Exhibit "7-A"
March 27, 2007

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.

Ernst & Young LLP

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 consecutives 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:

(*in Millions*) Type of Plant	Net Electric Plant in Service **2006**	2005	Average Depreciation Rate **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 Sheets.

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

(*in Millions*)	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

			Restricted Funds				
	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
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: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
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
2016 Notes	**75**	75	At 12/31/06: 3.60 %	3/1/2016	by holder on any
2020 Notes	**75**	75	At 12/31/06: 3.60 %	3/1/2020	adjustment date.
	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 X 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:

	December 31, 2006		December 31, 2005	
(*in Millions*)	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 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 into 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 opens 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.

(In Millions)	**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:

(In Millions)	**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 funds 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:

(*in Millions*)	**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 consecutives 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:

(*in Millions*)	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 c ertain 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*