale. The term "related to" as used in this paragraph means the relationships of spouse, child, parent, sister, brother, grandparent, grandchild, aunt, uncle, cousin, niece, nephew, stepchild, stepparent, stepsister, stepbrother, mother-in-law, father-in-law, sister-in-law, brother-in-law, daughter-in-law, or son-in-law. The Authority reserves the right to invoke any available legal or equitable remedy in the event of a breach by the Bidder of his or her warranty under this paragraph, including but not limited to, rescinding the sale and recovering the property sold and all costs associated with the sale and the rescission of said sale.
- 4) The Buyer shall indemnify and hold harmless the Authority and all of its officers, agents and employees from any loss, damage, remedial or response cost, liability or expense, on account of damage or contamination to property and injuries, including death, to all persons, including Buyer's employees, or any third parties, arising or in any manner growing out of the sale of any personal property or the performance of any work under this agreement and shall defend at its own expense any suits or other proceedings brought against the Authority and its officers, agents and employees, or any of them, on account thereof, and pay all expenses and satisfy all judgments which may be incurred by or rendered against them or any of them in connection therewith.
- 5) The Buyer shall remove the personal property from the Authority's premises by _____ at Buyer's expense. The Buyer shall make payment upon delivery by certified check payable to the New York Power Authority.

Description of Personal Property:

Selling Price: _____

Executed this _____ day of _____, 20 _____.

Buyer (Print or Type):

Seller:

Power Authority of the State of New York
123 Main Street
White Plains, New York 10601

Authorized Signature

Authorized Signature

Full Name (Printed)

Title

Title

POWER AUTHORITY OF THE STATE OF NEW YORK

2006 ANNUAL REPORT OF DISPOSAL OF PERSONAL PROPERTY OVER \$5,000

<u>DESCRIPTION</u>	<u>PURCHASER</u>	<u>AMOUNT RECEIVED</u>
WIGGINS WC1064 FORKLIFT	ERIC FRYE	\$ 5,500.00
1996 EAGER BEAVER TRAILER	JAMES LINDALE	\$ 6,200.00
1992 MORBARK 303 VERTICAL MOWER	ED MARANUK – MARANUK TRUCKS	\$ 6,200.00
1996 FORD F350 TRUCK	LEONID KAPLUN – NEW ORBIT AUTO	\$ 6,300.00
1985 INTERNATIONAL 1854 AERIAL LIFT	CRAIG SAGON – SAGON TRUCK	\$ 9,000.00
1997 ROTOBEC VTS172 TRACK MOWER	SAMUEL BATTAGLIA – MCGREW EQUIP	\$11,000.00
1993 GMC TOPKICK AERIAL LIFT	CRAIG SAGON – SAGON TRUCK	\$27,000.00
1993 BOMBARDIER GO TRACK GT3000 TRACK DIGGER DERRICK	RICHART THUT – MIRK, INC.	\$85,000.00
B/G STEP-UP TRANSFORMER	TCI, INC.	\$165,000.00
TRANSFER OF BEEHCRAFT AIRPLANE (KING AIR B-200)	NEW YORK STATE POLICE	Payment <u>waived</u>
	TOTAL	\$321,200.00

Exhibit "9-B"
March 27, 2007

GUIDELINES

AND

PROCEDURES

FOR THE

DISPOSAL OF REAL PROPERTY

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GUIDELINES AND PROCEDURES FOR THE DISPOSAL OF REAL PROPERTY

I. PURPOSE

The purpose of these Guidelines and Procedures for the Disposal of Real Property (“Guidelines”), which comply with the applicable provisions of Title 5-A, Article 9 of the Public Authorities Law, is to establish the procedures which detail the Authority’s operative policy and instructions regarding the disposal of real property and designate a Contracting Officer who shall be responsible for the Authority’s compliance with, and enforcement of, such Guidelines.

II. DEFINITIONS

2.1 “Contracting Officer” shall mean the officer or employee of the Authority who shall be appointed by resolution of the Authority’s Trustees to be responsible for the disposition of real property. The “Contracting Officer” is hereby designated to be the Vice President - Procurement & Real Estate, or a designee so stated in writing.

2.2 For the purposes of these Guidelines, “dispose” or “disposal” shall mean transfer of title or any other beneficial interest in real property in accordance with these Guidelines.

- 2.3 For the purposes of these Guidelines, “real property” shall mean real property, including land, owned by the Authority, and any other interest in such real property, to the extent that such interest may be conveyed to another person or entity for any purpose, excluding an interest securing a loan or other financial obligation of another party.
- 2.4 For purposes of these Guidelines, the term “Family Member” is defined in Section 5.10.2.

III. CONTROLLING LEGISLATION

The Public Authorities Accountability Act of 2005 (PAAA) requires the Authority to establish policy guidelines to accomplish the following:

- 3.1 Maintain inventory controls and accountability systems for all real property under the Authority’s control.
- 3.2 Periodically inventory Authority real property to determine which real property shall be disposed of.
- 3.3 Dispose of Authority real property interests in accordance with the PAAA.
- 3.4 Prepare annual reports of real property disposal transactions.

IV. DUTIES OF THE DIRECTOR OF REAL ESTATE

- 4.1 The Director of Real Estate shall maintain adequate inventory controls and accountability systems for all real property under the Authority’s control.

- 4.2 The Director of Real Estate shall annually inventory Authority real property to determine which Authority real property shall be disposed of and shall prepare a report identifying such real property for disposal.
- 4.4 The Directory of Real Estate shall produce for publishing written reports of such real property as set forth in Section VI of these Guidelines.
- 4.5 The Director of Real Estate shall arrange for the transfer or disposal of any real property identified for disposal by the Authority in accordance with these Guidelines and the Authority's Expenditure Authorization Procedures and as soon as reasonably practical under the circumstances.

V. DISPOSITION OF REAL PROPERTY

- 5.1 The Authority may dispose of real property for not less than the fair market value of such real property by sale, exchange, or transfer, for cash, credit or other property, without warranty, and upon such other terms and conditions as the Contracting Officer deems proper under the provisions of the PAAA and as implemented by these Guidelines. Fair market value of the Authority real property subject to disposal shall be established by an independent appraiser. Such appraisal report shall be included in the record of the real property disposal transaction.
- 5.2 Except as set forth in Section 5.3 of the Guidelines, any disposal of real property with a fair market value in excess of fifteen thousand dollars (\$15,000.00) shall only be made after publicly advertising for bids in accordance with the following:
- (i) the advertisement for bids shall be made at such time prior to the disposal or contract, through such methods, and on such terms and conditions as shall permit full and free competition consistent with the value and nature of the real property;

- (ii) all bids shall be publicly disclosed at the time and place stated in the advertisement; and
- (iii) the award shall be made with reasonable promptness by notice to the responsible bidder whose bid, conforming to the invitation for bids, will be most advantageous to the Authority, price and other factors considered; provided, that all bids may be rejected when it is in the public interest to do so.

5.3 The disposal of Authority real property may be negotiated or made by public auction without regard to Section 5.2 but subject to obtaining such competition as is feasible under the circumstances, if:

- (i) the fair market value of the real property does not exceed fifteen thousand dollars (\$15,000.00);
- (ii) bid prices after advertising therefore are not reasonable, either as to all or some part of the real property, or have not been independently arrived at in open competition;
- (iii) the disposal will be to the state or any political subdivision, and the estimated fair market value of the real property and other satisfactory terms of disposal are obtained by negotiation;
- (iv) the disposal is for an amount less than the estimated fair market value of the real property, the terms of such disposal are obtained by public auction or negotiation, the disposal of the real property is intended to further the public health, safety or welfare or an economic development interest of the state or a political subdivision (to include but not limited to, the prevention or remediation of a substantial threat to public health or safety, the creation or retention of a substantial number of job opportunities, or the creation or retention of a substantial source of revenues, or where the Authority's enabling legislation permits), and the purpose and the terms of such disposal are documented in writing and approved by the Authority's Trustees; or
- (v) such action is otherwise authorized by law.

5.4 An explanatory statement detailing the disposal by negotiation of Authority real property subject to the PAAA as set forth in Section 5.3 shall be made for any disposal of:

- (i) Real property with a fair market value in excess of one hundred thousand dollars (\$100,000.00) except that real property disposed of by lease or exchange shall only be subject to (ii) through (iv) of this Section 5.4;
- (ii) Real property leased for a term of five years or less, if the estimated fair annual rent exceeds one hundred thousand dollars (\$100,000.00) for any of such years;
- (iii) Real property leased for a term of more than five years if total estimated rent over term is in excess of one hundred thousand dollars (\$100,000.00); and
- (iv) Any real property or real and related personal property disposed of by exchange, regardless of value, or any property any part of the consideration is for real property:

5.5 Each explanatory statement prepared in accordance with Section 5.4 above shall be transmitted to the State Comptroller, the Director of the Budget, the Commissioner of General Services, and the State Legislature not less than 90 days in advance of such disposal, and a copy shall be kept by the Authority.

5.6 In the Authority's discretion, when it shall be deemed advantageous to the Authority and the State, the Authority may enter into an agreement with the Office of the Commissioner of General Services (OGS) under which such OGS may dispose of the Authority's real property under terms and conditions agreed to by the Authority and the OGS. In disposing of any such real property of the Authority, the OGS shall be bound by the relevant provisions of the PAAA.

5.7 The Guidelines shall not apply to any transfers of jurisdiction by the Authority pursuant to Public Lands Law §3(4).

5.8 The Director of Real Estate shall provide all relevant documentation to the Environmental Division for the purposes of determining, if applicable, whether the disposal of real property is in compliance with the State Environmental Quality Review Act, and for whether it adheres to the ASTM's guidelines for Environmental Site Assessments, if applicable.

5.9 No individual who is involved in the award of Authority grants or contracts, may ask any officer or director of such current or prospective contractor or grantee to reveal: (a) the party affiliation of the individual; (b) whether the individual or entity has made campaign contributions to any party, elected official, or candidate for elective office; or (c) whether the individual or entity voted for any elected official or candidate for elective office.

5.9.1 Any violation of this section 5.9. may result in disciplinary action up to and including termination.

5.10 No Authority employee may take part in any contracting decision: (i) relating to a Family Member; or (ii) relating to any entity in which a Family Member owns or controls 10% or more of the stock of such entity. If a contracting matter arises relating to a Family Member, then the employee must advise his or her supervisor of the relationship, and must be recused from any and all discussions or decisions relating to the matter.

5.10.1 Any violation of this section 5.10. may result in disciplinary action up to and including termination.

5.10.2 For purposes of this section 5.10, the term "Family Member" shall mean any person living in the same household as the Authority employee or any

person related to the employee within the third degree of consanguinity or affinity to the Authority employee (e.g., the employee's spouse, child, parent, sibling, half-sibling or step-relative in the same relationship; the spouse of the employee's child, parent, sibling, half-sibling or step-relative; the employee's in-laws, aunt, uncle, niece, nephew, grandparent, grandchild or first cousin.

5.11 Restrictions 5.9 and 5.10 above also apply to procurements which are governed by the Authority's Procurement Guidelines.

VI. ANNUAL REPORTS BY AUTHORITY

6.1 The Director of Real Estate shall publish the following two separate reports in accordance with these Guidelines:

- (i) Pursuant to Section 2800 of the Public Authorities Law, the Director of Real Estate shall furnish a report for incorporation in the Authority's annual report which is distributed to the Governor, the Senate Finance Committee, the Assembly Ways and Means Committee, and the State Comptroller. This report shall include: (a) a listing of all Authority real property having an estimated fair market value greater than fifteen thousand dollars (\$15,000.00) that the Authority intends to dispose of; (b) a listing of all real property having an estimated fair market value greater than fifteen thousand dollars (\$15,000.00) intended for disposal but still owned by the Authority at the end of the fiscal reporting period; and (c) a listing of all real property having an estimated fair market value greater than fifteen thousand dollars (\$15,000.00) disposed of during the fiscal reporting period including the name of the purchaser of the real property and the price paid for the real property.
- (ii) Pursuant to Public Authorities Law § 2896(3)(a), the Director of Real Estate shall prepare for distribution to the State Comptroller, the Director of the Budget, the Commissioner of General Services, and the State Legislature, an annual report which shall consist of a

list and full description of all real property disposed of during such the fiscal reporting period. This annual report shall include the price received by the Authority and the name of the purchaser of the real property.

VII. APPROVAL OF GUIDELINES BY THE AUTHORITY'S BOARD

7.1 The Guidelines shall be annually reviewed and approved by the Authority's Trustees. On or before the thirty-first day of March in each year, the Authority shall file with the State Comptroller a copy of the most recently reviewed and approved Guidelines, including the name of the Authority's designated Contracting Officer. At the time of filing such Guidelines with the State Comptroller, the Authority shall also post such Guidelines on its internet website.

VIII. REFERENCES

- 8.1 Chapter 766 of the Laws of 2005
- 8.2 Public Lands Law §3 (4)

POWER AUTHORITY OF THE STATE OF NEW YORK

2006 ANNUAL REPORT OF DISPOSAL (CONVEYANCE) OF REAL PROPERTY OVER \$15,000 IN VALUE

<u>Current Owner's Name</u>	<u>Surplus Parcel Acres</u>	<u>Appraisal Value</u>	<u>Deed Filed in County Clerk</u>
Lalone's Point, LLC	6.91	\$20,700.00	11/17/2006
Town of Lisbon	4.61	\$1.00 P.W.	9/15/2006
Town of Lisbon	1.37	\$1.00 P.W.	10/23/2006
Town of Massena	16.908	\$1.00 P.W.	9/14/2006
Town of Massena	22.741	\$1.00 P.W.	9/15/2006
Town of Massena	6.029	\$1.00 P.W.	9/15/2006
Town of Massena	4.231	\$1.00 P.W.	9/15/2006
Village of Waddington	0.932	\$1.00 P.W.	1/05/2007
Village of Waddington	0.578	\$1.00 P.W.	1/05/2007
Village of Waddington	0.066	\$1.00 P.W.	1/05/2007
Village of Waddington	0.727	\$1.00 P.W.	1/05/2007
Village of Waddington	1.187	\$1.00 P.W.	1/05/2007
Village of Waddington	0.241	\$1.00 P.W.	1/05/2007
Village of Waddington	1.259	\$1.00 P.W.	1/05/2007

POWER AUTHORITY OF THE STATE OF NEW YORK

2006 ANNUAL REPORT OF DISPOSAL (CONVEYANCE) OF REAL PROPERTY OVER \$15,000 IN VALUE
COMMENCED BUT NOT COMPLETED IN 2006

<u>Current Owner's Name</u>	<u>Appraisal Value</u>	<u>Surplus Parcel Acres</u>
Jonathan O. Dean	\$13,800.00	6.92
Robinson F. Dean	\$15,200.00	7.59
John Bartlett and Linda Bartlett	\$27,200.00	10.89
George W. and Dacie Clements Agricultural Research	\$16,700.00	4.9
Town of Waddington	\$1.00 P.W.	9.376
Town of Waddington	\$1.00 P.W.	5.135
Town of Waddington	\$1.00 P.W.	1.929
Town of Waddington	\$1.00 P.W.	0.53
Town of Waddington	\$1.00 P.W.	0.386
Town of Waddington	\$1.00 P.W.	0.623
Town of Waddington	\$1.00 P.W.	0.749
Town of Waddington	\$1.00 P.W.	1.67
Village of Lisbon	\$1.00 P.W.	22.28
Lowell F. Putney	\$32,000.00	15.59

POWER AUTHORITY OF THE STATE OF NEW YORK

**2006 ANNUAL REPORT OF DISPOSAL (CONVEYANCE) OF REAL PROPERTY OVER \$15,000 IN VALUE
COMMENCED BUT NOT COMPLETED IN 2006**

<u>Current Owner's Name</u>	<u>Appraisal Value</u>	<u>Surplus Parcel Acres</u>
Town of Waddington	\$1.00 P.W.	11.61
Town of Waddington	\$1.00 P.W.	0.669
Town of Louisville	\$1.00 P.W.	5.65
Town of Louisville	\$1.00 P.W.	2.835
Town of Louisville	\$1.00 P.W.	0.455
Town of Louisville	\$1.00 P.W.	0.063
Town of Waddington	\$1.00 P.W.	1.919
Town of Waddington	\$1.00 P.W.	6.455
Town of Waddington	\$1.00 P.W.	33.09
Town of Waddington	\$1.00 P.W.	34.762
Town of Louisville	\$1.00 P.W.	4.788
Town of Louisville	\$1.00 P.W.	25.65
Village of Waddington	\$1.00 P.W.	2.255
Town of Waddington	\$1.00 P.W.	6.914

**10. Procurement (Services) Contracts –
Business Units and Facilities – Awards**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the award and funding of the multiyear procurement contracts listed in Exhibit ‘10-A’ for the Authority’s Business Units/Departments and Facilities. Detailed explanations of the nature of such services, the bases for the new awards if other than to the lowest-priced bidders and the intended duration of such contracts are set forth in the discussion below.

BACKGROUND

“Section 2879 of the Public Authorities Law and the Authority’s Guidelines for Procurement Contracts require the Trustees’ approval for procurement contracts involving services to be rendered for a period in excess of one year.

“The Authority’s Expenditure Authorization Procedures (‘EAPs’) require the Trustees’ approval for the award of non-personal services, construction or equipment purchase contracts in excess of \$3,000,000, as well as personal services contracts in excess of \$1,000,000 if low bidder, or \$500,000 if sole source or non-low bidder.

DISCUSSION

“The terms of these contracts will be more than one year; therefore, the Trustees’ approval is required. Except as noted, all of these contracts contain provisions allowing the Authority to terminate the services for the Authority’s convenience, without liability other than paying for acceptable services rendered to the effective date of termination. Approval is also requested for funding all contracts, which range in estimated value from \$6,996 to \$7,150,000. Except as noted, these contract awards do not obligate the Authority to a specific level of personnel resources or expenditures.

“The issuance of multiyear contracts is recommended from both cost and efficiency standpoints. In many cases, reduced prices can be negotiated for these long-term contracts. Since these services are typically required on a continuous basis, it is more efficient to award long-term contracts than to re-bid these services annually.

Contracts in Support of Business Units/Departments and Facilities:

Business Services

“In November 2006, the Trustees authorized staff to enter into negotiations for the execution of long-term supply agreements with Hudson Transmission Partners, LLC and FPL Energy, LLC. Using these agreements, the Authority intends to provide capacity and energy to its New York City Governmental Customers following the anticipated shutdown of its Poletti plant in 2010. The agreements will involve the Authority’s active participation in the Pennsylvania/New Jersey/Maryland (‘PJM’) Interconnection marketplace, committees and working groups. To support contract negotiations, the Authority will need to use outside experts with knowledge of PJM markets to advise the Authority and to protect its and its customers’ interests. Such expertise will be used to evaluate the impact of PJM rules and relevant Federal Energy Regulatory Commission (‘FERC’) proceedings on contract provisions and future operations. To this end, nine firms were invited to submit proposals; four proposals were received and evaluated. Three of the four responding bidders did not demonstrate the same level of depth, expertise and extensive experience as **Levitan & Associates, Inc. (‘LAI’)**, specifically with respect to such key areas as export of capacity and energy to neighboring markets and transmission arrangements involving new transmission spanning two neighboring Independent System Operator (‘ISO’) markets/regions. In addition, one such bidder with less relevant experience in PJM governance and operational issues, as well as relevant FERC rulings, submitted higher pricing than LAI. Furthermore, LAI has extensive recent experience with the aforementioned and other relevant PJM issues, as well as with negotiating contracts involving transmission, energy and capacity between two

neighboring ISO regions, due to its recent and ongoing similar work for the Long Island Power Authority. Based on the foregoing reasons, staff recommended award of the subject contract to LAI, the most technically qualified bidder with reasonable pricing. Due to the need to commence services, the contract with **LAI (Q02-3982; 4600001771)** became effective on March 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. Such consulting services are needed to support anticipated capacity and transmission rights contract negotiations with potential developers for execution of long-term supply agreements. The intended term of this contract is up to three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$1,500,000.

"At their meeting of December 19, 2006, the Trustees authorized Authority staff to initiate the establishment of a trust for employee benefits other than pension benefits by establishing the parameters of a trust; developing investment guidelines; soliciting bids for a financial consultant, investment manager(s) and trustee and such other related services as may be necessary. To this end, staff prepared a Request for Proposals (**Q02-3973**) for financial management consulting services in connection with Other Post-Employment Benefits ('OPEB'). Bid documents were downloaded electronically from the Authority's Procurement website by seven firms, including those that may have responded to a notice in the New York State Contract Reporter. One proposal was received and evaluated. Based on its qualifications and experience, staff recommended award of the subject contract to **PFM Asset Management, LLC ('PFM')**, the sole responding bidder that was determined to be well qualified to serve in this capacity. Due to the need to commence services, the contract with PFM (**4600001764**) became effective on February 14, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The consultant will assist the Authority in developing trust investment policies and guidelines, recommending asset allocation, selecting investment managers and a trust custodian; providing oversight of the trust; investment managers and performance reporting and any other services required to manage trust investments. The consultant may also be requested, from time to time, to perform special analytical work or provide advice with respect to investment or other asset management issues of particular import to the Authority. The intended term of this contract is up to five years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$640,000. (It should be noted that only up to \$140,000 will be committed to and charged against the contract in SAP; the remaining tiered oversight fees, to be capped at \$100,000 per year, will be paid directly from the trust.)

"In 2003, the Authority implemented a program of managed network security monitoring services, in response to mandates by the North American Electric Reliability Council ('NERC') and the Federal Energy Regulatory Commission ('FERC'), as well as an internal study on network security vulnerability. Services include, but are not limited to, providing managed security monitoring of the Authority's essential computer network assets on a 7x24x365 basis and implementing a system to monitor, diagnose, notify, interpret and report important system events throughout the network. The vendor will monitor and correlate system, audit and event logs and alerts to detect irregular activity and identify unauthorized behavior, malicious hacks and denials of service, including insider attacks and anomalies and trend analyses. Since existing contracts for such services were expiring and since there is an ongoing need for such services, staff sought proposals (**Q02-3911**) for the award of new contracts. To this end, bid documents were downloaded electronically from the Authority's Procurement website by 54 firms, including those that may have responded to a notice in the New York State Contract Reporter. Twelve proposals were received and evaluated: (1) all 12 proposals were first scored on six basic criteria (experience, company attributes, monitoring service, monitoring personnel, implementation and reporting), and the six lowest-scored proposals based on technical merit were eliminated from further consideration; (2) the remaining six proposals were then reviewed based on costs, which eliminated the three highest-priced proposals in this group; (3) the remaining three bidders were invited to make presentations to the Authority, affording each firm the opportunity to explain in detail its functional abilities and technical qualifications, as well as follow up at question-and-answer sessions. (It should be noted that these three vendors were the lowest-priced bidders of the original 12.) Based on the foregoing, staff recommended the award to the lowest-priced bidder (a partnered proposal submitted by NitroSecurity/Secure Works Holding Inc./LURHQ) that is qualified to perform such services and was determined by staff to offer the best technical solution with the most functionality. For administrative purposes, two contracts were awarded: one to **Secure Works Holding Inc. / LURHQ ('LURHQ'; 4500137400)** to provide network managed security and monitoring services, and a second to **Nitro Security, Inc. (4500134239)** to provide maintenance services for software and hardware on the network monitoring equipment (procured under a separate contract). Due to the need to commence services, the contract with Nitro Security became effective on December 22, 2006 (but actual services

will commence upon successful installation of the hardware, currently projected for the end of March 2007) and the contract with LURHQ became effective on March 2, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The intended term of these contracts is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of each contract, \$218,860 for LURHQ and \$59,300 for Nitro Security.

"Due to the need to commence services, the contract with **Veolia ES Technical Solutions, LLC ('Veolia'; Q02-3927; 460001762)** became effective on February 21, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for asset management and recycling services for the Authority's used electronic equipment. Services include pick-up, loading, transport, reselling and/or recycling of surplus electronic equipment, including but not limited to cathode ray tubes, computer monitors, central processing units, typewriters, calculators, keyboards, Universal Power Supply units, etc. Bid documents were downloaded electronically from the Authority's Procurement website by 16 firms, including those that may have responded to a notice in the New York State Contract Reporter. Four proposals were received and evaluated. The two highest-priced proposals were not evaluated further. Based on a site audit performed by the Authority's Environment, Health and Safety ('EH&S') Division staff, the lowest-priced bidder's proposal was deemed to be unacceptable. EH&S staff also conducted a site audit of the Veolia facility and found it to be qualified and operating in compliance with its permit; the facility also has the capability to recycle mercury on site, has its own transportation vehicles and a New York State transporter's permit, carries \$15 million in pollution liability insurance, has the ability to track the equipment by serial number and electronically and has a good compliance record. Based on the foregoing, staff recommended award of the subject contract to Veolia, the lowest-priced qualified bidder. The intended term of this contract is approximately four years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$100,000.

Corporate Services and Administration

"The contract with **Bennett Kielson Storch DeSantis, A Division of O'Connor Davies Munns & Dobbins, LLP (formerly Bennett Kielson Storch DeSantis) ('Bennett Kielson'; Q02-3999; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for audit services of the operating expenses of the Authority's Clarence D. Rappleyea Building in White Plains, specifically the allocation of Common Area Maintenance charges to the tenants of the building. The Authority owns the Rappleyea Building, which is a Class A, 420,000-square-foot, 17-story structure with 30,000-square-foot floors. The Authority occupies approximately 60% of the building; the balance is occupied by tenants. This contract is awarded as the result of a mini-bid, where bid documents were sent to eight bidders pre-qualified by the New York State Office of General Services ('OGS'), pursuant to existing contracts competitively bid and issued by OGS, and in accordance with the Authority's Guidelines for Procurement Contracts. One proposal was received and evaluated. Staff recommends award of a contract to Bennett Kielson, the sole responding bidder that is qualified to perform such services. The intended term of this contract is up to five years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$51,300.

"The contract with **Corporate Counseling Associates ('CCA'; Q02-3972; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for Employee Assistance Program ('EAP') services, including child care and eldercare assistance, to all Authority employees and retirees and their families, and to act as gatekeeper for mental health and substance abuse services provided by United Healthcare under the 'NYPA Plan.' EAP services consist of an off-site program designed to assess an individual's problem(s), provide short-term counseling, if appropriate, or refer that individual for additional or specialized help, if required. The program comprises: (1) core services, including preventive, management, crisis intervention and on-site critical incident services; (2) support services, including supervisory training sessions, educational/promotional materials, websites and fitness-for-duty evaluations and (3) gatekeeper services, including EAP-driven managed care, utilization review, case management, appeals, coordination with insurance carrier and activity reports. In addition to enabling employees with problems to perform their jobs in a professional manner, the Authority must comply with the U. S. Department of Transportation and U. S. Coast Guard rules, which mandate the availability of an EAP (e.g., applicable to employees who are icebreaker captains or

engineers at the Niagara Project). Since the current contract for such services expires on March 31, 2007, a new Request for Proposals was prepared. Bid documents were downloaded electronically from the Authority's Procurement website by 11 firms, including those that may have responded to a notice in the New York State Contract Reporter. Four proposals were received and evaluated. Two of the four bidders were eliminated from further consideration (one due to higher costs and the other due to an inadequate number of network clinicians in certain areas of New York State); the remaining two proposals were evaluated further. Although both firms provide many of the same services at similar evaluated costs, there are important differences between them (e.g., CCA provides a tollfree '800' number hotline that is answered immediately by professional counselors (versus a machine at the other firm); CCA has a larger in-house counseling staff and offers up to five additional short-term counseling sessions and CCA pre-certifies NYPA Plan mental health substance abuse claims). In addition, CCA has provided excellent services and support to the Authority under the existing contract and has demonstrated the ability to help the Authority control health care costs, while assuring that employees receive the most appropriate and highest quality of care. Based on the foregoing reasons, staff recommends the award of a new contract to CCA, the lowest-priced most qualified bidder. The intended term of this contract is up to five years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$472,908.

"Due to the need to commence services, the contract with **FlightSafety International ('FlightSafety'; Q02-3984; 4500137475)** became effective on March 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide proficiency training on flight simulators to the Authority's pilots for the Beechcraft King Air 350. Services include mandatory annual recurrent pilot training, as well as initial flight training on an 'as needed' basis. Bid documents were downloaded electronically from the Authority's Procurement website by three firms, including those that may have responded to a notice in the New York State Contract Reporter. One proposal was received and evaluated. Based on its qualifications, experience and reasonable rates, staff recommended award of the subject contract to FlightSafety. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$137,400.

"Pursuant to the new license for the St. Lawrence /FDR Power Project ('Project') issued by the Federal Energy Regulatory Commission ('FERC'), the Authority is required to undertake a variety of activities, including a number of environmental enhancement measures, to fulfill requirements in the Project license and related Authority commitments in the license application and relicensing settlement agreements. To this end, the contract with **Kleinschmidt Associates ('Kleinschmidt'; Q02-3952; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for environmental study management services for implementation of and compliance with the aforementioned requirements and commitments. Kleinschmidt will assist Authority staff in the acquisition and management of contractors to: (1) conduct studies and other related activities for 11 Habitat Improvement Projects, Wilson Hill Wildlife Management Area improvements and total dissolved gases monitoring below Long Sault Dam; (2) prepare various management plans and compliance reports and (3) perform studies related to the downstream passage of American eel in Project waters. Bid documents were downloaded electronically from the Authority's Procurement website by 30 firms, including those that may have responded to a notice in the New York State Contract Reporter. Three proposals were received and evaluated. Based on the firm's experience; the most in-depth understanding of the work to be performed as demonstrated in its proposal and the qualifications and expertise of its staff in terrestrial, wetland and aquatic biology (especially their knowledge of the St. Lawrence area and the downstream eel passage issue), as well as the strength, qualifications, technical and management experience and availability of both the proposed team and individual personnel, staff recommends award of a contract to Kleinschmidt, the lowest-priced most technically qualified bidder. In addition, Kleinschmidt's past performance for the Authority has been excellent in terms of competent management of numerous concurrent studies and reports, engineering support and contract and invoice administration. The intended term of this contract is up to five years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$7,150,000. (It should be noted that this amount includes not only the direct costs for Kleinschmidt, but also the costs for the contractors that will conduct the studies and other related activities.)

“The contract with **Newmark Knight Frank** (**‘Newmark’**; **Q02-3934; unnumbered agreement**) would become effective on April 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for brokerage services for potential leasing of space that may become available at the Authority’s Clarence D. Rappleyea building at 123 Main Street in White Plains. Bid documents requesting qualification statements were downloaded electronically from the Authority’s Procurement website by six firms, including those that may have responded to a notice in the New York State Contract Reporter; three firms responded with qualification statements. Based on a thorough review and evaluation of their qualifications, experience, key personnel, references and subsequent presentations, staff recommends award of a contract to Newmark, the firm whose team made the best presentation and was deemed to be best qualified to provide these services. It should be noted that the commission schedules for all three firms are the same typical terms for brokerage services in the Westchester/White Plains area, so the selection of Newmark as the exclusive listing agency for available Authority commercial space would have no additional financial impact on the Authority, nor would it preclude the other entities from bringing tenants into the building as outside brokers. The intended term of this contract is up to five years, subject to the Trustees’ approval, which is hereby requested. Commissions will only be paid in the event of actual leasing of space and will be recovered by the Authority from rental income to be paid by such tenants.

“The contract with **Rizzo & DiGiacco Certified Public Accountants, PLLC** (**‘Rizzo & DiGiacco’**; **Q02-3965; PO# TBA**) would become effective on April 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide the services of independent certified public accountants to annually audit the assets of the Authority’s Deferred Compensation Plan (Section 457 Plan), as mandated by the rules and regulations issued by the New York State Deferred Compensation Board. Participants in the Authority’s 457 Plan may contribute from 1% to 100% of their compensation on a pre-tax basis. Such contributions are invested, in 1% increments, in any of 17 investment options offered by T. Rowe Price, which serves as the investment fund manager, record keeper and trustee for the Plan. Bid documents were downloaded electronically from the Authority’s Procurement website by five firms, including those that may have responded to a notice in the New York State Contract Reporter. Four proposals were received and evaluated. Two of the four bidders were eliminated from further consideration based on cost. The remaining two proposals were evaluated further, based on experience, hourly rates and the number of hours projected to perform the audit. Although both firms were found to have nearly identical overall evaluated costs, the deciding factor was the experience of one of the partners at Rizzo & DiGiacco. Based on the foregoing reasons, staff therefore recommends award of a contract to Rizzo & DiGiacco, the lowest-priced most qualified bidder. The intended term of this contract is up to five years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$45,000.

“Due to the need to commence services, the contract with **Salary.com** (**Q02-3940; 4500137356**) became effective on February 26, 2007, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s procurement policies and EAPs. The purpose of this contract is to provide for services to implement and maintain an automated system for data gathering and evaluation of Authority jobs. This system would assist the Authority’s Compensation staff with the job analysis process, which is currently performed manually. Bid documents were downloaded electronically from the Authority’s Procurement website by 16 firms, including those that may have responded to a notice in the New York State Contract Reporter. Six proposals were received and evaluated. Based on a review of each proposal, including the estimated costs and planned approach to such services, staff determined that the Salary.com proposal offered the best solution for the Authority’s needs. The firm has an established automated ‘CompAnalyst’ system comprising the Survey Center, Reporting and Analysis and Job Analyzer modules, which would provide the capability of an automated search of the Authority’s compensation data resources, as well as reporting capabilities. In addition, the system is housed on Salary.com’s servers, thereby eliminating the need for the Authority’s Information Technology staff to support the implementation and maintenance of this system. Furthermore, the other proposals were all higher priced and proposed designing and developing a database for the Authority. Staff therefore recommended award of the subject contract to Salary.com, the lowest-priced most qualified bidder. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$57,000.

Energy Services and Technology

“The contract with **Banner Electrical Contracting Corp. (‘Banner’; Q02-3963; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for electrical installation services for samples and prototypes of lighting fixtures at various project sites throughout New York City and Westchester County, as part of the Authority’s Energy Services Program. Bid documents were downloaded electronically from the Authority’s Procurement website by four firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommends award of the subject contract to Banner, the lowest-priced bidder that is qualified to perform the work. The intended term of this contract is two years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$500,000. It should be noted that all costs will be recovered by the Authority.

“The contract with **EDM International, Inc. (Q02-4012; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for maintenance services for five sagometers (which measure the sag of the phase conductors) installed in five critical locations on the Authority’s NATL Transmission Line. The contract is awarded on a sole source basis, since EDM developed this system with the Electric Power Research Institute (‘EPRI’) and is therefore uniquely qualified to perform all required work. A notice of the Authority’s intent to enter into a sole source contract with EDM for such services was published in the New York State Contract Reporter. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$27,000.

“Due to the need to commence services, the contract with **UTC Power Corp. (‘UTC’; 4500133448)** became effective on January 1, 2007, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s procurement policies and EAPs. The purpose of this contract is to provide for the continuation of operations and maintenance services for 14 fuel cell power plants (‘FCPPs’) providing clean, reliable power in the greater New York City metropolitan area. The subject contract was awarded on a sole source basis, since UTC is the original equipment manufacturer of the fuel cells and, as such, is the only qualified provider of the required monitoring, diagnostics and maintenance services for these fuel cells. A notice of the Authority’s intent to enter into a sole source contract with UTC for such services was published in the New York State Contract Reporter. While it was previously anticipated that Authority staff might take over this function, a re-examination of this issue indicated that outsourcing such services continues to be more economical and prudent. The intended term of this contract is up to five years, subject to the Trustees’ approval, which is hereby requested. (It should be noted that the intended term for the 12 Authority-owned FCPPs is three years, based on more favorable pricing by UTC for a three-year term; and the intended term for the two customer-owned FCPPs is five years, at the customers’ request.) Approval is also requested for the total amount expected to be expended for the term of the contract, \$1,728,920 (\$1,407,450 for Authority FCPPs and \$321,470 for customer FCPPs). Costs will be recovered by the Authority for services provided for the two customer-owned FCPPs.

Power Generation

“The contract with **Bloomville Disposal Service (‘Bloomville’; BG-042007; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for trash removal and disposal services for the Authority’s Blenheim-Gilboa Project. Services also include providing various waste containers as per specifications and landfill disposal fees. Bid documents were sent to five firms, including any that may have responded to a notice in the New York State Contract Reporter. One proposal was received and evaluated. Staff recommends award of the subject contract to Bloomville, the sole responding bidder that is qualified to perform such services. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$120,000.

“The contract with **CED Baldwin Hall (‘CED’; 4600001759)** would become effective on April 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for the renewal of a Priority TechConnect Support agreement for Rockwell/AB products and equipment at the St. Lawrence/FDR Power Project (‘Project’). Services include telephone and online technical support by highly skilled, formally trained engineers

and technical specialists on a 24/7/365 basis for Rockwell Automation/AB communications software and equipment, installed as part of the Life Extension and Modernization program at the Project. This award is made on a sole source basis, since CED is the only firm authorized by Rockwell Automation to provide such services in this geographic area. Staff therefore recommends award of the subject contract to CED, which is qualified to perform such services. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$6,996.

"Due to the need to commence services, the contract with **Comet Flasher Inc. ('Comet'; 4600001743)** became effective on January 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for maintenance of traffic control devices on the Robert Moses Parkway (above the Robert Moses Niagara Power Project dam face). Bid documents were sent to five firms, including any that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommended award of the subject contract to Comet, the lowest-priced bidder that is qualified to perform the work. The intended term of this contract is two years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$210,000.

"The contract with **EJ Electric Installation Company ('EJ Electric'; Q02-3989, PO# TBA)** would become effective on June 1, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for general electrical support services for the 500 MW Combined Cycle Plant. Such services will generally consist of supplementing and assisting the Authority's plant employees during various periods, including but not limited to scheduled outages, emergency shutdowns and technical inspections, as may be directed by the Authority. Bid documents were downloaded electronically from the Authority's Procurement website by 18 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommends award of the subject contract to EJ Electric, the lowest-priced bidder that is qualified to perform the work. The intended term of this contract is approximately 3.5 years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$750,000.

"The contract with **GE Fanuc Automation Americas Inc. c/o AutomaTech Inc. ('GE Fanuc'; 4600001748)** would become effective on April 28, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for software support/maintenance and updates for the Data Acquisition and Control System (also known as the Generator Temperature Monitoring System) at the Niagara Project. The award is made on a sole source basis, since AutomaTech is the sole distributor in the region of the proprietary GE Fanuc software. A notice of the Authority's intent to enter into a sole source contract with GE Fanuc c/o AutomaTech was published in the New York State Contract Reporter. The intended term of this contract is four years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$80,000.

"Since the installation and commissioning of the Small Clean Power Plants ('SCPPs'), the LM6000 units have experienced five emergency breakdown incidents that have not been covered by warranty. In each case involving the power island equipment, the only source of emergency support has been **GE Packaged Power, Inc. ('GEPP')** and involved multiple emergency orders to GE for a spare engine, field technicians and the actual factory orders for repairs and other service bulletin upgrades, as necessary. On several such occasions, the Authority has investigated whether other firms were capable of providing these services, but the response was negative, due to the unavailability of parts, assets or the leasing of a gas turbine for use during repairs, leaving GEPP as the only resource to meet the Authority's needs in time of emergency. Staff therefore recommends entering into a long-term services agreement with GEPP (**Q02-4014; PO# TBA**) to provide for emergency repair support services, as well as necessary maintenance services that only GEPP is qualified to provide, for the LM6000 SCPPs. This contract is awarded on a sole-source basis, since GEPP is the original equipment manufacturer and, as such, is uniquely qualified to perform such services. GEPP has the required engineering resources, parts and other assets available on a 24/7 basis. GEPP also has engines for lease during repairs, so that the Authority can maintain its ISO UCAP. GE will provide all such required services under this one contract, enabling the Authority to receive discounts on GE's published rates and GE will also provide an 18-month warranty for parts and services. Additionally, this agreement would allow the Authority to bid separately any major planned maintenance activities, should it choose to do so, and

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also would not require the Authority to guarantee any annual minimum amount of orders or services with GE. (A notice of the Authority's intent to enter into a sole source contract with GEPP for such services was published in the New York State Contract Reporter). The contract would become effective on April 1, 2007 for an intended term of five years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$6,000,000 (which will be released as needed).

"Due to the need to commence services, the contract with **Hadley Exhibits, Inc. ('Hadley'; 460001739)** became effective on December 1, 2006, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for maintenance and repair services for displays and exhibits at the Niagara Power Project's Power Vista Visitors' Center. Services include, but are not limited to, maintaining and repairing display lighting and audio; carpentry, electrical and mechanical repairs; and graphic design and repairs, to be performed on a scheduled or 'as needed' basis. Bid documents were sent to four firms, including any that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommended award of the subject contract to Hadley, the lowest-priced evaluated bidder that is qualified to perform the work. The intended term of this contract is four years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$80,000 (including contingency).

"Due to the need to commence services, the contract with **Metalico Niagara Inc. ('Metalico'; 4500134314)** became effective on January 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for all supervision, labor, equipment and materials to provide scrap metal disposal services. Services include, but are not limited to, providing containers and hoppers, pick-up and transport services and certified weighing of full containers. Scrap metals include, but are not limited to, the following: #1 heavy metal (iron and steel), machine shop turnings, brass, insulated copper (wire and cables), aluminum and other miscellaneous metals. The successful high bidder will pay the Authority a fair market price for the scrap metal removed, based on the American Metal Market's Index Price, as competitively adjusted by the vendor. Bid documents were sent to eight firms, including any that may have responded to a notice in the New York State Contract Reporter and three local newspapers. Two proposals were received and evaluated. Based on its pricing and ability to provide such services, staff recommended award of the subject contract to Metalico, which, in staff's opinion, will provide the greatest value to the Authority. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. The Authority will be credited the value of any metals at the time of disposal against the cost for such disposal and, at this time, the Authority anticipates that there will be a net payment to the Authority over the term of the contract.

"Due to the need to commence services, the contract with **New York Merchants Protective Company, Inc. ('NY Merchants'; 4600001692)** became effective on August 21, 2006, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for inspection, maintenance and repair services for the fire protection system at the Authority's 500 MW Plant, in accordance with all applicable National Fire Protection Association and other standards, manufacturer's recommendations and local code requirements. Bid documents were sent to 13 firms, including any that may have responded to a notice in the New York State Contract Reporter. Four proposals were received and evaluated. Staff recommended award of the subject contract to NY Merchants, the lowest-priced bidder that is qualified to perform the work. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$18,000.

"The three contracts with **Prysmian Power Cables and Systems ('Prysmian,' formerly Pirelli Cables & Systems Division), USi, Inc. and InfaSource Power dba EHV Power Corp. ('EHV Power') (Q02-3843; PO#s TBA)** would become effective on April 1, 2007, subject to the Trustees' approval. The purpose of these contracts is to provide for emergency repair services for the Authority's land-based high-pressure fluid-filled ('HPFF') and solid dielectric transmission cable systems up to 345 kV, installed in various locations through New York State, on an 'as needed' basis. The award of such contracts will enable the Authority to have a mechanism in place to respond in a timely manner, in case of a failure of critical land cable transmission facilities, thereby minimizing system

interruptions and associated costs and precluding the need for emergency sole-source awards. To this end, bid documents requesting qualification statements were downloaded electronically from the Authority's Procurement website by potential bidders, including those that may have responded to a notice in the New York State Contract Reporter (Q02-3744). Based on a thorough review and evaluation of their qualifications, five firms were evaluated as responsive and meeting the qualification requirements. These five pre-approved firms were then invited to submit their labor and equipment rates for such services (Q02-3843). Three proposals were received and evaluated. Based on their qualified manpower and equipment resources, their experience and ability to perform such services and to respond to emergency callout within 24 hours, as well as reasonable pricing, staff recommends the award of contracts to all three bidders: Prysmian, USi, Inc. and EHV Power, thereby providing flexible coverage for both upstate and downstate facilities in a timely manner, as may be required. The intended term of these contracts is up to four years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the estimated combined total amount that may be expended for the term of the three contracts, \$1,000,000. (It should be noted that potential costs can vary widely, depending on the nature of the emergency repairs, location of the work and potential clean-up that may be required.)

"The contract with **Quintal Contracting Corp. ('Quintal'; 6000076351; PO# TBA)** would become effective on April 1, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for algae removal and basin depth maintenance at the Richard M. Flynn Power Plant. Services include the removal of algae buildup from the bottom and sides of the North and South Reinjection Basins (on an 'as needed' basis, approximately seven times per year), and the addition of duct bank material (coarse sand) to the bottom of the basins to maintain basin depth within 12 inches of the top of the water inlet vault. Bid documents were sent to eight firms, including any that may have responded to a notice in the New York State Contract Reporter. One proposal was received and evaluated. Staff recommends award of the subject contract to Quintal, the sole responding bidder that is qualified to perform such services. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$78,000.

"Due to the need to commence services, the contract with **SimplexGrinnell ('Simplex'; 4600001770)** became effective on March 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for emergency call-out services for the fire protection system at the Niagara Power Project. Services include all supervision, labor, equipment and material provided on a 24/7/365 basis, as needed, and in compliance with all applicable fire and building code rules and regulations. Bid documents were sent to five firms, including any that may have responded to a notice in the New York State Contract Reporter. Three proposals were received and evaluated. Staff recommended award of the subject contract to Simplex, the lowest-priced bidder that is qualified to perform the work. The intended term of this contract is four years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$20,000.

"Pursuant to FERC's orders of November 1997 and March 2001, the Authority was mandated to install and test acoustic fish-deterrent systems at the Crescent and Vischer Ferry Projects ('Projects') and also to conduct additional studies and testing of the sonic systems and acoustic monitoring to demonstrate their continued effectiveness. For the past eight years, the Authority has been developing and testing a sound deterrent system at the Projects to determine if fish (particularly blueback herring) could be effectively diverted to bypasses that would provide safe passage around the two Projects. The original work was performed under a previous sole-source contract with a division of BAE Systems Aerospace, which was subsequently acquired by **Ultra Electronics Ocean Systems, Inc. ('Ultra Electronics')**; such work was continued under a current contract with Ultra Electronics, which is due to expire on April 14, 2007. During the development and testing of the deterrent systems, Ultra Electronics leased the sound deterrent system components (transducers, cables and electronics) to the Authority and provided services to operate and maintain these components. In 2006, the Authority purchased nine new transducers from Ultra Electronics for the Vischer Ferry Project, upon approval by FERC and other agencies that testing verified the effectiveness of the sound deterrent system at the Vischer Ferry Project. Testing of a similar system at the Crescent Project has shown good potential for analogous results. In order to provide for the continuation of such FERC-mandated services, staff recommends the award of a new sole-source contract to Ultra Electronics (**BG-0107; PO# TBA**) to provide for installation, calibration, storage, maintenance, repair and demobilization services for fish protection/deterrent systems at the Projects. Services include, but are not limited to, spring mobilization and lease

and installation of fish-deterrent control electronics, as well as installation of Authority-owned transducers, calibration and storage of projectors, maintenance and repair services, as needed and fall demobilization services. The subject award is made on a sole source basis, since the sound deterrent systems at both Projects are based on proprietary transducer technology designed by Ultra Electronics, which is the only firm capable of operating and maintaining the sound deterrent systems. Furthermore, any change in the fish-deterrent technology or strategies would require approval by FERC and other regulatory agencies, as well as additional in-water testing of the sound field to verify its effectiveness. A notice of the Authority's intent to enter into a sole-source contract with Ultra Electronics for such services was published in the New York State Contract Reporter. The new contract would become effective on April 15, 2007 for an intended term of three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$375,000.

"The two contracts with **Warren & Panzer Engineers, PC and Atlantic Testing Laboratories, Limited ('Warren & Panzer' and 'ATL') (Q02-3969; PO#s TBA)** would become effective on April 1, 2007, subject to the Trustees' approval. The purpose of these contracts is to provide for asbestos and lead abatement consulting services for the Authority's operating facilities statewide (except the Niagara Power Project, which is covered under a separate contract), as well as for other designated facilities operated by the Authority, as may be required. Services include asbestos and lead inspections, sampling, abatement design and project monitoring to support general plant maintenance, planned renovations and emergency response situations, as may be required. Bid documents were downloaded electronically from the Authority's Procurement website by 46 firms, including those that may have responded to a notice in the New York State Contract Reporter. Nine proposals were received and evaluated. Each bidder's cost proposal was based on a predetermined formula that weighted each bid item as an estimated percentage of expected use of the respective bid item. The bid items were tabulated for each bidder and a number, the weighted-average bid, was generated. The lowest weighted-average bid was determined to be the lowest-priced evaluated bidder. Based on their ability to perform such services, as well as reasonable pricing, staff recommends the award of two contracts: the primary to Warren & Panzer, the lowest-priced evaluated bidder, and a second contract to ATL for the northern New York region (to serve as a backup in the event the primary firm cannot meet the required response times). The intended term of these contracts is up to three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the combined total amount expected to be expended for the term of the contracts, \$900,000.

FISCAL INFORMATION

"Funds required to support contract services for various Business Units/Departments and Facilities have been included in the 2007 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

"Funds required to support contract services for capital projects have been included as part of the approved capital expenditures for those projects and will be disbursed from the Capital Fund in accordance with the project's Capital Expenditure Authorization Request. Payment for contracts in support of the Energy Services Programs will be made from the Energy Conservation Effectuation and Construction Fund. All costs, including Authority overheads and the cost of advancing funds, will be recovered by the Authority, consistent with other Energy Services and Technology Programs.

RECOMMENDATION

"The Deputy General Counsel, the Senior Vice President – Public and Governmental Affairs, the Senior Vice President – Energy Resource Management and Strategic Planning, the Vice President – Procurement and Real Estate, the Vice President – Engineering, the Vice President – Project Management, the Vice President – Environment, Health and Safety, the Vice President – Finance, the Vice President – Ethics and Employee Resources, the Treasurer, the Chief Information Officer, the Director – Corporate Support Services, the Director – Employee Benefits, the Director – Energy Services, the Acting Chief Technology Development Officer, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York and the Regional Manager – Southeastern New York, recommend the Trustees' approval of the award of multiyear procurement contracts to the companies listed in Exhibit '10-A' for the purposes and in the amounts set forth above.

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“The Executive Vice President and General Counsel, the Executive Vice President – Corporate Services and Administration, the Executive Vice President – Chief Financial Officer, the Senior Vice President – Energy Services and Technology, the Senior Vice President and Chief Engineer – Power Generation, the Senior Vice President – Transmission and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multiyear procurement services contracts set forth in Exhibit “10-A,” attached hereto, are hereby approved for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

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Procurement (Services) Contracts – Awards
(For Description of Contracts See "Discussion")

EXHIBIT "10-A"
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<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
BUS SERV - ERM	LEVITAN & ASSOC- IATES, INC. ("LAI") (Q02-3982; 4600001771)	03/01/07	Provide for consulting services for the Authority's participation in the PJM Interconnection marketplace	02/28/10	B/P	\$1,500,000 ("Target Value")		\$1,500,000*
							*Note: represents total for 3-year term	
BUS SERV - FINANCE/ TREASURY	PFM ASSET MANAGE- MENT, LLC (Q02-3973; 4600001764)	02/14/07	Provide for financial consulting services related to Other Post-Employment Benefits	02/13/10 (+ option to extend for 2 additional years)	B/P	\$90,000		\$640,000*
							*Note: represents total for 5-year term; but only up to \$140,000 will be charged against SAP, with the remaining tiered oversight fees to be paid directly from the trust	
BUSINESS Q-02-3911; 2 awards: SERVICES - IT	1. SECURE WORKS HOLDING INC / LURHQ (4500137400) 2. NITRO SECURITY, INC. (4500134239)	03/02/07	Provide for network managed security & monitoring services	03/01/10	B/S	\$218,860		\$218,860*
							*Note: represents total for 3-year term	
		12/22/06	Provide for maintenance of network monitoring equipment	01/30/09	B/S	\$59,300		\$59,300*
							*Note: represents total for 3-year term	
BUS SERV - IT + POWER GEN - EH&S	VEOLIA ES TECHNICAL SOLUTIONS, LLC (Q02-3927; 4600001762)	02/21/07	Provide for asset management and recycling services for used electronic equipment	12/31/10	B/S	\$100,000 ("Target Value")		\$100,000*
							*Note: represents total for approx. 4-year term	

CORP SERV & ADMIN - CorpSuppServ	BENNETT KIELSON STORCH DESANTIS (A Div of ODMD, LLP) (Q02-3999)	04/01/07	Provide for audit services of operating expenses (Common Area Maint.) for the Rappleyea Bldg	03/31/10 (+ option to extend for 2 additional years)	B/P			\$51,300*
							*Note: represents total for 5-year term	
CORP SERV & ADMIN - HR - BENEFITS	CORPORATE COUNSELING ASSOCIATES (Q02-3972; PO# TBA)	04/01/07	Provide for Employee Assistance Program services	03/31/10 (+ option to extend for 2 additional years)	B/P			\$472,908*
							Note: represents total for 5-year term	

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**Procurement (Services) Contracts – Awards
(For Description of Contracts See "Discussion")**

**EXHIBIT "10-A"
March 27, 2007**

<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
CORP SERV & ADMIN - CorpSuppServ	FLIGHTSAFETY INTERNATIONAL (Q02-3984; 4500137475)	03/01/07	Provide for pilot proficiency training on flight simulators for Beechcraft King Air 350	02/28/10	B/P	\$137,400		\$137,400* *Note: represents total for 3-year term
CORP SERV & ADMIN - Pub&GovAff/ Licensing + PWR GEN - STL	KLEINSCHMIDT ASSOCIATES (Q02-3952; PO# TBA)	04/01/07	Provide for environmental study management services for implementation of and compliance with FERC license requirements for STL	03/31/10 (+ option to extend for 2 additional years)	B/P			\$7,150,000* *Note: represents total for 5-year term
CORP SERV & ADMIN - Proc&Real Estate	NEWMARK KNIGHT FRANK (Q02-3934; unnumbered agreement)	04/01/07	Provide for brokerage services for the Rappleyea Building	03/31/10 (+ option to extend for 2 additional years)	C/P			\$0* *Note: commissions will only be paid in the event of actual leasing of space and will be recovered by the Authority from rental income to be paid by tenants; total term = 5 years
CORP SERV & ADMIN - HR - BENEFITS	RIZZO & DIGIACCO CERTIFIED PUBLIC ACCOUNTANTS, PLLC (Q02-3965; PO# TBA)	04/01/07	Provide for audit of the Authority's Deferred Compensation Plan (S. 457 Plan) assets	03/31/10 (+ option to extend for 2 additional years)	B/P			\$45,000* *Note: represents total for 5-year term
CORP SERV & ADMIN - HR - Ethics & Employee Res/ Compensation	SALARY.COM (Q02-3940; 4500137356)	02/26/07	Provide for services to implement & maintain an automated system for job evaluation	02/25/10	B/P	\$57,000		\$57,000* *Note: represents total for 3-year term
ES&T - Energy Services	BANNER ELECTRICAL CONTRACTING CORP. (02-3963; PO# TBA)	04/01/07	Provide for electrical installation services for samples & prototypes of lighting fixtures for ES lighting projects	03/31/09	B/C			\$500,000* *Note: represents total for 2-year term All costs will be recovered by the Authority.

1 **Award Basis:** B= Competitive Bid; S= Sole Source; C= Competitive Search
 2 **Contract Type:** P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

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**Procurement (Services) Contracts – Awards
(For Description of Contracts See "Discussion")**

**EXHIBIT "10-A"
March 27, 2007**

<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
ES&T - R&TD	EDM INTERNATIONAL, INC. (Q02-4012; PO# TBA)	04/01/07	Provide for maintenance agreement for sagometers on transmission lines	03/31/10	S/S			\$27,000*
							*Note: represents total for 3-year term	
ES&T - R&TD	UTC POWER CORP. (4500133448)	01/01/07	Provide for maintenance services for fuel cell power plants	12/31/11	S/S	\$1,728,920		\$1,728,920*
							*Note: represents total for up to 5-year term	

**								
POWER GEN - B-G	BLOOMVILLE DISPOSAL SERVICE (BG-042007; PO# TBA)	04/01/07	Provide for trash removal and disposal services for B-G	03/31/10	B/S			\$120,000*
							*Note: represents total for 3-year term	
POWER GEN - STL	CED BALDWIN HALL (4600001759)	04/01/07	Provide for telephone and electronic technical support services for Rockwell Automation LEM equipment at STL	03/31/10	S/S			\$6,996*
							*Note: represents total for 3-year term	
POWER GEN - NIA	COMET FLASHER INC. (4600001743)	01/01/07	Provide for maintenance of traffic control devices on Robert Moses Parkway	12/31/08	B/S	\$210,000 ("Target Value")	\$100,000 ("Released" Amt)	\$210,000*
							*Note: represents total for 2-year term	
POWER GEN - 500 MW	EJ ELECTRIC INSTALLATION CO. (Q02-3989; PO# TBA)	06/01/07	Provide for general electrical support services for 500 MW Plant	12/31/10	B/S			\$750,000*
							*Note: represents total for approx. 3 1/2-year term	
POWER GEN - NIA	GE FANUC AUTOMATION AMERICAS, INC. c/o AUTOMATECH, INC. (4600001748)	04/28/07	Provide for proprietary software support and upgrades for the Data Acquisition & Control System	04/27/11	S/S			\$80,000*
							*Note: represents total for 4-year term	

1 **Award Basis:** B= Competitive Bid; S= Sole Source; C= Competitive Search
 2 **Contract Type:** P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

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Procurement (Services) Contracts – Awards
 (For Description of Contracts See "Discussion")

EXHIBIT "10-A"
 March 27, 2007

<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
POWER GEN - POL for SCPPs	GE PACKAGED POWER, INC. (Q02-4014; PO# TBA)	04/01/07	Provide for emergency repair support services for SCPPs	03/31/12	S/S			\$6,000,000*
						*Note: represents total for 5-year term		
POWER GEN - NIA	HADLEY EXHIBITS INC. (4600001739)	12/01/06	Provide maintenance and repair services for Power Vista displays	11/30/10	B/S	\$80,000 ("Target Value")	\$10,000 ("Released" Amt)	\$80,000*
						*Note: represents total for 4-year term		
POWER GEN - NIA	METALICO NIAGARA INC. (4500134314)	01/01/07	Provide for scrap metal disposal services	12/31/09	B/S			\$0*
						*Note: the Authority will be credited the value of any metals at the time of disposal against the cost for such disposal; and the Authority anticipates that there will be a net payment to the Authority over the 3-year term of the contract		
POWER GEN - 500 MW	NEW YORK MERCHANTS PROTECTIVE COMPANY (4600001692)	08/21/06	Provide for inspection, maintenance and repair services for fire protection system for 500 MW Plant	08/20/09	B/S	\$18,000 ("Target Value")	\$3,000 ("Released" Amt)	\$18,000*
						*Note: represents total for 3-year term		
POWER GEN - ENGINEERING	Q-02-3843; 3 awards: 1. PRYSMIAN POWER CABLES & SYSTEMS (formerly PIRELLI -- Cables & Systems Div) 2. USi, INC. 3. INFASOURCE POWER dba EHV POWER CORP. (PO#s TBA)	04/01/07	Provide for emergency repair services for the Authority's land cable systems statewide, as needed	03/31/10 (+ option to extend for 1 additional year)	B/C			\$1,000,000*
						*Note: represents combined estimated total for 4-year term		

1 Award Basis: B= Competitive Bid; S= Sole Source; C= Competitive Search
 2 Contract Type: P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

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Procurement (Services) Contracts – Awards
 (For Description of Contracts See "Discussion")

EXHIBIT "10-A"
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<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
POWER GEN - FLYNN	QUINTAL CONTRACTING CORP. (6000076351; PO# TBA)	04/01/07	Provide for algae removal and basin depth maintenance at Flynn	03/31/10	B/S			\$78,000*
						*Note: represents total for 3-year term		
POWER GEN - NIA	SIMPLEX GRINNELL (4600001770)	03/01/07	Provide for emergency call-out fire protection services for NIA	02/28/11	B/S	\$20,000 ("Target Value")		\$20,000*
						*Note: represents total for 4-year term		
POWER GEN - EH&S and Central Region	ULTRA ELECTRONICS OCEAN SYSTEMS INC. (BG-0107; PO# TBA)	04/15/07	Provide for installation, calibration, maintenance, repair & demobilization services for fish protection/deterrent systems at the Crescent & Vischer Ferry Projects	04/14/10	S/S			\$375,000*
						*Note: represents total for 3-year term		
POWER GEN - EH&S	Q-02-3969; 2 awards: 1. WARREN & PANZER ENGINEERS, PC (primary) 2. ATLANTIC TESTING LABORATORIES (backup) (PO#s TBA)	04/01/07	Provide for asbestos abatement consulting services statewide (except NIA)	03/31/10	B/P			\$900,000*
						*Note: represents combined total for 3-year term		

1 **Award Basis:** B= Competitive Bid; S= Sole Source; C= Competitive Search
 2 **Contract Type:** P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

**11. Procurement (Services) Contracts –
Business Units and Facilities –
Extensions, Approval of Additional Funding
and Increases in Compensation Ceilings**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the continuation and funding of the procurement (services) contracts listed in Exhibit ‘11-A’ in support of projects and programs for the Authority’s Business Units/Departments and Facilities. The Trustees are also requested to approve an increase in the compensation ceiling of the contract with Lewis Tree Service, Inc., as well as an increase in the aggregate compensation ceiling for the legal contracts discussed within the item. Detailed explanations of the nature of such services, the reasons for extension, the additional funding required and the projected expiration dates are set forth below.

BACKGROUND

“Section 2879 of the Public Authorities Law and the Authority’s Guidelines for Procurement Contracts require the Trustees’ approval for procurement contracts involving services to be rendered for a period in excess of one year.

“The Authority’s Expenditure Authorization Procedures (‘EAPs’) require the Trustees’ approval when the cumulative change order value of a personal services contract exceeds the greater of \$250,000 or 35% of the originally approved contract amount not to exceed \$500,000, or when the cumulative change order value of a non-personal services, construction, equipment purchase or non-procurement contract exceeds the greater of \$500,000 or 35% of the originally approved contract amount not to exceed \$1,000,000.

DISCUSSION

“Although the firms identified in Exhibit ‘11-A’ have provided effective services, the issues or projects requiring these services have not been resolved or completed, and the need exists for continuing these contracts. The Trustees’ approval is required because the terms of these contracts exceed one year and/or because the cumulative change order limits will exceed the levels authorized by the EAPs in forthcoming change orders. All of the subject contracts contain provisions allowing the Authority to terminate the services at the Authority’s convenience, without liability other than paying for acceptable services rendered to the effective date of termination. These contract extensions do not obligate the Authority to a specific level of personnel resources or expenditures.

“Extension of each of the contracts identified in Exhibit ‘11-A’ is requested for one or more of the following reasons: (1) additional time is required to complete the current contractual work scope or additional services related to the original work scope; (2) to accommodate an Authority or external regulatory agency schedule change that has delayed, reprioritized or otherwise suspended required services; (3) the original consultant is uniquely qualified to perform services and/or continue its presence and re-bidding would not be practical or (4) the contractor provides a proprietary technology or specialized equipment, at reasonably negotiated rates, that the Authority needs to continue until a permanent system is put in place.

Contracts in Support of Business Units/Departments and Facilities:

Energy Services and Technology

“The contract with **General Electric Canada (4500118157)** provides for services to upgrade and repair five T-Map 3100 transformer performance monitoring systems installed on five Flexible Alternate Current Transmission System (‘FACTS’) transformers in the Marcy substation. The subject contract was awarded on a sole source basis to the original equipment manufacturer, which is uniquely qualified to perform such services. The contract became effective on January 10, 2006 for a term of one year. Due to scheduling delays and a recent

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problem with one of the installed monitoring systems, the work could not be completed within the originally anticipated term. Interim approval to extend the contract through March 27, 2007 was obtained in accordance with the Authority's EAPs. An additional six-month extension is now requested in order to provide sufficient time to complete all work under this contract, including repairs, calibration, training and follow-up evaluation. The current contract amount is \$50,587 (of the \$100,000 approved total); it is anticipated that no additional funding will be required for the extended term. The Trustees are requested to ratify the interim extension and to approve the additional extension of the subject contract through September 30, 2007, with no additional funding requested.

"The contract with **Louis T. Klauder and Associates (4500117064)** provides for consulting services for a traction power system study and energy storage system ('ESS') and aluminum contact rail analysis on the New York City Transit ('NYCT') system. The intent of this analysis is to determine the potential benefits of deploying ESS installations (such as flywheels, capacitors and accumulators) that can potentially reduce energy consumption and peak power demand in substations, improve third-rail voltage levels and capture regenerative braking energy. The original award, which was competitively bid, became effective on December 12, 2005 for a term of one year. Due to delays in initial project mobilization and scheduling of various review meetings with NYCT, completion of the project has been delayed. An extension through May 31, 2007 was therefore subsequently authorized by the President and Chief Executive Officer in order to provide sufficient time to complete all required services. The current contract amount is \$266,807; it is anticipated that no additional funding will be required for the extended term. The Trustees are requested to ratify and approve the previously authorized extension of the subject contract through May 31, 2007, with no additional funding requested. It should be noted that all costs will be recovered by the Authority.

Law

"The contract with **McNamee, Lochner, Titus & Williams, PC ('McNamee'; 4500122848)** provides for legal services in connection with the Tri-Lakes Transmission Reinforcement Project ('Project'). This firm provides the Authority with local representation related to the Project in the Adirondack Park. McNamee successfully defended against challenges brought by a local landowner in St. Lawrence County to the Authority's State Environmental Quality Review Act ('SEQRA') determinations and the Adirondack Park Agency's ('APA') order and permit allowing the Authority to build the Project (a 46kV transmission line, substation and regulator station). Additional litigation is possible, as the Authority is currently pursuing a constitutional amendment allowing it to construct a portion of the Project through 1.9 miles of State forest preserve. Such litigation will require the services of attorneys familiar with the Project, the APA and the local court system. The original contract, which was competitively bid, became effective on April 1, 2006 for a term of one year with an option to extend for up to two additional years. A two-year extension is now requested to exercise the option in order for McNamee to continue to provide legal advice and counsel, as well as representation services in connection with these matters, as may be required. The current contract amount is \$50,000; it is anticipated that an additional \$50,000 may be required for the extended term. The Trustees are requested to approve the extension of the subject contract through March 31, 2009, as well as the additional funding requested.

"At their meeting of March 30, 2004, the Trustees approved the award of a three-year contract to **Pillsbury Winthrop Shaw Pittman, LLP (formerly Shaw Pittman) (4500088093)** to provide for legal representation services in ongoing high-level radioactive waste litigation against the U. S. Department of Energy, in the amount of \$500,000. This firm presently represents the Authority in a multi-utility claim in the Court of Federal Claims seeking monetary damages caused by the government's breach of contract to accept high-level radioactive waste by January 31, 1998 from the Indian Point 3 and James A. FitzPatrick nuclear power plants, formerly owned by the Authority. The government, whose liability for breach of contract has previously been established in other similar cases, is vigorously defending damage claims. Currently, the Court has stayed further proceedings pending resolution of appeals in several other cases whose outcomes will determine the manner in which this case will be litigated. The current contract, which became effective on April 1, 2004, expires on March 31, 2007. In view of the ongoing need for such services through resolution of this matter, a two-year extension is now requested. It would not be practicable or prudent to have another firm continue such services, which are required to extend and build on prior work performed by the firm's attorneys, who are uniquely qualified in this highly specialized field, and are knowledgeable of the law and of the Authority's facts. Staff therefore recommends a two-year extension of the existing contract. The current contract amount is \$500,000; it is anticipated that no additional funding will be

required for the extended term. The Trustees are requested to approve the extension of the subject contract through March 31, 2009, with no additional funding requested.

Increase in Aggregate Compensation Ceiling:

“The following item authorizes certain administrative efficiencies with regard to the management of various outside counsel contracts by combining several discrete funding authorizations into a single account and also provides for additional funding authorization for reasons hereinafter stated.

“By way of background, the Trustees approved each of the following continuous-service agreements and funding authorizations since 2005:

- On March 29, 2005, the Trustees approved continuous service agreements for general legal services, as needed, with **Mintz Levin Cohn Ferris Glovsky & Popeo PC, Troutman Sanders LLP and Holland & Knight LLP** for an initial three-year term with the option to renew for two additional years, with a total of \$3,500,000 in aggregate funding for these three firms and for **Bond Schoeneck & King** (which had been approved for a like contract on September 27, 2004).
- On June 28, 2005, the Trustees approved continuous service agreements for general legal services, as needed, with **Carter Ledyard & Milburn LLP, Langlois Kronstrom Desjardins and Van Ness Feldman PC** for an initial three-year term with the option to renew for two additional years, with aggregate funding in the amount of \$5 million for these three firms.
- On September 20, 2005, the Trustees approved continuous service agreements for general legal services, as needed, with **Dickstein Shapiro Morin & Oshinsky LLP, Kaplan, von Ohlen & Massamillo LLC, Nixon Peabody LLP and Stuntz Davis & Staffier PC** for an initial three-year term with the option to renew for two additional years, with a total of \$625,000 in aggregate funding for these four firms.
- On June 27, 2006, the Trustees approved a sole source contract with **Cravath, Swaine & Moore, LLP** for a two-year term, in the amount of \$250,000, to perform work related to legislative and State budget issues, which contract is to be expanded into a continuous service agreement with the assignment of litigation support for the Entergy Value Sharing Agreement added due to recent conflict issues that have arisen.
- On September 26, 2006, the Trustees approved continuous service agreements for general legal services, as needed, with **Akin Gump Strauss Hauer & Feld LLP, Gilberti Stinziano Heintz & Smith PC, Harris Beach PLLC, Hawkins Delafield & Wood LLP, Keane & Beane PC, Orrick Herrington & Sutcliffe LLP, Robinson & Cole LLP, Whiteman Osterman & Hanna LLP, Wilson Elser Moskowitz Edelman & Dicker LLP and Winston & Strawn LLP** for an initial three-year term with the option to renew for two additional years, with a total of \$5.5 million in aggregate funding for these 10 firms.

“These five authorizations were based on projections of work assignments known as of their respective approval dates. In the two years since the first of these approvals, a number of new and unanticipated events resulted in the need to add more work to several of these contracts and work anticipated for others did not materialize. By way of example, at the time RFP # 4 (Cross Hudson Cable with PSE&G) was being awarded, and no additional monies were anticipated to support the procurement or contract negotiations for the Authority’s purchase of energy and capacity for the NYC Governmental Customers. However, PSE&G, the low bidder proposing to supply capacity, withdrew its bid, resulting in the issuance of a new RFP for unforced capacity and other products in the summer of 2005. Issues associated with this new RFP have required extensive support on contract, procurement and environmental issues. Neither were the clean coal procurement and contracting process, the Value Sharing dispute with Entergy, including the recent change in litigation counsel or the extensive support for forensic work by URS (billed as subcontract work for one of these firms) in connection with the GE litigation on the construction of the 500 MW project anticipated at the time of these respective awards in the spring of 2005. As a result of services connected with these unanticipated assignments, the current aggregate funding for the first set of

contract authorizations amount available has been depleted and other funding for certain of these remains uncommitted at this time.

“Accordingly, staff proposes to consolidate these previous authorizations into a single authorization and to increase said authorization by \$2,500,000 to be funded through the Law Department budget for outside counsel. Further, upon written request of the Executive Vice President and General Counsel, estimated expenditures for individual contracts as previously approved by the Trustees may be reduced or increased as work load shifts as long as they are consistent with the authorization for aggregate legal funding contained herein.

Power Generation

“The contract with **Simmers Crane Design & Services Co. (4500117607)** provides for crane upgrade/rehabilitation services in support of the Life Extension and Modernization Program at the Blenheim-Gilboa Pumped Storage Project. (Such cranes include one outdoor 510-ton gantry crane and two indoor 10-ton overhead traveling bridge cranes.) The contract, which was competitively bid, became effective on December 8, 2005 for a term of one year. Due to additional time needed for completion of Punch List Items and some additional work scope to improve the as-found operational conditions, the completion of the work to be performed under the subject contract has been delayed. An extension through December 8, 2007, as well as additional funding, were therefore subsequently authorized by the President and Chief Executive Officer. Such extension will also preclude any impact on the crane usage schedule for outage work, which is in progress. The current contract amount is \$2,313,475 (of the \$2,400,000 authorized total); it is currently anticipated that no additional funding will be required for the extended term. The Trustees are requested to ratify and approve the extension of the subject contract through December 8, 2007, as well as the previously authorized additional funding.

Transmission

Increase in Compensation Ceiling:

“The Federal Energy Regulatory Commission (‘FERC’), the National Electric Reliability Council (‘NERC’) and the New York State Public Service Commission (‘PSC’) have all taken proactive steps to ensure that all utilities have a strong Integrated Vegetation Maintenance (‘IVM’) program in place. To this end, at their meeting of March 29, 2005, the Trustees approved the award of a four-year contract to **Lewis Tree Service, Inc. (4600001433)** for right-of-way (‘ROW’) vegetation management services and funding in the amount of \$9,000,000. Such services include various chemical and mechanical/manual treatments over a range of vegetation sites within the ROW along more than 1,400 miles of high-voltage transmission lines under the maintenance jurisdiction of the Authority, covering approximately 16,000 managed acres. The contract, which was competitively bid, became effective on April 18, 2005 and comprises the second such four-year treatment cycle of the vegetation management program. Due to additional PSC and FERC requirements (such as extra reclamation work to eliminate or dismantle road screens, hedge rows and other vegetation buffers that could pose a threat to the Authority’s transmission system) and the need to re-establish the ROW widths back to the edge of the original easement areas, as well as the difficulty of estimating reclamation work, additional funding will be required to complete this four-year treatment cycle. The current approved ‘Target Value’ is \$9,000,000 (of which \$5,348,744 has been released to date); it is currently anticipated that an additional \$3,000,000 will be required for the remaining contract term. Although the majority of the ROW vegetation management work will occur during the normal treatment season (April-December), 10% of the contract price will be withheld to ensure complete treatment, which will be determined during the following growing season, thereby extending the contract term for six months through September 30, 2009. The Trustees are therefore requested to approve the additional funding requested, thereby increasing the compensation ceiling to \$12,000,000.

FISCAL INFORMATION

“Funds required to support contract services for various Headquarters Office Business Units/Departments and Facilities have been included in the 2007 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

“Funds required to support contract services for capital projects have been included as part of the approved capital expenditures for those projects and will be disbursed from the Capital Fund in accordance with the Project’s Capital Expenditure Authorization Request (‘CEAR’). Payment for contracts in support of the Energy Services Program will be made from the Energy Conservation Effectuation and Construction Fund. All costs, including Authority overheads and the cost of advancing funds, will be recovered by the Authority, consistent with other Energy Services and Technology Programs.

RECOMMENDATION

“The Deputy General Counsel, the Vice President – Project Management, the Vice President – Procurement and Real Estate, the Acting Chief Technology Development Officer and the Transmission Superintendent recommend the Trustees’ approval of the extensions, additional funding and increases in compensation ceilings of the procurement contracts discussed within the item and/or listed in Exhibit ‘11-A.’

“The Executive Vice President and General Counsel, the Executive Vice President – Corporate Services and Administration, the Executive Vice President – Chief Financial Officer, the Senior Vice President – Energy Services and Technology, the Senior Vice President and Chief Engineer – Power Generation, the Senior Vice President – Transmission and I concur in the recommendation.”

Mr. Hoff presented the highlights of staff’s recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Hoff said that the contract extension with GE Canada involved a carryover of work envisioned by the original contract, not any new work. Responding to another question from Trustee Seymour, Mr. Hoff said that the services of virtually all of the law firms listed in this item had been procured through a competitive process. Mr. Kelly explained that the Trustees had previously authorized discrete funding amounts for the contracts with each of these law firms, but that this action would enable the Authority to move funding from one law firm to another depending on the Authority’s ongoing needs for different types of legal services. In response to a question from Trustee Seymour, Mr. Kelly said that this new method of aggregate funding was designed to increase efficiency, and that expenditures would be tracked and fully and transparently disclosed.

The following resolution, as submitted by the President and Chief Executive Officer, was adopted by a vote of 4 to 1, with Trustee Moses abstaining.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit “11-A,” attached hereto, is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the funding authorizations adopted by the Authority for Mintz Levin Cohn Ferris Glovsky & Popeo PC, Troutman Sanders LLP, Holland & Knight LLP and Bond Schoeneck & King on March 29, 2005; Carter Ledyard & Milburn LLP, Langlois Kronstrom Desjardins and Van Ness Feldman PC on June 28, 2005; Dickstein Shapiro Morin & Oshinsky LLP, Kaplan, von Ohlen & Massamillo LLC, Nixon Peabody LLP and Stuntz Davis & Staffier PC on September 20, 2005; Cravath, Swaine & Moore, LLP on June 27, 2006 and Akin Gump Strauss Hauer & Feld LLP,

Gilberti Stinziano Heintz & Smith PC, Harris Beach PLLC, Hawkins Delafield & Wood LLP, Keane & Beane PC, Orrick Herrington & Sutcliffe LLP, Robinson & Cole LLP, Whiteman Osterman & Hanna LLP, Wilson Elser Moskowitz Edelman & Dicker LLP and Winston & Strawn LLP on September 26, 2006 be consolidated into a single authorization and that such authorization be increased by \$2,500,000 to be funded through the Law Department budget for outside counsel. Further, upon written request of the Executive Vice President and General Counsel, estimated expenditures for individual contracts as previously approved by the Trustees may be reduced or increased as work load shifts as long as they are consistent with the authorization for aggregate legal funding contained herein; and be it further

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, an increase in the compensation ceiling of the contract with Lewis Tree Service, Inc. is hereby approved, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount and for the purpose listed below:

<u>O & M</u>	<u>Contract Approval (Increase in Compensation Ceiling)</u>	<u>Projected Closing Date</u>
Provide for right-of way vegetation management services:		
<i>Lewis Tree Service, Inc. 4600001433</i>		
Previously approved amount	\$9,000,000	
Additional amount requested	<u>3,000,000</u>	09/30/09*
REVISED COMPENSATION CEILING	<u>\$12,000,000</u>	

*Note: the normal treatment season runs from April through December; additional time during the following growing season is included to ensure follow-up quality control/quality assurance of the work performed during the previous year

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

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Ext-A032007final

**Procurement (Services) Contracts – Extensions
(For Description of Contracts See "Discussion")**

**EXHIBIT "11-A"
March 27, 2007**

<u>Plant Site/ Bus. Unit</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
Contracts in support of Headquarters Business Units and the Facilities:								
ES&T - R&TD	GENERAL ELECTRIC CANADA 4500118157	01/10/06	Provide for the upgrade and repair of 5 T-Map transformer performance monitoring systems in the Marcy FACTS switchyard	09/30/07	S/S	\$50,587	\$23,037	\$50,587*
						*Note: original approved amount = \$100,000; NO additional funding requested.		
ES&T - R&TD	LOUIS T KLAUDER AND ASSOCIATES 4500117064	12/12/05	Provide for consulting services for NYCT Traction Power System Study and Energy Storage System & Aluminum Contact Rail Analysis	05/31/07	B/P	\$266,807	\$241,402	\$266,807*
						*Note: represents original approved amount + additional funding authorized per EAPs; NO additional funding requested. All costs will be recovered by the Authority.		

LAW	McNAMEE, LOCHNER, TITUS & WILLIAMS, PC 4500122848	04/01/06	Provide for legal services in connection with the Tri-Lakes Transmission Project	03/31/09	B/P	\$50,000	\$21,006	\$100,000*
						*Note: includes original approved amount of \$50,000 + CURRENT INCREASE of \$50,000		
LAW	PILLSBURY WINTHROP SHAW PITTMAN, LLP 4500088093	04/01/04	Provide for legal representation services in ongoing high-level radioactive waste litigation	03/31/09	S/P	\$500,000	\$32,206	\$500,000*
						*Note: represents original approved amount of \$500,000; NO additional funding requested.		

POWER GEN PROJ MGMT	-SIMMERS CRANE DESIGN & SERVICES CO. 4500117607	12/08/05	Provide for crane upgrade/rehabilitation services at B-G	12/08/07	B/C	\$2,348,088	\$2,261,836	\$2,400,000*
						*Note: represents original approved amount + additional funding authorized per EAPs; NO additional funding requested		

1 Award Basis: B= Competitive Bid; S= Sole Source; C= Competitive Search
2 Contract Type: P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

Ext-A032007

Procurement (Services) Contracts – Extensions
 (For Description of Contracts See "Discussion")

EXHIBIT "11-A"
 March 27, 2007

<u>Plant Site/ Bus. Unit</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
<u>Increase in Compensation Ceiling:</u>								
TRANSMISSION - ROW MAINT/ ENV PLNG	LEWIS TREE SERVICE, INC. 4600001433	04/18/05	Provide for ROW vegeta- tion management services	09/30/09	B/S	\$9,000,000 ("Target Value")	\$5,348,744	\$12,000,000*
						*Note: includes \$9M previously approved by the Trustees + CURRENT INCREASE of \$3M		

1 Award Basis: B= Competitive Bid; S= Sole Source; C= Competitive Search
 2 Contract Type: P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

12. Proposed Hydropower Contracts with the Tuscarora Nation and Niagara Project Host Communities – Notice of Public Hearing

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize a public hearing, pursuant to Section 1009 of the Public Authorities Law, on proposed contracts with the Tuscarora Nation, the City of Niagara Falls, the Town of Niagara, the City of Niagara Falls School District, the Niagara Wheatfield School District and the Lewiston-Porter School District (collectively, the ‘Tuscarora Nation’ and the ‘Host Communities’) for the sale of a total of 13.5 MW of Niagara Project Power. These contracts, along with the proposed agreements with Niagara University, the County of Niagara and the Town of Lewiston, as to which the Trustees previously authorized a public hearing, represent all of the power contracts associated with the Niagara Power Project Relicensing Settlements.

“The 13.5 MW of power and energy under these six contracts comprises the following sales: 1 MW to the Tuscarora Nation, 5.5 MW to the City of Niagara Falls, 0.5 MW to the Town of Niagara, 3.5 MW to the City of Niagara Falls School District, 1.5 MW to the Niagara Wheatfield School District and 1.5 MW to the Lewiston-Porter School District. The forms of the proposed contracts are attached as Exhibits ‘12-A’ through ‘12-F.’

BACKGROUND

“The existing 50-year license issued to the Authority under the Federal Power Act for the Project expires on August 31, 2007. At their meeting of June 28, 2005, the Trustees authorized the President and Chief Executive Officer (and his designees) to file an Application for a New License (‘Application’) with the Federal Energy Regulatory Commission (‘FERC’) for the Project; to file related applications with the New York State Department of State and the New York State Department of Environmental Conservation and an Offer of Settlement with FERC (‘Offer of Settlement’); to enter into and execute settlement agreements and to execute such other documents and take such other actions as may be necessary or convenient in connection with such actions. The Application was filed with FERC on August 18, 2005 and the Offer of Settlement was filed with FERC the following day.

“Since its filing, the Offer of Settlement has been supplemented twice with two additional agreements. These Agreements were filed with FERC on May 26, 2006 and June 30, 2006, respectively, after being approved by the Trustees at their meetings of May 23, 2006 and June 27, 2006, respectively.

“During the course of the Alternative Licensing Process, the Tuscarora Nation raised a number of issues generally arising out of the proximity of the Nation’s land to the Project and settlement negotiations between the Nation and the Authority commenced in 2004. These negotiations resulted in the Tuscarora Nation Agreement, which includes an allocation of 1 MW of Project power to the Nation. The Tuscarora Nation Agreement represents complete settlement of all issues raised by the Nation during the relicensing proceeding. The Host Communities raised a number of issues relating to the loss of taxable land as a result of the Project, and settlement negotiations between the Host Communities and the Authority commenced in 2004. These negotiations resulted in the Host Communities Relicensing Settlement Agreement (‘HCRSA’), which includes an allocation of 25 MW of Project power to the Host Communities. The HCRSA represents complete settlement of all issues raised by the Host Communities during the relicensing proceeding.

“On March 15, 2007 FERC issued a new license for the Niagara Project effective September 1, 2007 for a 50-year term.

DISCUSSION

“The proposed contract with the Tuscarora Nation would make available 1 MW of Project power and energy to the Nation. The proposed contracts with the Host Communities are five of seven that will implement the power allocations to the Host Communities, the other two contracts with the County of Niagara and the Town of Lewiston representing 12.5 MW having been addressed at the Trustees’ Meeting on February 27, 2007. In the aggregate, these contracts will make available 13.5 MW for the Tuscarora Nation and the remaining Host

Communities. The power will come largely from the block of Niagara Project power now sold to the three upstate investor-owned utilities (National Grid, New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation) for the benefit of their domestic and rural consumers under contracts that expire on August 31, 2007. The remainder of the power will come from the non-preference part of the power produced by the Niagara Project upgrade. The proposed contracts for the City of Niagara Falls and the local communities contemplate delivery of power and energy at the Project switchyard. It will be the responsibility of the Tuscarora Nation and the Host Communities to arrange for delivery of the power or the benefits of the power to ultimate users.

“Consistent with current local laws and other legal requirements, the contracts with the Town of Niagara, the Niagara Wheatfield School District and the Lewiston-Porter School District will be administered in conjunction with the County of Niagara, which will be a party to the contracts with these entities. Likewise, the contract with the City of Niagara Falls School District will be administered in conjunction with the City of Niagara Falls, which will be a party to the contract with the School District. The proposed forms of agreement reflect these arrangements and allow for changes in the way the contracts are administered in the future depending on local law and other legal requirements.

“The Authority’s obligation to sell power and energy to the Tuscarora Nation and the Host Communities will become effective on the latest of: (1) the first day after the date upon which the Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later; (2) the date on which the Authority and the Host Communities execute a contract for the sale of power and energy or (3) September 1, 2007. The proposed contracts run through September 1, 2025, the same as the current Niagara contracts with the municipal and rural electric cooperative customers and the Neighboring States. Successor contracts will be required to meet the terms of the Settlement Agreements that the power allocations will be provided for the full 50-year term of the new license. If the license is not granted to the Authority, the contracts will be of no force and effect.

FISCAL INFORMATION

“The 13.5 MW of Project power and energy allocated under the proposed contracts will be sold at the then-effective preference power rate that fully recovers the Authority’s costs.

RECOMMENDATION

“The Executive Director – Hydropower Relicensing recommends that the Trustees authorize a public hearing on the proposed contracts with the Tuscarora Nation and the above Host Communities to be held at a time and date authorized by the Chairman. It is further recommended that, pursuant to Section 1009 of the Public Authorities Law, the Corporate Secretary be authorized to transmit copies of the proposed contracts to the Governor and legislative leaders.

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Public and Governmental Affairs and I concur in the recommendation.”

Mr. Chase presented the highlights of staff’s recommendations to the Trustees. In response to a question from Chairman McCullough, Mr. Chase said that staff was asking the Trustees to authorize publication of a notice of public hearing. Responding to a question from Trustee Seymour, Mr. Chase said that the production power rates and preference power rates are the same.

March 27, 2007

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Authority hereby authorizes a public hearing on the terms of the proposed contracts for the sale of hydroelectric power and energy generated by the Authority to the Tuscarora Nation, the City of Niagara Falls, the Town of Niagara, the City of Niagara Falls School District, the Niagara Wheatfield School District and the Lewiston-Porter School District to be held at a subsequent time and date authorized by the Chairman; and be it further

RESOLVED, That the Corporate Secretary be, and hereby is, authorized to transmit copies of the proposed contracts to the Governor, the Speaker of the Assembly, the Minority Leader of the Assembly, the Chairman of the Assembly Committee on Ways and Means, the Temporary President of the Senate, the Minority Leader of the Senate and the Chairman of the Senate Finance Committee pursuant to Section 1009 of the Public Authorities Law; and be it further

RESOLVED, That the President or his designee be, and hereby is, authorized, subject to approval of the form thereof by the Executive Vice President and General Counsel, to enter into such other agreements, and to do such other things as may be necessary or desirable to implement sales to the Tuscarora Nation, the City of Niagara Falls, the Town of Niagara, the City of Niagara Falls School District, the Niagara Wheatfield School District and the Lewiston-Porter School District as required by the Tuscarora Nation and Host Communities Relicensing Settlement Agreements filed with the Federal Energy Regulatory Commission in support of the anticipated new Niagara Project license and as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

13. INFORMATIONAL ITEM: 2007 EXECUTIVE ORDERS

The President and Chief Executive Officer submitted the following report:

“As reported to you on January 30, 2007, Governor Eliot Spitzer issued five Executive Orders on January 1, 2007, three of which recommend changes to policies and guidelines that could impact the Authority. Among the topics addressed in Executive Order Nos. 1, 2 and 3 are new ethical conduct guidelines for public employees and members of authorities, the elimination of politics from governmental decision making and the promotion of public access to government decision making. Staff has reviewed the principles underlying the Executive Orders and recommends their incorporation into Authority policies and guidelines.

“Executive Order No. 1 addresses nepotism in hiring and contracting and the use of state property for personal purposes, including stationary, postage, telephones and computers and vehicles. Prohibitions relating to these activities have been incorporated into Corporate Policies CP2-7 (Policy Governing Use of NYPA Information Technology and Systems), CP 2-8 (Motor Vehicle Policy), Guidelines for Procurement Contracts, Guidelines and Procedures for the Disposal of Personal Property, Guidelines and Procedures for the Disposal of Real Property and Employment Policies EP 1.2 (Recruitment and Job Posting), EP 1.6 (Separation Due to Termination) and EP 4.2 (Performance Improvement). The guidelines for the Disposal of Personal and Real Property have been presented for your approval in a separate item today. The guidelines for Procurement Contracts will be presented in a separate item at the April Trustees’ Meeting.

“Executive Order No. 1 also limits the receipt of gifts of more than nominal value where the circumstances of the giving indicate an intention to influence the recipient in the performance of official business. This prohibition is stricter than Public Officers Law § 73(5), which provides that gifts up to \$75 may be allowed in certain circumstances. As § 73 (5) is the subject of pending legislation that would implement the gift limitations of the Executive Order, staff is not suggesting incorporation of the receipt-of-gifts provision into the Code of Conduct at this time. Any revisions to the Code of Conduct will be presented for the Trustees’ approval at a future meeting.

“Executive Order No. 2 seeks to eliminate politics from governmental decision making by prohibiting campaign contributions to the Governor and Lieutenant Governor, prohibiting consideration of politics in employment and contracting, prohibiting state agencies or public authorities from having elected officials or candidates for elective office appearing in any advertisement paid for, in whole or part, by an agency or authority. This Executive Order also states that the head of an agency or public authority must take a leave of absence from his/her position before commencing a candidacy for any compensated federal or state public office. These items have been implemented in the Guidelines for Procurement Contracts, Guidelines and Procedures for the Disposal of Personal Property, Guidelines and Procedures for the Disposal of Real Property and Employment Policy EP 1.2, and will, to the extent necessary, also be incorporated in the revised Code of Conduct. Review of the provisions relating to campaign contributions to the Governor and Lieutenant Governor are continuing in order to assure appropriate compliance. In addition, review is also continuing on provisions dealing with appearances in state advertising in order to clarify the definition of ‘advertising’ subject to the Order.

“Finally, Executive Order No. 3 states that agencies and public authorities are to identify all meetings that are subject to the Open Meetings Law and start broadcasting these meetings by July 1, 2007. The Authority filed its broadcasting plan (Broadcasting of Open Meetings on the Internet) with the Governor’s office by March 1 as requested in the Executive Order and will commence broadcasting as of July 1. The procedures for broadcasting open meetings have also been incorporated into Corporate Policy CP9-1.

“Executive Order Nos. 1 and 2 also state that an agency or public authority must establish penalties, up to and including dismissal, for any individual who violates the orders. This concept has been incorporated into the changes referred to above in the Employment Policies.

“The Law Department has reviewed these polices and guidelines as to form and consistency and they have been, or are in the process of being, implemented by the Authority.”

March 27, 2007

14. **Motion to Conduct an Executive Session**

“Mr. Chairman, I move that the Authority conduct an Executive Session for the purpose of discussing matters regarding the GE and Entergy litigation.” On motion duly made and seconded, an Executive Session was held.

March 27, 2007

15. **Motion to Resume Meeting in Open Session**

“Mr. Chairman, I move to resume the meeting in Open Session.” On motion duly made and seconded, the meeting resumed in Open Session.

March 27, 2007

16. Next Meeting

The Annual Meeting of the Trustees will be held on **Tuesday, April 24, 2007, at 11:00 a.m., at the Clarence D. Rappleyea Building, White Plains, New York**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

March 27, 2007

Closing

On motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 11:45 a.m.



Anne B. Cahill
Corporate Secretary

AGREEMENT FOR THE SALE
OF NIAGARA PROJECT POWER AND ENERGY

Between the
POWER AUTHORITY
OF THE
STATE OF NEW YORK

30 South Pearl Street
Albany, New York

and the
TUSCARORA NATION

Service Tariff No. TN-1 - Firm Hydroelectric Power and Energy

DRAFT

March 27, 2007

POWER AUTHORITY OF THE STATE OF NEW YORK

30 South Pearl Street
Albany, New York 12207

and the

TUSCARORA NATION

hereby enter into this **AGREEMENT FOR THE SALE OF HYDROPOWER AND ENERGY** as follows:

I. Definitions

- a. **Acceptance of the New License** shall mean the date upon which the Power Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later.
- b. **Agreement** means this Agreement.
- c. **Allocation** shall mean the amount of power and associated energy that the Authority has allocated to The Nation hereunder.
- d. **Ancillary Services** shall be as defined by the NYISO in its rules, tariffs, manuals and procedures.
- e. **Authority** is the Power Authority of the State of New York.
- f. **Commencement Date** shall be as set forth in Article XVI.
- g. **Contract Demand** will be the amounts set forth in Section II or such other amount as may be determined in accordance with the provisions of this Agreement.
- h. **Electric Service** is Power and Energy available to The Nation in accordance with applicable Service Tariffs, Rules and other contract documents.
- i. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).
- j. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which new license will become effective after expiration of the Project's original license issued on January 30, 1958.

- k. **Firm Hydroelectric Power and Energy** are firm power and associated energy from the Authority's Niagara Power Project, intended to be available at all times except for limitations provided in this Agreement, the Rules, applicable Service Tariff or in other contract documents.
- l. **Green Attributes** (sometimes referred to as Renewable Attributes or Renewable Energy Credits) are attributes associated with renewable energy power production facilities as may be defined by law or administrative action now or in the future, including but not limited to the Renewable Portfolio Standard proceeding of the New York Public Service Commission.
- m. **Load Serving Entity** Is an entity authorized or required by law, regulatory authorization or requirement, agreement, or contractual obligation to supply Energy, Capacity and/or Ancillary Services to the Nation under the rules, tariffs, manuals and procedures of the NYISO.
- n. **Nation** is the Tuscarora Nation, a federally recognized sovereign Indian nation.
- o. **Nation's Agent** is defined in Article VIII.
- p. **NRA** means the federal Niagara Redevelopment Act (18 USC §§836, 836a)
- q. **NYISO** means the New York Independent System Operator or any successor organization.
- r. **Project** means the Niagara Power Project, FERC Project 2216.
- s. **Project Power and Energy** means Firm Hydroelectric Power and Energy produced by the Project.
- t. **Project Switchyard** is the Niagara Project switchyard.
- u. **Relicensing Settlement Agreement** means the Relicensing Settlement Agreement Between the Power Authority of the State of New York and the Tuscarora Nation executed August 1, 2005.
- v. **Rules** are the applicable provisions of the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York).
- w. **Service Tariffs** are schedules establishing rates and other conditions for sale of Electric Services to the Nation.
- x. **Ultimate Users** are entities to whom the Nation will convey benefits associated with Project Power and Energy purchased from the Authority as provided in Article

VI of this Agreement and Appendix A hereto. The Nation may designate itself as an Ultimate User.

- y. **Unforced Capacity** is the capacity required to be provided by Load Serving Entities to serve load as defined by the NYISO in its rules, tariffs, manuals and procedures.

II. Electric Service to be Provided

- a. The Authority shall provide Electric Service pursuant to a Service Tariff for Power and/or Energy to enable the Nation to receive the Allocation from the Project in accordance with the provisions of the FERC License and Relicensing Settlement Agreement, in the amount set forth below:

Firm Hydroelectric Power and Energy Service pursuant to
Service Tariff No. TN-1-1,000 KiloWatts (Contract Demand)

The Authority shall provide Unforced Capacity in amounts necessary to meet the NYISO Unforced Capacity requirements associated with the foregoing Allocation in accordance with the rules and tariffs of the NYISO. Neither Ancillary Services, nor Green Attributes are included in such allocation.

- b. The Contract Demands for Project Power and Energy may be modified by the Authority if the amounts of such Project Power and Energy available for sale from the Project are modified as required to comply with any ruling, order or decision of any regulatory or judicial body having jurisdiction.

III. Rules, Regulations and Service Tariffs

The Rules and Service Tariff No. TN-1, as now in effect and/or such superseding tariffs or other tariffs as the Authority may later promulgate, all as such Rules and Service Tariffs may be later amended from time to time by the Authority, are hereby incorporated into this Agreement with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between Articles I through XVI of this Agreement and either the Rules or the Service Tariffs, the provisions of Articles I through XVI of this Agreement shall govern. The Authority shall provide at least thirty (30) days prior written notice to the Nation of any proposed change in the above Rules and Service Tariffs, but in no event shall Authority provide less notice than that provided to similarly affected customers within New York State if that period of minimum notice is greater than herein referenced.

IV. Transmission and Delivery of Power and Energy

Authority shall make Project Power and Energy available to the Nation at the Project Switchyard. It is the Nation's responsibility to act as the Load Serving Entity ("LSE"), arrange for another entity to do so on its behalf or make other arrangements for conveying the benefits associated with the allocation to Ultimate Users, and the Nation shall be responsible for all costs associated with the transmission and delivery of the allocation.

V. Rates

Project Power and Energy shall be sold to the Nation hereunder at cost-based rates equivalent to rates charged to in-state preference customers receiving preference power under the NRA.

The Nation does not object to the Authority's use of any of the following methodologies and principles¹ to set rates different from those adopted by the Authority's Trustees in their meeting on April 29, 2003 based on the "January 2003 Report on Hydroelectric Production Rates" and as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

- (i) The principles set forth in the March 5, 1986 Settlement Agreement (settling *Auer v. Dyson*, No. 81-124 (Sup. Ct. Oswego Co.), *Auer v. Power Authority*, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and *Delaware County Electric Cooperative, Inc. v. Power Authority*, 82 Civ. 7256 (S.D.N.Y.) (the "Auer Settlement").
- (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.
- (iii) Treatment of sales to third parties, including the New York Independent System Operator.
- (iv) Allocation of Indirect Overheads.
- (v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.
- (vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).
- (vii) Rate Stabilization Reserve (RSR) methodology as supplemented by the explanatory statement attached hereto as Appendix B

¹ These methodologies and principles were employed in and explained by the Authority's January 2003 Report on Hydroelectric Production Rates and the Staff Analysis of Public Comments and Recommendations adopted by the Authority's Trustees on April 29, 2003.

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Nation may take any position whatsoever with respect to such methodology or principle, but will not challenge any of the remaining methodologies and principles that continue to be employed by the Authority.

VI. Use and Resale of Project Power and Energy, Recovery of Costs

The Nation shall use the Allocation for its facilities, for Ultimate Users or as otherwise allowed in accordance with this Agreement and Appendix A hereof.

Except as otherwise provided in Appendix A hereof, The Nation shall distribute the Allocation to the Ultimate Users identified in Appendix A, consistent with Section 5.2 (d) of the Relicensing Settlement Agreement. The Nation shall have the right to recover from the Ultimate Users as Nation Costs its direct administrative and services costs, reasonable compensation for use of third party facilities and services furnished to the Nation in the transmission and distribution of such power and all costs associated with negotiating the Agreement and the establishment of mechanisms to accept and distribute the Allocation incurred after the execution of the Relicensing Settlement Agreement executed August 1, 2005. Such Costs shall be reimbursed to The Nation or otherwise paid by the Ultimate Users by procedures to be determined by the Nation.

The benefits of the Allocation will be used to the maximum extent practicable to reduce the commodity portion of the Nation's (and other Ultimate Users') electric bills before any of the benefits of the Allocation are used for other purposes authorized by this Agreement and Appendix A.

The Nation shall require its Agent to make available to the Authority upon request such records as may be reasonably necessary for the Authority to determine that the Allocation has been distributed in compliance with Appendix A.

The distribution of the benefits of the Allocation to Ultimate Customers may be accompanied by a statement indicating the total savings in dollars realized by the individual Ultimate User for the particular billing period as a result of the purchase of hydroelectric power and energy by the Nation from the Authority.

VII. Availability of Energy.

Subject to any other limitations set forth in the Rules or the Service Tariff (including low-flow conditions), if the Nation provides the Allocation to Ultimate Users for physical delivery to such Users' accounts as set forth in Appendix A, Authority will supply the Nation's (or Ultimate Users', as the case may be) entire demand and energy usage up to the Contract Demand. If there is any portion of the energy associated with the Allocation made available to the Nation at a monthly load factor of seventy percent (70%) (pursuant to the Authority's regular scheduling requirements)

that is not required to serve such Ultimate User's facilities, such energy may be utilized as Excess Power in the manner described in Appendix A.

For any usage above the Contract Demand, it is The Nation's responsibility to arrange for provision of such excess service by a third party supplier, and the apportionment of energy between suppliers shall be as set forth in Service Tariff No. TN-1, or any successor tariff.

Subject to any other limitations set forth in the Rules or Service Tariff (including low-flow conditions), if the Nation provides the benefits of the Allocation to Ultimate Users in the form of Power Credits as set forth in Appendix A, the Allocation will be delivered at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements.

VIII. Appointment of Nation's Agent

Upon reasonable prior written notice to the Authority, the Nation shall have the right to delegate to an agent any or all duties under this Agreement (the "Nation's Agent") and the Authority acknowledges that such duties may be performed by the Nation's Agent. Duties delegated to the Nation's Agent may include the keeping of all records pertaining to the distribution of the Allocation, the payment of any or all amounts due to the Authority under this Agreement and any or all such other duties contained in this Agreement as may be specified by the Nation; provided that the Nation may choose to assume and perform any or all of the duties previously delegated to the Nation's Agent and provided further that nothing herein, including the Nation's designation of such an agent, shall be deemed to be approval by the Authority of an assignment of any of the Nation's duties and obligations under its Agreement with the Authority. The Nation may, on reasonable prior written notice to the Authority, designate a different party as the Nation's Agent at any time during the term of this Agreement.

IX. Term and Termination of Service

Service under the Agreement shall begin on the Commencement Date and shall continue until the earliest of (a) termination by the Nation with respect to all or part of its Allocation upon ninety (90) days prior written notice, (b) termination by the Authority pursuant to the Rules upon required notice, or (c) September 1, 2025, at which time a new agreement will be entered between the Authority and the Nation to provide the Nation with Project Power and Energy for the remainder of the licensing period in the amount and for the rate then in effect which complies with the terms of the Relicensing Settlement Agreement. If such a new agreement is not in place to take effect after September 1, 2025, service will be continued under the terms and conditions of this Agreement on a year to year basis or until a new agreement takes effect between the parties.

The Authority may cancel service hereunder or modify the quantities of Project Power and Energy allocated to the Nation only (a) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency), or (b) as otherwise provided herein or in the Rules. Notwithstanding the foregoing, upon mutual agreement this Agreement may be extended beyond such date on a month to month basis pending execution of any successor agreement between the Nation and Authority.

Nothing herein is intended to limit the rights of the Nation under the Relicensing Settlement Agreement, and the Authority and the Nation understand and agree that the Authority is obligated under such Relicensing Settlement Agreement to make a total of 1 MW of Project Power and Energy available to The Nation for the term of the FERC License, whether through extension of this Agreement or by subsequent agreement.

X. Notification

Correspondence involving the administration of this Agreement shall be addressed as follows:

To: Authority

Manager – Power Contracts
New York Power Authority
123 Main Street
White Plains, NY 10601

To: The Nation

[insert Nation contact information]

XI. Applicable Law, Sovereign Immunity and Venue

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act. Any action or proceeding arising out of or relating to this Agreement shall be brought in a court of competent jurisdiction located in Albany County, New York. Nothing in this Agreement shall be construed as, or is intended to constitute, waiver of sovereign immunity or of any other aspect of the sovereignty of the Tuscarora Nation or the State of New York.

Nor shall anything in this agreement be construed as a waiver by the Authority of its right under the Rules to discontinue furnishing electric service to the Nation for the nonpayment of bills.

XII. Successors and Assigns

This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of either Party hereto; provided, however, that no assignment by either Party or any successor or assignee of such Party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other Party in each case obtained, which consent shall not be unreasonably withheld.

XIII. Previous Agreements and Communications

This Agreement, together with the Relicensing Settlement Agreement, shall constitute the sole and complete agreement of the Parties hereto with respect to the matters herein set forth. Such Agreements supersede all previous communications between the Parties hereto, either oral or written, with reference to the subject matter hereof.

No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XIV. Acceptance and Approvals

Upon approval of the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act and of the Nation's Chiefs in Council by written resolution or other procedure consistent with the laws of the Nation, and upon execution by the Parties, this Agreement, the provisions of which shall survive for the term hereof, together with applicable Service Tariffs and Rules both as they may be amended, shall constitute the contract between the Parties for Electric Service hereunder.

XV. Severability and Voidability

If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

Notwithstanding the preceding paragraph, if any provision of this Agreement or the Relicensing Settlement Agreement is rendered void or unenforceable or otherwise modified by a court or agency of competent jurisdiction, the entire Agreement shall, at the option of either Party and only in such circumstances in which such Party's

interests are materially and adversely impacted by any such action, be void and unenforceable.

XVI. Effectiveness of Agreement

This Agreement shall take effect on the later of: (i) the acceptance of the new License or (ii) the date of this Agreement's execution under Article XV above.

THE NATION

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK

30 South Pearl Street, Albany, NY 12207

Service Tariff No. TN-1

Schedule of Rates for Firm Hydroelectric Power
and Energy Service

EFFECTIVE:

September 1, 2007

APPLICABLE:

To sale of Niagara Firm Hydroelectric Project Power and Energy to the Tuscarora Nation pursuant to the Relicensing Settlement Agreement Between the Power Authority of the State of New York and the Tuscarora Nation executed on August 1, 2005.

CHARACTER OF SERVICE:

Alternating current, 60 hertz, three-phase.

RATES (effective May 1, 2006):

Capacity Rate: \$2.38 per kilowatt per month of Billing Demand at the Project switchyard.

Base Energy Rate: 4.92 mills per kilowatt-hour

Future rates shall be as determined by the Authority.

The Base Energy Rate set forth herein shall be subject to a monthly adjustment in accordance with a flow adjustment computation (FAC) as described in Appendix B.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Rate and the Billing Demand.

POWER FACTOR:

Not less than 95% lagging or leading, except as otherwise specified in the Agreement.

DEFINITIONS:

Billing Demand: The Billing Demand shall be the Nation's Contract Demand.

Billing Energy: Energy provided by Authority under this service tariff.

Billing Period: Any period of approximately thirty (30) days, generally ending with the last day of each calendar month.

GENERAL PROVISIONS:

General Provisions for service supplementing or modifying the Rules and Regulations for Power Service and Service Tariff No. TN- 1 with regard to deliveries to the Nation are as follows:

A Availability of Energy

Unless otherwise agreed upon by the Parties, Authority shall normally provide in any Billing Period firm Energy to the Nation in an amount equal to the product of (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement. The Authority will have the right to reduce on a pro rata basis the amount of energy provided to the Nation if such reductions are necessary due to low flow (i.e., hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to the Nation in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by the Nation.

Unless otherwise specified in the Agreement, where the Nation is taking service solely from Authority, the Billing Energy shall be the total number of kilowatt-hours recorded on the Nation's meter (or the meters of entities served by the Nation as indicated in the Agreement) during the Billing Period, adjusted for losses.

Unless otherwise specified in the Agreement, where the Nation takes service from other sources in addition to service supplied hereunder, the Billing Energy shall be determined by multiplying (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement.

B Adjustment of Rates

To the extent not inconsistent with the attached Agreement, the rates contained in this Service Tariff TN-1 may be revised from time to time on not less than thirty (30) days written notice to the Nation.

C Delivery

For the purpose of this Service Tariff TN-1, Power and/or Energy shall be delivered by Authority at the Project Switchyard to the transmission facilities under the control of the NYISO for delivery to the Nation.

For the purpose of these Service Tariffs, Power and/or Energy shall be deemed to be offered when Authority is able to supply Power and Energy and NYISO transmits it to the Nation or its designated points of interconnection with the Nation's Agent at the Niagara Project Switchyard. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by the Nation. If, despite such offer, there is a failure of delivery by the Nation or the Nation's Agent, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D Scheduling Procedures

1. Authority will advise the Nation or its Dispatching Agent by the tenth (10th) Business Day of the preceding month of the estimated quantity of Energy expected by Service Tariff to be made available from the Project.
2. Authority may require that such Energy from the Project be scheduled in general accordance with the load shape of the Nation or the Nation's Agent or as otherwise agreed upon by the Nation and Authority.
3. The Nation or the Nation's Agent shall file with Authority pursuant to procedures established by Authority, a daily schedule setting forth the Nation's requested amounts from the Project on a clock hour basis.
4. Subsequent to Authority approval of schedules for any day, Authority and the Nation or the Nation's Agent may agree on changes in such schedules subject to NYISO scheduling requirements and procedures Authority shall establish such that an efficient dispatch of Authority facilities will be accomplished.

E Payment by the Nation for Power and/or Energy

- 1 The Nation shall pay for Power and/or Energy during any Billing Period the sum of a) and b) below:
 - a. For Firm Hydroelectric Power and Energy the capacity rate per kilowatt specified in this Service Tariff or any modification thereof applied to the Nation's Billing Demand for the Billing Period: and

- b. The Energy rate specified in this Service Tariff or any modification thereof applied to the amount of firm Billing Energy delivered by Authority to the Nation during such Billing Period.
2. Bills computed under Service Tariff TN-1 are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by Authority. In the event that there is a dispute on any items of a bill rendered by Authority, the Nation shall pay such bill and adjustments, if necessary, will be made thereafter.

F Supplementary Provision

Sections 454.2 (c) and 454.5 of the Rules are inapplicable to this Service Tariff.

Appendix A

The Nation will initially distribute power and energy purchased from the New York Power Authority under the Agreement or the economic benefit of such power and energy to the following Ultimate Users:

1. The Nation.
2. Individual consumers within the Nation as designated by the Nation.

The Nation may change the Ultimate Users or class of Ultimate Users on thirty (30) day's notice to the Authority.

The benefits of the Allocation shall be provided to such Ultimate Users either by direct sale or by allocation by the Nation (or by the Nation's Agent) of electricity or the provision of bill credits, as set forth below, or through different methods approved by the Authority.

The listing of the foregoing Ultimate Users in no way mandates or requires for any reason that the Nation provide any portion of the Allocation (or Power Credits) to an Ultimate User and shall not preclude the Nation from denying any such Ultimate User the benefits associated with an allocation for any reason as determined by the Nation.

A. Direct Sale / Allocation, Use of Excess Power

The Nation may make a portion of the Allocation available to an Ultimate User for delivery at such Ultimate User's electricity accounts under applicable law. If there is any portion of the Allocation made available to The Nation that is not required to serve such Ultimate User's facilities, such Excess Power (up to the load factor specified in the Agreement) may be utilized as follows:

1. The Nation or its agent may schedule Excess Power into the NYISO administered market for financial settlement, and such financial settlement so received by the Nation (less the Nation's Costs as set forth in Article VI of the Agreement and the cost of the power and energy purchased from the Authority), shall be applied by the Nation to payment of the Nation's (or an Ultimate User's, as the case may be) energy-related costs, included but not limited to, the purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects.
2. The Nation may use the Excess Power (or the benefits associated with such Excess Power derived from a financial settlement as set forth in the preceding Paragraph 1) for economic development by providing credits to a business to apply against the cost and/or delivery of power or energy consumed by such business.

B. Power Credits

The Nation, or the Nation's Agent, may schedule all of its Allocation (up to the load factor specified in the Agreement) into the NYISO administered market for financial settlement, and such financial settlement so received by the Nation (less the Nation's Costs as set forth above and the cost of the power and energy purchased from the Authority), may be provided to Ultimate Users in the form of Power Credits by the Nation as follows:

Power Credits may be applied towards the cost and/or delivery of electric power or energy consumed by the Ultimate User or, to the extent Power Credits remain after payment of such costs, for energy-related costs, including but not limited to, the purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities for energy efficiency or clean energy technology programs or projects and/or for economic development by providing credits to a business to apply against the cost and/or delivery of power or energy consumed by such business.

C. Right to Alternate Between Methods

The Nation shall have the right at its discretion and without restriction to alternate between the methods for the distribution of the benefits of the Allocation as set forth in Sections A and B above, upon giving sixty (60) days written notice to the Authority.

Appendix B

NEW YORK POWER AUTHORITY RATE STABILIZATION RESERVE METHODOLOGY

The Rate Stabilization Reserve (RSR) is calculated consistent with Service Tariff provisions regarding the Flow Adjustment Computation (FAC), which was not altered in the January 2003 Report on Hydroelectric Production Rates or the Staff Analysis of Public Comments and Recommendations adopted by the Trustees of the Power Authority on April 29, 2003. The calculation is described below:

1. Calculate the total cost of service (CoS) for the Niagara/St. Lawrence projects. Costs include: Operations and Maintenance, amortized roadwork, Indirect Overheads (Shared Services, Research and Development, debt service) and Capital Costs (using TOC for equity funded and OC for debt funded).
2. Credit the CoS by any excess capacity (ICAP) sales to the ISO.
3. Allocate costs to the demand function by multiplying the sum of the Nations' billed demands by the preference demand charge, which has been inflated to include Ancillary Services production costs. This larger demand charge is used only for the purposes of the RSR.
4. Calculate the cost-based energy rate by dividing the remaining energy assigned costs by the annual metered generation.
5. Calculate the difference between the cost-based energy rate and the billed preference energy rate.
6. Multiply the difference in the rates by the actual annual billed preference energy sales to determine the annual change in the RSR.
7. Add the annual change to the RSR balance from the prior year-end to get the current year-end RSR balance.
8. If the current year-end balance is in excess of +/- \$25 million, the excess would be subject to a credit or a surcharge in the subsequent rate year.

POWER AUTHORITY
OF THE
STATE OF NEW YORK

30 South Pearl Street
Albany, New York

AGREEMENT FOR THE SALE
OF NIAGARA PROJECT POWER AND ENERGY
TO THE NIAGARA PROJECT HOST COMMUNITIES

Service Tariff No. HC-1 - Firm Hydroelectric Power and Energy

DRAFT

March 27, 2007

POWER AUTHORITY OF THE STATE OF NEW YORK

**30 South Pearl Street
Albany, New York 12207**

AGREEMENT FOR THE SALE OF HYDROPOWER AND ENERGY

Town of Niagara, New York ("Customer") hereby enters into this Agreement with the Power Authority of the State of New York for electric service as follows:

I. Definitions

- a. Acceptance of the New License** shall mean the date upon which the Power Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later.
- b. Agreement** means this Agreement.
- c. Allocation** shall mean the amount of power and associated energy that the Authority has allocated to Customer hereunder.
- d. Ancillary Services** shall be as defined by the NYISO in its rules, tariffs, manuals and procedures.
- e. Commencement Date** shall be as set forth in Article XVII.
- f. Authority** is the Power Authority of the State of New York.
- g. Authorized Recipient** is defined in Article II.
- h. Contract Demand** will be the amounts set forth in Section II or such other amount as may be determined in accordance with the provisions of this Agreement.
- i. Customer** is the municipality (Host Community) identified above.
- j. Customer's Agent** is defined in Article IX.
- k. Electric Service** is Power and Energy available to Customer in accordance with applicable Service Tariffs, Rules and other contract documents.
- l. Excess Power** is defined in Article VIII and Appendix A.

- m. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).
- n. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which new license will become effective after expiration of the Project's original license issued on January 30, 1958.
- o. **Firm Hydroelectric Power and Energy** are firm power and associated energy from the Authority's Niagara Power Project, intended to be available at all times except for limitations provided in this Agreement, the Rules, applicable Service Tariff or in other contract documents.
- p. **Green Attributes** (sometimes referred to as Renewable Attributes or Renewable Energy Credits) are attributes associated with renewable energy power production facilities as may be defined by law or administrative action now or in the future, including but not limited to the Renewable Portfolio Standard proceeding of the New York Public Service Commission.
- q. **Host Communities** are Niagara County, City of Niagara Falls, Town of Lewiston, Town of Niagara, City of Niagara Falls School District, Lewiston-Porter School District and Niagara-Wheatfield School District.
- r. **Load Serving Entity** is an entity authorized or required by law, regulatory authorization or requirement, agreement, or contractual obligation to supply Energy, Capacity and/or Ancillary Services to retail customers under the rules, tariffs, manuals and procedures of the NYISO.
- s. **NRA** means the federal Niagara Redevelopment Act (18 USC §§ 836, 836a)
- t. **NYISO** means the New York Independent System Operator or any successor organization.
- u. **Power Credits** are defined in Article VIII and Appendix A.
- v. **Project** means the Niagara Power Project, FERC Project 2216.
- w. **Project Power and Energy** means Firm Hydroelectric Power and Energy produced by the Project.
- x. **Project Switchyard** is the Niagara Project switchyard.
- y. **Relicensing Settlement Agreement** means the Niagara Power Project, FERC Project No. 2216 Host Community Relicensing Settlement

Agreement Addressing Non-License Terms and Conditions allocation of Niagara Project Power and Energy to the Host Communities dated June 27, 2005.

- z. Rules** are the applicable provisions of the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York).
- aa. Service Tariffs** are schedules establishing rates and other conditions for sale of Electric Services to Customer.
- bb. Ultimate Users** are entities to whom Customer or Customer's Authorized Recipient will resell (or otherwise convey benefits associated with) Project Power and Energy purchased from the Authority as provided in Article VI of this Agreement and Appendix A hereto. Customer may designate itself as an Ultimate User.
- cc. Unforced Capacity** is the capacity required to be provided by Load Serving Entities to serve load as defined by the NYISO in its rules, tariffs, manuals and procedures.

All other terms not otherwise defined herein shall have the meanings ascribed to them in the electric industry.

II. Electric Service to be Provided

- a.** The Authority shall provide Electric Service pursuant to Service Tariff HC-1 for Power and/or Energy to enable the Customer or the Customer's Authorized Recipient, as defined below, to receive the Allocation from the Project in accordance with the provisions of the FERC License and Relicensing Settlement Agreement, in the amount set forth below:

Firm Hydroelectric Power and Energy Service pursuant to
Service Tariff No. HC-1: 500 KiloWatts (Contract Demand)

Upon execution of this Agreement by a Host Community, other than Customer, that is legally capable of receiving an Allocation from the Project (Authorized Recipient) such Authorized Recipient shall be authorized to receive the Allocation of the Customer in accordance with the terms and conditions set forth in this Agreement, including Appendix A hereof. Such authorization may be revoked by Customer upon reasonable notice to the Authority and Customer's Authorized Recipient; provided, however, that Customer shall, as of the effective date of such revocation, have made arrangements (a) with another Authorized Recipient to receive the Customer's Allocation, or (b) to receive such Allocation itself, if legally capable of doing so.

The Authority shall provide Unforced Capacity in amounts necessary to meet Customer's NYISO Unforced Capacity obligations associated with the foregoing Allocation in accordance with the rules and tariffs of the NYISO. Neither Ancillary Services, nor Green Attributes are included in such allocation.

- b. The Contract Demands for Project Power and Energy may be modified by the Authority if the amounts of such Project Power and Energy available for sale from the Project are modified as required to comply with any ruling, order or decision of any regulatory or judicial body having jurisdiction. The Authority shall provide reasonable notice to Customer of any such proposed action that could result in modification of Contract Demands and nothing herein shall be construed as limiting customer's rights to challenge any proposed reduction in Contract Demands.

III. Rules, Regulations and Service Tariffs

The Rules and Service Tariff No. HC-1, as now in effect and/or such superseding tariffs or other tariffs as the Authority may later promulgate, all as such Rules and Service Tariffs may be later amended from time to time by the Authority, are hereby incorporated into this Agreement with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between Articles I through XVII of this Agreement and the Service Tariffs, the provisions of Articles I through XVII of this Agreement shall govern. The Authority shall provide at least thirty (30) days prior written notice to Customer of any proposed change in the above Rules and Service Tariffs, but in no event shall Authority provide less notice than that provided to similarly affected customers within New York State if that period of minimum notice is greater than herein referenced. Except as expressly provided otherwise herein, nothing contained in this Agreement shall be construed as restricting Customer's rights to participate in processes involving changes to rates, Rules and Service Tariffs or other matters affecting the subject of this Agreement.

IV. Transmission and Delivery of Power and Energy

Authority shall make Project Power and Energy available to Customer, Customer's Authorized Recipient or Customer's Agent at the Project Switchyard. It is the Customer's responsibility to act as the Load Serving Entity ("LSE"), arrange for one or more other entities to do so on its behalf or make other arrangements for conveying the benefits associated with the allocation to Ultimate Users. Customer, or the entity acting as LSE, Customer's Authorized Recipient, or Customer's Agent shall arrange for the transmission of the Project Power and Energy supplied hereunder from the Project Switchyard to Customer's points of delivery or the conversion of the Allocation into financial

settlements and benefits by such other method of disposition consistent with Article VI of this Agreement and Appendix A hereto. Such delivery shall be consistent with the terms of the Open Access Transmission Tariff (OATT) or other applicable tariff of the NYISO and Customer shall be responsible for all costs associated with the transmission and delivery of the allocation.

V. Rates

Project Power and Energy shall be sold to Customer or to Customer's Authorized Recipient hereunder at cost-based rates equivalent to rates charged to in-state preference customers receiving preference power under the NRA.

Customer waives any challenges to any of the following methodologies and principles¹ to the extent that one or more of such methodologies and principles are used by the Authority to set rates different than those adopted by the Authority's Trustees in their meeting on April 29, 2003 based on the "January 2003 Report on Hydroelectric Production Rates" and as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

- (i) The principles set forth in the March 5, 1986 Settlement Agreement (settling *Auer v. Dyson*, No. 81-124 (Sup. Ct. Oswego Co.), *Auer v. Power Authority*, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and *Delaware County Electric Cooperative, Inc. v. Power Authority*, 82 Civ. 7256 (S.D.N.Y.) (the "Auer Settlement").
- (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.
- (iii) Treatment of sales to third parties, including the New York Independent System Operator.
- (iv) Allocation of Indirect Overheads.
- (v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.
- (vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).
- (vii) Rate Stabilization Reserve (RSR) methodology as supplemented by the explanatory statement attached hereto as Appendix B

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Customer or the Customer's Authorized

¹ These methodologies and principles were employed in and explained by the Authority's January 2003 Report on Hydroelectric Production Rates and the Staff Analysis of Public Comments and Recommendations adopted by the Authority's Trustees on April 29, 2003.

Recipient shall have the right to take any position whatsoever with respect to such methodology or principle, but shall not have the right to challenge any of the remaining methodologies and principles that continue to be employed by the Authority. Nothing contained herein shall preclude Customer or the Customer's Authorized Recipient from participating in the rate setting process and raising issues as to whether such methodologies and principles have been correctly employed.

VI. Use and Resale of Project Power and Energy

Customer or the Customer's Authorized Recipient shall use the Allocation for Customer's facilities or as otherwise allowed in accordance with this Agreement and Appendix A hereof.

In reselling and/or distributing the Allocation, except as otherwise provided in Appendix A hereof, Customer or the Customer's Authorized Recipient shall: 1) do so pursuant to the appropriate laws of the State of New York, 2) distribute such Allocation only to the Ultimate Users designated pursuant to Appendix A, 3) not permit such Ultimate Users to sell any of such Allocation for resale and 4) comply with the provisions of the NRA, the FERC License and the New York Power Authority Act (N.Y. Pub. Auth. Law Section 1000 et seq.), to the extent such Power Authority Act is not inconsistent with the FERC License.

Customer, Customer's Authorized Recipient or Customer's Agent shall keep its books, accounts and records pertaining to the purchase, delivery and sale of the Allocation according to procedures reasonably deemed necessary by Authority to ensure compliance with this Agreement and Appendix A hereof, applicable statutes, licenses, the Rules. Customer or Customer's Authorized Recipient shall provide such information and permit such inspection of its books and records as Authority may reasonably request and shall require Customer's Ultimate Users as identified in Appendix A of the Agreement to agree to do likewise.

The distribution of the benefits of the Allocation to Ultimate Users shall, where feasible, be accompanied by a statement indicating the total savings in dollars realized by the individual Ultimate User for the particular billing period as a result of the purchase of hydroelectric power and energy by Customer or Customer's Authorized Recipient from the Authority. The form and content of such statement shall be coordinated between Customer or Customer's Authorized Recipient and Authority.

VII. Permanent Reallocation of Project Power and Energy

If Customer is, or becomes unable or chooses not to receive, or to have Customer's Authorized Recipient not receive, any or all of the Project Power and Energy allocated to it on a permanent basis, such Project Power and Energy shall be reallocated by the Authority pro-rata among the other Host Communities.

Customer shall provide written notice to the Authority and the other Host Communities of such inability or election within 30 days of its becoming aware of such inability or election. Upon receipt of such notice by the Authority, any required changes in the allocations of Project Power and Energy among the other Host Communities shall become effective as soon as practicable, without need to amend this Agreement and the Contract Demand in this Agreement shall be revised to reflect such reallocation, notwithstanding Article XIV hereof.

VIII. Availability of Energy.

Subject to any other limitations set forth in the Rules or the Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient directly or indirectly provides the Allocation to Ultimate Users for physical delivery to such Users' accounts as set forth in Appendix A, Authority will supply Customer's (or Ultimate Users', as the case may be) entire demand and energy usage up to the Contract Demand. If there is any portion of the energy associated with the Allocation made available to Customer or Customer's Authorized Recipient (at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements) that is not required to serve such Ultimate Users' facilities, such energy may be utilized as Excess Power in the manner described in Appendix A.

As between Customer and the Authority, for any usage above the Contract Demand, it is Customer's responsibility to arrange for provision of such excess service by a third party supplier, and the apportionment of energy between suppliers shall be as set forth in Service Tariff No. HC-1, or any successor tariff.

Subject to any other limitations set forth in the Rules or Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient provides the benefits of the Allocation to Ultimate Users in the form of Power Credits as set forth in Appendix A, the Allocation will be delivered at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements.

IX. Appointment of Customer's Agent

Upon reasonable prior written notice to the Authority, Customer shall have the right to delegate to an agent any or all duties under this Agreement ("Customer's Agent") and the Authority acknowledges that such duties may be performed by Customer's Agent. Such duties delegated to Customer's Agent may include the keeping of all records required by Authority, the payment of any or all amounts due to the Authority under this Agreement and any or all such other duties contained in this Agreement as may be specified by Customer; provided that the Customer may choose to assume and perform any or all of the duties previously delegated to Customer's Agent and provided further that nothing herein, including Customer's designation of such an agent, shall be deemed to be approval by the Authority of an assignment of any of Customer's duties and obligations under its

Agreement with the Authority. Customer may, on reasonable prior written notice to the Authority (consistent with the Authority's and the NYISO's scheduling and business process requirements), designate a different party as Customer's Agent at any time during the term of this Agreement.

X. Term and Termination of Service

Service under the Agreement shall begin on the Commencement Date and shall continue until the earliest of (a) termination by Customer with respect to all of its Allocation upon ninety (90) days prior written notice, (b) termination by the Authority pursuant to the Rules upon required notice, or (c) September 1, 2025, at which time a new or modified agreement will be entered between the Authority and the Customer to provide Customer or Customer's Authorized Recipient with Project Power and Energy for the remainder of the licensing period in the amount and for the rate then in effect which complies with the terms of the Relicensing Settlement Agreement. If such a new or modified agreement is not in place to take effect after September 1, 2025, service will be continued under the terms and conditions of this Agreement on a year to year basis or until a new or modified agreement takes effect between the parties.

The Authority may cancel service hereunder or modify the quantities of Project Power and Energy allocated to Customer only (a) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or relicensing order or orders of the FERC or its successor agency), or (b) as otherwise provided herein or in the Rules. Notwithstanding the foregoing, upon mutual agreement this Agreement may be extended beyond such date on a month to month basis pending execution of any successor agreement between the Customer and Authority. The Authority shall provide reasonable notice to Customer of any matter or proceeding that could result in an order or decision as described in part (a) of this paragraph and nothing herein shall be construed as limiting Customer's right to challenge any such proposed action.

Nothing herein is intended to limit the rights of the Host Communities or Customer under the Relicensing Settlement Agreement and the Authority and Customer understand and agree that the Authority is obligated under such Relicensing Settlement Agreement to make a total of 0.5 MW of Project Power and Energy available to Customer or Customer's Authorized Recipient for the term of the FERC License, whether through extension of this Agreement or by subsequent agreement.

XI. Notification

Correspondence involving the administration of this Agreement shall be addressed as follows:

To: Authority

Manager – Power Contracts
New York Power Authority
123 Main Street
White Plains, NY 10601

To: Town Supervisor
Deputy Town Supervisor
Town of Niagara
7105 Lockport Road
Niagara Falls, NY 14305

With a copy to:

To: Niagara County, New York

XII. Applicable Law and Venue

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act. Any action or proceeding arising out of or relating to this Agreement shall be brought in state courts located in Albany County, New York.

XIII. Successors and Assigns

This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of the parties hereto; provided, however, that no assignment by a party or any successor or assignee of such party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other parties in each case obtained, which consent shall not be unreasonably withheld.

XIV. Previous Agreements and Communications

This Agreement, together with the Relicensing Settlement Agreement, shall constitute the sole and complete agreement of the parties hereto with respect to the matters herein set forth, and such Agreements supersede all previous communications between the Parties hereto, either oral or written, with reference to the subject matter hereof; provided, however, that additional terms pursuant to which Customer's Authorized Recipient is authorized to receive Customer's Allocation may be set forth in a separate agreement between Customer and Authorized Recipient. Any such separate agreement shall not be inconsistent with the terms of this Agreement and shall be provided to the Authority for informational purposes.

No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XV. Acceptance and Approvals

Upon approval of the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act, and upon execution by the parties, this Agreement, the provisions of which shall survive for the term hereof, together with the Service Tariffs and Rules both as they may be amended, shall constitute the contract between the parties for Electric Service hereunder.

XVI. Severability and Voidability

If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

In such an event and at the request of any of the parties, the parties agree to engage in good faith negotiations on possible modification to this Agreement to remedy any portion of this Agreement that was declared invalid, unlawful or ineffective. Such good faith negotiations shall conform to the requirements comparable to those of section 10.1.3 of the Relicensing Settlement Agreement. To the extent that good faith negotiations do not result in an agreement as to whether or how this Agreement should be modified, the parties agree to resolve their differences in accordance with the alternative dispute resolution mechanism set forth in section 12 of the Relicensing Settlement Agreement. The primary goal of any good faith negotiation or alternative dispute resolution mechanism shall be to preserve to the greatest extent as possible, the benefit of the parties' intended bargain.

XVII. Effectiveness of Agreement

This Agreement shall take effect on the later of: (i) the acceptance of the new License or (ii) the date of this Agreement's execution under Article XV above.

CUSTOMER: TOWN OF NIAGARA, NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

AUTHORIZED RECIPIENT: NIAGARA COUNTY, NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK

30 South Pearl Street, Albany, NY 12207

Service Tariff No. HC -1

Schedule of Rates for Firm Hydroelectric Power
and Energy Service

EFFECTIVE:

September 1, 2007

APPLICABLE:

To sale of Niagara Firm Hydroelectric Project Power and Energy to the Host Communities customers and/or their Authorized Recipients eligible for cost-based service under the Niagara Relicensing Settlement Agreement.

CHARACTER OF SERVICE:

Alternating current, 60 hertz, three-phase.

RATES (effective May 1, 2006):

Capacity Rate: \$2.38 per kilowatt per month of Billing Demand at the Project switchyard.

Base Energy Rate: 4.92 mills per kilowatt-hour

Future rates shall be as determined by the Authority.

The Base Energy Rate set forth herein shall be subject to a monthly adjustment in accordance with a flow adjustment computation (FAC) as described in Appendix B.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Rate and the Billing Demand.

POWER FACTOR:

Not less than 95% lagging or leading, except as otherwise specified in the Agreement.

DEFINITIONS:

Billing Demand: The Billing Demand shall be the Customer's Contract Demand.

Billing Energy: Energy provided by Authority under this service tariff.

Billing Period: Any period of approximately thirty (30) days, generally ending with the last day of each calendar month.

GENERAL PROVISIONS:

General Provisions for service supplementing or modifying the Rules and Regulations for Power Service and Service Tariff No. HC – 1 with regard to deliveries to Customer are as follows:

A Availability of Energy

Unless otherwise agreed upon by the Parties, Authority shall normally provide in any Billing Period firm Energy to Customer and/or Customer's Authorized Recipient in an amount equal to the product of (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement. The Authority will have the right to reduce on a pro rata basis the amount of energy provided to Customer and/or Customer's Authorized Recipient if such reductions are necessary due to low flow (i.e., hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to Customer and/or Customer's Authorized Recipient in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. The Authority shall provide reasonable notice to Customer and Customer's Authorized Recipient of any condition or activities that could result, or have resulted, in low flow conditions consistent with the notice provided to other similarly affected customers.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient is taking service solely from Authority, the Billing Energy shall be the total number of kilowatt-hours recorded on Customer's and/or Customer's Authorized Recipient's meter (or the meters of entities served by Customer and/or Customer's Authorized Recipient as indicated in the Agreement) during the Billing Period, adjusted for losses.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient takes service from other sources in addition to service supplied hereunder, the Billing Energy shall be determined by multiplying (A) the number of hours in such Billing Period, (B) the Contract Demand

applicable in such Billing Period and (C) the load factor specified in the Agreement.

B Adjustment of Rates

To the extent not inconsistent with the attached Agreement, the rates contained in this Service Tariff HC-1 may be revised from time to time on not less than thirty (30) days written notice to Customer.

C Delivery

For the purpose of this Service Tariff HC -1, Power and/or Energy shall be delivered by Authority at the Project Switchyard to the transmission facilities under the control of the NYISO for delivery to Customer and/or Customer's Authorized Recipient.

For the purpose of these Service Tariffs, Power and/or Energy shall be deemed to be offered when Authority is able to supply Power and Energy and NYISO transmits it to Customer and/or Customer's Authorized Recipient or its designated points of interconnection with Customer's Delivering Agent at the Niagara Project Switchyard. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. If, despite such offer, there is a failure of delivery by Customer, Customer's Authorized Recipient, or Customer's Agent, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D Scheduling Procedures

1. Authority will advise Customer, and Customer's Authorized Recipient, or Customer's Agent by the tenth (10th) Business Day of the preceding month of the estimated quantity of Energy expected by Service Tariff to be made available from the Project.
2. Authority may require that such Energy from the Project be scheduled in general accordance with the load shape of Customer, Customer's Authorized Recipient, or Customer's Agent or as otherwise agreed upon by the Customer and Authority.
3. Customer, Customer's Authorized Recipient, or Customer's Agent shall file with Authority pursuant to procedures established by Authority, a daily schedule setting forth the Customer's and/or Customer's Authorized Recipient's requested amounts from the Project on a clock hour basis.
4. Subsequent to Authority approval of schedules for any day, Authority and Customer, Customer's Authorized Recipient, or Customer's Agent may agree on changes in such schedules subject to NYISO scheduling

requirements and procedures Authority shall establish such that an efficient dispatch of Authority facilities will be accomplished.

E Payment by Customer and/or Customer's Authorized Recipient for Power and/or Energy

1. Customer and/or Customer's Authorized Recipient shall pay for Power and/or Energy during any Billing Period the sum of a) and b) below:
 - a. For Firm Hydroelectric Power and Energy the capacity rate per kilowatt specified in this Service Tariff or any modification thereof applied to Customer's Billing Demand for the Billing Period: and
 - b. The Energy rate specified in this Service Tariff or any modification thereof applied to the amount of firm Billing Energy delivered by Authority to Customer and/or Customer's Authorized Recipient during such Billing Period.
2. Bills computed under Service Tariff HC-1 are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by Authority. In the event that there is a dispute on any items of a bill rendered by Authority, Customer shall pay such bill and adjustments, if necessary, will be made thereafter.

F Supplementary Provision

Sections 454.2 (c) and 454.5 of the Rules are inapplicable to this Service Tariff.

Appendix A

Except as Customer determines otherwise, consistent with the terms of this Agreement, Customer or Customer's Authorized Recipient will initially distribute power and energy purchased from the New York Power Authority under the Agreement or the economic benefit of such power and energy to the following Ultimate Users_____

Customer may add to or delete from the above list of Ultimate Users on thirty (30) day's notice to the Authority. Customer in its sole determination may elect to use its full Allocation or any part thereof, for economic development. The economic development program description, allocation criteria and methodology shall be submitted to and approved by the Authority which approval shall not be unreasonably withheld.

The benefits of the Allocation shall be provided to such Ultimate Users either by direct sale or by allocation by the Customer (or by Customer's Authorized Recipient or Authorized Agent) of electricity or the provision of financial settlements and benefits, as set forth below, or through different methods approved by the Authority. Customer shall have the right to recover as Customer Costs its direct administrative and services costs, reasonable compensation for use of third party facilities and services furnished to Customer in the transmission and distribution of such power, all costs associated with negotiating the Agreement and the establishment of mechanisms to accept and distribute the Allocation, and any similar costs, incurred after the execution of the Host Community Relicensing Settlement Agreement dated June 27, 2005. Such Customer Costs shall be reimbursed to Customer or otherwise paid by the Ultimate User by procedures to be determined.

The listing or description of the foregoing Ultimate Users in no way mandates or requires for any reason that the Customer provide any portion of the Allocation (or Power Credits) to an Ultimate User and shall not preclude the Customer from denying any such Ultimate User the benefits associated with an allocation for any reason as determined by Customer.

A Direct Sale / Allocation, Use of Excess Power

Customer, Customer's Authorized Recipient or Customer's Agent may make a portion of the Allocation available to an Ultimate User for delivery at such Ultimate User's electricity accounts under the tariffs, rules and regulations of the NYISO and the utility in whose service area such accounts are located. If there is any portion of the Allocation made available to Customer or Customer's Authorized Recipient that is not required to serve such Ultimate User's facilities, such Excess Power (up to the load factor specified in the Agreement) may be utilized as follows:

1. Customer, Customer's Authorized Recipient or Customer's Agent may schedule Excess Power into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), shall be applied by Customer to payment of Customer's (or an Ultimate User's, as the case may be) energy-related costs, including but not limited to, the purchase of energy commodities, the

delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the term of the Agreement.

2. Customer or Customer's Authorized Recipient may use the Excess Power (or the benefits associated with such Excess Power derived from a financial settlement as set forth in the preceding Paragraph 1) for economic development by providing credits to a business to apply against the cost of power or energy and/or the cost of delivery of power or energy consumed by such business.

B Power Credits

Customer, Customer's Authorized Recipient or Customer's Agent, may schedule all of Customer's Allocation (up to the load factor specified in the Agreement) into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), may be provided to Ultimate Users in the form of Power Credits by Customer or Customer's Authorized Recipient as follows:

Power Credits may be applied towards the cost and/or delivery of electric power or energy consumed by the Ultimate User or for other energy-related costs, including but not limited to, purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the terms of the Agreement.

C Service through Authorized Entity

Through assignment, transfer or otherwise, including through an agency arrangement, Customer shall have the right to make available its Allocation or any part thereof to any entity, including but not limited to Customer's Authorized Recipient, that is duly authorized to receive, purchase, transmit, distribute, and/or resell the power and energy included in the Allocation or otherwise to engage in such transactions as are necessary to effectuate the delivery of the Allocation and/or to provide the financial benefits thereof to the Customer, the Customer's Ultimate Users and the Customer's constituents, as determined in the exercise of the Customer's discretion and consistent with the provisions of the Host Community Relicensing Settlement Agreement dated June 27, 2005 and Article VI of the Agreement. Any such assignment, transfer, agency arrangement or similar transaction contemplated by this paragraph may, but shall not be required to, include elements of the other methods described in this Appendix A.

D Continuity

In the event that any administrative agency or court of competent jurisdiction shall determine that any element of any of the foregoing methods of distributing the Allocations and/or financial benefits thereof is unauthorized or illegal, the Customer shall propose an

alternative method of distribution, not necessarily limited to those described above, and the Authority shall promptly determine whether to accept such alternative method. Such acceptance shall not be unreasonably withheld.

E Right to Alternate Between Methods

Customer shall have the right at its discretion and without restriction to alternate between the methods for the distribution of the benefits of the Allocation as set forth in Sections A through D above, upon giving sixty (60) days written notice to the Authority.

Appendix B

NEW YORK POWER AUTHORITY RATE STABILIZATION RESERVE METHODOLOGY

The Rate Stabilization Reserve (RSR) is calculated consistent with Service Tariff provisions regarding the Flow Adjustment Computation (FAC), which was not altered in the January 2003 Report on Hydroelectric Production Rates or the Staff Analysis of Public Comments and Recommendations adopted by the Trustees of the Power Authority on April 29, 2003. The calculation is described below:

1. Calculate the total cost of service (CoS) for the Niagara/St. Lawrence projects. Costs include: Operations and Maintenance, amortized roadwork, Indirect Overheads (Shared Services, Research and Development, debt service) and Capital Costs (using TOC for equity funded and OC for debt funded).
2. Credit the CoS by any excess capacity (ICAP) sales to the ISO.
3. Allocate costs to the demand function by multiplying the sum of the customers' billed demands by the preference demand charge, which has been inflated to include Ancillary Services production costs. This larger demand charge is used only for the purposes of the RSR.
4. Calculate the cost-based energy rate by dividing the remaining energy assigned costs by the annual metered generation.
5. Calculate the difference between the cost-based energy rate and the billed preference energy rate.
6. Multiply the difference in the rates by the actual annual billed preference energy sales to determine the annual change in the RSR.
7. Add the annual change to the RSR balance from the prior year-end to get the current year-end RSR balance.
8. If the current year-end balance is in excess of +/- \$25 million, the excess would be subject to a credit or a surcharge in the subsequent rate year.

POWER AUTHORITY
OF THE
STATE OF NEW YORK

30 South Pearl Street
Albany, New York

AGREEMENT FOR THE SALE
OF NIAGARA PROJECT HYDROELECTRIC POWER AND ENERGY
TO THE NIAGARA PROJECT HOST COMMUNITIES

Service Tariff No. HC-1 - Firm Hydroelectric Power and Energy
(NIAGARA WHEATFIELD CENTRAL SCHOOL DISTRICT)

DRAFT

March 27, 2007

POWER AUTHORITY OF THE STATE OF NEW YORK

**30 South Pearl Street
Albany, New York 12207**

**AGREEMENT FOR THE SALE OF HYDROELECTRIC POWER AND ENERGY TO
THE NIAGARA PROJECT HOST COMMUNITIES**

**SERVICE TARIFF No. HC-1 – Firm Hydroelectric Power and Energy
(NIAGARA WHEATFIELD CENTRAL SCHOOL DISTRICT)**

Niagara Wheatfield Central School District (“Customer”) hereby enters into this Agreement with the Power Authority of the State of New York for electric service as follows:

I. Definitions

- a. Acceptance of the New License** shall mean the date upon which the Power Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later.
- b. Agreement** means this Agreement.
- c. Allocation** shall mean the amount of power and associated energy that the Authority has allocated to Customer hereunder.
- d. Ancillary Services** shall be as defined by the NYISO in its rules, tariffs, manuals and procedures.
- e. Commencement Date** shall be as set forth in Article XVII.
- f. Authority** is the Power Authority of the State of New York.
- g. Authorized Recipient** is defined in Article II.
- h. Contract Demand** will be the amounts set forth in Section II or such other amount as may be determined in accordance with the provisions of this Agreement.
- i. Customer** is the municipality (Host Community) identified above.
- j. Customer’s Agent** is defined in Article IX.

- k. **Electric Service** is Power and Energy available to Customer in accordance with applicable Service Tariffs, Rules and other contract documents.
- l. **Excess Power** is defined in Article VIII and Appendix A.
- m. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).
- n. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which new license will become effective after expiration of the Project's original license issued on January 30, 1958.
- o. **Firm Hydroelectric Power and Energy** are firm power and associated energy from the Authority's Niagara Power Project, intended to be available at all times except for limitations provided in this Agreement, the Rules, applicable Service Tariff or in other contract documents.
- p. **Green Attributes** (sometimes referred to as Renewable Attributes or Renewable Energy Credits) are attributes associated with renewable energy power production facilities as may be defined by law or administrative action now or in the future, including but not limited to the Renewable Portfolio Standard proceeding of the New York Public Service Commission.
- q. **Host Communities** are Niagara County, City of Niagara Falls, Town of Lewiston, Town of Niagara, City of Niagara Falls School District, Lewiston-Porter School District and Niagara-Wheatfield School District.
- r. **Load Serving Entity** is an entity authorized or required by law, regulatory authorization or requirement, agreement, or contractual obligation to supply Energy, Capacity and/or Ancillary Services to retail customers under the rules, tariffs, manuals and procedures of the NYISO.
- s. **NRA** means the federal Niagara Redevelopment Act (18 USC §§ 836, 836a).
- t. **NYISO** means the New York Independent System Operator or any successor organization.
- u. **Power Credits** are defined in Article VIII and Appendix A.
- v. **Project** means the Niagara Power Project, FERC Project 2216.

- w. **Project Power and Energy** means Firm Hydroelectric Power and Energy produced by the Project.
- x. **Project Switchyard** is the Niagara Project switchyard.
- y. **Relicensing Settlement Agreement** means the Niagara Power Project, FERC Project No. 2216 Host Community Relicensing Settlement Agreement Addressing Non-License Terms and Conditions allocation of Niagara Project Power and Energy to the Host Communities dated June 27, 2005.
- z. **Rules** are the applicable provisions of the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York).
- aa. **Service Tariffs** are schedules establishing rates and other conditions for sale of Electric Services to Customer.
- bb. **Ultimate Users** are entities to whom Customer or Customer's Authorized Recipient will resell (or otherwise convey benefits associated with) Project Power and Energy purchased from the Authority as provided in Article VI of this Agreement and Appendix A hereto. Customer may designate itself as an Ultimate User.
- cc. **Unforced Capacity** is the capacity required to be provided by Load Serving Entities to serve load as defined by the NYISO in its rules, tariffs, manuals and procedures.

All other terms not otherwise defined herein shall have the meanings ascribed to them in the electric industry.

II. **Electric Service to be Provided**

- a. The Authority shall provide Electric Service pursuant to Service Tariff HC-1 for Power and/or Energy to enable the Customer or the Customer's Authorized Recipient, as defined below, to receive the Allocation from the Project in accordance with the provisions of the FERC License and Relicensing Settlement Agreement, in the amount set forth below:

Firm Hydroelectric Power and Energy Service pursuant to
Service Tariff No. HC-1: 1,500 KiloWatts (Contract Demand)

Upon execution of this Agreement by a Host Community, other than Customer, that is legally capable of receiving an Allocation from the Project (Authorized Recipient) such Authorized Recipient shall be authorized to receive the Allocation

of the Customer in accordance with the terms and conditions set forth in this Agreement, including Appendix A hereof. Such authorization may be revoked by Customer upon reasonable notice to the Authority and Customer's Authorized Recipient; provided, however, that Customer shall, as of the effective date of such revocation, have made arrangements (a) with another Authorized Recipient to receive the Customer's Allocation, or (b) to receive such Allocation itself, if legally capable of doing so.

The Authority shall provide Unforced Capacity in amounts necessary to meet Customer's NYISO Unforced Capacity obligations associated with the foregoing Allocation in accordance with the rules and tariffs of the NYISO. Neither Ancillary Services, nor Green Attributes are included in such allocation.

- b. The Contract Demands for Project Power and Energy may be modified by the Authority if the amounts of such Project Power and Energy available for sale from the Project are modified as required to comply with any ruling, order or decision of any regulatory or judicial body having jurisdiction. The Authority shall provide reasonable notice to Customer of any such proposed action that could result in modification of Contract Demands and nothing herein shall be construed as limiting customer's rights to challenge any proposed reduction in Contract Demands.

III. Rules, Regulations and Service Tariffs

The Rules and Service Tariff No. HC-1, as now in effect and/or such superseding tariffs or other tariffs as the Authority may later promulgate, all as such Rules and Service Tariffs may be later amended from time to time by the Authority, are hereby incorporated into this Agreement with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between Articles I through XVII of this Agreement and the Service Tariffs, the provisions of Articles I through XVII of this Agreement shall govern. The Authority shall provide at least thirty (30) days prior written notice to Customer of any proposed change in the above Rules and Service Tariffs, but in no event shall Authority provide less notice than that provided to similarly affected customers within New York State if that period of minimum notice is greater than herein referenced. Except as expressly provided otherwise herein, nothing contained in this Agreement shall be construed as restricting Customer's rights to participate in processes involving changes to rates, Rules and Service Tariffs or other matters affecting the subject of this Agreement.

IV. Transmission and Delivery of Power and Energy

Authority shall make Project Power and Energy available to Customer, Customer's Authorized Recipient or Customer's Agent at the Project Switchyard. It is the Customer's responsibility to act as the Load Serving Entity ("LSE"), arrange for one or more other entities to do so on its behalf or make other arrangements for conveying the benefits associated with the allocation to Ultimate Users. Customer, or the entity acting as LSE, Customer's Authorized Recipient, or Customer's Agent shall arrange for the transmission of the Project Power and Energy supplied hereunder from the Project Switchyard to Customer's points of delivery or the conversion of the Allocation into financial settlements and benefits by such other method of disposition consistent with Article VI of this Agreement and Appendix A hereto. Such delivery shall be consistent with the terms of the Open Access Transmission Tariff (OATT) or other applicable tariff of the NYISO and Customer shall be responsible for all costs associated with the transmission and delivery of the allocation.

V. Rates

Project Power and Energy shall be sold to Customer or to Customer's Authorized Recipient hereunder at cost-based rates equivalent to rates charged to in-state preference customers receiving preference power under the NRA.

Customer waives any challenges to any of the following methodologies and principles¹ to the extent that one or more of such methodologies and principles are used by the Authority to set rates different than those adopted by the Authority's Trustees in their meeting on April 29, 2003 based on the "January 2003 Report on Hydroelectric Production Rates" and as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

- (i) The principles set forth in the March 5, 1986 Settlement Agreement (settling *Auer v. Dyson*, No. 81-124 (Sup. Ct. Oswego Co.), *Auer v. Power Authority*, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and *Delaware County Electric Cooperative, Inc. v. Power Authority*, 82 Civ. 7256 (S.D.N.Y.) (the "Auer Settlement").
- (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.
- (iii) Treatment of sales to third parties, including the New York Independent System Operator.

¹ These methodologies and principles were employed in and explained by the Authority's January 2003 Report on Hydroelectric Production Rates and the Staff Analysis of Public Comments and Recommendations adopted by the Authority's Trustees on April 29, 2003.

- (iv) Allocation of Indirect Overheads.
- (v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.
- (vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).
- (vii) Rate Stabilization Reserve (RSR) methodology as supplemented by the explanatory statement attached hereto as Appendix B.

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Customer or the Customer's Authorized Recipient shall have the right to take any position whatsoever with respect to such methodology or principle, but shall not have the right to challenge any of the remaining methodologies and principles that continue to be employed by the Authority. Nothing contained herein shall preclude Customer or the Customer's Authorized Recipient from participating in the rate setting process and raising issues as to whether such methodologies and principles have been correctly employed.

VI. Use and Resale of Project Power and Energy

Customer or the Customer's Authorized Recipient shall use the Allocation for Customer's facilities or as otherwise allowed in accordance with this Agreement and Appendix A hereof.

In reselling and/or distributing the Allocation, except as otherwise provided in Appendix A hereof, Customer or the Customer's Authorized Recipient shall: 1) do so pursuant to the appropriate laws of the State of New York, 2) distribute such Allocation only to the Ultimate Users designated pursuant to Appendix A, 3) not permit such Ultimate Users to sell any of such Allocation for resale and 4) comply with the provisions of the NRA, the FERC License and the New York Power Authority Act (N.Y. Pub. Auth. Law Section 1000 et seq.), to the extent such Power Authority Act is not inconsistent with the FERC License.

Customer, Customer's Authorized Recipient or Customer's Agent shall keep its books, accounts and records pertaining to the purchase, delivery and sale of the Allocation according to procedures reasonably deemed necessary by Authority to ensure compliance with this Agreement and Appendix A hereof, applicable statutes, licenses, the Rules. Customer or Customer's Authorized Recipient shall provide such information and permit such inspection of its books and records as Authority may reasonably request and shall require Customer's Ultimate Users as identified in Appendix A of the Agreement to agree to do likewise.

The distribution of the benefits of the Allocation to Ultimate Users shall, where feasible, be accompanied by a statement indicating the total savings in dollars realized by the individual Ultimate User for the particular billing period as a result of the purchase of hydroelectric power and energy by Customer or Customer's Authorized Recipient from the Authority. The form and content of such statement shall be coordinated between Customer or Customer's Authorized Recipient and Authority.

VII. Permanent Reallocation of Project Power and Energy

If Customer is, or becomes unable or chooses not to receive, or to have Customer's Authorized Recipient not receive, any or all of the Project Power and Energy allocated to it on a permanent basis, such Project Power and Energy shall be reallocated by the Authority pro-rata among the other Host Communities. Customer shall provide written notice to the Authority and the other Host Communities of such inability or election within 30 days of its becoming aware of such inability or election. Upon receipt of such notice by the Authority, any required changes in the allocations of Project Power and Energy among the other Host Communities shall become effective as soon as practicable, without need to amend this Agreement and the Contract Demand in this Agreement shall be revised to reflect such reallocation, notwithstanding Article XIV hereof.

VIII. Availability of Energy

Subject to any other limitations set forth in the Rules or the Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient directly or indirectly provides the Allocation to Ultimate Users for physical delivery to such Users' accounts as set forth in Appendix A, Authority will supply Customer's (or Ultimate Users', as the case may be) entire demand and energy usage up to the Contract Demand. If there is any portion of the energy associated with the Allocation made available to Customer or Customer's Authorized Recipient (at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements) that is not required to serve such Ultimate Users' facilities, such energy may be utilized as Excess Power in the manner described in Appendix A.

As between Customer and the Authority, for any usage above the Contract Demand, it is Customer's responsibility to arrange for provision of such excess service by a third party supplier, and the apportionment of energy between suppliers shall be as set forth in Service Tariff No. HC-1, or any successor tariff.

Subject to any other limitations set forth in the Rules or Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient provides the benefits of the Allocation to Ultimate Users in the form of Power Credits as

set forth in Appendix A, the Allocation will be delivered at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements.

IX. Appointment of Customer's Agent

Upon reasonable prior written notice to the Authority, Customer shall have the right to delegate to an agent any or all duties under this Agreement ("Customer's Agent") and the Authority acknowledges that such duties may be performed by Customer's Agent. Such duties delegated to Customer's Agent may include the keeping of all records required by Authority, the payment of any or all amounts due to the Authority under this Agreement and any or all such other duties contained in this Agreement as may be specified by Customer; provided that the Customer may choose to assume and perform any or all of the duties previously delegated to Customer's Agent and provided further that nothing herein, including Customer's designation of such an agent, shall be deemed to be approval by the Authority of an assignment of any of Customer's duties and obligations under its Agreement with the Authority. Customer may, on reasonable prior written notice to the Authority (consistent with the Authority's and the NYISO's scheduling and business process requirements), designate a different party as Customer's Agent at any time during the term of this Agreement.

X. Term and Termination of Service

Service under the Agreement shall begin on the Commencement Date and shall continue until the earliest of (a) termination by Customer with respect to all of its Allocation upon ninety (90) days prior written notice, (b) termination by the Authority pursuant to the Rules upon required notice, or (c) September 1, 2025, at which time a new or modified agreement will be entered between the Authority and the Customer to provide Customer or Customer's Authorized Recipient with Project Power and Energy for the remainder of the licensing period in the amount and for the rate then in effect which complies with the terms of the Relicensing Settlement Agreement. If such a new or modified agreement is not in place to take effect after September 1, 2025, service will be continued under the terms and conditions of this Agreement on a year to year basis or until a new or modified agreement takes effect between the parties.

The Authority may cancel service hereunder or modify the quantities of Project Power and Energy allocated to Customer only (a) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency), or (b) as otherwise provided herein or in the Rules. Notwithstanding the foregoing, upon mutual agreement this Agreement may be extended beyond such date on a month to month basis pending execution of any successor agreement between the Customer and Authority. The Authority shall provide reasonable notice to

Customer of any matter or proceeding that could result in an order or decision as described in part (a) of this paragraph and nothing herein shall be construed as limiting Customer's right to challenge any such proposed action.

Nothing herein is intended to limit the rights of the Host Communities or Customer under the Relicensing Settlement Agreement and the Authority and Customer understand and agree that the Authority is obligated under such Relicensing Settlement Agreement to make a total of 1,500 KiloWatts of Project Power and Energy available to Customer or Customer's Authorized Recipient for the term of the FERC License, whether through extension of this Agreement or by subsequent agreement.

XI. Notification

Correspondence involving the administration of this Agreement shall be addressed as follows:

To: Authority

Manager – Power Contracts
New York Power Authority
123 Main Street
White Plains, NY 10601

To: Customer

Business Manager
Niagara Wheatfield Central School District
6700 Schultz Street
Niagara Falls, NY 14304

with a copy to:

Superintendent of Schools
Niagara Wheatfield Central School District
6700 Schultz Street
Niagara Falls, NY 14304

To: Customer's Authorized Recipient

XII. Applicable Law and Venue

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act. Any action or proceeding arising out of or relating to this Agreement shall be brought in state courts located in Albany County, New York.

XIII. Successors and Assigns

This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of the parties hereto; provided, however, that no assignment by a party or any successor or assignee of such party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other parties in each case obtained, which consent shall not be unreasonably withheld.

XIV. Previous Agreements and Communications

This Agreement, together with the Relicensing Settlement Agreement, shall constitute the sole and complete agreement of the parties hereto with respect to the matters herein set forth, and such Agreements supersede all previous communications between the Parties hereto, either oral or written, with reference to the subject matter hereof; provided, however, that additional terms pursuant to which Customer's Authorized Recipient is authorized to receive Customer's Allocation may be set forth in a separate agreement between Customer and Authorized Recipient. Any such separate agreement shall not be inconsistent with the terms of this Agreement and shall be provided to the Authority for informational purposes.

No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XV. Acceptance and Approvals

Upon approval of the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act, and upon execution by the parties, this

Agreement, the provisions of which shall survive for the term hereof, together with the Service Tariffs and Rules both as they may be amended, shall constitute the contract between the parties for Electric Service hereunder.

XVI. Severability and Voidability

If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

In such an event and at the request of any of the parties, the parties agree to engage in good faith negotiations on possible modification to this Agreement to remedy any portion of this Agreement that was declared invalid, unlawful or ineffective. Such good faith negotiations shall conform to the requirements comparable to those of section 10.1.3 of the Relicensing Settlement Agreement. To the extent that good faith negotiations do not result in an agreement as to whether or how this Agreement should be modified, the parties agree to resolve their differences in accordance with the alternative dispute resolution mechanism set forth in section 12 of the Relicensing Settlement Agreement. The primary goal of any good faith negotiation or alternative dispute resolution mechanism shall be to preserve to the greatest extent as possible, the benefit of the parties' intended bargain.

XVII. Effectiveness of Agreement

This Agreement shall take effect on the later of: (i) the acceptance of the new License or (ii) the date of this Agreement's execution under Article XV above.

CUSTOMER: NIAGARA WHEATFIELD CENTRAL SCHOOL DISTRICT

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

AUTHORIZED RECIPIENT: NIAGARA COUNTY, NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK

30 South Pearl Street, Albany, NY 12207

Service Tariff No. HC -1

Schedule of Rates for Firm Hydroelectric Power
and Energy Service

EFFECTIVE:

September 1, 2007

APPLICABLE:

To sale of Niagara Firm Hydroelectric Project Power and Energy to the Host Communities customers and/or their Authorized Recipients eligible for cost-based service under the Niagara Relicensing Settlement Agreement.

CHARACTER OF SERVICE:

Alternating current, 60 hertz, three-phase.

RATES (effective May 1, 2006):

Capacity Rate: \$2.38 per kilowatt per month of Billing Demand at the Project switchyard.

Base Energy Rate: 4.92 mills per kilowatt-hour

Future rates shall be as determined by the Authority.

The Base Energy Rate set forth herein shall be subject to a monthly adjustment in accordance with a flow adjustment computation (FAC) as described in Appendix B.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Rate and the Billing Demand.

POWER FACTOR:

Not less than 95% lagging or leading, except as otherwise specified in the Agreement.

DEFINITIONS:

Billing Demand: The Billing Demand shall be the Customer's Contract Demand.

Billing Energy: Energy provided by Authority under this service tariff.

Billing Period: Any period of approximately thirty (30) days, generally ending with the last day of each calendar month.

GENERAL PROVISIONS:

General Provisions for service supplementing or modifying the Rules and Regulations for Power Service and Service Tariff No. HC – 1 with regard to deliveries to Customer are as follows:

A Availability of Energy

Unless otherwise agreed upon by the Parties, Authority shall normally provide in any Billing Period firm Energy to Customer and/or Customer's Authorized Recipient in an amount equal to the product of (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement. The Authority will have the right to reduce on a pro rata basis the amount of energy provided to Customer and/or Customer's Authorized Recipient if such reductions are necessary due to low flow (i.e., hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to Customer and/or Customer's Authorized Recipient in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. The Authority shall provide reasonable notice to Customer and Customer's Authorized Recipient of any condition or activities that could result, or have resulted, in low flow conditions consistent with the notice provided to other similarly affected customers.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient is taking service solely from Authority, the Billing Energy shall be the total number of kilowatt-hours recorded on Customer's and/or Customer's Authorized Recipient's meter (or the meters of entities served by Customer and/or Customer's Authorized Recipient as indicated in the Agreement) during the Billing Period, adjusted for losses.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient takes service from other sources in addition to service supplied hereunder, the Billing Energy shall be determined by multiplying (A) the number of hours in such Billing Period, (B) the Contract Demand

applicable in such Billing Period and (C) the load factor specified in the Agreement.

B Adjustment of Rates

To the extent not inconsistent with the attached Agreement, the rates contained in this Service Tariff HC-1 may be revised from time to time on not less than thirty (30) days written notice to Customer.

C Delivery

For the purpose of this Service Tariff HC -1, Power and/or Energy shall be delivered by Authority at the Project Switchyard to the transmission facilities under the control of the NYISO for delivery to Customer and/or Customer's Authorized Recipient.

For the purpose of these Service Tariffs, Power and/or Energy shall be deemed to be offered when Authority is able to supply Power and Energy and NYISO transmits it to Customer and/or Customer's Authorized Recipient or its designated points of interconnection with Customer's Delivering Agent at the Niagara Project Switchyard. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. If, despite such offer, there is a failure of delivery by Customer, Customer's Authorized Recipient, or Customer's Agent, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D Scheduling Procedures

1. Authority will advise Customer, and Customer's Authorized Recipient, or Customer's Agent by the tenth (10th) Business Day of the preceding month of the estimated quantity of Energy expected by Service Tariff to be made available from the Project.
2. Authority may require that such Energy from the Project be scheduled in general accordance with the load shape of Customer, Customer's Authorized Recipient, or Customer's Agent or as otherwise agreed upon by the Customer and Authority.
3. Customer, Customer's Authorized Recipient, or Customer's Agent shall file with Authority pursuant to procedures established by Authority, a daily schedule setting forth the Customer's and/or Customer's Authorized Recipient's requested amounts from the Project on a clock hour basis.
4. Subsequent to Authority approval of schedules for any day, Authority and Customer, Customer's Authorized Recipient, or Customer's Agent may agree on changes in such schedules subject to NYISO scheduling

requirements and procedures Authority shall establish such that an efficient dispatch of Authority facilities will be accomplished.

E Payment by Customer and/or Customer's Authorized Recipient for Power and/or Energy

1. Customer and/or Customer's Authorized Recipient shall pay for Power and/or Energy during any Billing Period the sum of a) and b) below:
 - a. For Firm Hydroelectric Power and Energy the capacity rate per kilowatt specified in this Service Tariff or any modification thereof applied to Customer's Billing Demand for the Billing Period: and
 - b. The Energy rate specified in this Service Tariff or any modification thereof applied to the amount of firm Billing Energy delivered by Authority to Customer and/or Customer's Authorized Recipient during such Billing Period.
2. Bills computed under Service Tariff HC-1 are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by Authority. In the event that there is a dispute on any items of a bill rendered by Authority, Customer shall pay such bill and adjustments, if necessary, will be made thereafter.

F Supplementary Provision

Sections 454.2 (c) and 454.5 of the Rules are inapplicable to this Service Tariff.

Appendix A

Except as Customer determines otherwise, consistent with the terms of this Agreement, Customer or Customer's Authorized Recipient will initially distribute power and energy purchased from the New York Power Authority under the Agreement or the economic benefit of such power and energy to the following Ultimate Users _____

Customer may add to or delete from the above list of Ultimate Users on thirty (30) day's notice to the Authority. Customer in its sole determination may elect to use its full Allocation or any part thereof, for economic development. The economic development program description, allocation criteria and methodology shall be submitted to and approved by the Authority which approval shall not be unreasonably withheld.

The benefits of the Allocation shall be provided to such Ultimate Users either by direct sale or by allocation by the Customer (or by Customer's Authorized Recipient or Authorized Agent) of electricity or the provision of financial settlements and benefits, as set forth below, or through different methods approved by the Authority. Customer shall have the right to recover as Customer Costs its direct administrative and services costs, reasonable compensation for use of third party facilities and services furnished to Customer in the transmission and distribution of such power, all costs associated with negotiating the Agreement and the establishment of mechanisms to accept and distribute the Allocation, and any similar costs, incurred after the execution of the Host Community Relicensing Settlement Agreement dated June 27, 2005. Such Customer Costs shall be reimbursed to Customer or otherwise paid by the Ultimate User by procedures to be determined.

The listing or description of the foregoing Ultimate Users in no way mandates or requires for any reason that the Customer provide any portion of the Allocation (or Power Credits) to an Ultimate User and shall not preclude the Customer from denying any such Ultimate User the benefits associated with an allocation for any reason as determined by Customer.

A Direct Sale / Allocation, Use of Excess Power

Customer, Customer's Authorized Recipient or Customer's Agent may make a portion of the Allocation available to an Ultimate User for delivery at such Ultimate User's electricity accounts under the tariffs, rules and regulations of the NYISO and the utility in whose service area such accounts are located. If there is any portion of the Allocation made available to Customer or Customer's Authorized Recipient that is not required to serve such Ultimate User's facilities, such Excess Power (up to the load factor specified in the Agreement) may be utilized as follows:

1. Customer, Customer's Authorized Recipient or Customer's Agent may schedule Excess Power into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), shall be applied by Customer to payment of Customer's (or an Ultimate User's, as the case may be) energy-related costs, including but not limited to, the purchase of energy commodities, the

delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the term of the Agreement.

2. Customer or Customer's Authorized Recipient may use the Excess Power (or the benefits associated with such Excess Power derived from a financial settlement as set forth in the preceding Paragraph 1) for economic development by providing credits to a business to apply against the cost of power or energy and/or the cost of delivery of power or energy consumed by such business.

B Power Credits

Customer, Customer's Authorized Recipient or Customer's Agent, may schedule all of Customer's Allocation (up to the load factor specified in the Agreement) into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), may be provided to Ultimate Users in the form of Power Credits by Customer or Customer's Authorized Recipient as follows:

Power Credits may be applied towards the cost and/or delivery of electric power or energy consumed by the Ultimate User or for other energy-related costs, including but not limited to, purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the terms of the Agreement.

C Service through Authorized Entity

Through assignment, transfer or otherwise, including through an agency arrangement, Customer shall have the right to make available its Allocation or any part thereof to any entity, including but not limited to Customer's Authorized Recipient, that is duly authorized to receive, purchase, transmit, distribute, and/or resell the power and energy included in the Allocation or otherwise to engage in such transactions as are necessary to effectuate the delivery of the Allocation and/or to provide the financial benefits thereof to the Customer, the Customer's Ultimate Users and the Customer's constituents, as determined in the exercise of the Customer's discretion and consistent with the provisions of the Host Community Relicensing Settlement Agreement dated June 27, 2005 and Article VI of the Agreement. Any such assignment, transfer, agency arrangement or similar transaction contemplated by this paragraph may, but shall not be required to, include elements of the other methods described in this Appendix A.

D Continuity

In the event that any administrative agency or court of competent jurisdiction shall determine that any element of any of the foregoing methods of distributing the Allocations and/or financial benefits thereof is unauthorized or illegal, the Customer shall propose an

alternative method of distribution, not necessarily limited to those described above, and the Authority shall promptly determine whether to accept such alternative method. Such acceptance shall not be unreasonably withheld.

E Right to Alternate Between Methods

Customer shall have the right at its discretion and without restriction to alternate between the methods for the distribution of the benefits of the Allocation as set forth in Sections A through D above, upon giving sixty (60) days written notice to the Authority.

Appendix B

**NEW YORK POWER AUTHORITY RATE STABILIZATION RESERVE
METHODOLOGY**

The Rate Stabilization Reserve (RSR) is calculated consistent with Service Tariff provisions regarding the Flow Adjustment Computation (FAC), which was not altered in the January 2003 Report on Hydroelectric Production Rates or the Staff Analysis of Public Comments and Recommendations adopted by the Trustees of the Power Authority on April 29, 2003. The calculation is described below:

1. Calculate the total cost of service (CoS) for the Niagara/St. Lawrence projects. Costs include: Operations and Maintenance, amortized roadwork, Indirect Overheads (Shared Services, Research and Development, debt service) and Capital Costs (using TOC for equity funded and OC for debt funded).
2. Credit the CoS by any excess capacity (ICAP) sales to the ISO.
3. Allocate costs to the demand function by multiplying the sum of the customers' billed demands by the preference demand charge, which has been inflated to include Ancillary Services production costs. This larger demand charge is used only for the purposes of the RSR.
4. Calculate the cost-based energy rate by dividing the remaining energy assigned costs by the annual metered generation.
5. Calculate the difference between the cost-based energy rate and the billed preference energy rate.
6. Multiply the difference in the rates by the actual annual billed preference energy sales to determine the annual change in the RSR.
7. Add the annual change to the RSR balance from the prior year-end to get the current year-end RSR balance.
8. If the current year-end balance is in excess of +/- \$25 million, the excess would be subject to a credit or a surcharge in the subsequent rate year.

POWER AUTHORITY
OF THE
STATE OF NEW YORK

30 South Pearl Street
Albany, New York

AGREEMENT FOR THE SALE
OF NIAGARA PROJECT HYDROELECTRIC POWER AND ENERGY
TO THE NIAGARA PROJECT HOST COMMUNITIES

Service Tariff No. HC-1 - Firm Hydroelectric Power and Energy
(LEWISTON-PORTER CENTRAL SCHOOL DISTRICT)

DRAFT

March 27, 2007

POWER AUTHORITY OF THE STATE OF NEW YORK

**30 South Pearl Street
Albany, New York 12207**

**AGREEMENT FOR THE SALE OF HYDROELECTRIC POWER AND ENERGY TO
THE NIAGARA PROJECT HOST COMMUNITIES**

**SERVICE TARIFF No. HC-1 – Firm Hydroelectric Power and Energy
(LEWISTON-PORTER CENTRAL SCHOOL DISTRICT)**

Lewiston-Porter Central School District (“Customer”) hereby enters into this Agreement with the Power Authority of the State of New York for electric service as follows:

I. Definitions

- a. **Acceptance of the New License** shall mean the date upon which the Power Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later.
- b. **Agreement** means this Agreement.
- c. **Allocation** shall mean the amount of power and associated energy that the Authority has allocated to Customer hereunder.
- d. **Ancillary Services** shall be as defined by the NYISO in its rules, tariffs, manuals and procedures.
- e. **Commencement Date** shall be as set forth in Article XVII.
- f. **Authority** is the Power Authority of the State of New York.
- g. **Authorized Recipient** is defined in Article II.
- h. **Contract Demand** will be the amounts set forth in Section II or such other amount as may be determined in accordance with the provisions of this Agreement.
- i. **Customer** is the municipality (Host Community) identified above.
- j. **Customer’s Agent** is defined in Article IX.

- k. **Electric Service** is Power and Energy available to Customer in accordance with applicable Service Tariffs, Rules and other contract documents.
- l. **Excess Power** is defined in Article VIII and Appendix A.
- m. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).
- n. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which new license will become effective after expiration of the Project's original license issued on January 30, 1958.
- o. **Firm Hydroelectric Power and Energy** are firm power and associated energy from the Authority's Niagara Power Project, intended to be available at all times except for limitations provided in this Agreement, the Rules, applicable Service Tariff or in other contract documents.
- p. **Green Attributes** (sometimes referred to as Renewable Attributes or Renewable Energy Credits) are attributes associated with renewable energy power production facilities as may be defined by law or administrative action now or in the future, including but not limited to the Renewable Portfolio Standard proceeding of the New York Public Service Commission.
- q. **Host Communities** are Niagara County, City of Niagara Falls, Town of Lewiston, Town of Niagara, City of Niagara Falls School District, Lewiston-Porter School District and Niagara-Wheatfield School District.
- r. **Load Serving Entity** is an entity authorized or required by law, regulatory authorization or requirement, agreement, or contractual obligation to supply Energy, Capacity and/or Ancillary Services to retail customers under the rules, tariffs, manuals and procedures of the NYISO.
- s. **NRA** means the federal Niagara Redevelopment Act (18 USC §§ 836, 836a).
- t. **NYISO** means the New York Independent System Operator or any successor organization.
- u. **Power Credits** are defined in Article VIII and Appendix A.
- v. **Project** means the Niagara Power Project, FERC Project 2216.

- w. **Project Power and Energy** means Firm Hydroelectric Power and Energy produced by the Project.
- x. **Project Switchyard** is the Niagara Project switchyard.
- y. **Relicensing Settlement Agreement** means the Niagara Power Project, FERC Project No. 2216 Host Community Relicensing Settlement Agreement Addressing Non-License Terms and Conditions allocation of Niagara Project Power and Energy to the Host Communities dated June 27, 2005.
- z. **Rules** are the applicable provisions of the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York).
- aa. **Service Tariffs** are schedules establishing rates and other conditions for sale of Electric Services to Customer.
- bb. **Ultimate Users** are entities to whom Customer or Customer's Authorized Recipient will resell (or otherwise convey benefits associated with) Project Power and Energy purchased from the Authority as provided in Article VI of this Agreement and Appendix A hereto. Customer may designate itself as an Ultimate User.
- cc. **Unforced Capacity** is the capacity required to be provided by Load Serving Entities to serve load as defined by the NYISO in its rules, tariffs, manuals and procedures.

All other terms not otherwise defined herein shall have the meanings ascribed to them in the electric industry.

II. **Electric Service to be Provided**

- a. The Authority shall provide Electric Service pursuant to Service Tariff HC-1 for Power and/or Energy to enable the Customer or the Customer's Authorized Recipient, as defined below, to receive the Allocation from the Project in accordance with the provisions of the FERC License and Relicensing Settlement Agreement, in the amount set forth below:

Firm Hydroelectric Power and Energy Service pursuant to
Service Tariff No. HC-1: 1,500 KiloWatts (Contract Demand)

Upon execution of this Agreement by a Host Community, other than Customer, that is legally capable of receiving an Allocation from the Project (Authorized Recipient) such Authorized Recipient shall be authorized to receive the Allocation of the Customer in accordance with the terms and conditions set forth in this

Agreement, including Appendix A hereof. Such authorization may be revoked by Customer upon reasonable notice to the Authority and Customer's Authorized Recipient; provided, however, that Customer shall, as of the effective date of such revocation, have made arrangements (a) with another Authorized Recipient to receive the Customer's Allocation, or (b) to receive such Allocation itself, if legally capable of doing so.

The Authority shall provide Unforced Capacity in amounts necessary to meet Customer's NYISO Unforced Capacity obligations associated with the foregoing Allocation in accordance with the rules and tariffs of the NYISO. Neither Ancillary Services, nor Green Attributes are included in such allocation.

- b. The Contract Demands for Project Power and Energy may be modified by the Authority if the amounts of such Project Power and Energy available for sale from the Project are modified as required to comply with any ruling, order or decision of any regulatory or judicial body having jurisdiction. The Authority shall provide reasonable notice to Customer of any such proposed action that could result in modification of Contract Demands and nothing herein shall be construed as limiting customer's rights to challenge any proposed reduction in Contract Demands.

III. Rules, Regulations and Service Tariffs

The Rules and Service Tariff No. HC-1, as now in effect and/or such superseding tariffs or other tariffs as the Authority may later promulgate, all as such Rules and Service Tariffs may be later amended from time to time by the Authority, are hereby incorporated into this Agreement with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between Articles I through XVII of this Agreement and the Service Tariffs, the provisions of Articles I through XVII of this Agreement shall govern. The Authority shall provide at least thirty (30) days prior written notice to Customer of any proposed change in the above Rules and Service Tariffs, but in no event shall Authority provide less notice than that provided to similarly affected customers within New York State if that period of minimum notice is greater than herein referenced. Except as expressly provided otherwise herein, nothing contained in this Agreement shall be construed as restricting Customer's rights to participate in processes involving changes to rates, Rules and Service Tariffs or other matters affecting the subject of this Agreement.

IV. Transmission and Delivery of Power and Energy

Authority shall make Project Power and Energy available to Customer, Customer's Authorized Recipient or Customer's Agent at the Project Switchyard.

It is the Customer's responsibility to act as the Load Serving Entity ("LSE"), arrange for one or more other entities to do so on its behalf or make other arrangements for conveying the benefits associated with the allocation to Ultimate Users. Customer, or the entity acting as LSE, Customer's Authorized Recipient, or Customer's Agent shall arrange for the transmission of the Project Power and Energy supplied hereunder from the Project Switchyard to Customer's points of delivery or the conversion of the Allocation into financial settlements and benefits by such other method of disposition consistent with Article VI of this Agreement and Appendix A hereto. Such delivery shall be consistent with the terms of the Open Access Transmission Tariff (OATT) or other applicable tariff of the NYISO and Customer shall be responsible for all costs associated with the transmission and delivery of the allocation.

V. Rates

Project Power and Energy shall be sold to Customer or to Customer's Authorized Recipient hereunder at cost-based rates equivalent to rates charged to in-state preference customers receiving preference power under the NRA.

Customer waives any challenges to any of the following methodologies and principles¹ to the extent that one or more of such methodologies and principles are used by the Authority to set rates different than those adopted by the Authority's Trustees in their meeting on April 29, 2003 based on the "January 2003 Report on Hydroelectric Production Rates" and as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

- (i) The principles set forth in the March 5, 1986 Settlement Agreement (settling *Auer v. Dyson*, No. 81-124 (Sup. Ct. Oswego Co.), *Auer v. Power Authority*, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and *Delaware County Electric Cooperative, Inc. v. Power Authority*, 82 Civ. 7256 (S.D.N.Y.) (the "Auer Settlement").
- (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.
- (iii) Treatment of sales to third parties, including the New York Independent System Operator.
- (iv) Allocation of Indirect Overheads.
- (v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.

¹ These methodologies and principles were employed in and explained by the Authority's January 2003 Report on Hydroelectric Production Rates and the Staff Analysis of Public Comments and Recommendations adopted by the Authority's Trustees on April 29, 2003.

- (vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).
- (vii) Rate Stabilization Reserve (RSR) methodology as supplemented by the explanatory statement attached hereto as Appendix B

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Customer or the Customer's Authorized Recipient shall have the right to take any position whatsoever with respect to such methodology or principle, but shall not have the right to challenge any of the remaining methodologies and principles that continue to be employed by the Authority. Nothing contained herein shall preclude Customer or the Customer's Authorized Recipient from participating in the rate setting process and raising issues as to whether such methodologies and principles have been correctly employed.

VI. Use and Resale of Project Power and Energy

Customer or the Customer's Authorized Recipient shall use the Allocation for Customer's facilities or as otherwise allowed in accordance with this Agreement and Appendix A hereof.

In reselling and/or distributing the Allocation, except as otherwise provided in Appendix A hereof, Customer or the Customer's Authorized Recipient shall: 1) do so pursuant to the appropriate laws of the State of New York, 2) distribute such Allocation only to the Ultimate Users designated pursuant to Appendix A, 3) not permit such Ultimate Users to sell any of such Allocation for resale and 4) comply with the provisions of the NRA, the FERC License and the New York Power Authority Act (N.Y. Pub. Auth. Law Section 1000 et seq.), to the extent such Power Authority Act is not inconsistent with the FERC License.

Customer, Customer's Authorized Recipient or Customer's Agent shall keep its books, accounts and records pertaining to the purchase, delivery and sale of the Allocation according to procedures reasonably deemed necessary by Authority to ensure compliance with this Agreement and Appendix A hereof, applicable statutes, licenses, the Rules. Customer or Customer's Authorized Recipient shall provide such information and permit such inspection of its books and records as Authority may reasonably request and shall require Customer's Ultimate Users as identified in Appendix A of the Agreement to agree to do likewise.

The distribution of the benefits of the Allocation to Ultimate Users shall, where feasible, be accompanied by a statement indicating the total savings in dollars realized by the individual Ultimate User for the particular billing period as a result of the purchase of hydroelectric power and energy by Customer or Customer's Authorized Recipient from the Authority. The form and content of such statement

shall be coordinated between Customer or Customer's Authorized Recipient and Authority.

VII. Permanent Reallocation of Project Power and Energy

If Customer is, or becomes unable or chooses not to receive, or to have Customer's Authorized Recipient not receive, any or all of the Project Power and Energy allocated to it on a permanent basis, such Project Power and Energy shall be reallocated by the Authority pro-rata among the other Host Communities. Customer shall provide written notice to the Authority and the other Host Communities of such inability or election within 30 days of its becoming aware of such inability or election. Upon receipt of such notice by the Authority, any required changes in the allocations of Project Power and Energy among the other Host Communities shall become effective as soon as practicable, without need to amend this Agreement and the Contract Demand in this Agreement shall be revised to reflect such reallocation, notwithstanding Article XIV hereof.

VIII. Availability of Energy

Subject to any other limitations set forth in the Rules or the Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient directly or indirectly provides the Allocation to Ultimate Users for physical delivery to such Users' accounts as set forth in Appendix A, Authority will supply Customer's (or Ultimate Users', as the case may be) entire demand and energy usage up to the Contract Demand. If there is any portion of the energy associated with the Allocation made available to Customer or Customer's Authorized Recipient (at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements) that is not required to serve such Ultimate Users' facilities, such energy may be utilized as Excess Power in the manner described in Appendix A.

As between Customer and the Authority, for any usage above the Contract Demand, it is Customer's responsibility to arrange for provision of such excess service by a third party supplier, and the apportionment of energy between suppliers shall be as set forth in Service Tariff No. HC-1, or any successor tariff.

Subject to any other limitations set forth in the Rules or Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient provides the benefits of the Allocation to Ultimate Users in the form of Power Credits as set forth in Appendix A, the Allocation will be delivered at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements.

IX. Appointment of Customer's Agent

Upon reasonable prior written notice to the Authority, Customer shall have the right to delegate to an agent any or all duties under this Agreement ("Customer's

Agent”) and the Authority acknowledges that such duties may be performed by Customer's Agent. Such duties delegated to Customer's Agent may include the keeping of all records required by Authority, the payment of any or all amounts due to the Authority under this Agreement and any or all such other duties contained in this Agreement as may be specified by Customer; provided that the Customer may choose to assume and perform any or all of the duties previously delegated to Customer's Agent and provided further that nothing herein, including Customer's designation of such an agent, shall be deemed to be approval by the Authority of an assignment of any of Customer's duties and obligations under its Agreement with the Authority. Customer may, on reasonable prior written notice to the Authority (consistent with the Authority's and the NYISO's scheduling and business process requirements), designate a different party as Customer's Agent at any time during the term of this Agreement.

X. Term and Termination of Service

Service under the Agreement shall begin on the Commencement Date and shall continue until the earliest of (a) termination by Customer with respect to all of its Allocation upon ninety (90) days prior written notice, (b) termination by the Authority pursuant to the Rules upon required notice, or (c) September 1, 2025, at which time a new or modified agreement will be entered between the Authority and the Customer to provide Customer or Customer's Authorized Recipient with Project Power and Energy for the remainder of the licensing period in the amount and for the rate then in effect which complies with the terms of the Relicensing Settlement Agreement. If such a new or modified agreement is not in place to take effect after September 1, 2025, service will be continued under the terms and conditions of this Agreement on a year to year basis or until a new or modified agreement takes effect between the parties.

The Authority may cancel service hereunder or modify the quantities of Project Power and Energy allocated to Customer only (a) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency), or (b) as otherwise provided herein or in the Rules. Notwithstanding the foregoing, upon mutual agreement this Agreement may be extended beyond such date on a month to month basis pending execution of any successor agreement between the Customer and Authority. The Authority shall provide reasonable notice to Customer of any matter or proceeding that could result in an order or decision as described in part (a) of this paragraph and nothing herein shall be construed as limiting Customer's right to challenge any such proposed action.

Nothing herein is intended to limit the rights of the Host Communities or Customer under the Relicensing Settlement Agreement and the Authority and Customer understand and agree that the Authority is obligated under such Relicensing Settlement Agreement to make a total of 1,500 KiloWatts of Project

Power and Energy available to Customer or Customer's Authorized Recipient for the term of the FERC License, whether through extension of this Agreement or by subsequent agreement.

XI. Notification

Correspondence involving the administration of this Agreement shall be addressed as follows:

To: Authority

Manager – Power Contracts
New York Power Authority
123 Main Street
White Plains, NY 10601

To: Customer

Lewiston-Porter Central School District
4061 Creek Road
Youngstown, NY 14174

Attention: President, Board of Education

With a copy to:

To: Customer's Authorized Recipient

XII. Applicable Law and Venue

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act. Any action or proceeding arising out of or relating to this Agreement shall be brought in state courts located in Albany County, New York.

XIII. Successors and Assigns

This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of the parties hereto; provided, however, that no assignment by a party or any successor or assignee of such party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other parties in each case obtained, which consent shall not be unreasonably withheld.

XIV. Previous Agreements and Communications

This Agreement, together with the Relicensing Settlement Agreement, shall constitute the sole and complete agreement of the parties hereto with respect to the matters herein set forth, and such Agreements supersede all previous communications between the Parties hereto, either oral or written, with reference to the subject matter hereof; provided, however, that additional terms pursuant to which Customer's Authorized Recipient is authorized to receive Customer's Allocation may be set forth in a separate agreement between Customer and Authorized Recipient. Any such separate agreement shall not be inconsistent with the terms of this Agreement and shall be provided to the Authority for informational purposes.

No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XV. Acceptance and Approvals

Upon approval of the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act, and upon execution by the parties, this Agreement, the provisions of which shall survive for the term hereof, together with the Service Tariffs and Rules both as they may be amended, shall constitute the contract between the parties for Electric Service hereunder.

XVI. Severability and Voidability

If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

In such an event and at the request of any of the parties, the parties agree to engage in good faith negotiations on possible modification to this Agreement to remedy any portion of this Agreement that was declared invalid, unlawful or ineffective. Such good faith negotiations shall conform to the requirements comparable to those of section 10.1.3 of the Relicensing Settlement Agreement. To the extent that good faith negotiations do not result in an agreement as to

whether or how this Agreement should be modified, the parties agree to resolve their differences in accordance with the alternative dispute resolution mechanism set forth in section 12 of the Relicensing Settlement Agreement. The primary goal of any good faith negotiation or alternative dispute resolution mechanism shall be to preserve to the greatest extent as possible, the benefit of the parties' intended bargain.

XVII. Effectiveness of Agreement

This Agreement shall take effect on the later of: (i) the acceptance of the new License or (ii) the date of this Agreement's execution under Article XV above.

CUSTOMER: LEWISTON-PORTER CENTRAL SCHOOL DISTRICT

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

AUTHORIZED RECIPIENT: NIAGARA COUNTY, NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK
30 South Pearl Street, Albany, NY 12207

Service Tariff No. HC -1

Schedule of Rates for Firm Hydroelectric Power
and Energy Service

EFFECTIVE:

September 1, 2007

APPLICABLE:

To sale of Niagara Firm Hydroelectric Project Power and Energy to the Host Communities customers and/or their Authorized Recipients eligible for cost-based service under the Niagara Relicensing Settlement Agreement.

CHARACTER OF SERVICE:

Alternating current, 60 hertz, three-phase.

RATES (effective May 1, 2006):

Capacity Rate: \$2.38 per kilowatt per month of Billing Demand at the Project switchyard.

Base Energy Rate: 4.92 mills per kilowatt-hour

Future rates shall be as determined by the Authority.

The Base Energy Rate set forth herein shall be subject to a monthly adjustment in accordance with a flow adjustment computation (FAC) as described in Appendix B.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Rate and the Billing Demand.

POWER FACTOR:

Not less than 95% lagging or leading, except as otherwise specified in the Agreement.

DEFINITIONS:

Billing Demand: The Billing Demand shall be the Customer's Contract Demand.

Billing Energy: Energy provided by Authority under this service tariff.

Billing Period: Any period of approximately thirty (30) days, generally ending with the last day of each calendar month.

GENERAL PROVISIONS:

General Provisions for service supplementing or modifying the Rules and Regulations for Power Service and Service Tariff No. HC – 1 with regard to deliveries to Customer are as follows:

A Availability of Energy

Unless otherwise agreed upon by the Parties, Authority shall normally provide in any Billing Period firm Energy to Customer and/or Customer's Authorized Recipient in an amount equal to the product of (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement. The Authority will have the right to reduce on a pro rata basis the amount of energy provided to Customer and/or Customer's Authorized Recipient if such reductions are necessary due to low flow (i.e., hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to Customer and/or Customer's Authorized Recipient in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. The Authority shall provide reasonable notice to Customer and Customer's Authorized Recipient of any condition or activities that could result, or have resulted, in low flow conditions consistent with the notice provided to other similarly affected customers.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient is taking service solely from Authority, the Billing Energy shall be the total number of kilowatt-hours recorded on Customer's and/or Customer's Authorized Recipient's meter (or the meters of entities served by Customer and/or Customer's Authorized Recipient as indicated in the Agreement) during the Billing Period, adjusted for losses.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient takes service from other sources in addition to service supplied hereunder, the Billing Energy shall be determined by multiplying

(A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement.

B Adjustment of Rates

To the extent not inconsistent with the attached Agreement, the rates contained in this Service Tariff HC-1 may be revised from time to time on not less than thirty (30) days written notice to Customer.

C Delivery

For the purpose of this Service Tariff HC -1, Power and/or Energy shall be delivered by Authority at the Project Switchyard to the transmission facilities under the control of the NYISO for delivery to Customer and/or Customer's Authorized Recipient.

For the purpose of these Service Tariffs, Power and/or Energy shall be deemed to be offered when Authority is able to supply Power and Energy and NYISO transmits it to Customer and/or Customer's Authorized Recipient or its designated points of interconnection with Customer's Delivering Agent at the Niagara Project Switchyard. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. If, despite such offer, there is a failure of delivery by Customer, Customer's Authorized Recipient, or Customer's Agent, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D Scheduling Procedures

1. Authority will advise Customer, and Customer's Authorized Recipient, or Customer's Agent by the tenth (10th) Business Day of the preceding month of the estimated quantity of Energy expected by Service Tariff to be made available from the Project.
2. Authority may require that such Energy from the Project be scheduled in general accordance with the load shape of Customer, Customer's Authorized Recipient, or Customer's Agent or as otherwise agreed upon by the Customer and Authority.
3. Customer, Customer's Authorized Recipient, or Customer's Agent shall file with Authority pursuant to procedures established by Authority, a daily schedule setting forth the Customer's and/or Customer's Authorized Recipient's requested amounts from the Project on a clock hour basis.

4. Subsequent to Authority approval of schedules for any day, Authority and Customer, Customer's Authorized Recipient, or Customer's Agent may agree on changes in such schedules subject to NYISO scheduling requirements and procedures Authority shall establish such that an efficient dispatch of Authority facilities will be accomplished.

E Payment by Customer and/or Customer's Authorized Recipient for Power and/or Energy

1. Customer and/or Customer's Authorized Recipient shall pay for Power and/or Energy during any Billing Period the sum of a) and b) below:
 - a. For Firm Hydroelectric Power and Energy the capacity rate per kilowatt specified in this Service Tariff or any modification thereof applied to Customer's Billing Demand for the Billing Period: and
 - b. The Energy rate specified in this Service Tariff or any modification thereof applied to the amount of firm Billing Energy delivered by Authority to Customer and/or Customer's Authorized Recipient during such Billing Period.
2. Bills computed under Service Tariff HC-1 are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by Authority. In the event that there is a dispute on any items of a bill rendered by Authority, Customer shall pay such bill and adjustments, if necessary, will be made thereafter.

F Supplementary Provision

Sections 454.2 (c) and 454.5 of the Rules are inapplicable to this Service Tariff.

Appendix A

Except as Customer determines otherwise, consistent with the terms of this Agreement, Customer or Customer's Authorized Recipient will initially distribute power and energy purchased from the New York Power Authority under the Agreement or the economic benefit of such power and energy to the following Ultimate Users _____

Customer may add to or delete from the above list of Ultimate Users on thirty (30) day's notice to the Authority. Customer in its sole determination may elect to use its full Allocation or any part thereof, for economic development. The economic development program description, allocation criteria and methodology shall be submitted to and approved by the Authority which approval shall not be unreasonably withheld.

The benefits of the Allocation shall be provided to such Ultimate Users either by direct sale or by allocation by the Customer (or by Customer's Authorized Recipient or Authorized Agent) of electricity or the provision of financial settlements and benefits, as set forth below, or through different methods approved by the Authority. Customer shall have the right to recover as Customer Costs its direct administrative and services costs, reasonable compensation for use of third party facilities and services furnished to Customer in the transmission and distribution of such power, all costs associated with negotiating the Agreement and the establishment of mechanisms to accept and distribute the Allocation, and any similar costs, incurred after the execution of the Host Community Relicensing Settlement Agreement dated June 27, 2005. Such Customer Costs shall be reimbursed to Customer or otherwise paid by the Ultimate User by procedures to be determined.

The listing or description of the foregoing Ultimate Users in no way mandates or requires for any reason that the Customer provide any portion of the Allocation (or Power Credits) to an Ultimate User and shall not preclude the Customer from denying any such Ultimate User the benefits associated with an allocation for any reason as determined by Customer.

A Direct Sale / Allocation, Use of Excess Power

Customer, Customer's Authorized Recipient or Customer's Agent may make a portion of the Allocation available to an Ultimate User for delivery at such Ultimate User's electricity accounts under the tariffs, rules and regulations of the NYISO and the utility in whose service area such accounts are located. If there is any portion of the Allocation made available to Customer or Customer's Authorized Recipient that is not required to serve such Ultimate User's facilities, such Excess Power (up to the load factor specified in the Agreement) may be utilized as follows:

1. Customer, Customer's Authorized Recipient or Customer's Agent may schedule Excess Power into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), shall be applied by Customer to payment of Customer's (or an Ultimate User's, as the case may be) energy-related costs, including but not limited to, the purchase of energy commodities, the

delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the term of the Agreement.

2. Customer or Customer's Authorized Recipient may use the Excess Power (or the benefits associated with such Excess Power derived from a financial settlement as set forth in the preceding Paragraph 1) for economic development by providing credits to a business to apply against the cost of power or energy and/or the cost of delivery of power or energy consumed by such business.

B Power Credits

Customer, Customer's Authorized Recipient or Customer's Agent, may schedule all of Customer's Allocation (up to the load factor specified in the Agreement) into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), may be provided to Ultimate Users in the form of Power Credits by Customer or Customer's Authorized Recipient as follows:

Power Credits may be applied towards the cost and/or delivery of electric power or energy consumed by the Ultimate User or for other energy-related costs, including but not limited to, purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the terms of the Agreement.

C Service through Authorized Entity

Through assignment, transfer or otherwise, including through an agency arrangement, Customer shall have the right to make available its Allocation or any part thereof to any entity, including but not limited to Customer's Authorized Recipient, that is duly authorized to receive, purchase, transmit, distribute, and/or resell the power and energy included in the Allocation or otherwise to engage in such transactions as are necessary to effectuate the delivery of the Allocation and/or to provide the financial benefits thereof to the Customer, the Customer's Ultimate Users and the Customer's constituents, as determined in the exercise of the Customer's discretion and consistent with the provisions of the Host Community Relicensing Settlement Agreement dated June 27, 2005 and Article VI of the Agreement. Any such assignment, transfer, agency arrangement or similar transaction contemplated by this paragraph may, but shall not be required to, include elements of the other methods described in this Appendix A.

D Continuity

In the event that any administrative agency or court of competent jurisdiction shall determine that any element of any of the foregoing methods of distributing the Allocations and/or financial benefits thereof is unauthorized or illegal, the Customer shall propose an

alternative method of distribution, not necessarily limited to those described above, and the Authority shall promptly determine whether to accept such alternative method. Such acceptance shall not be unreasonably withheld.

E Right to Alternate Between Methods

Customer shall have the right at its discretion and without restriction to alternate between the methods for the distribution of the benefits of the Allocation as set forth in Sections A through D above, upon giving sixty (60) days written notice to the Authority.

Appendix B

**NEW YORK POWER AUTHORITY RATE STABILIZATION RESERVE
METHODOLOGY**

The Rate Stabilization Reserve (RSR) is calculated consistent with Service Tariff provisions regarding the Flow Adjustment Computation (FAC), which was not altered in the January 2003 Report on Hydroelectric Production Rates or the Staff Analysis of Public Comments and Recommendations adopted by the Trustees of the Power Authority on April 29, 2003. The calculation is described below:

1. Calculate the total cost of service (CoS) for the Niagara/St. Lawrence projects. Costs include: Operations and Maintenance, amortized roadwork, Indirect Overheads (Shared Services, Research and Development, debt service) and Capital Costs (using TOC for equity funded and OC for debt funded).
2. Credit the CoS by any excess capacity (ICAP) sales to the ISO.
3. Allocate costs to the demand function by multiplying the sum of the customers' billed demands by the preference demand charge, which has been inflated to include Ancillary Services production costs. This larger demand charge is used only for the purposes of the RSR.
4. Calculate the cost-based energy rate by dividing the remaining energy assigned costs by the annual metered generation.
5. Calculate the difference between the cost-based energy rate and the billed preference energy rate.
6. Multiply the difference in the rates by the actual annual billed preference energy sales to determine the annual change in the RSR.
7. Add the annual change to the RSR balance from the prior year-end to get the current year-end RSR balance.
8. If the current year-end balance is in excess of +/- \$25 million, the excess would be subject to a credit or a surcharge in the subsequent rate year.

POWER AUTHORITY
OF THE
STATE OF NEW YORK

30 South Pearl Street
Albany, New York

AGREEMENT FOR THE SALE
OF NIAGARA PROJECT POWER AND ENERGY
TO THE NIAGARA PROJECT HOST COMMUNITIES

Service Tariff No. HC-1 - Firm Hydroelectric Power and Energy

DRAFT

March 27, 2007

POWER AUTHORITY OF THE STATE OF NEW YORK

**30 South Pearl Street
Albany, New York 12207**

AGREEMENT FOR THE SALE OF HYDROPOWER AND ENERGY

The School District of The City of Niagara Falls, New York ("Customer") hereby enters into this Agreement with the Power Authority of the State of New York for electric service as follows:

I. Definitions

- a. Acceptance of the New License** shall mean the date upon which the Power Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later.
- b. Agreement** means this Agreement.
- c. Allocation** shall mean the amount of power and associated energy that the Authority has allocated to Customer hereunder.
- d. Ancillary Services** shall be as defined by the NYISO in its rules, tariffs, manuals and procedures.
- e. Commencement Date** shall be as set forth in Article XVII.
- f. Authority** is the Power Authority of the State of New York.
- g. Authorized Recipient** is defined in Article II.
- h. Contract Demand** will be the amounts set forth in Section II or such other amount as may be determined in accordance with the provisions of this Agreement.
- i. Customer** is the municipality (Host Community) identified above.
- j. Customer's Agent** is defined in Article IX.

- k. **Electric Service** is Power and Energy available to Customer in accordance with applicable Service Tariffs, Rules and other contract documents.
- l. **Excess Power** is defined in Article VIII and Appendix A.
- m. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).
- n. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which new license will become effective after expiration of the Project's original license issued on January 30, 1958.
- o. **Firm Hydroelectric Power and Energy** are firm power and associated energy from the Authority's Niagara Power Project, intended to be available at all times except for limitations provided in this Agreement, the Rules, applicable Service Tariff or in other contract documents.
- p. **Green Attributes** (sometimes referred to as Renewable Attributes or Renewable Energy Credits) are attributes associated with renewable energy power production facilities as may be defined by law or administrative action now or in the future, including but not limited to the Renewable Portfolio Standard proceeding of the New York Public Service Commission.
- q. **Host Communities** are Niagara County, City of Niagara Falls, Town of Lewiston, Town of Niagara, City of Niagara Falls School District, Lewiston-Porter School District and Niagara-Wheatfield School District.
- r. **Load Serving Entity** is an entity authorized or required by law, regulatory authorization or requirement, agreement, or contractual obligation to supply Energy, Capacity and/or Ancillary Services to retail customers under the rules, tariffs, manuals and procedures of the NYISO.
- s. **NRA** means the federal Niagara Redevelopment Act (18 USC §§ 836, 836a)
- t. **NYISO** means the New York Independent System Operator or any successor organization.
- u. **Power Credits** are defined in Article VIII and Appendix A.

- v. **Project** means the Niagara Power Project, FERC Project 2216.
- w. **Project Power and Energy** means Firm Hydroelectric Power and Energy produced by the Project.
- x. **Project Switchyard** is the Niagara Project switchyard.
- y. **Relicensing Settlement Agreement** means the Niagara Power Project, FERC Project No. 2216 Host Community Relicensing Settlement Agreement Addressing Non-License Terms and Conditions allocation of Niagara Project Power and Energy to the Host Communities dated June 27, 2005.
- z. **Rules** are the applicable provisions of the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York).
- aa. **Service Tariffs** are schedules establishing rates and other conditions for sale of Electric Services to Customer.
- bb. **Ultimate Users** are entities to whom Customer or Customer's Authorized Recipient will resell (or otherwise convey benefits associated with) Project Power and Energy purchased from the Authority as provided in Article VI of this Agreement and Appendix A hereto. Customer may designate itself as an Ultimate User.
- cc. **Unforced Capacity** is the capacity required to be provided by Load Serving Entities to serve load as defined by the NYISO in its rules, tariffs, manuals and procedures.

All other terms not otherwise defined herein shall have the meanings ascribed to them in the electric industry.

II. **Electric Service to be Provided**

- a. The Authority shall provide Electric Service pursuant to Service Tariff HC-1 for Power and/or Energy to enable the Customer or the Customer's Authorized Recipient, as defined below, to receive the Allocation from the Project in accordance with the provisions of the FERC License and Relicensing Settlement Agreement, in the amount set forth below:

Firm Hydroelectric Power and Energy Service pursuant to
Service Tariff No. HC-1: 3,500 KiloWatts (Contract Demand)

Upon execution of this Agreement by a Host Community, other than Customer, that is legally capable of receiving an Allocation from the Project (Authorized Recipient) such Authorized Recipient shall be authorized to receive the Allocation of the Customer in accordance with the terms and conditions set forth in this Agreement, including Appendix A hereof. Such authorization may be revoked by Customer upon reasonable notice to the Authority and Customer's Authorized Recipient; provided, however, that Customer shall, as of the effective date of such revocation, have made arrangements (a) with another Authorized Recipient to receive the Customer's Allocation, or (b) to receive such Allocation itself, if legally capable of doing so.

The Authority shall provide Unforced Capacity in amounts necessary to meet Customer's NYISO Unforced Capacity obligations associated with the foregoing Allocation in accordance with the rules and tariffs of the NYISO. Neither Ancillary Services, nor Green Attributes are included in such allocation.

- b. The Contract Demands for Project Power and Energy may be modified by the Authority if the amounts of such Project Power and Energy available for sale from the Project are modified as required to comply with any ruling, order or decision of any regulatory or judicial body having jurisdiction. The Authority shall provide reasonable notice to Customer of any such proposed action that could result in modification of Contract Demands and nothing herein shall be construed as limiting customer's rights to challenge any proposed reduction in Contract Demands.

III. Rules, Regulations and Service Tariffs

The Rules and Service Tariff No. HC-1, as now in effect and/or such superseding tariffs or other tariffs as the Authority may later promulgate, all as such Rules and Service Tariffs may be later amended from time to time by the Authority, are hereby incorporated into this Agreement with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between Articles I through XVII of this Agreement and the Service Tariffs, the provisions of Articles I through XVII of this Agreement shall govern. The Authority shall provide at least thirty (30) days prior written notice to Customer of any proposed change in the above Rules and Service Tariffs, but in no event shall Authority provide less notice than that provided to similarly affected customers within New York State if that period of minimum notice is greater than herein referenced. Except as expressly provided otherwise herein, nothing contained in this Agreement shall be construed as restricting Customer's rights to participate in processes involving changes to

rates, Rules and Service Tariffs or other matters affecting the subject of this Agreement.

IV. Transmission and Delivery of Power and Energy

Authority shall make Project Power and Energy available to Customer, Customer's Authorized Recipient or Customer's Agent at the Project Switchyard. It is the Customer's responsibility to act as the Load Serving Entity ("LSE"), arrange for one or more other entities to do so on its behalf or make other arrangements for conveying the benefits associated with the allocation to Ultimate Users. Customer, or the entity acting as LSE, Customer's Authorized Recipient, or Customer's Agent shall arrange for the transmission of the Project Power and Energy supplied hereunder from the Project Switchyard to Customer's points of delivery or the conversion of the Allocation into financial settlements and benefits by such other method of disposition consistent with Article VI of this Agreement and Appendix A hereto. Such delivery shall be consistent with the terms of the Open Access Transmission Tariff (OATT) or other applicable tariff of the NYISO and Customer shall be responsible for all costs associated with the transmission and delivery of the allocation.

V. Rates

Project Power and Energy shall be sold to Customer or to Customer's Authorized Recipient hereunder at cost-based rates equivalent to rates charged to in-state preference customers receiving preference power under the NRA.

Customer waives any challenges to any of the following methodologies and principles¹ to the extent that one or more of such methodologies and principles are used by the Authority to set rates different than those adopted by the Authority's Trustees in their meeting on April 29, 2003 based on the "January 2003 Report on Hydroelectric Production Rates" and as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

- (i) The principles set forth in the March 5, 1986 Settlement Agreement (settling *Auer v. Dyson*, No. 81-124 (Sup. Ct. Oswego Co.), *Auer v. Power Authority*, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and *Delaware County Electric Cooperative, Inc. v. Power Authority*, 82 Civ. 7256 (S.D.N.Y.) (the "Auer Settlement").

¹ These methodologies and principles were employed in and explained by the Authority's January 2003 Report on Hydroelectric Production Rates and the Staff Analysis of Public Comments and Recommendations adopted by the Authority's Trustees on April 29, 2003.

- (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.
- (iii) Treatment of sales to third parties, including the New York Independent System Operator.
- (iv) Allocation of Indirect Overheads.
- (v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.
- (vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).
- (vii) Rate Stabilization Reserve (RSR) methodology as supplemented by the explanatory statement attached hereto as Appendix B

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Customer or the Customer's Authorized Recipient shall have the right to take any position whatsoever with respect to such methodology or principle, but shall not have the right to challenge any of the remaining methodologies and principles that continue to be employed by the Authority. Nothing contained herein shall preclude Customer or the Customer's Authorized Recipient from participating in the rate setting process and raising issues as to whether such methodologies and principles have been correctly employed.

VI. Use and Resale of Project Power and Energy

Customer or the Customer's Authorized Recipient shall use the Allocation for Customer's facilities or as otherwise allowed in accordance with this Agreement and Appendix A hereof.

In reselling and/or distributing the Allocation, except as otherwise provided in Appendix A hereof, Customer or the Customer's Authorized Recipient shall: 1) do so pursuant to the appropriate laws of the State of New York, 2) distribute such Allocation only to the Ultimate Users designated pursuant to Appendix A , 3) not permit such Ultimate Users to sell any of such Allocation for resale and 4) comply with the provisions of the NRA, the FERC License and the New York Power Authority Act (N.Y. Pub. Auth. Law Section 1000 et seq.), to the extent such Power Authority Act is not inconsistent with the FERC License.

Customer, Customer's Authorized Recipient or Customer's Agent shall keep its books, accounts and records pertaining to the purchase, delivery and sale of the

Allocation according to procedures reasonably deemed necessary by Authority to ensure compliance with this Agreement and Appendix A hereof, applicable statutes, licenses, the Rules. Customer or Customer's Authorized Recipient shall provide such information and permit such inspection of its books and records as Authority may reasonably request and shall require Customer's Ultimate Users as identified in Appendix A of the Agreement to agree to do likewise.

The distribution of the benefits of the Allocation to Ultimate Users shall, where feasible, be accompanied by a statement indicating the total savings in dollars realized by the individual Ultimate User for the particular billing period as a result of the purchase of hydroelectric power and energy by Customer or Customer's Authorized Recipient from the Authority. The form and content of such statement shall be coordinated between Customer or Customer's Authorized Recipient and Authority.

VII. Permanent Reallocation of Project Power and Energy

If Customer is, or becomes unable or chooses not to receive, or to have Customer's Authorized Recipient not receive, any or all of the Project Power and Energy allocated to it on a permanent basis, such Project Power and Energy shall be reallocated by the Authority pro-rata among the other Host Communities. Customer shall provide written notice to the Authority and the other Host Communities of such inability or election within 30 days of its becoming aware of such inability or election. Upon receipt of such notice by the Authority, any required changes in the allocations of Project Power and Energy among the other Host Communities shall become effective as soon as practicable, without need to amend this Agreement and the Contract Demand in this Agreement shall be revised to reflect such reallocation, notwithstanding Article XIV hereof.

VIII. Availability of Energy.

Subject to any other limitations set forth in the Rules or the Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient directly or indirectly provides the Allocation to Ultimate Users for physical delivery to such Users' accounts as set forth in Appendix A, Authority will supply Customer's (or Ultimate Users', as the case may be) entire demand and energy usage up to the Contract Demand. If there is any portion of the energy associated with the Allocation made available to Customer or Customer's Authorized Recipient (at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements) that is not required to serve such Ultimate Users' facilities, such energy may be utilized as Excess Power in the manner described in Appendix A.

As between Customer and the Authority, for any usage above the Contract Demand, it is Customer's responsibility to arrange for provision of such excess service by a third party supplier, and the apportionment of energy between suppliers shall be as set forth in Service Tariff No. HC-1, or any successor tariff.

Subject to any other limitations set forth in the Rules or Service Tariff (including low-flow conditions), if Customer or Customer's Authorized Recipient provides the benefits of the Allocation to Ultimate Users in the form of Power Credits as set forth in Appendix A, the Allocation will be delivered at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements.

IX. Appointment of Customer's Agent

Upon reasonable prior written notice to the Authority, Customer shall have the right to delegate to an agent any or all duties under this Agreement ("Customer's Agent") and the Authority acknowledges that such duties may be performed by Customer's Agent. Such duties delegated to Customer's Agent may include the keeping of all records required by Authority, the payment of any or all amounts due to the Authority under this Agreement and any or all such other duties contained in this Agreement as may be specified by Customer; provided that the Customer may choose to assume and perform any or all of the duties previously delegated to Customer's Agent and provided further that nothing herein, including Customer's designation of such an agent, shall be deemed to be approval by the Authority of an assignment of any of Customer's duties and obligations under its Agreement with the Authority. Customer may, on reasonable prior written notice to the Authority (consistent with the Authority's and the NYISO's scheduling and business process requirements), designate a different party as Customer's Agent at any time during the term of this Agreement.

X. Term and Termination of Service

Service under the Agreement shall begin on the Commencement Date and shall continue until the earliest of (a) termination by Customer with respect to all of its Allocation upon ninety (90) days prior written notice, (b) termination by the Authority pursuant to the Rules upon required notice, or (c) September 1, 2025, at which time a new or modified agreement will be entered between the Authority and the Customer to provide Customer or Customer's Authorized Recipient with Project Power and Energy for the remainder of the licensing period in the amount and for the rate then in effect which complies with the terms of the Relicensing Settlement Agreement. If such a new or modified agreement is not in place to take effect after September 1, 2025, service will be continued under the terms and conditions of this Agreement on a year to year basis or until a new or modified agreement takes effect between the parties.

The Authority may cancel service hereunder or modify the quantities of Project Power and Energy allocated to Customer only (a) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or relicensing order or orders of the FERC or its successor agency), or (b) as otherwise provided herein or in the Rules. Notwithstanding the foregoing, upon mutual agreement this Agreement may be extended beyond such date on a month to month basis pending execution of any successor agreement between the Customer and Authority. The Authority shall provide reasonable notice to Customer of any matter or proceeding that could result in an order or decision as described in part (a) of this paragraph and nothing herein shall be construed as limiting Customer's right to challenge any such proposed action.

Nothing herein is intended to limit the rights of the Host Communities or Customer under the Relicensing Settlement Agreement and the Authority and Customer understand and agree that the Authority is obligated under such Relicensing Settlement Agreement to make a total of 3.5 MW of Project Power and Energy available to Customer or Customer's Authorized Recipient for the term of the FERC License, whether through extension of this Agreement or by subsequent agreement.

XI. Notification

Correspondence involving the administration of this Agreement shall be addressed as follows:

To: Authority

Manager – Power Contracts
New York Power Authority
123 Main Street
White Plains, NY 10601

To: Customer

District Clerk
School District of The City of Niagara Falls, New York
607 Walnut Avenue
Niagara Falls, New York 14301

with a copy to:

Superintendent of Schools
School District of The City of Niagara Falls, New York
607 Walnut Avenue
Niagara Falls, New York 14301

To: Customer's Authorized Recipient

City Clerk
City of Niagara Falls, New York
747 Walnut Avenue
Niagara Falls, New York 14302

with a copy to:

Mayor
City of Niagara Falls, New York
747 Walnut Avenue
Niagara Falls, New York 14301

XII. Applicable Law and Venue

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act. Any action or proceeding arising out of or relating to this Agreement shall be brought in state courts located in Albany County, New York.

XIII. Successors and Assigns

This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of the parties hereto; provided, however, that no assignment by a party or any successor or assignee of such party of its rights and obligations hereunder shall be made or become effective

without the prior written consent of the other parties in each case obtained, which consent shall not be unreasonably withheld.

XIV. Previous Agreements and Communications

This Agreement, together with the Relicensing Settlement Agreement, shall constitute the sole and complete agreement of the parties hereto with respect to the matters herein set forth, and such Agreements supersede all previous communications between the Parties hereto, either oral or written, with reference to the subject matter hereof; provided, however, that additional terms pursuant to which Customer's Authorized Recipient is authorized to receive Customer's Allocation may be set forth in a separate agreement between Customer and Authorized Recipient. Any such separate agreement shall not be inconsistent with the terms of this Agreement and shall be provided to the Authority for informational purposes.

No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XV. Acceptance and Approvals

Upon approval of the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act, and upon execution by the parties, this Agreement, the provisions of which shall survive for the term hereof, together with the Service Tariffs and Rules both as they may be amended, shall constitute the contract between the parties for Electric Service hereunder.

XVI. Severability and Voidability

If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

In such an event and at the request of any of the parties, the parties agree to engage in good faith negotiations on possible modification to this Agreement to remedy any portion of this Agreement that was declared invalid, unlawful or ineffective. Such good faith negotiations shall conform to the requirements comparable to those of section 10.1.3 of the Relicensing Settlement Agreement. To the extent that good faith negotiations do not result in an agreement as to whether or how this Agreement should be modified, the parties agree to resolve their differences in accordance with the alternative dispute resolution mechanism set forth in section 12 of the Relicensing Settlement Agreement. The primary

goal of any good faith negotiation or alternative dispute resolution mechanism shall be to preserve to the greatest extent as possible, the benefit of the parties' intended bargain.

XVII. Effectiveness of Agreement

This Agreement shall take effect on the later of: (i) the acceptance of the new License or (ii) the date of this Agreement's execution under Article XV above.

CUSTOMER: SCHOOL DISTRICT OF THE CITY OF NIAGARA FALLS, NEW YORK

BY _____

Title: President of the Board

Date _____

(Seal)

Attest by: _____

AUTHORIZED RECIPIENT: CITY OF NIAGARA FALLS, NEW YORK

BY _____

Title: Mayor

Date _____

(Seal)

Attest by: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK

30 South Pearl Street, Albany, NY 12207

Service Tariff No. HC -1

Schedule of Rates for Firm Hydroelectric Power
and Energy Service

EFFECTIVE:

September 1, 2007

APPLICABLE:

To sale of Niagara Firm Hydroelectric Project Power and Energy to the Host Communities customers and/or their Authorized Recipients eligible for cost-based service under the Niagara Relicensing Settlement Agreement.

CHARACTER OF SERVICE:

Alternating current, 60 hertz, three-phase.

RATES (effective May 1, 2006):

Capacity Rate: \$2.38 per kilowatt per month of Billing Demand at the Project switchyard.

Base Energy Rate: 4.92 mills per kilowatt-hour

Future rates shall be as determined by the Authority.

The Base Energy Rate set forth herein shall be subject to a monthly adjustment in accordance with a flow adjustment computation (FAC) as described in Appendix B.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Rate and the Billing Demand.

POWER FACTOR:

Not less than 95% lagging or leading, except as otherwise specified in the Agreement.

DEFINITIONS:

Billing Demand: The Billing Demand shall be the Customer's Contract Demand.

Billing Energy: Energy provided by Authority under this service tariff.

Billing Period: Any period of approximately thirty (30) days, generally ending with the last day of each calendar month.

GENERAL PROVISIONS:

General Provisions for service supplementing or modifying the Rules and Regulations for Power Service and Service Tariff No. HC – 1 with regard to deliveries to Customer are as follows:

A Availability of Energy

Unless otherwise agreed upon by the Parties, Authority shall normally provide in any Billing Period firm Energy to Customer and/or Customer's Authorized Recipient in an amount equal to the product of (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement. The Authority will have the right to reduce on a pro rata basis the amount of energy provided to Customer and/or Customer's Authorized Recipient if such reductions are necessary due to low flow (i.e., hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to Customer and/or Customer's Authorized Recipient in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. The Authority shall provide reasonable notice to Customer and Customer's Authorized Recipient of any condition or activities that could result, or have resulted, in low flow conditions consistent with the notice provided to other similarly affected customers.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient is taking service solely from Authority, the Billing Energy shall be the total number of kilowatt-hours recorded on Customer's

and/or Customer's Authorized Recipient's meter (or the meters of entities served by Customer and/or Customer's Authorized Recipient as indicated in the Agreement) during the Billing Period, adjusted for losses.

Unless otherwise specified in the Agreement, where Customer and/or Customer's Authorized Recipient takes service from other sources in addition to service supplied hereunder, the Billing Energy shall be determined by multiplying (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement.

B Adjustment of Rates

To the extent not inconsistent with the attached Agreement, the rates contained in this Service Tariff HC-1 may be revised from time to time on not less than thirty (30) days written notice to Customer.

C Delivery

For the purpose of this Service Tariff HC -1, Power and/or Energy shall be delivered by Authority at the Project Switchyard to the transmission facilities under the control of the NYISO for delivery to Customer and/or Customer's Authorized Recipient.

For the purpose of these Service Tariffs, Power and/or Energy shall be deemed to be offered when Authority is able to supply Power and Energy and NYISO transmits it to Customer and/or Customer's Authorized Recipient or its designated points of interconnection with Customer's Delivering Agent at the Niagara Project Switchyard. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer and/or Customer's Authorized Recipient. If, despite such offer, there is a failure of delivery by Customer, Customer's Authorized Recipient, or Customer's Agent, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D Scheduling Procedures

1. Authority will advise Customer, and Customer's Authorized Recipient, or Customer's Agent by the tenth (10th) Business Day of the preceding month of the estimated quantity of Energy expected by Service Tariff to be made available from the Project.
2. Authority may require that such Energy from the Project be scheduled in general accordance with the load shape of Customer, Customer's

Authorized Recipient, or Customer's Agent or as otherwise agreed upon by the Customer and Authority.

3. Customer, Customer's Authorized Recipient, or Customer's Agent shall file with Authority pursuant to procedures established by Authority, a daily schedule setting forth the Customer's and/or Customer's Authorized Recipient's requested amounts from the Project on a clock hour basis.
4. Subsequent to Authority approval of schedules for any day, Authority and Customer, Customer's Authorized Recipient, or Customer's Agent may agree on changes in such schedules subject to NYISO scheduling requirements and procedures Authority shall establish such that an efficient dispatch of Authority facilities will be accomplished.

E Payment by Customer and/or Customer's Authorized Recipient for Power and/or Energy

1. Customer and/or Customer's Authorized Recipient shall pay for Power and/or Energy during any Billing Period the sum of a) and b) below:
 - a. For Firm Hydroelectric Power and Energy the capacity rate per kilowatt specified in this Service Tariff or any modification thereof applied to Customer's Billing Demand for the Billing Period: and
 - b. The Energy rate specified in this Service Tariff or any modification thereof applied to the amount of firm Billing Energy delivered by Authority to Customer and/or Customer's Authorized Recipient during such Billing Period.
2. Bills computed under Service Tariff HC-1 are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by Authority. In the event that there is a dispute on any items of a bill rendered by Authority, Customer shall pay such bill and adjustments, if necessary, will be made thereafter.

F Supplementary Provision

Sections 454.2 (c) and 454.5 of the Rules are inapplicable to this Service Tariff.

Niagara Host Communities

Appendix A

Except as Customer determines otherwise, consistent with the terms of this Agreement, Customer or Customer's Authorized Recipient will initially distribute power and energy purchased from the New York Power Authority under the Agreement or the economic benefit of such power and energy to the following Ultimate Users _____.

Customer may add to or delete from the above list of Ultimate Users on thirty (30) day's notice to the Authority. Customer in its sole determination may elect to use its full Allocation or any part thereof, for economic development. The economic development program description, allocation criteria and methodology shall be submitted to and approved by the Authority which approval shall not be unreasonably withheld.

The benefits of the Allocation shall be provided to such Ultimate Users either by direct sale or by allocation by the Customer (or by Customer's Authorized Recipient or Authorized Agent) of electricity or the provision of financial settlements and benefits, as set forth below, or through different methods approved by the Authority. Customer shall have the right to recover as Customer Costs its direct administrative and services costs, reasonable compensation for use of third party facilities and services furnished to Customer in the transmission and distribution of such power, all costs associated with negotiating the Agreement and the establishment of mechanisms to accept and distribute the Allocation, and any similar costs, incurred after the execution of the Host Community Relicensing Settlement Agreement dated June 27, 2005. Such Customer Costs shall be reimbursed to Customer or otherwise paid by the Ultimate User by procedures to be determined.

The listing or description of the foregoing Ultimate Users in no way mandates or requires for any reason that the Customer provide any portion of the Allocation (or Power Credits) to an Ultimate User and shall not preclude the Customer from denying any such Ultimate User the benefits associated with an allocation for any reason as determined by Customer.

A Direct Sale / Allocation, Use of Excess Power

Customer, Customer's Authorized Recipient or Customer's Agent may make a portion of the Allocation available to an Ultimate User for delivery at such Ultimate User's electricity accounts under the tariffs, rules and regulations of the NYISO and the utility in whose service area such accounts are located. If there is any portion of the Allocation made available to Customer or Customer's Authorized Recipient that is not required to serve such Ultimate User's facilities, such Excess Power (up to the load factor specified in the Agreement) may be utilized as follows:

1. Customer, Customer's Authorized Recipient or Customer's Agent may schedule Excess Power into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), shall be applied by Customer to payment of

Niagara Host Communities

Customer's (or an Ultimate User's, as the case may be) energy-related costs, including but not limited to, the purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the term of the Agreement.

2. Customer or Customer's Authorized Recipient may use the Excess Power (or the benefits associated with such Excess Power derived from a financial settlement as set forth in the preceding Paragraph 1) for economic development by providing credits to a business to apply against the cost of power or energy and/or the cost of delivery of power or energy consumed by such business.

B Power Credits

Customer, Customer's Authorized Recipient or Customer's Agent, may schedule all of Customer's Allocation (up to the load factor specified in the Agreement) into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), may be provided to Ultimate Users in the form of Power Credits by Customer or Customer's Authorized Recipient as follows:

Power Credits may be applied towards the cost and/or delivery of electric power or energy consumed by the Ultimate User or for other energy-related costs, including but not limited to, purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the terms of the Agreement.

C Service through Authorized Entity

Through assignment, transfer or otherwise, including through an agency arrangement, Customer shall have the right to make available its Allocation or any part thereof to any entity, including but not limited to Customer's Authorized Recipient, that is duly authorized to receive, purchase, transmit, distribute, and/or resell the power and energy included in the Allocation or otherwise to engage in such transactions as are necessary to effectuate the delivery of the Allocation and/or to provide the financial benefits thereof to the Customer, the Customer's Ultimate Users and the Customer's constituents, as determined in the exercise of the Customer's discretion and consistent with the provisions of the Host Community Relicensing Settlement Agreement dated June 27, 2005 and Article VI of the Agreement. Any such assignment, transfer, agency arrangement or similar transaction contemplated by this paragraph may, but shall not be required to, include elements of the other methods described in this Appendix A.

Niagara Host Communities

D Continuity

In the event that any administrative agency or court of competent jurisdiction shall determine that any element of any of the foregoing methods of distributing the Allocations and/or financial benefits thereof is unauthorized or illegal, the Customer shall propose an alternative method of distribution, not necessarily limited to those described above, and the Authority shall promptly determine whether to accept such alternative method. Such acceptance shall not be unreasonably withheld.

E Right to Alternate Between Methods

Customer shall have the right at its discretion and without restriction to alternate between the methods for the distribution of the benefits of the Allocation as set forth in Sections A through D above, upon giving sixty (60) days written notice to the Authority.

Niagara Host Communities

Appendix B

**NEW YORK POWER AUTHORITY RATE STABILIZATION RESERVE
METHODOLOGY**

The Rate Stabilization Reserve (RSR) is calculated consistent with Service Tariff provisions regarding the Flow Adjustment Computation (FAC), which was not altered in the January 2003 Report on Hydroelectric Production Rates or the Staff Analysis of Public Comments and Recommendations adopted by the Trustees of the Power Authority on April 29, 2003. The calculation is described below:

1. Calculate the total cost of service (CoS) for the Niagara/St. Lawrence projects. Costs include: Operations and Maintenance, amortized roadwork, Indirect Overheads (Shared Services, Research and Development, debt service) and Capital Costs (using TOC for equity funded and OC for debt funded).
2. Credit the CoS by any excess capacity (ICAP) sales to the ISO.
3. Allocate costs to the demand function by multiplying the sum of the customers' billed demands by the preference demand charge, which has been inflated to include Ancillary Services production costs. This larger demand charge is used only for the purposes of the RSR.
4. Calculate the cost-based energy rate by dividing the remaining energy assigned costs by the annual metered generation.
5. Calculate the difference between the cost-based energy rate and the billed preference energy rate.
6. Multiply the difference in the rates by the actual annual billed preference energy sales to determine the annual change in the RSR.
7. Add the annual change to the RSR balance from the prior year-end to get the current year-end RSR balance.
8. If the current year-end balance is in excess of +/- \$25 million, the excess would be subject to a credit or a surcharge in the subsequent rate year.

Exhibit "12-F"
March 27, 2007

POWER AUTHORITY
OF THE
STATE OF NEW YORK
30 South Pearl Street
Albany, New York

AGREEMENT FOR THE SALE
OF NIAGARA PROJECT POWER AND ENERGY
TO THE NIAGARA PROJECT HOST COMMUNITIES

Service Tariff No. HC-1 - Firm Hydroelectric Power and Energy

DRAFT
March 27, 2007

POWER AUTHORITY OF THE STATE OF NEW YORK

**30 South Pearl Street
Albany, New York 12207**

AGREEMENT FOR THE SALE OF HYDROPOWER AND ENERGY

City of Niagara Falls, New York ("Customer") hereby enters into this Agreement with the Power Authority of the State of New York for electric service as follows:

I. Definitions

- a. Acceptance of the New License** shall mean the date upon which the Power Authority files its acceptance of the New License with FERC, or the date of the expiration of the existing original license, August 31, 2007, whichever occurs later.
- b. Agreement** means this Agreement.
- c. Allocation** shall mean the amount of power and associated energy that the Authority has allocated to Customer hereunder.
- d. Ancillary Services** shall be as defined by the NYISO in its rules, tariffs, manuals and procedures.
- e. Commencement Date** shall be as set forth in Article XVII.
- f. Authority** is the Power Authority of the State of New York.
- g. Contract Demand** will be the amounts set forth in Section II or such other amount as may be determined in accordance with the provisions of this Agreement.
- h. Customer** is the municipality (Host Community) identified above.
- i. Customer's Agent** is defined in Article IX.
- j. Electric Service** is Power and Energy available to Customer in accordance with applicable Service Tariffs, Rules and other contract documents.
- k. Excess Power** is defined in Article VIII and Appendix A.
- l. FERC** means the Federal Energy Regulatory Commission (or any successor organization).

- m. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which new license will become effective after expiration of the Project's original license issued on January 30, 1958.
- n. **Firm Hydroelectric Power and Energy** are firm power and associated energy from the Authority's Niagara Power Project, intended to be available at all times except for limitations provided in this Agreement, the Rules, applicable Service Tariff or in other contract documents.
- o. **Green Attributes** (sometimes referred to as Renewable Attributes or Renewable Energy Credits) are attributes associated with renewable energy power production facilities as may be defined by law or administrative action now or in the future, including but not limited to the Renewable Portfolio Standard proceeding of the New York Public Service Commission.
- p. **Host Communities** are Niagara County, City of Niagara Falls, Town of Lewiston, Town of Niagara, City of Niagara Falls School District, Lewiston-Porter School District and Niagara-Wheatfield School District.
- q. **Load Serving Entity** is an entity authorized or required by law, regulatory authorization or requirement, agreement, or contractual obligation to supply Energy, Capacity and/or Ancillary Services to retail customers under the rules, tariffs, manuals and procedures of the NYISO.
- r. **NRA** means the federal Niagara Redevelopment Act (18 USC §§836, 836a)
- s. **NYISO** means the New York Independent System Operator or any successor organization.
- t. **Power Credits** are defined in Article VIII and Appendix A.
- u. **Project** means the Niagara Power Project, FERC Project 2216.
- v. **Project Power and Energy** means Firm Hydroelectric Power and Energy produced by the Project.
- w. **Project Switchyard** is the Niagara Project switchyard.
- x. **Relicensing Settlement Agreement** means the Niagara Power Project, FERC Project No. 2216 Host Community Relicensing Settlement Agreement Addressing Non-License Terms and Conditions allocation of Niagara Project Power and Energy to the Host Communities dated June 27, 2005.

- y. **Rules** are the applicable provisions of the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York).
- z. **Service Tariffs** are schedules establishing rates and other conditions for sale of Electric Services to Customer.
- aa. **Ultimate Users** are entities to whom Customer will resell (or otherwise convey benefits associated with) Project Power and Energy purchased from the Authority as provided in Article VI of this Agreement and Appendix A hereto. Customer may designate itself as an Ultimate User.
- bb. **Unforced Capacity** is the capacity required to be provided by Load Serving Entities to serve load as defined by the NYISO in its rules, tariffs, manuals and procedures.

All other terms not otherwise defined herein shall have the meanings ascribed to them in the electric industry.

II. **Electric Service to be Provided**

- a. The Authority shall provide Electric Service pursuant to Service Tariff HC-1 for Power and/or Energy to enable the Customer to receive the Allocation from the Project in accordance with the provisions of the FERC License and Relicensing Settlement Agreement, in the amount set forth below:

Firm Hydroelectric Power and Energy Service pursuant to Service Tariff No. HC-1: 5,500 KiloWatts (Contract Demand)

The Authority shall provide Unforced Capacity in amounts necessary to meet Customer's NYISO Unforced Capacity obligations associated with the foregoing Allocation in accordance with the rules and tariffs of the NYISO. Neither Ancillary Services, nor Green Attributes are included in such allocation.

- b. The Contract Demands for Project Power and Energy may be modified by the Authority if the amounts of such Project Power and Energy available for sale from the Project are modified as required to comply with any ruling, order or decision of any regulatory or judicial body having jurisdiction. The Authority shall provide reasonable notice to Customer of any such proposed action that could result in modification of Contract Demands and nothing herein shall be construed as limiting customer's rights to challenge any proposed reduction in Contract Demands.

III. Rules, Regulations and Service Tariffs

The Rules and Service Tariff No. HC-1, as now in effect and/or such superseding tariffs or other tariffs as the Authority may later promulgate, all as such Rules and Service Tariffs may be later amended from time to time by the Authority, are hereby incorporated into this Agreement with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between Articles I through XVII of this Agreement and the Service Tariffs, the provisions of Articles I through XVII of this Agreement shall govern. The Authority shall provide at least thirty (30) days prior written notice to Customer of any proposed change in the above Rules and Service Tariffs, but in no event shall Authority provide less notice than that provided to similarly affected customers within New York State if that period of minimum notice is greater than herein referenced. Except as expressly provided otherwise herein, nothing contained in this Agreement shall be construed as restricting Customer's rights to participate in processes involving changes to rates, Rules and Service Tariffs or other matters affecting the subject of this Agreement.

IV. Transmission and Delivery of Power and Energy

Authority shall make Project Power and Energy available to Customer or Customer's Agent at the Project Switchyard. It is the Customer's responsibility to act as the Load Serving Entity ("LSE"), arrange for one or more other entities to do so on its behalf or make other arrangements for conveying the benefits associated with the allocation to Ultimate Users. Customer, or the entity acting as LSE or Customer's Agent shall arrange for the transmission of the Project Power and Energy supplied hereunder from the Project Switchyard to Customer's points of delivery or the conversion of the Allocation into financial settlements and benefits by such other method of disposition consistent with Article VI of this Agreement and Appendix A hereto. Such delivery shall be consistent with the terms of the Open Access Transmission Tariff (OATT) or other applicable tariff of the NYISO and Customer shall be responsible for all costs associated with the transmission and delivery of the allocation.

V. Rates

Project Power and Energy shall be sold to Customer hereunder at cost-based rates equivalent to rates charged to in-state preference customers receiving preference power under the NRA.

Customer waives any challenges to any of the following methodologies and principles¹ to the extent that one or more of such methodologies and principles are used by the Authority to set rates different than those adopted by the Authority's Trustees in their meeting on April 29, 2003 based on the "January 2003 Report on Hydroelectric Production Rates" and as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

- (i) The principles set forth in the March 5, 1986 Settlement Agreement (settling *Auer v. Dyson*, No. 81-124 (Sup. Ct. Oswego Co.), *Auer v. Power Authority*, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and *Delaware County Electric Cooperative, Inc. v. Power Authority*, 82 Civ. 7256 (S.D.N.Y.) (the "Auer Settlement").
- (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.
- (iii) Treatment of sales to third parties, including the New York Independent System Operator.
- (iv) Allocation of Indirect Overheads.
- (v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.
- (vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).
- (vii) Rate Stabilization Reserve (RSR) methodology as supplemented by the explanatory statement attached hereto as Appendix B

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Customer shall have the right to take any position whatsoever with respect to such methodology or principle, but shall not have the right to challenge any of the remaining methodologies and principles that continue to be employed by the Authority. Nothing contained herein shall preclude Customer from participating in the rate setting process and raising issues as to whether such methodologies and principles have been correctly employed.

VI. Use and Resale of Project Power and Energy

Customer shall use the Allocation for its facilities or as otherwise allowed in accordance with this Agreement and Appendix A hereof.

¹ These methodologies and principles were employed in and explained by the Authority's January 2003 Report on Hydroelectric Production Rates and the Staff Analysis of Public Comments and Recommendations adopted by the Authority's Trustees on April 29, 2003.

In reselling and/or distributing the Allocation, except as otherwise provided in Appendix A hereof, Customer shall: 1) do so pursuant to the appropriate laws of the State of New York, 2) distribute such Allocation only to the Ultimate Users designated pursuant to Appendix A , 3) not permit such Ultimate Users to sell any of such Allocation for resale and 4) comply with the provisions of the NRA, the FERC License and the New York Power Authority Act (N.Y. Pub. Auth. Law Section 1000 et seq.), to the extent such Power Authority Act is not inconsistent with the FERC License.

Customer or Customer's Agent shall keep its books, accounts and records pertaining to the purchase, delivery and sale of the Allocation according to procedures reasonably deemed necessary by Authority to ensure compliance with this Agreement and Appendix A hereof, applicable statutes, licenses, the Rules. Customer shall provide such information and permit such inspection of its books and records as Authority may reasonably request and shall require Customer's Ultimate Users as identified in Appendix A of the Agreement to agree to do likewise.

The distribution of the benefits of the Allocation to Ultimate Users shall, where feasible, be accompanied by a statement indicating the total savings in dollars realized by the individual Ultimate User for the particular billing period as a result of the purchase of hydroelectric power and energy by Customer from the Authority. The form and content of such statement shall be coordinated between Customer and Authority.

VII. Permanent Reallocation of Project Power and Energy

If Customer is, or becomes unable or chooses not to receive any or all of the Project Power and Energy allocated to it on a permanent basis, such Project Power and Energy shall be reallocated by the Authority pro-rata among the other Host Communities. Customer shall provide written notice to the Authority and the other Host Communities of such inability or election within 30 days of its becoming aware of such inability or election. Upon receipt of such notice by the Authority, any required changes in the allocations of Project Power and Energy among the other Host Communities shall become effective as soon as practicable, without need to amend this Agreement and the Contract Demand in this Agreement shall be revised to reflect such reallocation, notwithstanding Article XIV hereof.

VIII. Availability of Energy.

Subject to any other limitations set forth in the Rules or the Service Tariff (including low-flow conditions), if Customer directly or indirectly provides the Allocation to Ultimate Users for physical delivery to such Users' accounts as set forth in Appendix A, Authority will supply Customer's (or Ultimate Users', as the case may be) entire demand and energy usage up to the Contract Demand. If there is any portion of the energy associated with the Allocation made available to

Customer (at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements) that is not required to serve such Ultimate Users' facilities, such energy may be utilized as Excess Power in the manner described in Appendix A.

As between Customer and the Authority, for any usage above the Contract Demand, it is Customer's responsibility to arrange for provision of such excess service by a third party supplier, and the apportionment of energy between suppliers shall be as set forth in Service Tariff No. HC-1, or any successor tariff.

Subject to any other limitations set forth in the Rules or Service Tariff (including low-flow conditions), if Customer provides the benefits of the Allocation to Ultimate Users in the form of Power Credits as set forth in Appendix A, the Allocation will be delivered at a monthly load factor of seventy percent (70%) pursuant to the Authority's regular scheduling requirements.

IX. Appointment of Customer's Agent

Upon reasonable prior written notice to the Authority, Customer shall have the right to delegate to an agent any or all duties under this Agreement ("Customer's Agent") and the Authority acknowledges that such duties may be performed by Customer's Agent. Such duties delegated to Customer's Agent may include the keeping of all records required by Authority, the payment of any or all amounts due to the Authority under this Agreement and any or all such other duties contained in this Agreement as may be specified by Customer; provided that the Customer may choose to assume and perform any or all of the duties previously delegated to Customer's Agent and provided further that nothing herein, including Customer's designation of such an agent, shall be deemed to be approval by the Authority of an assignment of any of Customer's duties and obligations under its Agreement with the Authority. Customer may, on reasonable prior written notice to the Authority (consistent with the Authority's and the NYISO's scheduling and business process requirements), designate a different party as Customer's Agent at any time during the term of this Agreement.

X. Term and Termination of Service

Service under the Agreement shall begin on the Commencement Date and shall continue until the earliest of (a) termination by Customer with respect to all of its Allocation upon ninety (90) days prior written notice, (b) termination by the Authority pursuant to the Rules upon required notice, or (c) September 1, 2025, at which time a new or modified agreement will be entered between the Authority and the Customer to provide Customer with Project Power and Energy for the remainder of the licensing period in the amount and for the rate then in effect which complies with the terms of the Relicensing Settlement Agreement. If such a new or modified agreement is not in place to take effect after September 1, 2025, service will be continued under the terms and conditions of this Agreement

on a year to year basis or until a new or modified agreement takes effect between the parties.

The Authority may cancel service hereunder or modify the quantities of Project Power and Energy allocated to Customer only (a) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or relicensing order or orders of the FERC or its successor agency), or (b) as otherwise provided herein or in the Rules. Notwithstanding the foregoing, upon mutual agreement this Agreement may be extended beyond such date on a month to month basis pending execution of any successor agreement between the Customer and Authority. The Authority shall provide reasonable notice to Customer of any matter or proceeding that could result in an order or decision as described in part (a) of this paragraph and nothing herein shall be construed as limiting Customer's right to challenge any such proposed action.

Nothing herein is intended to limit the rights of the Host Communities or Customer under the Relicensing Settlement Agreement and the Authority and Customer understand and agree that the Authority is obligated under such Relicensing Settlement Agreement to make a total of 5.5 MW of Project Power and Energy available to Customer for the term of the FERC License, whether through extension of this Agreement or by subsequent agreement.

XI. Notification

Correspondence involving the administration of this Agreement shall be addressed as follows:

To: Authority

Manager – Power Contracts
New York Power Authority
123 Main Street
White Plains, NY 10601

Mayor
City of Niagara Falls, New York
City Hall
745 Main Street
PO Box 69
Niagara Falls, New York 14302

with a copy to:

Corporation Counsel
City of Niagara Falls, New York
City Hall
745 Main Street
PO Box 69
Niagara Falls, New York 14302

XII. Applicable Law and Venue

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act. Any action or proceeding arising out of or relating to this Agreement shall be brought in state courts located in Albany County, New York.

XIII. Successors and Assigns

This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of either Party hereto; provided, however, that no assignment by either Party or any successor or assignee of such Party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other Party in each case obtained, which consent shall not be unreasonably withheld.

XIV. Previous Agreements and Communications

This Agreement, together with the Relicensing Settlement Agreement, shall constitute the sole and complete agreement of the Parties hereto with respect to the matters herein set forth. Such Agreements supersede all previous communications between the Parties hereto, either oral or written, with reference to the subject matter hereof.

No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XV. Acceptance and Approvals

Upon approval of the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act, and upon execution by the Parties, this Agreement, the provisions of which shall survive for the term hereof, together with the Service Tariffs and Rules both as they may be amended, shall constitute the contract between the Parties for Electric Service hereunder.

XVI. Severability and Voidability

If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

In such an event and at the request of either Party, the Parties agree to engage in good faith negotiations on possible modification to this Agreement to remedy any portion of this Agreement that was declared invalid, unlawful or ineffective. Such good faith negotiations shall conform to the requirements comparable to those of section 10.1.3 of the Relicensing Settlement Agreement. To the extent that good faith negotiations do not result in an agreement as to whether or how this Agreement should be modified, the Parties agree to resolve their differences in accordance with the alternative dispute resolution mechanism set forth in section 12 of the Relicensing Settlement Agreement. The primary goal of any good faith negotiation or alternative dispute resolution mechanism shall be to preserve to the greatest extent as possible, the benefit of the Parties' intended bargain.

XVII. Effectiveness of Agreement

This Agreement shall take effect on the later of: (i) the acceptance of the new License or (ii) the date of this Agreement's execution under Article XV above.

CUSTOMER: CITY OF NIAGARA FALLS, NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY _____

Title _____

Date _____

(Seal)

Attest by: _____

POWER AUTHORITY OF THE STATE OF NEW YORK

30 South Pearl Street, Albany, NY 12207

Service Tariff No. HC -1

Schedule of Rates for Firm Hydroelectric Power
and Energy Service

EFFECTIVE:

September 1, 2007

APPLICABLE:

To sale of Niagara Firm Hydroelectric Project Power and Energy to the Host Communities customers eligible for cost-based service under the Niagara Relicensing Settlement Agreement.

CHARACTER OF SERVICE:

Alternating current, 60 hertz, three-phase.

RATES (effective May 1, 2006):

Capacity Rate: \$2.38 per kilowatt per month of Billing Demand at the Project switchyard.

Base Energy Rate: 4.92 mills per kilowatt-hour

Future rates shall be as determined by the Authority.

The Base Energy Rate set forth herein shall be subject to a monthly adjustment in accordance with a flow adjustment computation (FAC) as described in Appendix B.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Rate and the Billing Demand.

POWER FACTOR:

Not less than 95% lagging or leading, except as otherwise specified in the Agreement.

DEFINITIONS:

Billing Demand: The Billing Demand shall be the Customer's Contract Demand.

Billing Energy: Energy provided by Authority under this service tariff.

Billing Period: Any period of approximately thirty (30) days, generally ending with the last day of each calendar month.

GENERAL PROVISIONS:

General Provisions for service supplementing or modifying the Rules and Regulations for Power Service and Service Tariff No. HC – 1 with regard to deliveries to Customer are as follows:

A Availability of Energy

Unless otherwise agreed upon by the Parties, Authority shall normally provide in any Billing Period firm Energy to Customer in an amount equal to the product of (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement. The Authority will have the right to reduce on a pro rata basis the amount of energy provided to Customer if such reductions are necessary due to low flow (i.e., hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to Customer in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer. The Authority shall provide reasonable notice to Customer of any condition or activities that could result, or have resulted, in low flow conditions consistent with the notice provided to other similarly affected customers.

Unless otherwise specified in the Agreement, where Customer is taking service solely from Authority, the Billing Energy shall be the total number of kilowatt-hours recorded on Customer's meter (or the meters of entities served by Customer as indicated in the Agreement) during the Billing Period, adjusted for losses.

Unless otherwise specified in the Agreement, where Customer takes service from other sources in addition to service supplied hereunder, the Billing Energy shall be determined by multiplying (A) the number of hours in such Billing Period, (B) the Contract Demand applicable in such Billing Period and (C) the load factor specified in the Agreement.

B Adjustment of Rates

To the extent not inconsistent with the attached Agreement, the rates contained in this Service Tariff HC-1 may be revised from time to time on not less than thirty (30) days written notice to Customer.

C Delivery

For the purpose of this Service Tariff HC -1, Power and/or Energy shall be delivered by Authority at the Project Switchyard to the transmission facilities under the control of the NYISO for delivery to Customer.

For the purpose of these Service Tariffs, Power and/or Energy shall be deemed to be offered when Authority is able to supply Power and Energy and NYISO transmits it to Customer or its designated points of interconnection with Customer's Delivering Agent at the Niagara Project Switchyard. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Customer. If, despite such offer, there is a failure of delivery by Customer or Customer's Agent, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D Scheduling Procedures

1. Authority will advise Customer or Customer's Agent by the tenth (10th) Business Day of the preceding month of the estimated quantity of Energy expected by Service Tariff to be made available from the Project.
2. Authority may require that such Energy from the Project be scheduled in general accordance with the load shape of Customer or Customer's Agent or as otherwise agreed upon by the Customer and Authority.
3. Customer or Customer's Agent shall file with Authority pursuant to procedures established by Authority, a daily schedule setting forth the Customer's requested amounts from the Project on a clock hour basis.
4. Subsequent to Authority approval of schedules for any day, Authority and Customer or Customer's Agent may agree on changes in such schedules subject to NYISO scheduling requirements and procedures Authority shall establish such that an efficient dispatch of Authority facilities will be accomplished.

E Payment by Customer for Power and/or Energy

1. Customer shall pay for Power and/or Energy during any Billing Period the sum of a) and b) below:
 - a. For Firm Hydroelectric Power and Energy the capacity rate per kilowatt specified in this Service Tariff or any modification thereof applied to Customer's Billing Demand for the Billing Period: and

- b. The Energy rate specified in this Service Tariff or any modification thereof applied to the amount of firm Billing Energy delivered by Authority to Customer during such Billing Period.
- 2. Bills computed under Service Tariff HC-1 are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by Authority. In the event that there is a dispute on any items of a bill rendered by Authority, Customer shall pay such bill and adjustments, if necessary, will be made thereafter.

F Supplementary Provision

Sections 454.2 (c) and 454.5 of the Rules are inapplicable to this Service Tariff.

Appendix A

Except as Customer determines otherwise, consistent with the terms of this Agreement, Customer will initially distribute power and energy purchased from the New York Power Authority under the Agreement or the economic benefit of such power and energy to the following Ultimate Users_____

Customer may add to or delete from the above list of Ultimate Users on thirty (30) day's notice to the Authority. Customer in its sole determination may elect to use its full Allocation or any part thereof, for economic development. The economic development program description, allocation criteria and methodology shall be submitted to and approved by the Authority which approval shall not be unreasonably withheld.

The benefits of the Allocation shall be provided to such Ultimate Users either by direct sale or by allocation by the Customer (or by Customer's Agent) of electricity or the provision of financial settlements and benefits, as set forth below, or through different methods approved by the Authority. Customer shall have the right to recover as Customer Costs its direct administrative and services costs, reasonable compensation for use of third party facilities and services furnished to Customer in the transmission and distribution of such power, all costs associated with negotiating the Agreement and the establishment of mechanisms to accept and distribute the Allocation, and any similar costs, incurred after the execution of the Host Community Relicensing Settlement Agreement dated June 27, 2005. Such Customer Costs shall be reimbursed to Customer or otherwise paid by the Ultimate User by procedures to be determined.

The listing or description of the foregoing Ultimate Users in no way mandates or requires for any reason that the Customer provide any portion of the Allocation (or Power Credits) to an Ultimate User and shall not preclude the Customer from denying any such Ultimate User the benefits associated with an allocation for any reason as determined by Customer.

A. Direct Sale / Allocation, Use of Excess Power

Customer or Customer's Agent may make a portion of the Allocation available to an Ultimate User for delivery at such Ultimate User's electricity accounts under the tariffs, rules and regulations of the NYISO and the utility in whose service area such accounts are located. If there is any portion of the Allocation made available to Customer that is not required to serve such Ultimate User's facilities, such Excess Power (up to the load factor specified in the Agreement) may be utilized as follows:

1. Customer or its agent may schedule Excess Power into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), shall be applied by Customer to payment of Customer's (or an Ultimate User's, as the case may be) energy-related costs, including but not limited to, the purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy

technology programs or projects now in existence or that may exist during the term of the Agreement.

2. Customer may use the Excess Power (or the benefits associated with such Excess Power derived from a financial settlement as set forth in the preceding Paragraph 1) for economic development by providing credits to a business to apply against the cost of power or energy and/or the cost of delivery of power or energy consumed by such business.

B. Power Credits

Customer, or Customer's Agent, may schedule all of its Allocation (up to the load factor specified in the Agreement) into the NYISO administered market for financial settlement, and such financial settlement so received by Customer (less Customer's Costs as set forth above and the cost of the power and energy purchased from the Authority), may be provided to Ultimate Users in the form of Power Credits by Customer as follows:

Power Credits may be applied towards the cost and/or delivery of electric power or energy consumed by the Ultimate User or for other energy-related costs, including but not limited to, purchase of energy commodities, the delivery and transportation of electricity and all other energy commodities and/or for energy efficiency or clean energy technology programs or projects now in existence or that may exist during the terms of the Agreement.

C. Service through Authorized Entity

Through assignment, transfer or otherwise, including through an agency arrangement, Customer shall have the right to make available its Allocation or any part thereof to any entity that is duly authorized to receive, purchase, transmit, distribute, and/or resell the power and energy included in the Allocation or otherwise to engage in such transactions as are necessary to effectuate the delivery of the Allocation and/or to provide the financial benefits thereof to the Customer, the Customer's Ultimate Users and the Customer's constituents, as determined in the exercise of the Customer's discretion and consistent with the provisions of the Host Community Relicensing Settlement Agreement dated June 27, 2005 and Article VI of the Agreement. Any such assignment, transfer, agency arrangement or similar transaction contemplated by this paragraph may, but shall not be required to, include elements of the other methods described in this Appendix A.

D. Continuity

In the event that any administrative agency or court of competent jurisdiction shall determine that any element of any of the foregoing methods of distributing the Allocations and/or financial benefits thereof is unauthorized or illegal, the Customer shall propose an alternative method of distribution, not necessarily limited to those described above, and the Authority shall promptly determine whether to accept such alternative method. Such acceptance shall not be unreasonably withheld.

E. Right to Alternate Between Methods

Customer shall have the right at its discretion and without restriction to alternate between the methods for the distribution of the benefits of the Allocation as set forth in Sections A through D above, upon giving sixty (60) days written notice to the Authority.

Appendix B

NEW YORK POWER AUTHORITY RATE STABILIZATION RESERVE METHODOLOGY

The Rate Stabilization Reserve (RSR) is calculated consistent with Service Tariff provisions regarding the Flow Adjustment Computation (FAC), which was not altered in the January 2003 Report on Hydroelectric Production Rates or the Staff Analysis of Public Comments and Recommendations adopted by the Trustees of the Power Authority on April 29, 2003. The calculation is described below:

1. Calculate the total cost of service (CoS) for the Niagara/St. Lawrence projects. Costs include: Operations and Maintenance, amortized roadwork, Indirect Overheads (Shared Services, Research and Development, debt service) and Capital Costs (using TOC for equity funded and OC for debt funded).
2. Credit the CoS by any excess capacity (ICAP) sales to the ISO.
3. Allocate costs to the demand function by multiplying the sum of the customers' billed demands by the preference demand charge, which has been inflated to include Ancillary Services production costs. This larger demand charge is used only for the purposes of the RSR.
4. Calculate the cost-based energy rate by dividing the remaining energy assigned costs by the annual metered generation.
5. Calculate the difference between the cost-based energy rate and the billed preference energy rate.
6. Multiply the difference in the rates by the actual annual billed preference energy sales to determine the annual change in the RSR.
7. Add the annual change to the RSR balance from the prior year-end to get the current year-end RSR balance.
8. If the current year-end balance is in excess of +/- \$25 million, the excess would be subject to a credit or a surcharge in the subsequent rate year.