

New York Power Authority

Report of the Chief Financial Officer

For the Ten Months Ended October 31, 2012

**Report of the Chief Financial Officer
For the Months Ended October 31, 2012
Executive Summary**

Results of Operations

Net income through October was \$169.3 million compared to a budget of \$139.4 million resulting in a \$29.9 million favorable variance. Year-to-date results included a higher net margin on sales (\$6.6 million), higher non-operating income (\$6.5 million), lower operations and maintenance expenses (\$19.0 million), and lower than anticipated voluntary contributions to New York State (\$10 million). These positives were partially offset by higher other operating expenses (\$7.2 million) including additional accruals for retiree health benefits and Power for Jobs rebates and transition payments. Higher net margins on sales through October (\$6.6 million) included positive variances in the MSP market area (\$8.4 million, lower purchased power costs), and the SCPP's (\$19.3 million, higher capacity revenues), partially offset by negative results at Niagara (\$21.2 million, lower energy prices). Non-operating income was higher than expected due primarily to lower than budgeted interest costs and a lower mark-to-market loss on the Authority's investment portfolio, resulting from lower market interest rates. Operations and maintenance expenses were lower than anticipated primarily due to timing differences in projects at Niagara and Flynn and less than anticipated work related to transmission facilities projects. Through October, voluntary contributions to New York State amounted to \$75 million versus the \$85 million budgeted. Production through October was 1% higher than the budget reflecting higher net generation at St. Lawrence (6%) and the fossil facilities (2%).

Results for the ten months ended October 31, 2012 (\$169.3 million) were \$41.5 million lower than the same period in 2011 (\$210.8 million) primarily due to lower non-operating income (\$24.4 million) and a higher voluntary contribution to New York State (\$10 million). Non-operating income in 2011 included \$11 million for the settlement of a claim against the D.O.E. relating to spent fuel disposal at previously owned nuclear plants and a \$7.5 million mark-to-market gain on the Authority's investment portfolio, versus a \$4.4 million loss in 2012. Voluntary contributions were \$75 million through October 2012 compared to \$65 million through October 2011.

Cash & Liquidity

The Authority ended the month of October with total operating funds of \$1,451 million as compared to \$1,205 million at the end of 2011. The increase (\$246 million) is primarily attributable to net cash from operations and payments received from Entergy of \$82 million substantially offset by \$75 million in voluntary contributions to New York State.

Year-end Projection

While financial results for the Authority are running \$30 million ahead of budget through October, projections indicate that this variance is expected to trend down in the final two months of the year, resulting in net income ahead of the \$166 million budget by \$4 million. Key drivers include general pricing trends in the energy and capacity markets as well as hydro flows, and certain other Authority expenses, as described below:

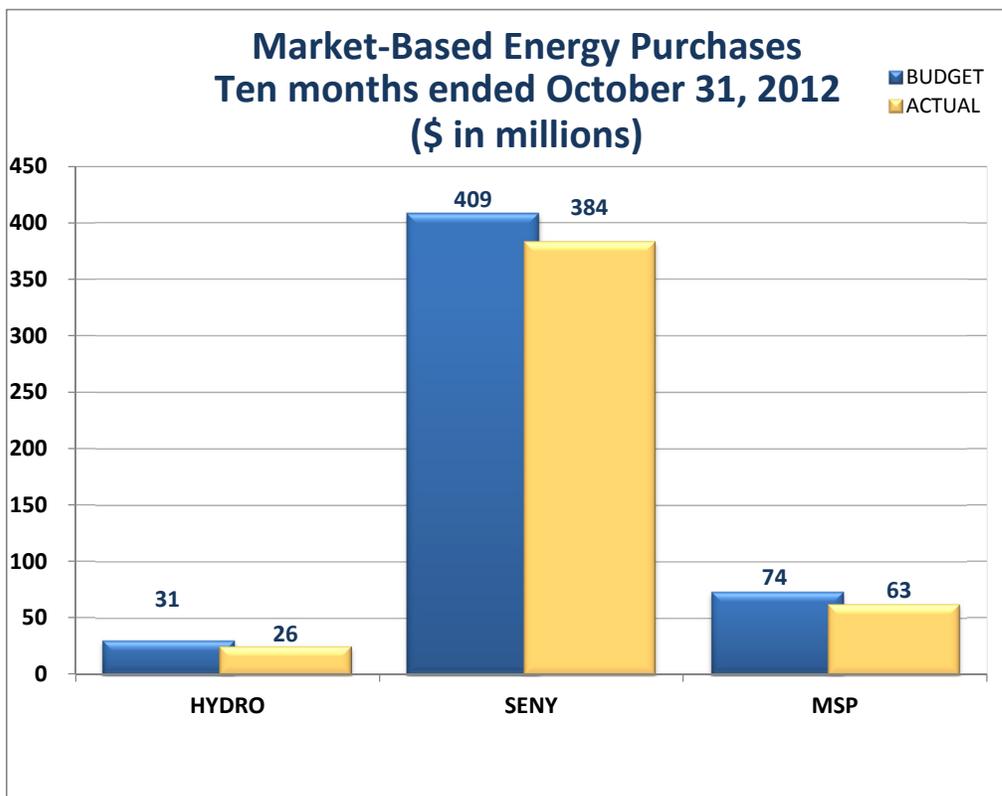
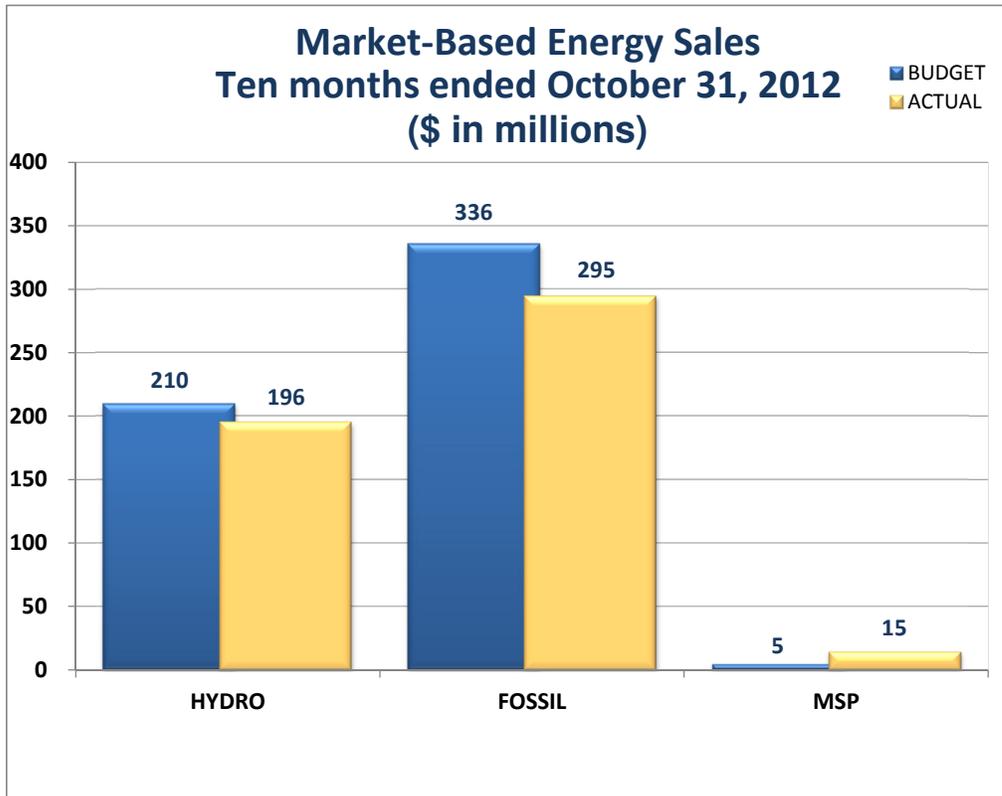
- **Energy Prices** – State-wide wholesale electricity prices, which are slightly higher than last month, have declined by approximately 22% relative to the budget and are primarily due to lower natural gas prices. Partially mitigating the lower prices were higher market-based volumes, which were due to lower customer sales.
- **Capacity Prices** – An increase in market-based capacity prices relative to the budget is being observed as a result of an increase in the locational capacity requirement for the New York City load pocket, an increased capacity requirement for the Rest-of-State market, and the mitigation of the Astoria Energy II plant. In addition, prices are firming up as a result of approximately 300 MW’s in generation being retired since the beginning of the year. The resulting events have produced a positive effect on the Authority’s financial results, particularly for Blenheim-Gilboa, Niagara, and the Small Clean Power Plants.
- **Hydro Flows** – Net generation is expected to be below average levels for the remainder of the year offsetting higher than budgeted production during the first few months, such that annual generation is slightly below budget. Below average rainfall over the Great Lakes basin during the summer has begun to have a negative effect on generation levels at the Niagara and St. Lawrence hydroelectric facilities.
- **O&M and Other Expenses** –
 - O&M spending, running under budget through October by \$19 million, is expected to finish the year about \$5 million below target.
 - The remainder of the voluntary contribution to the state, currently \$10 million under budget, is expected to be considered for payment at a later date and therefore the full amount is included in the year-end projections.
 - Post-employment health benefits are projected to increase \$10 million relative to the budget based on preliminary actuarial results from our consulting actuaries.

At currently projected levels, the Authority’s business requirements for cash flow (debt service coverage) and liquidity are expected to be met.

RESULTS OF OPERATIONS
Net Income
Ten months ended October 31, 2012
(\$ in millions)

	Actual	Budget	Variance
Niagara	\$90.8	\$103.1	(\$12.3)
St. Lawrence	31.4	28.0	3.4
Blenheim-Gilboa	(6.2)	(12.6)	6.4
SENY	32.0	32.4	(0.4)
SCPP	17.8	(1.1)	18.9
Market Supply Power	(54.7)	(57.1)	2.4
Flynn	15.6	9.7	5.9
Transmission	25.6	32.4	(6.8)
Non-facility	17.0	4.6	12.4
Total	\$169.3	\$139.4	\$29.9

<u>Major Factors</u>	Better (Worse)
<p><u>Niagara</u> Lower net margins on sales (\$21.2) due to lower energy prices, substantially offset by lower O&M (\$5.2, timing of non-recurring projects) and lower other operating expenses (\$3.1, primarily Industrial Incentive Awards).</p>	(\$12.3)
<p><u>St. Lawrence</u> Primarily lower O&M (\$3.4 non-recurring projects).</p>	3.4
<p><u>Blenheim Gilboa</u> Primarily higher capacity revenues.</p>	6.4
<p><u>SCPP</u> Higher capacity revenues due to higher prices.</p>	18.9
<p><u>Market Supply Power</u> Lower purchased power costs due to lower prices, partially offset by additional accruals for P4J rebates and transition payments.</p>	2.4
<p><u>Other facilities</u> Includes lower FACTS revenues at the transmission facilities.</p>	(1.3)
<p><u>Non-facility (including investment income)</u> Primarily lower voluntary contribution to New York State (\$75 vs \$85 budgeted) and lower interest costs due to lower than anticipated market interest rates during the period.</p>	12.4
Total	\$29.9

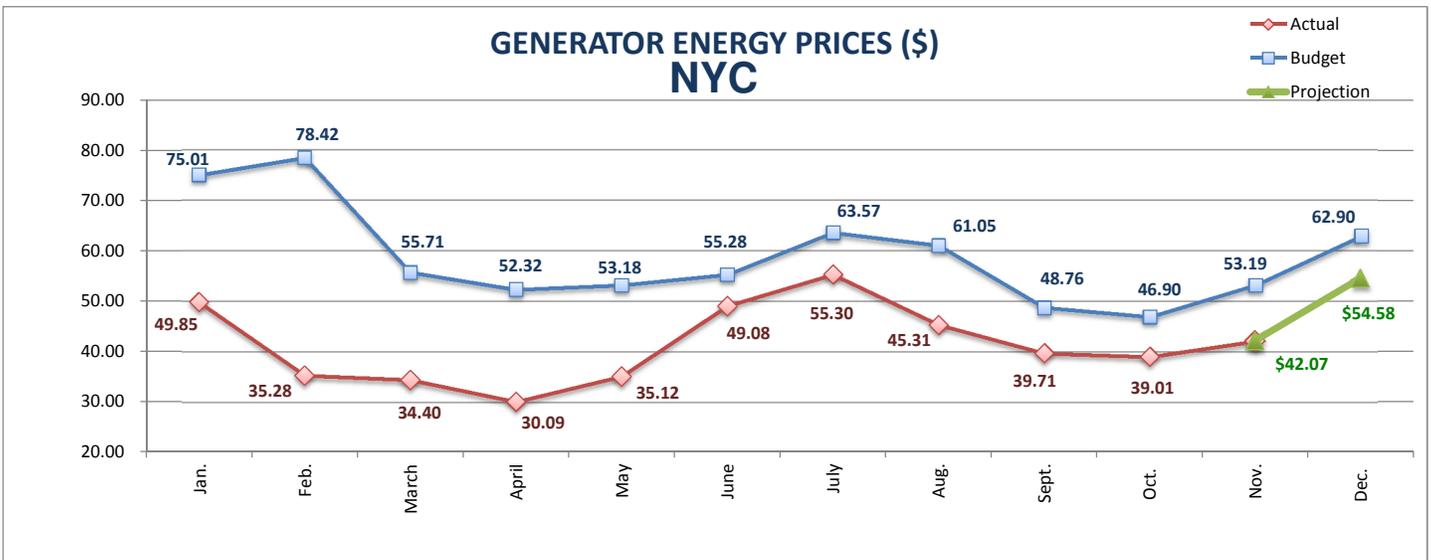
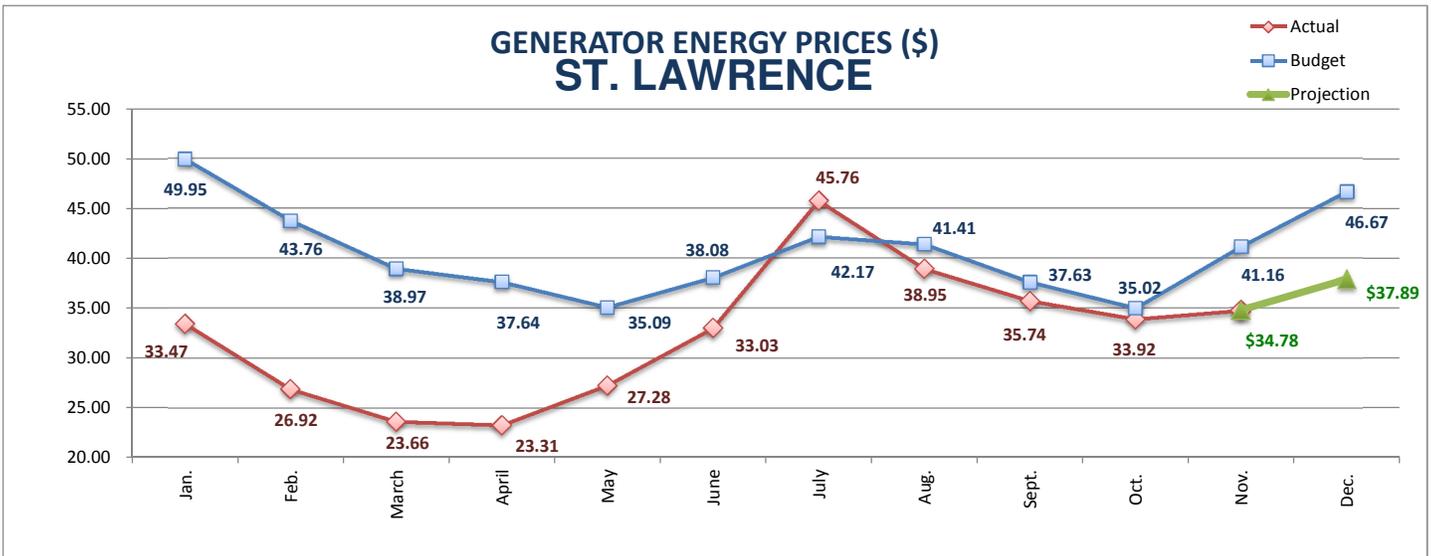
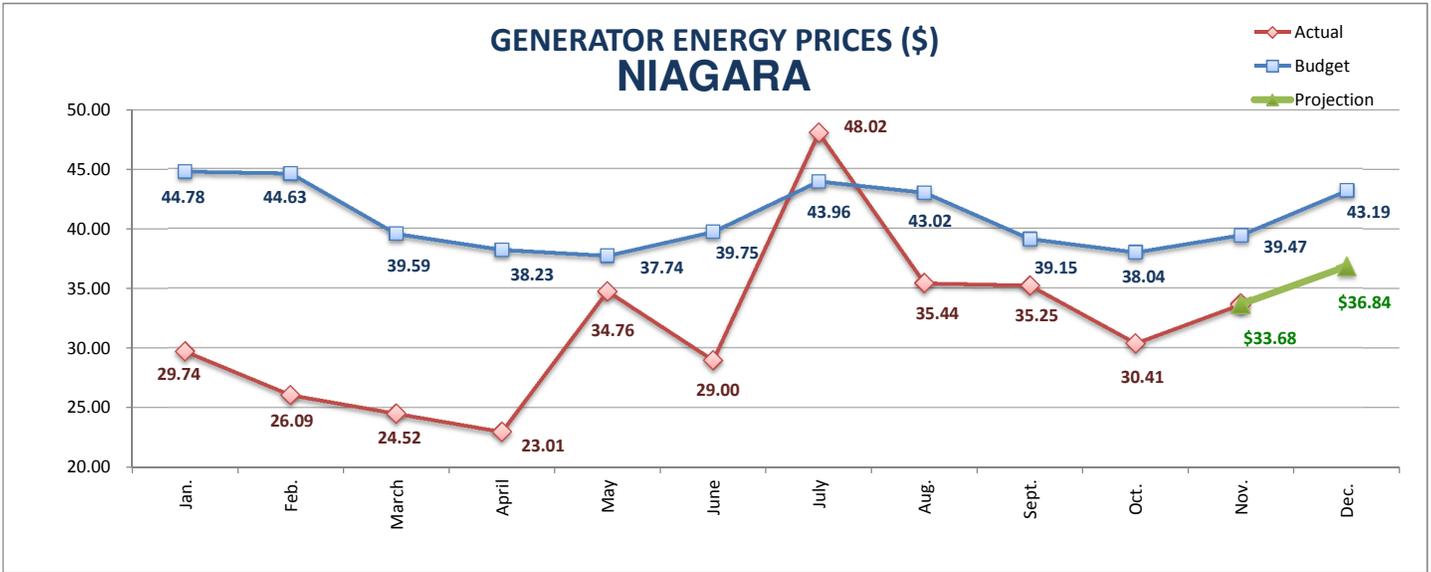


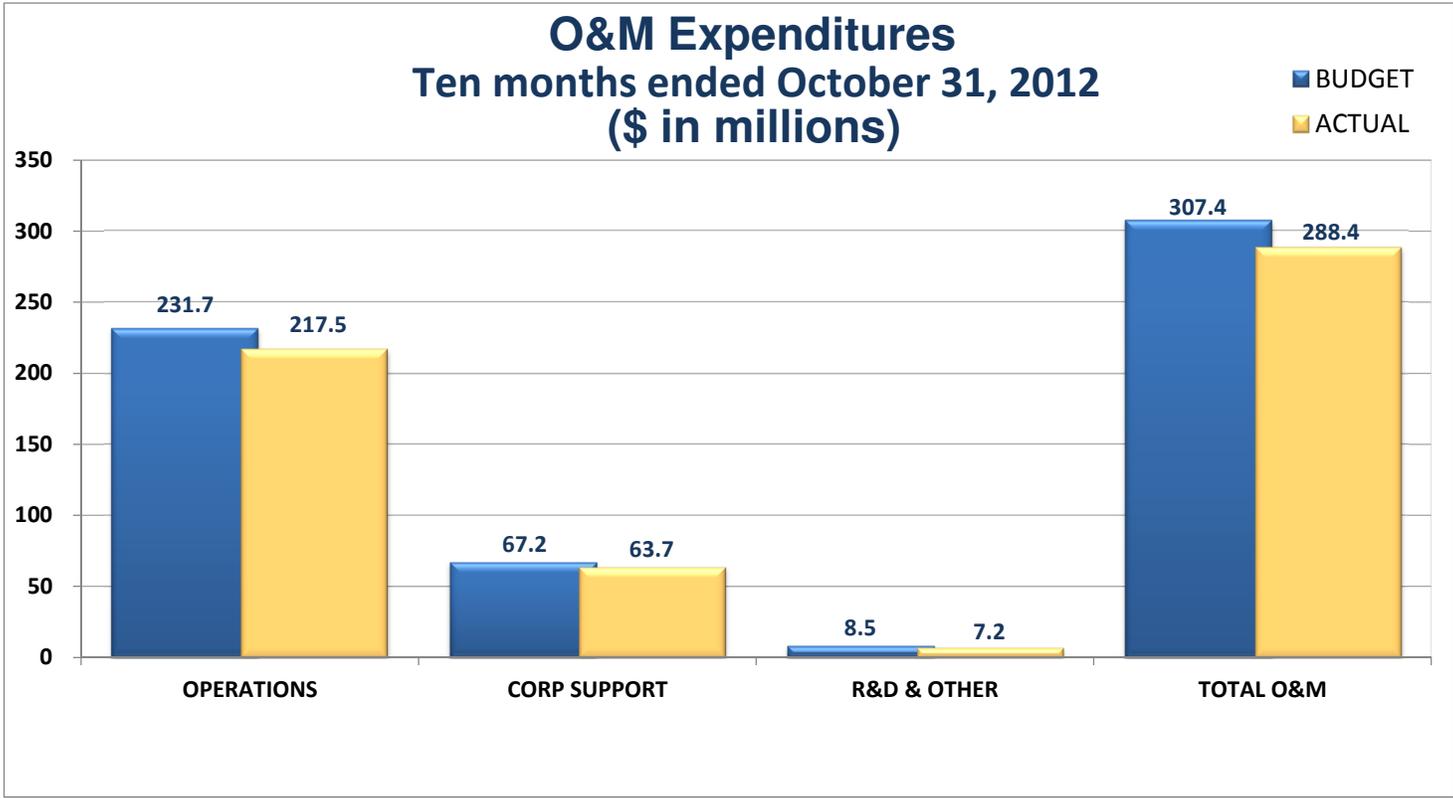
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	4,624,114	5,183,132
Fossil	5,357,401	5,919,318
MSP	132,291	429,428
TOTAL	10,113,806	11,531,878
PRICES (\$/MWH)		
Hydro*	\$41.94	\$32.34
Fossil	\$59.08	\$42.98
MSP	\$37.43	\$34.50
AVERAGE	\$50.96	\$37.88

* Includes Niagara, St. Lawrence, B-G, and Small Hydro.

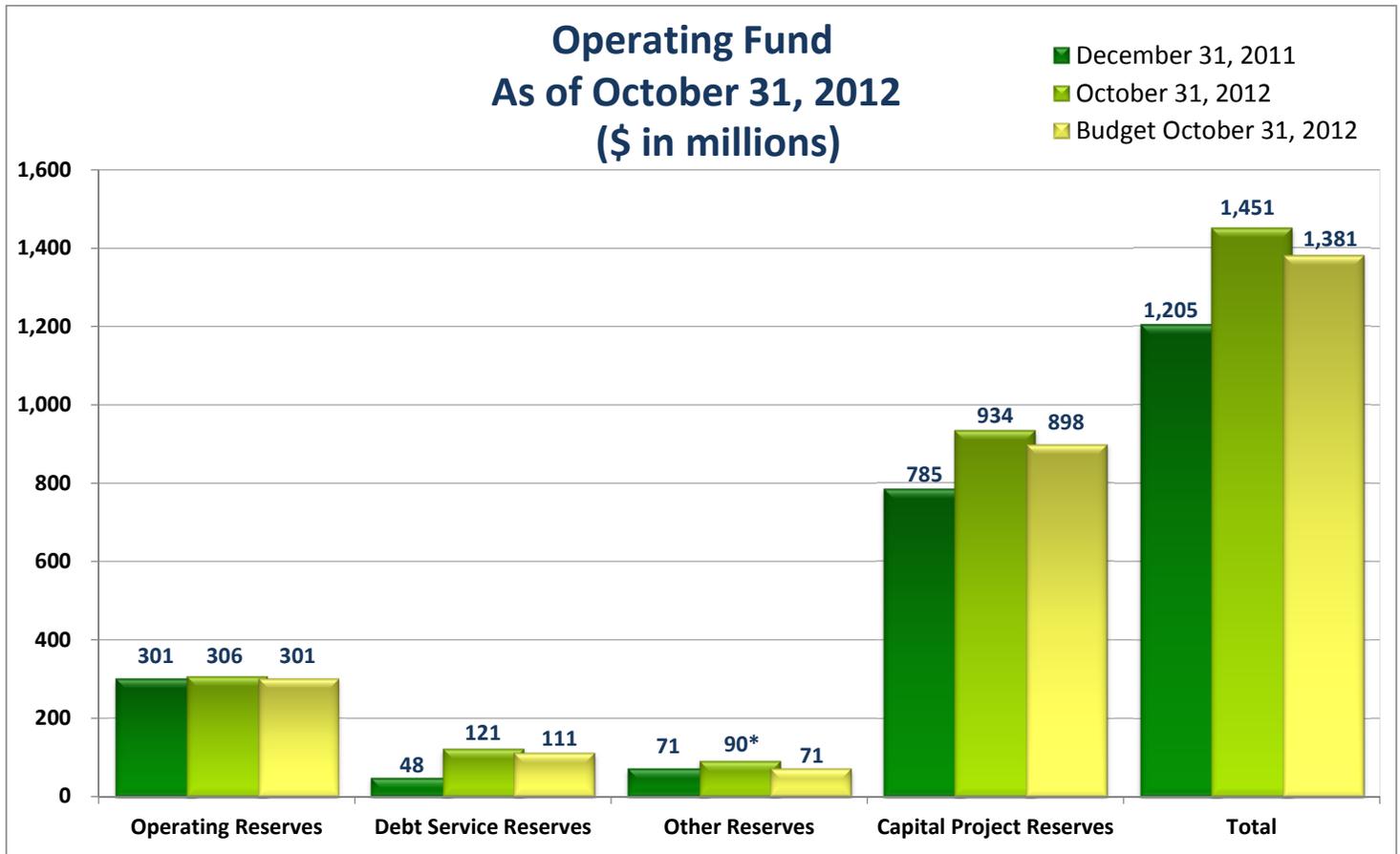
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Niagara	2,695,623	2,948,410
St. Law.	1,574,027	1,912,266
PRICES (\$/MWH)		
Niagara	\$40.84	\$30.60
St. Law.	\$38.37	\$29.94

COSTS		
PURCHASES (MWH)		
	BUDGET	ACTUAL
Hydro	1,200,713	1,222,834
SENY	7,518,954	7,622,990
MSP	1,757,756	1,921,342
TOTAL	10,477,423	10,767,166
COSTS (\$/MWH)		
Hydro	\$25.70	\$21.16
SENY	\$54.43	\$50.40
MSP	\$42.23	\$32.99
AVERAGE	\$49.09	\$43.97



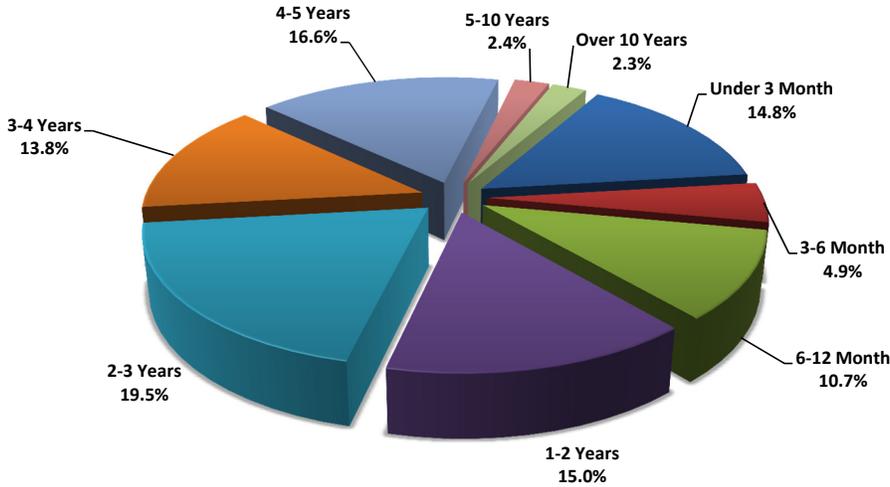


- For the ten months ended October 31, 2012, O&M expenses were \$19.0 lower than the budget.
- Operations expenditures were lower than anticipated primarily due to timing differences in projects at Niagara (RMNPP Head-gate Refurbishment and Unit #2 Standardization) and Flynn (HRSO Stack Painting and Refurbishment), and less than anticipated spending on projects at the transmission facilities (Transmission LEM Assessment and Marcy South OverHead Static Wire Evaluation).
- HQ Corporate Support was under budget due to lower than anticipated expenditures for payroll, outside legal consultants and fuel cell maintenance, and timing related to the WPO garage repair.

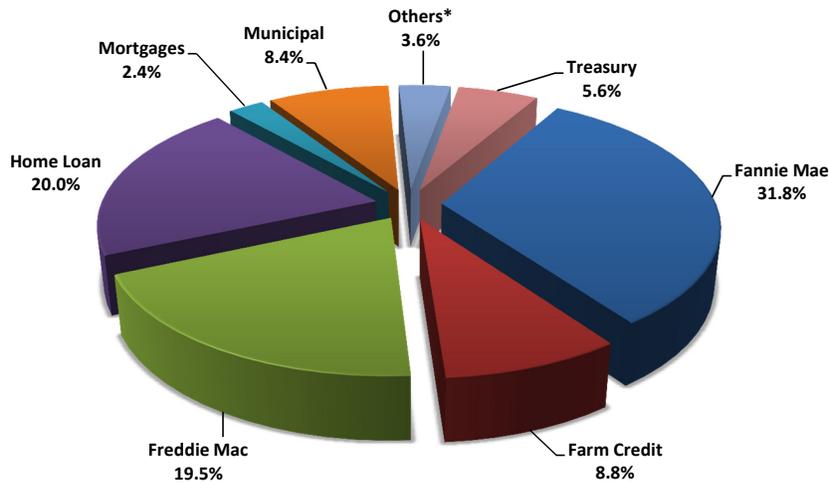


The increase of \$246 in the Operating Fund (from \$1,205 to \$1,451) was primarily attributable to positive net cash provided by operating activities and payments of \$82 received from Entergy, substantially offset by \$75 in voluntary contributions to New York State.

* Includes \$71 in Energy Hedging/Fuel Reserves and \$19 in the Western New York Economic Development Fund.

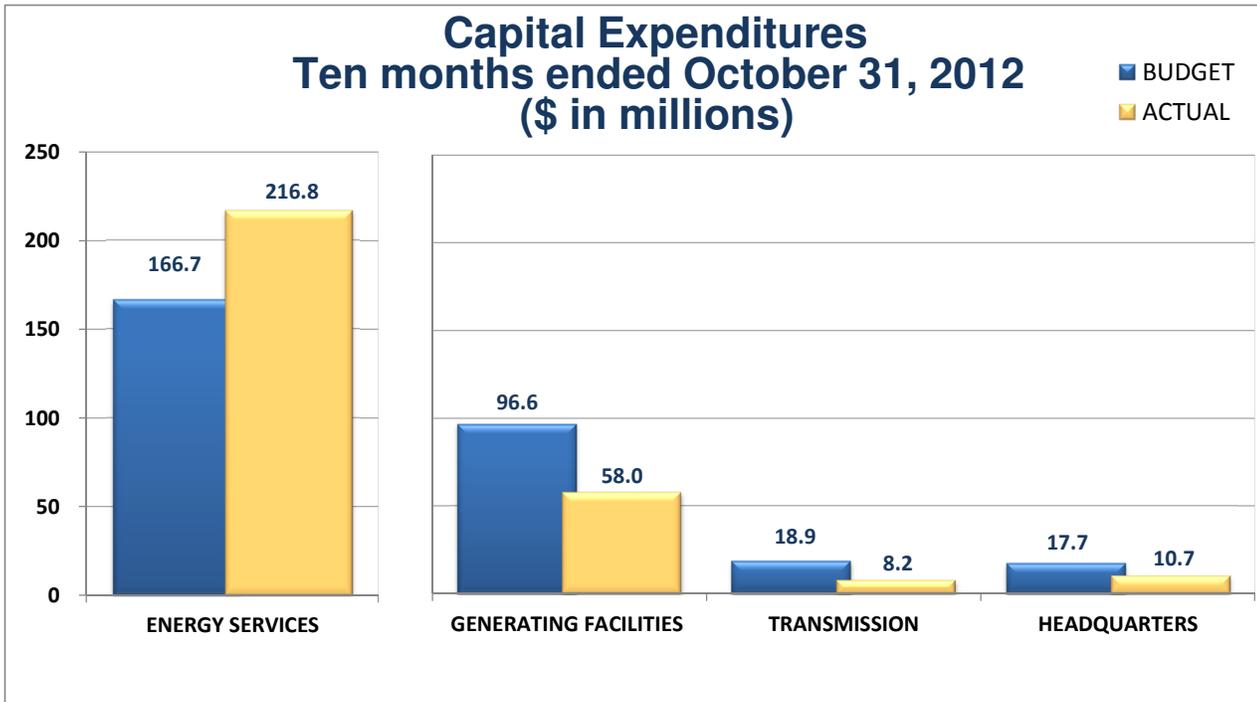
**Maturity Distribution
As of October 31, 2012**


MATURITY DISTRIBUTION	
(\$ in millions)	
Under 3 Month	\$222.6
3-6 Month	73.3
6-12 Month	161.4
1-2 Years	226.2
2-3 Years	294.7
3-4 Years	207.7
4-5 Years	250.7
5-10 Years	35.8
Over 10 Years	35.3
Total	\$1,507.7

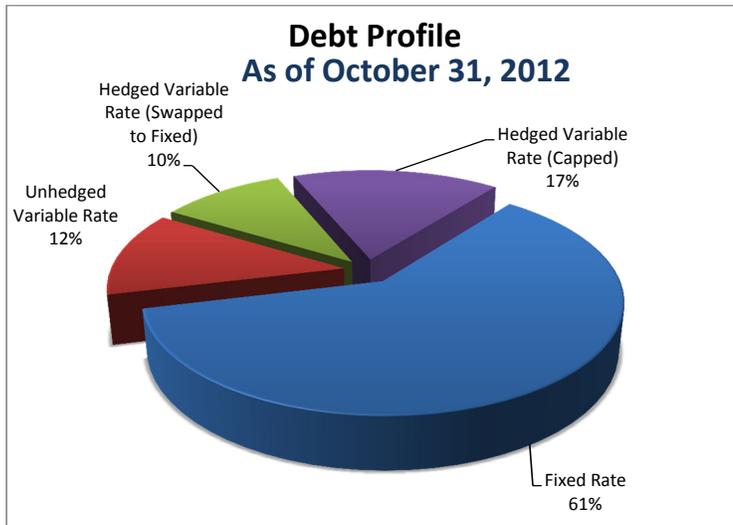
**Asset Allocation
As of October 31, 2012**


ASSET ALLOCATION	
(\$ in millions)	
Fannie Mae	\$479.5
Farm Credit	132.1
Freddie Mac	293.9
Home Loan	302.1
Mortgages	36.6
Municipal	125.9
Others*	53.9
Treasury	83.7
Total	\$1,507.7

*Includes CDs and Repos



- Generating Facilities were under budget by \$38.6 primarily due to delays related to the Blenheim Gilboa relicensing projects, the St. Lawrence LEM and SCADA projects and Astoria Infrastructure Upgrade.
- Transmission expenditures were less than anticipated due to delays in the Transmission Initiative and the Moses-Willis Double Circuitry projects.
- Headquarters expenditures were under budget primarily due to delays and timing differences related to IT Initiative Projects.
- Energy Services expenditures were over budget by \$50.1 due to greater than expected spending in the Governmental Services program.
- Under the Expenditure Authorization Procedure, the President authorized new expenditures on budgeted and emergent capital projects of \$18 through October. The following expenditures were authorized for October:
 - Niagara Integrated Communication Systems \$1.9
 - Crescent Dot Feeder Cable Replacement \$ 1.1



DEBT PROFILE	
(\$ in millions)	
Fixed Rate	\$1,083.4
Unhedged Variable Rate	222.5
Hedged Variable Rate (Swapped to Fixed)	180.2
Hedged Variable Rate (Capped)	300.0
Total	\$1,786.1

ENERGY DERIVATIVES

Results

Year-to-date, energy derivative settlements have resulted in a net loss of \$128.93 million. Gains and losses on these positions are substantially passed through to customers as resulting hedge settlements are incorporated into and recovered through customer rates.

Year-to-Date 2012 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions
(\$ in Millions)

	Settlements	Fair Market Value			
	YTD ¹	2012	2013	>=2014	Total
NYPA	\$ (0.60)	\$ -	\$ 0.01	\$ 0.02	\$ 0.02
Customer Contracts	\$ (128.33)	\$ (19.32)	\$ (49.17)	\$ (67.20)	\$ (135.69)
Total	\$ (128.93)	\$ (19.32)	\$ (49.16)	\$ (67.18)	\$ (135.66)

¹Reflects October preliminary settlements.

At the end of October, the fair market value of outstanding positions was at an unrealized loss of \$135.66 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of futures contracts for entire year 2013 and how they have traded since 11/30/2010. Exhibit 2 shows the average price of futures contracts for entire year 2014 since 11/30/2011.

Exhibit 1: Average January to December 2013 Forward Price

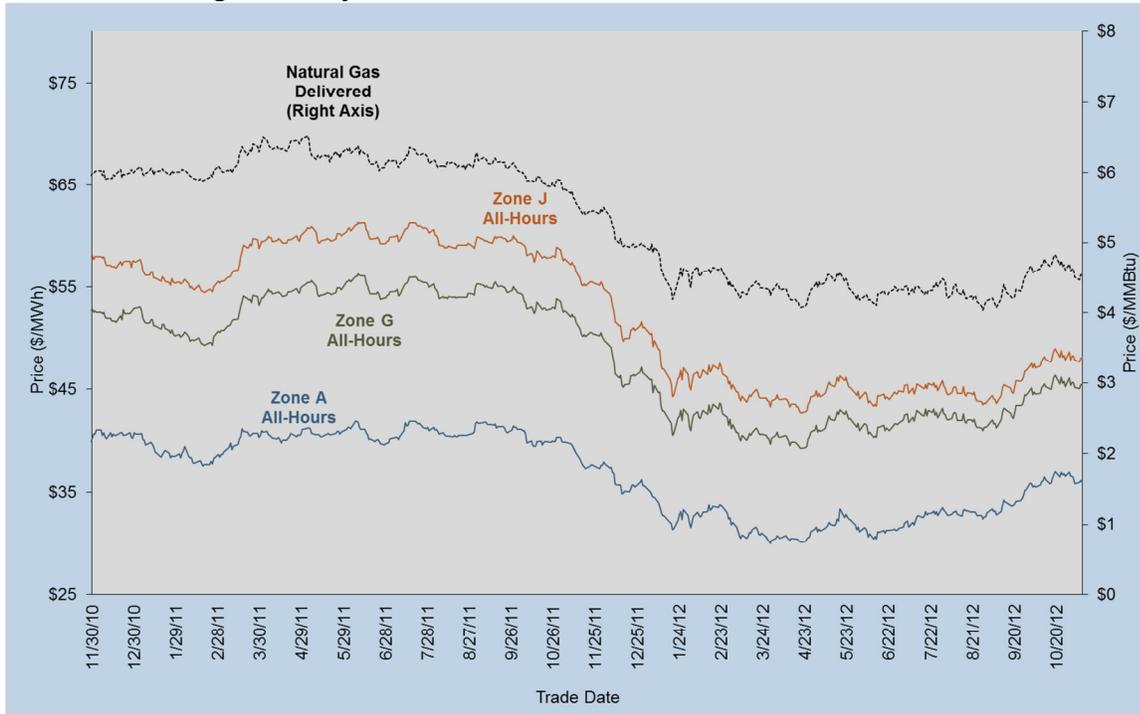
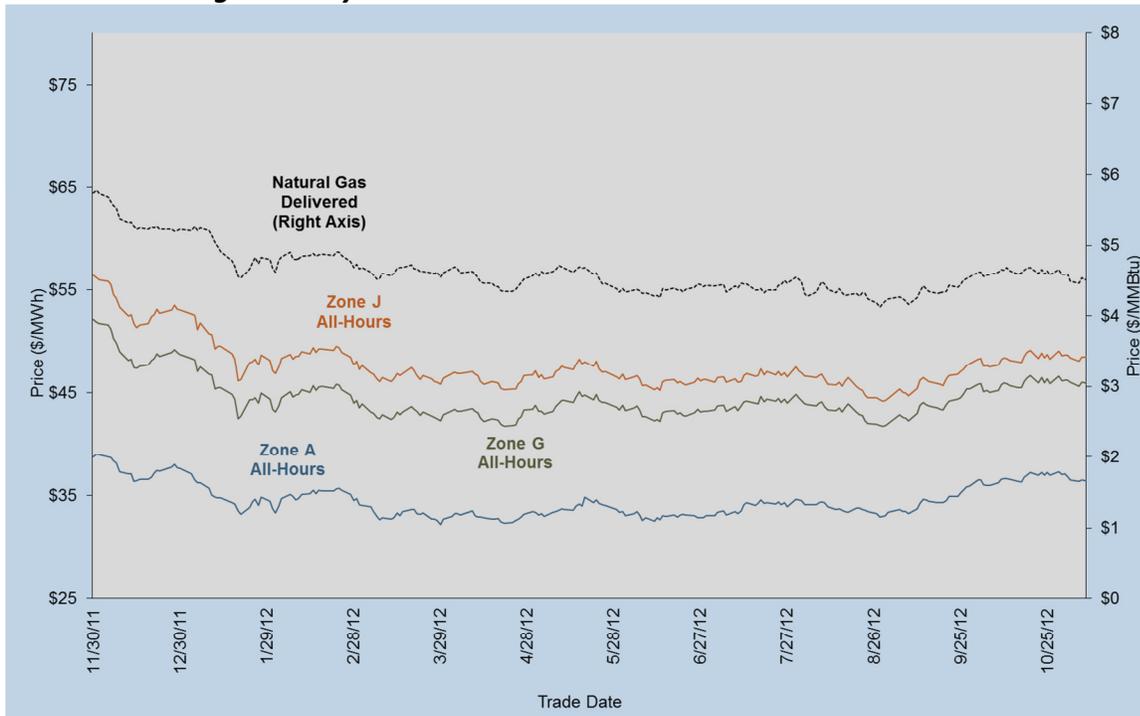


Exhibit 2: Average January to December 2014 Forward Price



STATEMENT OF NET INCOME
For the Ten Months Ended October 31, 2012
(\$ in millions)

Annual Budget		Actual	Budget	Variance Favorable/ (Unfavorable)
	Operating Revenues			
\$2,173.0	Customer	\$ 1,688.4	\$ 1,814.4	\$ (126.0)
552.7	Market-based power sales	431.6	487.7	(56.1)
28.9	Ancillary services	21.0	23.6	(2.6)
118.3	NTAC and other	91.4	97.2	(5.8)
699.9	Total	544.0	608.5	(64.5)
2,872.9	Total Operating Revenues	2,232.4	2,422.9	(190.5)
	Operating Expenses			
752.9	Purchased power	573.0	643.1	70.1
329.5	Fuel consumed - oil & gas	176.1	273.1	97.0
76.5	Ancillary services	38.8	63.6	24.8
610.2	Wheeling	513.5	518.7	5.2
370.9	Operations and maintenance	288.4	307.4	19.0
222.2	Depreciation and amortization	188.1	185.2	(2.9)
194.3	Other expenses	173.6	166.3	(7.3)
(11.7)	Allocation to capital	(7.7)	(9.6)	(1.9)
2,544.8	Total Operating Expenses	1,943.8	2,147.8	204.0
328.1	Net Operating Income	288.6	275.1	13.5
	Nonoperating Revenues			
86.9	Post nuclear sale income	82.8	84.5	(1.7)
42.1	Investment income	33.0	35.1	(2.1)
(10.0)	Mark to market - investments	(4.4)	(7.5)	3.1
119.0	Total Nonoperating Revenues	111.4	112.1	(0.7)
	Nonoperating Expenses			
85.0	Contributions to New York State	75.0	85.0	10.0
195.1	Interest and other expenses	155.7	162.8	7.1
280.1	Total Nonoperating Expenses	230.7	247.8	17.1
\$167.0	Net Income	\$ 169.3	\$ 139.4	\$ 29.9

New York Power Authority

Financial Reports

COMPARATIVE BALANCE SHEETS

October 31, 2012

(\$ in millions)

Assets	October 31, 2012	October 31, 2011	December 31, 2011
Current Assets			
Cash	\$0.1	\$0.1	\$0.1
Investments in government securities	1,473.3	1,356.9	1,233.0
Interest receivable on investments	5.6	5.5	5.6
Accounts receivable - customers	223.8	242.2	188.0
Materials and supplies, at average cost:			
Plant and general	82.4	80.3	80.1
Fuel	22.3	23.3	23.0
Prepayments and other	184.6	150.5	263.5
Total Current Assets	1,992.1	1,858.8	1,793.3
Noncurrent Assets			
Restricted Funds			
Investment in decommissioning trust fund	1,179.7	1,079.7	1,089.8
Other	70.0	81.0	76.4
Total Restricted Funds	1,249.7	1,160.7	1,166.2
Capital Funds			
Investment in securities and cash	82.7	101.5	97.2
Total Capital Funds	82.7	101.5	97.2
Net Utility Plant			
Electric plant in service, less accumulated depreciation	3,331.5	3,405.5	3,414.5
Capital lease, less accumulated amortization	1,078.4	1,017.6	1,126.5
Construction work in progress	157.3	95.7	133.4
Net Utility Plant	4,567.2	4,518.8	4,674.4
Other Noncurrent Assets			
Receivable - NY State	318.0	318.0	318.0
Deferred charges, long-term receivables and other	667.9	609.8	614.4
Notes receivable - nuclear plant sale	143.9	160.5	143.0
Total other noncurrent assets	1,129.8	1,088.3	1,075.4
Total Assets	9,021.5	8,728.1	8,806.5
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities	918.7	902.5	905.9
Short-term debt	329.5	353.1	373.7
Includes lower FACTS revenue			
Total Current Liabilities	1,248.2	1,255.6	1,279.6
Noncurrent Liabilities			
Long-term Debt			
Revenue bonds	1,104.4	1,228.6	1,107.4
Adjustable rate tender notes	114.8	123.0	122.9
Commercial paper	258.6	231.8	204.2
Total Long-term Debt	1,477.8	1,583.4	1,434.5
Other Noncurrent Liabilities			
Nuclear plant decommissioning	1,179.7	1,079.7	1,089.8
Disposal of spent nuclear fuel	216.4	216.2	216.2
Capital lease obligation	1,237.6	1,125.4	1,241.3
Deferred revenues and other	197.0	256.0	249.6
Total Other Noncurrent Liabilities	2,830.7	2,677.3	2,796.9
Net Assets			
Total Net Assets	3,464.8	3,211.8	3,295.5
Total Liabilities and Net Assets	\$9,021.5	\$8,728.1	\$8,806.5

SUMMARY OF OPERATING FUND CASH FLOWS
For the Ten Months Ended October 31, 2012
(\$ in millions)

Operating Fund	
Opening	\$1,204.6
Closing	1,451.0
Increase/(Decrease)	246.4
Cash Generated	
Net Operating Income	288.6
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	188.1
Net Change in Receivables, Payables & Inventory	(120.7)
Other	(4.8)
Net Cash Generated from Operations	351.2
(Uses)/Sources	
Utility Plant Additions	(86.8)
Debt Service	
Commercial Paper 2	(16.4)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(9.9)
ART Notes	(8.3)
Investment Income	20.8
EnergyPayment (Value Sharing Agreement)	72.0
EnergyPayment (IP2 Purchase Agreement)	10.0
Voluntary Contributions to NY State	(81.0)
Other	(5.2)
Total (Uses)/Sources	(104.8)
Net Increase in Operating Fund	\$246.4