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

January 31, 2012

Table of Contents

January 31, 2012

Minutes of the Regular Meeting of the Power Authority of the State of New York held via videoconference at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York at approximately 11:00 a.m.

The Members of the Board present were:

Michael J. Townsend, Chairman - Rochester
Vice Chairman Foster - Philadelphia
D. Patrick Curley, Trustee - Buffalo
John S. Dyson, Trustee - WPO
R. Wayne LeChase, Trustee - WPO
Eugene L. Nicandri, Trustee - Florida
Mark O'Luck, Trustee - WPO

Gil C. Quiniones	President and Chief Executive Officer
Judith C. McCarthy	Executive Vice President and General Counsel
Edward Welz	Acting Chief Operating Officer
Donald Russak	Acting Chief Financial Officer
Thomas Antenucci	Senior Vice President – Power Supply Support Services
Thomas DeJesu	Senior Vice President – Public, Governmental and Regulatory Affairs
James Pasquale	Senior Vice President – Marketing and Economic Development
Joan Tursi	Senior Vice President – Corporate Support Services
Paul Belnick	Vice President – Energy Services – Energy Services and Technology
John Canale	Vice President – Project Management
Dennis Eccleston	Vice President – Information Technology/Chief Information Officer
Thomas Davis	Vice President – Financial Planning and Budgets
Michael Huvane	Vice President – Marketing – Business and Municipal Marketing
Joseph Leary	Vice President – Community and Government Relations
Lesly Pardo	Vice President – Internal Audit
Patricia Leto	Vice President – Procurement
Scott Scholten	Vice President and Chief Risk Officer – Energy Risk Assessment and Control
John Suloway	Vice President – Project Development, Licensing and Compliance
Arthur Cambouris	Deputy General Counsel – Litigation
Lori Alesio	Assistant General Counsel – Human Resources and Labor Relations
Karen Delince	Corporate Secretary
Jill Anderson	Director – Business Integration
Edward Alkiewicz	Director – Relicensing and Implementation
Michael Saltzman	Director – Media Relations
Louis Paonessa	Director – Community Affairs, Niagara
Gary Schmid	Manager – Network Services Infrastructure
Steve Schoenwiesner	Manager – Relicensing and Implementation
Mark Slade	Manager – Relicensing and Implementation
Kevin O'Keeffe	Manager – Video Production Services – Media Relations
Ruth Colon	Senior Business Integration Project Manager
Lorna M. Johnson	Assistant Corporate Secretary
Sheila Baughman	Senior Secretary – Corporate Secretary's Office
Joseph M. Bress	Consultant
Kevin Brocks	Partner – MEUA
Tony Modafferi	Executive Director – MEUA

Trustee John Dyson presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Trustee Dyson presided over the meeting and welcomed the Trustees and staff.

1. ***Approval of the January 31, 2012 Meeting Agenda***

On motion made and seconded, the agenda for the meeting was approved as amended

2. **Consent Agenda:**

On motion made and seconded, the Consent Agenda was approved as amended.

a. **Approval of the Minutes**

The Minutes of the Regular Meeting held on December 31, 2011 were unanimously adopted.

b. Niagara Power Project – Lewiston Pump Generating Plant Life Extension and Modernization Program – Unit Performance Testing – Ultrasonic Method – Contract Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a two-year contract to Cameron Technologies US, Inc. ('Cameron') of Coraopolis, PA in the amount of $511,060 for conducting performance measurements using the Ultrasonic Method, as part of the Life Extension and Modernization ('LEM') Program at the Lewiston Pump Generating Plant ('LPGP').

BACKGROUND

"In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services contracts in excess of $3 million or contracts exceeding a one-year term requires Trustee approval.

"At their June 29, 2010 meeting, the Trustees approved the LPGP LEM Program at the estimated cost of $460 million and authorized capital expenditures in the amount of $131 million. This requested contract award is a part of the previous capital expenditure authorization.

DISCUSSION

"The scope-of-work under this contract includes the design, supply and installation of an 18 chordal path ultrasonic flow meter system and all associated components for conducting performance tests on an existing unit and the same unit after it has been upgraded. The ultrasonic based performance tests will be performed in unison with the current meter method tests. The ultrasonic tests will be conducted with meters that will be permanently installed in the penstock whereas the current meter tests will be conducted with a rack that is lowered into the intake gates and removed after testing is complete. The tests will work in conjunction and serve to verify that the data collected is accurate. The two testing methods are required because no one method can be relied upon at the conditions and plant geometry that the LPGP units operate under.

"The Authority issued an advertisement to procure bids in the New York State *Contract Reporter* and bid packages were available as of July 18, 2011. On September 20, 2011 proposals were received from two bidders. The proposal prices are shown below:

Bidder	**Location**	**Lump Sum**
Accusonic Technologies	Leroy, NY	$300,428
Cameron Technologies US, Inc.	Coraopolis, PA	$511,060

"The proposals were reviewed by an evaluation committee comprising staff from Engineering, Procurement, Niagara Site Personnel and Project Management.

"Cameron's bid was the second lowest-priced and was evaluated as technically acceptable. Accusonic's proposal was rejected due to proposed significant commercial exceptions to the risk aspects (indemnification and insurance) of the contract that were unacceptable to the Authority. Cameron has extensive experience in modeling and testing, has demonstrated knowledge of the scope-of-work and is capable of completing this project in a timely manner as per the company's proposed schedule.

"The estimated cost of this work is within the authorization of this project which was approved by the Trustees at their June 29, 2010 meeting; this work is included in the 2012 Capital Budget. Future funding will be included in the Capital Budget request for those years.

FISCAL INFORMATION

"Payment associated with this project will be made from the Authority's Capital Fund.

RECOMMENDATION

"The Executive Vice President and Chief Engineer – Power Supply, the Senior Vice President – Power Supply Support Services, the Vice President – Project Management, the Vice President – Engineering, the Vice President – Procurement, the Project Manager and the Regional Manager – Western New York recommend that the Trustees approve the award of a multi-year contract to Cameron Technologies US, Inc. of Coraopolis, PA, in the amount of $511,060.

"For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the resolution below."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a two-year contract to Cameron Technologies US, Inc. of Coraopolis, PA, in the amount of $511,060, for performance testing using the ultrasonic method for the Life Extension and Modernization program to renovate and modernize the Lewiston Pump Generating Plant, as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	**Contract Approval**
Cameron Technologies US, Inc. Coraopolis, PA	**$511,060**

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

c. Niagara Power Project – Lewiston Pump Generating Plant Life Extension and Modernization Program – Unit Performance Testing – Current Meter Method – Contract Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a two-year contract to Alden Research Laboratory, Inc. ('Alden') of Holden, MA in the amount of $199,500 for conducting performance measurements using the Current Meter Method, as part of the Life Extension and Modernization ('LEM') Program at the Lewiston Pump Generating Plant ('LPGP').

BACKGROUND

"In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services contracts in excess of $3 million or contracts exceeding a one-year term requires Trustee approval.

"At their June 29, 2010 meeting, the Trustees approved the LPGP LEM Program at the estimated cost of $460 million and authorized capital expenditures in the amount of $131 million. This requested contract award is a part of the previous capital expenditure authorization.

DISCUSSION

"The scope-of-work under this contract includes the design of a test rig and conducting performance tests using the current meter method for an existing unit and the same unit after it has been upgraded. The current meter based performance tests will be performed in unison with the 18 chordal path ultrasonic method tests. The current meter tests will be conducted with a rack that is lowered into the intake gates and removed after testing is complete, whereas the ultrasonic tests will be conducted with meters that will be permanently installed in the penstock. The tests will work in conjunction and serve to verify that the data collected is accurate. The two testing methods are required because no one method can be relied upon at the conditions and plant geometry that the LPGP units operate under.

"The Authority issued an advertisement to procure bids in the New York State *Contract Reporter* and bid packages were available as of July 18, 2011. On September 13, 2011 proposals were received from two bidders. The proposal prices are shown below:

Bidder	**Location**	**Lump Sum**
Alden Research Laboratory, Inc.	Holden, MA	$199,500
Hydro Power Performance Engineering	Ontario, Canada	$288,440

"The proposals were reviewed by an evaluation committee comprising staff from Engineering, Procurement, Niagara Project personnel and Project Management.

"Alden's bid was the lowest-priced and was evaluated as technically acceptable. Alden, which has extensive experience in modeling and testing has demonstrated knowledge of the scope-of-work and is capable of completing this project in a timely manner as per the company's proposed schedule. Alden has performed satisfactory work for the Authority on prior projects and is currently working with the Authority through various EPRI initiatives.

"The estimated cost of this work is within the authorization of this project which was approved by the Trustees at their June 29, 2010 meeting; this work is included in the 2012 Capital Budget. Future funding will be included in the Capital Budget request for those years.

FISCAL INFORMATION

"Payment associated with this project will be made from the Authority's Capital Fund.

RECOMMENDATION

"The Executive Vice President and Chief Engineer – Power Supply, the Senior Vice President – Power Supply Support Services, the Vice President – Project Management, the Vice President – Engineering, the Vice President – Procurement, the Project Manager and the Regional Manager – Western New York recommend that the Trustees approve the award of a multi-year contract to Alden Laboratory, Inc. of Holden, MA, in the amount of $199,500.

"For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the resolution below."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a two-year contract to Alden Laboratory, Inc. of Holden, MA, in the amount of $199,500, for performance testing using the current meter method for the Life Extension and Modernization program to renovate and modernize the Lewiston Pump Generating Plant, as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	**Contract Approval**
Alden Laboratory, Inc. Holden, MA	**$199,500**

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

<u>Discussion Agenda</u>:

3. Contribution of Funds to the State Treasury and Release of Funds in Support of the Residential Consumer Discount Program Incorporated in the <u>Recharge New York Power Program</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to approve (1) a contribution in the amount of $60 million to the State's general fund, as authorized by Chapter 58 of the Laws of 2011 approving the 2011-12 Budget of the State of New York; (2) a contribution in the amount of $6 million related to the extension of the Power for Jobs ('PFJ') Program; and (3) the release of funds of up to $50 million in support of the next six months (beginning February 2012 and ending August 2012) of the Residential Consumer Discount Program incorporated in the Recharge New York ('Recharge NY') Power Program. The latter two amounts, the PFJ Program contribution and the Residential Consumer Discounts, are each authorized by Chapter 60 of the Laws of 2011. All of these amounts were reflected in the Authority's 2012 Operating Budget approved by the Trustees at the December 15, 2011 meeting.

<u>BACKGROUND</u>

"The Authority is requested, from time to time, to make financial contributions and transfers of funds to the State or to otherwise provide financial support for various State programs, including rebates to customers of the PFJ program, the provision of below-cost energy to the beneficiaries of the State's Energy Cost Savings Benefits ('ECSB') program and the Residential Consumer Discount Program related to Recharge NY.

"Any such contribution or transfer of funds must (1) be authorized by the Legislature; (2) be approved by the Trustees 'as feasible and advisable,' (3) satisfy the requirements of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented ('Bond Resolution') and (4) as set forth in the Trustees' Policy Statement dated May 24, 2011, a debt service coverage ratio of 2.0 shall be used as a reference point in considering any such payments or transfers.

"The Bond Resolution's requirements to withdraw monies 'free and clear of the lien and pledge created by the [Bond] Resolution' are such that withdrawals (a) must be for a 'lawful corporate purpose as determined by the Authority,' and (b) the Authority must determine, taking into account, among other considerations, anticipated future receipt of revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for (i) payment of reasonable and necessary operating expenses, (ii) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals or for retirement from service, decommissioning or disposal of facilities, (iii) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt or (iv) payment of interest and principal on subordinate debt.

<u>DISCUSSION</u>

I. <u>Voluntary Contribution</u>

"The State's fiscal year ('SFY') 2011-12 Budget legislation authorized the Authority as deemed 'feasible and advisable by its trustees' to provide $100 million in contributions to the State, with $40 million to be considered for payment by June 2011 and the remaining $60 million considered for payment by January 2012. At their June 28, 2011 meeting, the Trustees authorized and the Authority subsequently transferred the initial $40 million payment. Under consideration today, is the remaining $60 million payment.

"Under the PFJ Program, distributors of the power are allowed to take a tax credit against their gross receipts tax ('GRT') to offset lost revenues that may result from the Program. The Authority has traditionally been authorized to make a voluntary contribution to the State Treasury 'as deemed feasible and advisable by the trustees' to offset the foregone revenue of the State resulting from the GRT credit. In extending the PFJ Program for the final time to June 30, 2012 as part of the Recharge New York Power Program legislation, the Authority was authorized to provide a $7.5 million GRT-related contribution for SFY 2010-11 and a second GRT-related contribution in the amount of $6.0 million associated with SFY 2011-12. Also, at their June 28, 2011 meeting, the Trustees authorized and the Authority subsequently transferred the initial $7.5 million payment. Under consideration today, is the $6.0 million amount related to SFY 2011-12.

II. Recharge NY Power Program

"In March 2011, Governor Cuomo signed into law the Recharge NY Power Program that will utilize 455 megawatts ('MW') of the firm power from the Authority's Niagara and St. Lawrence hydroelectric facilities, combined with market-based power purchases, to form a new, 910-megawatt economic development power program to replace and expand upon the PFJ and ECSB economic development programs.

"As part of the Recharge NY Power Program, the Authority, on August 1, 2011, withdrew all 455 MW of the firm hydroelectric power previously sold to certain utility companies for the benefit of their residential consumers. To mitigate the price impacts of this withdrawal on the residential consumers, the Authority has been authorized, as deemed feasible and advisable by the Trustees, to fund monthly Residential Consumer Discount Program payments for the benefit of such consumers on a declining schedule. For each of the first three years following the withdrawal, the Authority is authorized to provide $100 million per year to fund the discounts. In years four and five following the withdrawal, the Authority is authorized to fund discounts of $70 million and $50 million, respectively. Beginning in year six following the withdrawal, and for each year thereafter, the Authority is authorized to fund discounts of $30 million per year.

"The Authority is authorized to use the revenues from the sale of the withdrawn power into the wholesale market, together with any other funds of the Authority as the Trustees may deem feasible and advisable, to support the Residential Consumer Discount Program. The Department of Public Service staff reported that during 2010 the 455 MW of hydropower used for the benefit of the utilities' residential consumers provided $102 million in net value for residential consumers. On the basis of this analysis, and because the 455 MW of withdrawn hydropower is not scheduled to be allocated to eligible Recharge NY program customers until July 1, 2012, it was estimated at the time of the passage of the legislation that the sale of this power into the wholesale market would produce approximately the $100 million required on an annualized basis to fund the Residential Consumer Discount Program for the first year. Given the volatility in market prices, however, there is no assurance that the sale of this power will produce sufficient net revenues to cover the full amount of the residential discount. Therefore, Authority funds may be needed to supplement the market revenues. In fact, with somewhat softer market prices, the Authority estimates that it under-collected by approximately $4 million during the first five months of the Discount Program.

"Following the July 1, 2012 start of business customer allocations under the Recharge NY program, the source of funding for the residential discount is expected to shift over time to other Authority funds, as deemed feasible and advisable by the Trustees. It should be noted, however, that during the same period, the requests for funds to support the PFJ customer rebates and the ECSB Program will decline or be eliminated as those programs are replaced by Recharge NY. At their June 28, 2011 meeting, the Trustees approved the release of funds in support of the first six months of the Residential Consumer Discount Program. Under consideration today, is the next six months (February 2012 through July 2012) of the Residential Consumer Discount Program.

"Staff has reviewed the effects of the two transfer amounts (totaling $66 million), and the payments of the Residential Consumer Discount Program (up to $50 million), on the Authority's projected financial position and reserve requirements. It is important to note that based on current projected energy market rates, the up to $50 million in residential discounts is estimated to be off-set nearly in its entirety by the sale of the withdrawn power into the wholesale market. In addition, in accordance with the Board's Policy Statement, staff calculated the impact of these amounts on the Authority's debt service coverage ratio and determined it would not fall below the 2.0 reference point level as shown in Exhibit '3-A' attached hereto. Given the current financial condition of the Authority, its estimated future revenues, operating expenses, debt service and reserve requirements, staff is of the view that it will be feasible for the Authority to make the contribution of $66 million and fund up to $50 million of the Residential Consumer Discount Program at this time.

"Staff intends to return to the Trustees later in the year with a recommendation as to the release of any future amounts related to the Residential Consumer Discount Program based on how the overall program is progressing as well as the financial circumstances of the Authority at the time such payments are to be considered.

FISCAL INFORMATION

"Staff has determined that sufficient funds are available in the Operating Fund to transfer $66 million to the State's general fund and to provide up to $50 million in support for the Residential Consumer Discount Program authorized by the Recharge NY program at this time and that such Authority funds are not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's Bond Resolution. The contemplated transfer of $66 million associated with the SFY 2011-12 Budget legislation and the release of up to $50 million associated with the Residential Consumer Discount Program payments was anticipated and reflected in the Power Authority's 2012 Operating Budget approved by the Trustees at their December 15, 2011 meeting. With the exception of small timing differences, the Residential Consumer Discount Program payments are not expected to affect overall earnings or net cash flow. These payments will be recorded as an expense at the time of payment.

RECOMMENDATION

"The Acting Chief Financial Officer recommends that the Trustees affirm the transfer to the State Treasury of $66 million and the release of up to $50 million related to Residential Consumer Discount Program is feasible and advisable and to authorize such payments.

"For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the resolution below."

Mr. Donald Russak presented highlights of staff's recommendation to the Trustees.

Vice Chairman Jonathan Foster said that Mr. Russak and his staff gave him a thorough briefing on staff's recommendations; they responded to his questions satisfactorily and he will vote in favor of the resolution.

Trustee Eugene Nicandri said that he also received a briefing on the recommendations from Mr. Russak and is prepared to vote in favor of the $6 million transfer to the state's general fund; however, the $60 million transfer continues to be of concern to him as to its feasibility and advisability, therefore he will be voting "no."

Trustee Patrick Curley said that he is going to vote positively on both amounts but noted his preference for the $60 million transfer to be recorded as a transfer of assets as a long-term loan rather than an expense against the profits for the year.

Trustee Mark O'Luck said that he will vote in favor of the contributions; however, he suggested that, based on the projects to be undertaken by the Authority, future voluntary payments to the state's general fund be renegotiated.

Trustee Wayne LeChase said that he was fully briefed by staff on the recommendations and will vote in favor of them.

Trustee Dyson said that the Governor, in his State of the State address indicated that the Authority should be a part of, or lead agency in some of the state's major initiatives such as the energy highway initiative

and energy efficiency in the schools. These projects fit in with the mission of the Authority. The Governor's office understands the Authority's expenditures for the Lewiston Pumped Generating Plant's life extension and modernization ("LEM") program and other major LEM programs at the Authority's facilities. He noted Trustee Nicandri's concerns as to the feasibility and advisability of the voluntary contributions to the state's general fund; however, taking into consideration the Authority's finances to date, he will vote in favor of the staff's recommendations.

In response to a question from Trustee O'Luck, Mr. Russak said that the legislation did not authorize any structure pertaining to the way the voluntary contribution is recorded in the Authority's books; the legislation only authorized the contribution.

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

1) ***As to a contribution in the amount of $60 million to the State's general fund: voted 6/1 with Trustee Nicandri voting "no"***
2) ***As to a contribution in the amount of $6 million related to the extension of the Power for Jobs Program: voted unanimously***
3) ***As to the release of funds of up to $50 million in support of the Residential Consumer Discount Program incorporated in the Recharge New York Power Program: voted unanimously.***

RESOLVED, That the Trustees hereby authorize a payment to the State Treasury in the amount of $60 million from the Operating Fund as authorized by Chapter 58 of the Laws of 2011 as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Trustees hereby authorize a second payment to the State Treasury in the amount of $6 million from the Operating Fund as authorized by Chapter 60 of the Laws of 2011 as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Trustees hereby authorize the release of up to $50 million from the Operating Fund to support the Residential Consumer Discount Program as authorized by the Recharge New York Power Program as set forth in Chapter 60 of the Laws of 2011 as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of $66 million to be used for the contributions to the State Treasury and the amount of up to $50 million to be used for the Residential Consumer Discount Program described in the foregoing resolutions is not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That as a condition to making the payments specified in the foregoing resolutions, on the day of such payment the Treasurer or the Deputy Treasurer shall certify that such monies are not then needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Acting Chief Operating Officer, the Executive Vice President and General Counsel, the Acting Chief Financial Officer, the Corporate Secretary, the Treasurer and all other officers of the Authority be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents that they, or any of them, may deem necessary or advisable to effectuate the foregoing resolutions, subject to approval as to the form thereof by the Executive Vice President and General Counsel.

4. a. Report of the President and Chief Executive Officer

Corporate Performance Measures

President Gil Quiniones provided an update of the Authority's performance, as reflected in the corporate performance matrix developed by Authority staff, and highlighted some of the key initiatives. He said that at the end of the year 2011, the Authority missed its transmission reliability target because of the failure of the Y-49 transmission cable. With regard to environmental incidents, President Quiniones said that the Authority did not meet its goals; however, its performance was above the industry standard. He continued that the year 2011 was challenging for the Authority because of the effects of hurricane Irene and tropical storm Lee and commended staff on their performance during those events.

Key Issues

Highlights from Governor Cuomo's State of the State Address

President Quiniones said that as a response to the Governor's State of the State address, the Authority will be participating in three of the energy initiatives to be undertaken by the state: 1) Energy Highway initiative to facilitate a more efficient flow of power within the state; 2) Master Energy Plan for Energy Efficiency in State buildings, e.g. schools and colleges; and 3) NY-Sun Initiative, which the Authority is assisting NYSERDA in its goal to advance solar energy in the State.

Blenheim-Gilboa Public Session

President Quiniones said that Authority staff held an "Open House" on January 19 at the Blenheim-Gilboa Project to discuss the Authority's plans for the communications improvements post hurricane Irene with its stakeholders in the community. The actions of Authority staff during the hurricane were also discussed. President Quiniones said it was a very successful program and Senator Steward and Assemblyman Lopez who attended expressed appreciation for Authority's efforts.

Economic Development - ReChargeNY Program

President Quiniones said that Authority staff is in the process of reviewing applications for the ReChargeNY program. To date, staff has received approximately 1,000 applications. The Economic Development Power Allocation Board will be requested to approve the applications followed by the Board of Trustees.

Hudson Transmission Partners Project

President Quiniones reported that construction continues on the Hudson Transmission Partners ("HTP") project. Trustee Dyson added and President Quiniones concurred that the Authority and Con Edison's engineers and high voltage experts are overseeing the construction to ensure that the installation of the cables is being done as designed. A video presentation of the construction work followed.

Responding to a question from Trustee Nicandri, President Quiniones said that although it was very cold for the divers, there were no ice issues on the Hudson River during the cable installation.

b. **<u>Report of the Acting Chief Operating Officer</u>**

Acting Chief Operating Officer, Mr. Edward Welz, provided highlights of the report to the Trustees.

<u>Performance Measures</u>

There were no significant unplanned generation events in December 2011. System-wide Net Generation exceeded projections. Generation revenue for December 2011 was $155.3 million.

<u>Key Issues</u>

- ***There were 4 unplanned transmission events that affected the Transmission Reliability performance target: two forced outages with the Y49 transmission cable which tripped; a capacity bank at Marcy Substation tripped; a coolant leak and a phase imbalance at March Substation.***
- ***Y49 345 kV Transmission Failure – The Authority has contracted a consultant to review the cable failure.***
- ***Organizational Review – Staff will be meeting with a consultant on February 17 to discuss the interface between the Energy Resource Management, Energy Control Center and Operations staffs.***
- ***Blenheim-Gilboa Tropical Storm Damage – On January 19 Mr. Lynn Hait, Regional Manager, gave a presentation to the community on the event of hurricane Irene and tropical storm Lee. This presentation was well-received by the community.***
- ***St. Lawrence-FDR Life Extension and Modernization – Unit 19 scheduled to return to service on April 18, 2012.***
- ***Niagara Unit 2 Standardization – currently eight days behind schedule; will return to service on July 12, 2012.***

<u>2011 Highlights</u>

- ***Northeast Power Coordinating Council ("NPCC") Audits – The NPCC Audits resulted in no findings on the Authority.***
- ***Hurricane Irene – Staff performed exceptionally well during this event; the end result is a better understanding of the value of the Authority's facility to the local community and the state.***
- ***Environmental Health and Safety – no fines were leveled against the Authority for environmental health and safety related projects.***

- ***Hudson Transmission Partners ("HTP") Project – President Quiniones requested that the Authority keep track of the work in progress on the HPT project. The services of an expert was contracted to assist with overseeing the cable installation.***
- ***Niagara Power Project – The Authority celebrated the 50th anniversary of the Niagara project's "1st power" which occurred on February 19, 1961.***
- ***Jarvis Emergency Action Plan – The Authority held an Emergency Action Plan meeting at Jarvis Plant, which was well received by the local emergency management community.***
- ***Astoria Energy II Tolling Agreement – Authority staff successfully managed the Astoria Energy II Tolling Agreement in 2011.***

c. **Report of the Acting Chief Financial Officer**

Acting Chief Financial Officer, Mr. Donald Russak, provided highlights of the report to the Trustees. He said that the Authority performed well financially in 2011.

Net Income

Net income for the year 2011 was $234.6 million on an unaudited basis, which was $55.3 million higher than budget due primarily to higher generation and higher market-based sales at Niagara and St. Lawrence, off-set somewhat by softer capacity market prices. Net generation at the major hydroelectric facilities was 14% higher than budget for the year.

Operation & Maintenance ("O&M") Expenses

O&M expenses for the year were $2.9 million higher than the original budget with emergent work at the Small Clean Power Plants ("SCPPs") and in Shared Services substantially offset by under-runs at Niagara and in Headquarters Corporate support. In September, the Trustees authorized an additional $9.6 million in O&M spending, primarily for the emergent work at the SCPP's and transmission facilities.

Debt Activity

In September 2011, the Authority priced and sold the Series 2011A Bonds ($108.4 million). The proceeds were used to refund $77.2 million Series 2000A Bonds and $41.7 Series 2002A Bonds. The transaction, which closed on October 6th, resulted in $19.4 million present value savings. Debt activity during the year also included the repayment of all outstanding Tri-lakes related Commercial Paper ($19.7 million) and the retirement of an additional $55 million in Commercial Paper pursuant to Trustee authorization. At year end 2011, the total amount of debt outstanding, $1.78 billion, is the Authority's lowest level since 1975.

Transmission Asset Transfers

In December, pursuant to the terms of a 2006 agreement, the Authority completed the transfer of the Tri-lakes transmission assets to National Grid for $33 million. In addition, the Authority assumed ownership of substation and related transmission assets relating to the Noble and Marble River wind farms. The cost to design and construct wind farm related assets was the responsibility of the developers. The Authority concluded that it would be beneficial to own, operate and maintain these assets in order to protect the continuity and reliability of its existing transmission system.

Responding to a question from Trustee LeChase, Mr. Russak said that the International Joint Commission ("IJC") has been reviewing the water levels of Lake Ontario. He is not aware of any final rule from the IJC; however the Authority is following the proceedings and will report to the Trustees on any new regulations by the IJC.

5. Revisions to the Governing Policy for Energy Risk Management

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to reaffirm the Governing Policy for Energy Risk Management (the 'Policy'), which is attached hereto as Exhibit '5-A,' with two clarifying modifications. The Policy supersedes the version of the Policy approved by the Trustees at their meeting of September 28, 2010.

"In accordance with leading industry practice, the Trustees' approval of the revised Policy is intended as a reaffirmation of the philosophy, framework and delegation of authority for the Authority's Energy Risk Management Program (the 'Program'). In addition, the revised Policy incorporates two modifications that improve the specificity of the authorizations under the Policy. First, the revised Policy clarifies that the authority for transactions relating to environmental attributes is included in the transaction authority delegated by the Policy to the Executive Risk Management Committee (the 'ERMC'). Second, the revised Policy explicitly incorporates the requirement for Trustee approval of transactions for energy and energy-related products, including environmental attributes, for terms exceeding four years.

"The members of the ERMC have reviewed the revised Policy and recommend its approval.

DISCUSSION

1. Reaffirmation Of Policy

"The electric energy, generation-fuel and related products required (or produced) by the Authority and its customers are subject to the forces of unregulated, wholesale commodity markets. As such, the prices of these products are volatile and uncertain, in turn, exposing the Authority's bottom line and its customers' rates to significant uncertainty (i.e., price risk). To enable staff to manage these market risks in a structured and well-controlled manner, the Trustees have, since 1988, taken several actions to provide the guidance and authority to enter into forward transactions for energy and energy-related products to mitigate the potential for undesirable cost outcomes.

"At their meeting of September 28, 2010, the Trustees approved the current version of the Policy. The Policy outlines the philosophy, framework and delegation of authority for the Program and provides the necessary authority to an appointed ERMC to oversee implementation of the Program, including the authority to enter into forward hedging transactions. The core philosophy and framework of the Program in the revised Policy is wholly consistent with the Policy approved at the September 28, 2010 meeting, and, in keeping with leading practices, the Trustees are to periodically review and reaffirm the Policy.

2. Transaction Authority for Environmental Attributes

"The September 28, 2010 Trustee action superseded a February 26, 2008 Trustee item, which authorized specific transaction limits by products, with the following exception:

> The limits for short-term procurement of physical natural gas, gas transportation, fuel oil and emissions allowances, as required for operation of the Authority's fossil-fueled generation plants, remains as authorized under the Trustee-approved action of February 26, 2008.

The Policy approved by the September 28, 2010 Trustee action delineates the scope of authorized transactions as follows:

> …all forward transactions for electrical energy, capacity, ancillary services, transmission rights, natural gas, fuel oil, traded emissions, and other energy-market products used for generation or the fulfillment of customer load obligations.

"The language of the September 28, 2010 Trustee item did not specifically address transaction limits for the procurement of environmental attributes which had been previously authorized by the Trustees within the action of February 26, 2008. Environmental attribute transactions are principally entered into by the Authority on behalf of customers to meet requirements such as Executive Order 111, or in response to a customer's decision to increase the renewable energy component of its operations. The Authority also procures environmental attributes as required to meet Executive Order 111 and other requirements for its own facilities, including the corporate headquarters in White Plains.

"Environmental attributes represent all environmental characteristics, however defined, attributable to generation from renewable sources of energy. These attributes transact in a manner similar to other energy and energy-related products already under the purview of the Policy. Accordingly, the Trustees are requested to add the authority for transactions relating to environmental attributes to the current transaction authority consolidated under the ERMC.

3. Transactions of Greater than Four Years

"At the July 26, 2010 meeting, the Trustees authorized adoption of a new Power Resource Departmental Procedure entitled 'Competitive Solicitations for Power Supply Products' which served to embody the requirement to obtain Trustee authorization prior to the issuance of competitive solicitations for purchases of energy, capacity, ancillary services and environmental attributes. Consistent with the authority to enter into energy-related forward transactions, the level of transaction authority delegated to the ERMC for environmental attributes in the revised Policy is non-speculative, limited to the volumes associated with anticipated customer and Authority requirements and for a term not to exceed four years. In order to codify this across all products, the revised Policy explicitly states that Trustee authorization is required prior to entering into transactions for energy and energy-related products (including environmental attributes) of greater than a four-year term, or the issuance of competitive solicitations for the same.

"Upon the adoption of the revised Policy, the Power Resource Departmental Procedure entitled 'Competitive Solicitations for Power Supply Products' will no longer be required as the controlling document of the authority for environmental attribute transactions or the requirement to obtain Trustee approval prior to any competitive solicitations for transactions greater than a four-year term.

"A redlined version of the proposed amended Policy is attached as Exhibit '5-B.' Deletions are shown by strikethroughs in brackets; additions are shown by bolded and underscored text. The final version of the proposed amended Policy is attached as Exhibit '5-A.'

FISCAL INFORMATION

"There is no direct fiscal impact associated with implementing the revisions to the Policy, or otherwise, by this Trustee action.

RECOMMENDATION

"The Vice President – Chief Risk Officer recommends that the Trustees approve the Policy for Energy Risk Management as reflected in Exhibit '5-A' and discussed above.

"For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the resolution below."

Mr. Scott Scholten presented highlights of staff's recommendation to the Trustees. Responding to a question from Trustee Nicandri, Mr. Scholten said the Trustees are being requested to approve the Policy; it does not require approval by the Governance Committee. He added that the Policy delegates authority to the Energy

Risk Management Committee ("ERMC") and outlines its limitations. Also, the Authority's risk management program is implemented under the governance of the ERMC and the Policy sets forth the guidelines for that task.

In response to a question from Trustee O'Luck, Mr. Scholten said even if there are no changes to the Policy, as a rule, the Trustees are asked to reaffirm the Policy on a yearly basis.

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

> **RESOLVED, That the revised Governing Policy for Energy Risk Management (the "Policy") establishing the philosophy, framework and delegation of authority necessary to govern the activities of the Authority related to its Energy Risk Management program is hereby adopted in the form attached as Exhibit "5-A"; and be it further**
>
> **RESOLVED, That the Executive Risk Management Committee consisting of four members as appointed by the President and Chief Executive Officer and chaired by the Acting Chief Financial Officer is hereby granted the authority, within the requirements established by the Policy, to enter into transactions for environmental attributes to meet the requirements of Authority customers or facilities for a transaction term not to exceed four years beyond the last day of the month the transaction is entered, with specific Trustee approval required prior to entering transactions, for energy and energy-related products of greater than a four-year term, or the issuance of competitive solicitations for same; and be it further**
>
> **RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Acting Chief Operating Officer, the Acting Chief Financial Officer, the Vice President – Chief Risk Officer and any other necessary Authority officers are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents necessary to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

6. Procurement (Construction) Contract – St. Lawrence/FDR Power Project Relicensing – Little Sucker Brook Habitat Improvement Project – Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement contract to Perras Excavating ('Perras') of Massena, New York for the construction of a new pumphouse and water control structure that will create the Little Sucker Brook Controlled Level Pond Habitat Improvement Project. The term of the contract will be from February 1, 2012 through January 31, 2015. The amount for which authorization is requested is $2,020,000, which includes the contract price and contingency.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"Pursuant to the new license for the St. Lawrence/FDR Power Project issued by the Federal Energy Regulatory Commission ('FERC') on October 23, 2003, the Authority is required to implement a variety of Habitat Improvement Projects ('HIP'). Among these is the Little Sucker Brook Controlled Level Pond Project. This project will provide the ability to control the water level in Little Sucker Brook independent of water levels in the St. Lawrence River. The project will also allow for controlled access for fish spawning. This project will isolate Little Sucker Brook from the St. Lawrence River by sealing existing culverts. In addition, a new box culvert will be installed which will include a fish passage system. The water level in the pond will be controlled by construction and installation of a new pumphouse and by using the water control features installed with the new box culvert. The contract being recommended for award is for the construction of 1) the new box culvert and fish passage; 2) the new pumphouse and 3) the sealing of the existing submerged culverts.

"The Trustees previously authorized capital expenditures of $169 million to support the compliance and implementation program associated with the New License at St Lawrence. The Little Sucker Brook HIP is part of that capital expenditure plan.

DISCUSSION

"A Request for Quotation ('RFQ') for construction services was publicly noticed in the New York State *Contract Reporter* on October 19, 2011 and the full RFQ was made available on the Authority's Procurement Web site at that time. Responses to the RFQ were as follows:

- 116 firms downloaded the RFQ from the Authority's Procurement Web site;
- 7 firms attended a pre-award site meeting and tour on November 1, 2011;
- 6 firms provided a proposal:
  - The Delaney Group (Gloversville, NY)
  - J. E. Sheehan (Potsdam, NY)
  - Perras Excavating (Massena, NY)
  - Schultz Construction (Ballston Spa, NY)
  - Vector Construction (Cicero, NY)
  - Tioga Construction (Herkimer, NY)

"Staff from the Authority's Relicensing and Implementation and Procurement Divisions evaluated the proposals for technical qualifications and pricing. The lowest bidder was Perras, a firm with which the Authority has had substantial prior, positive experience. Perras is clearly technically qualified and capable of implementing this work. The company's past work has been of high quality and carefully executed; its proposed schedule is consistent with the Authority's plans.

"The evaluation concluded that the contract should be awarded to Perras in the amount of $1,684,000. The term of the contract would be from February 1, 2012 through January 31, 2015. In addition, it is recommended that a reserve of 20% ($336,000) be authorized to address potential and unforeseen field adjustments. The total authorization would be $2,020,000.

FISCAL INFORMATION

"Since these expenditures are related to implementing commitments in the New License for the St Lawrence/FDR Power Project and the underlying settlement agreements, payments will be made from the Capital Fund.

RECOMMENDATION

"The Vice President – Licensing Acquisition, Planning and Development and the Vice President – Procurement recommend that the Trustees authorize award of a contract to Perras Excavating Inc. of Massena, New York for $2,020,000 for construction services to construct the Little Sucker Brook Habitat Improvement Project at the St. Lawrence/FDR Power Project.

For the reasons stated, I recommend the approval of the above requested action by adoption of a resolution in the form of the resolution below."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a contract to Perras Excavating, Inc. for a period commencing on February 1, 2012 and ending on January 31, 2015, in an amount of $2,020,000 for construction services to construct the Little Sucker Brook Habitat Improvement Project at the St. Lawrence/FDR Power Project, in compliance with that Project's New License, as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	**Contract Approval**
Perras Excavating, Inc.	**$2,020,000**

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

7. Procurement (Construction) Contract –
Niagara Power Project Relicensing – Motor Island
<u>Shoreline Restoration Habitat Improvement Project – Award</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement contract to L.D.C. Construction Co., Inc. ('LDC'), for the Motor Island Shoreline Restoration Habitat Improvement Project ('HIP') excavation work as part of the implementation of the Niagara Power Project's ('Project') new license and settlement commitments. The term of the contract will be from February 2012 through the end of 2013. The amount for which authorization is requested is $1,302,129.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered in excess of one year.

"The Federal Energy Regulatory Commission ('FERC') issued the New License for the Project on March 15, 2007. The new license and associated Settlement Agreement and Section 401 Water Quality Certification ('WQC') from the New York State Department of Environmental Conservation require implementing the provisions of the Comprehensive Settlement Offer and the New License Terms and Conditions. Article 9A of the WQC requires the Authority to establish a fund for the design, construction, operation, maintenance and monitoring of eight HIPs and Motor Island is one of these HIPs.

"Motor Island is located in the upper Niagara River in Erie County, New York. The island is owned and operated as a restricted-access wildlife conservation area by the New York State Department of Environmental Conservation. The excavation and modification of the Motor Island shoreline is one of two major elements needed to meet the goals of the Motor Island HIP. The goals of the HIP are to protect the island from continuing erosion while enhancing the ability of fish and wildlife to access the island for habitat use. The second element of the Motor Island HIP (to be addressed through a separate contract) will involve cultivation and installation of wetland and upland plants along the modified shoreline. During the relicensing of the Project, the Authority agreed to execute a project to restore and ecologically enhance this island's shoreline.

DISCUSSION

"On October 26, 2011, the Authority issued a Request for Quotation ('RFQ') for the excavation work at Motor Island, including a notice in the New York State *Contract Reporter*. Four proposals were received on November 28, 2011 from the following firms: Edbauer Construction of Blasdell, NY; L.D.C. Construction Co, Inc. of Grand Island, NY; Man O'Trees, Inc. of Buffalo, NY; and Pinto Construction Services, Inc. of Buffalo, NY. All proposed prices were within the Authority's estimate for the project.

"Staff from the Authority's Relicensing and Implementation ('R&I'), Environmental Health and Safety, and Procurement Divisions evaluated the proposals for technical qualifications and pricing. The Authority's review team was assisted in the technical evaluation by staff from Kleinschmidt Associates, who was responsible for the biological design and engineered elements of the HIP and the Authority's Niagara Compliance Implementation Consultant, Gomez and Sullivan Engineers, who assist the Authority with project management of the Project's relicensing implementation.

"LDC was the lowest qualified bidder. LDC's proposal showed a clear understanding of the work scope, with attention demonstrated to adherence of the overall schedule and due consideration of time constraints on the work window due to ecological sensitivity. The company's proposed prices for lump-sum items and unit costs for possible additional materials or services were reasonable. LDC has significant experience working in marine environments much like that at Motor Island, including work along the shoreline of nearby islands in the upper

Niagara River. The company's recent successful completion of the Little Beaver Island wetland restoration HIP for the Authority amply demonstrated its capability to execute large earthwork projects in a marine environment. In addition to operating safely and with appropriate quality control, LDC demonstrated considerable resourcefulness on the Little Beaver Island project in overcoming challenges that were not of the company's making. LDC worked very well in coordinating overlapping work with a planting contractor, which is similar to the arrangement planned for the work on the Motor Island HIP. The company's successful experience on two other upper Niagara River marine projects at the nearby East River Marsh and at Strawberry Island provides further indication of its capabilities. LDC proposed no unacceptable deviations or exceptions for the Motor Island HIP excavation.

"Therefore, it is recommended that the contract be awarded to LDC. The contract term will be from February 2012 through the end of 2013 and the contract amount will be a lump-sum of $1,072,129. In addition, it is recommended that an additional amount of $230,000 be included in the Trustee authorization for potential field adjustments to accommodate unanticipated subsurface conditions or other factors using LDC's proposed contract unit prices. Including these additional amounts, the total recommended authorization is $1,302,129.

FISCAL INFORMATION

"Since these expenditures are related to implementing new project commitments in the New License and the Section 401 Water Quality Certificate issued by the New York State Department of Environmental Conservation, payments will be made from the Capital Fund.

RECOMMENDATION

"The Vice President – Licensing, Acquisition and Project Development, the Vice President – Procurement and the Director – Relicensing and Implementation recommend that the Trustees authorize the award a construction contract to L.D.C. Construction Co., Inc. for the Motor Island Shoreline Restoration Habitat Improvement Project excavation work at the Niagara Power Project.

"For the reasons stated, I recommend the approval of the above requested action by adoption of a resolution in the form of the resolution below."

Mr. John Suloway provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee O'Luck, Mr. Suloway said that the HIP is a two-phase project. The first contract (Phase 1), which the Trustees are being asked to approve today, is for excavation work. The Trustees will be asked to approve a second contract (Phase 2) for planting of native species at their next meeting.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a contract to L.D.C. Construction Co., Inc. from February 2012 through the end of 2013, in an amount of $1,302,129, for construction services for the Motor Island Shoreline Restoration Habitat Improvement Project excavation work at the Niagara Power Project, as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	Contract Approval
L. D. C. Construction Co, Inc.	**$1,302,129**

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

8. **Information Technology Initiatives –**
Capital Expenditure Authorization

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize capital expenditures of $3,307,500 for the implementation of Information Technology ('IT') Initiatives in 2012 as per the Authority's Expenditure Authorization Procedures ('EAPs'). These expenditures have been included in the 2012 approved Capital budget.

BACKGROUND

"In accordance with the Authority's EAPs, the award of non-personal services or equipment purchase contracts in excess of $3 million, as well as personal services contracts in excess of $1 million if low bidder, or $500,000 if sole source or non-low bidder, requires Trustees' approval.

"Each year, in concert with the Business Units, IT develops a list of initiatives designed to meet business needs by taking advantage of evolving technology applications. These application developments have been funded from a capital program called IT Initiatives. This capital program, which has often totaled less than $3 million annually, has been approved by the Trustees in the Authority's Capital budget each December with funds later authorized and released by the President and Chief Executive Officer during the budget year. Since the request for 2012 is greater than $3 million, Trustee approval is requested as per the Authority's EAPs.

DISCUSSION

"The following lists the 2012 IT Initiatives, along with the estimated cost of each:

- **Enterprise Content Management (ECM) Implementation $ 500,000**
  The SAP R/3 environment will be implementing new software to add advanced ECM to facilitate connection of the LiveLink Records Management application to several external systems to enhance the management of electronic records in various forms.

- **Enterprise Warehouse Enhancements $ 200,000**
  This represents the next phase of an effort to provide improved operation at the Authority's warehouse facilities. New barcoding hardware and software technology will be integrated into the SAP R/3 inventory and receiving procedures. Initially, this effort will be deployed for the new warehouse at the Niagara Project.

- **Comprehensive Emergency Management Plan (CEMP) communication backbone $ 400,000**
  Implementation of new integration equipment to provide the ability to have inter-operability of communication between Authority facility sites and the surrounding communities in the form of phone, data, radio and video in the event of an emergency.

  Facility conference room communication enhancements $ 400,000
  Major expansion of the Authority's internal communication capabilities to allow video conferencing, 'smart boards' and web meetings to be conducted in all major conference rooms. These new hardware and software solutions will improve meetings and reduce the need for travel time and costs.

- **Email Archiving Enhancements $ 350,000**
  Acquire and implement a new software and hardware technology to allow the archiving of the email environment to facilitate email discovery. This includes internal and external requests for data with enhanced searching capabilities to meet legal requirements.

- **Application / Network Monitoring Fault Manager** **$ 300,000**
  New implementation of a software product to monitor production systems, provide end-to-end performance statistics and alerting capabilities to any faults with an impact assessment and facilitate corrective actions to be taken.

- **Internal Labor** **$1,000,000**

- **HQ Overhead** **$ 157,500**

Total **$3,307,500**

FISCAL INFORMATION

"Payments associated with these projects will be made from the Capital Fund.

RECOMMENDATION

"The Chief Information Officer – Information Technology recommends that the Trustees approve the Capital Expenditure Request for $3,307,500 for Information Technology Initiatives.

"For the reasons stated, I recommend the approval of the above requested action by adoption of a resolution in the form of the resolution below."

Trustee Dyson said that the Trustees had questions regarding the accounting methodology of this item. In response to a question from Trustee O'Luck, Mr. Dennis Eccleston said that the $1 million allocated to Internal Labor is apportioned to payroll for staff assigned to each Information Technology capital program initiative. In response to further question from Trustee O'Luck, Mr. Eccleston said that he will provide the Trustees with supporting documentation for Internal Labor and, going forward, will provide the Trustees with a breakdown of the staffing for each initiative instead of a lump-sum amount for all initiatives. Mr. Russak added that, although staff labor amounts for each initiative were not detailed in the item, staff labor for capital projects is deducted from the O&M budget, then allocated to the specific capital job and reflected in the depreciation charges over the life of the investment.

In response to a question from Trustee Nicandri, Mr. Eccleston said that the Authority tries to stay current with the best technology while, at the same time, receive a return on its investment. The Information Technology Department establishes the useful life of all equipment, usually 3 – 5 years, and takes it into consideration before replacing any equipment. President Quiniones added that the Authority also has an internal committee that examines and prioritizes the type of investments the Authority makes in information technology.

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

RESOLVED, That Capital Expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount and for the purpose listed below:

Capital	**Expenditure Authorization**
Information Technology Initiatives 2012	**$3,307,500**

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

9. Motion to Conduct an Executive Session

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §105 to discuss matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation. On motion made and seconded, an Executive Session was held.

10. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session. On motion made and seconded, the meeting resumed in Open Session.

11. <u>Next Meeting</u>

The next regular meeting of the Trustees will be held on **Tuesday, February 28, 2012, at 11:00 a.m., at the Clarence D. Rappleyea Building, White Plains, New York,** unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 1:50 p.m.

Karen Delince
Corporate Secretary

EXHIBITS

For

January 31, 2012
Trustees' Meeting

January 31, 2012
Exhibit "A"

Debt Service Coverage Calculation
Pursuant to the May 24, 2011 Board Policy Statement

Sources of Cash Flow:		**($ MM)**
(i)	Net Cash from Operating Activities	$415
(ii)	Cash Flow from Entergy Value Sharing Agreement	$72
(iii)	Cash Flow from Entergy Notes Receivable	$30
(iv)	Earnings Received on Investments	$23
(v)	Interest Portion of Energy Conservation Program Payments	$2
Subtotal:		$542
Less:	Prior Contributions to the State (not included above)	$73
Total Cash Flow (Before current request)		$469
Debt Service for next 12 months:		$150
Debt Service Coverage Ratio (before current request):		3.1x
Pending Request(s) for Withdrawal:		
Voluntary Contributions to the State		$66.0
Residential Consumer Discount Program (RNY)		$7.0[1]
Subtotal:		$73.0
Total Cash Flow (After current request)		$396
Debt Service for next 12 months:		$150
Debt Service Coverage Ratio (after current request):		2.6x

[1]Projected net cost to the Authority (Sales of withdrawn power less Residential Discount Payments)


New York Power Authority
Generating more than electricity

President & Chief Executive Officer
Gil Quiniones

January 31, 2012

Board of Trustees Meeting

New York Power Authority

President & CEO Report Overview

- Corporate Performance Measures

- Key Issues
  - Highlights from Governor Cuomo’s State of the State
  - Blenheim-Gilboa Public Session
  - ReChargeNY update
  - Hudson Transmission Project

Corporate Performance Measures

NYPA OVERALL PERFORMANCE

December 2011

Corporate Measure	Owner	YTD Target	YTD Actual	Status Oct	Status Nov	Status Dec
POWER SUPPLY OPTIMIZATION						
Generation Market Readiness (%)	Ed Welz	99.4	99.9	Green	Green	Green
Transmission System Reliability* (%) * Reflects *monthly* performance	Steve DeCarlo	98.53	93.76	Green	Green	Red
Installed MWs to Meet Demand (MWs)	John Suloway	518	518			Green
FINANCIAL STRENGTH						
O&M Budget Performance ($ Millions) **Preliminary	Bob Hopkins	312.3	317.3**	Green	Green	Yellow
ENTERPRISE RISK AND COMPLIANCE						
Enterprise Risk (% Milestones achieved)	Scott Scholten	100	95	Yellow	Green	Yellow
Compliance Reporting (%)	Joe Gryzlo	75	75			Green
Compliance Training (%)	Joe Gryzlo	75	75			Green
Environmental Incidents (Units)	John Kahabka	27	34	Red	Red	Red
ECONOMIC DEVELOPMENT						
Jobs Created/Retained (# Jobs)	Jim Pasquale	2000	2065	Green	Green	Green
ENERGY EFFICIENCY						
Energy Efficiency (MWHs)	Paul Belnick	75,000	78,681	Green	Green	Green
RENEWABLES						
Renewable Energy (MWHs)	Bill Nadeau	200,000	222,390	Green	Green	Green
WORKFORCE RENEWAL						
Succession Preparedness (% Milestones)	Business Units	80	60			Yellow
SAFETY						
Recordable Incidence Rate*** (Index) ***Results based on 12 month rolling average	John Kahabka	1.00	1.56	Green	Green	Yellow
SUSTAINABILITY						
Sustainability Profile (Milestones met)	Brian Ross	15	18	Green	Green	Green

LEGEND:
- Meeting Target (Green)
- Needs Monitoring (Yellow)
- Missing Target (Red)

Key Issues

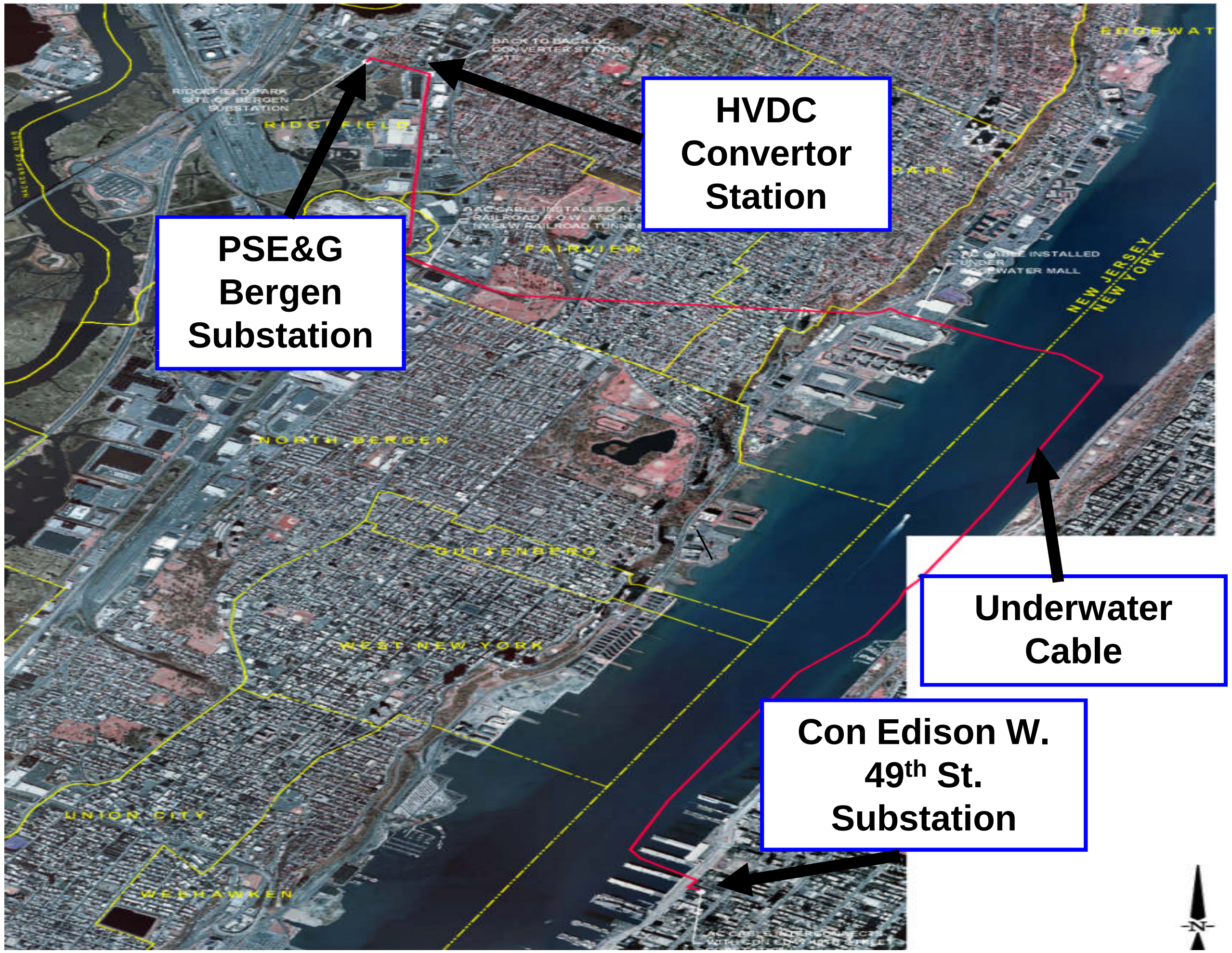
- Highlights from Governor Cuomo's State of the State
  - Energy Highway
  - Master Plan for Energy Efficiency in State Buildings
  - NY-Sun Initiative

- Blenheim-Gilboa Public Session

- ReChargeNY update
  - Application is currently open

Key Issues

- Hudson Transmission Project



123 Main Street
White Plains, NY 10601-3170
914.681.6675
Edward.Welz@nypa.gov

New York Power Authority

Edward Welz
Acting Chief Operating Officer

TO: NYPA BOARD OF TRUSTEES

FROM: EDWARD WELZ, ACTING CHIEF OPERATING OFFICER

DATE: JANUARY 17, 2011

SUBJECT: MONTHLY REPORT FOR THE BOARD OF TRUSTEES

****

This report covers performance of the Operations group in December.

Power Supply

Plant Performance

Systemwide net generation[1] was 2,759,664 megawatt-hours[2] (MWh) in December, compared to projected net generation of 2,343,060 MWh. Year-to-date net generation is 28,136,311 MWh, compared to the target of 25,611,851 MWh.

The fleet availability factor[3] was 91.0 percent in December and is 96.5 percent for the year. Generation market readiness factor[4] was 100.0 percent in December, compared with the monthly target of 99.4 percent. Year-to-date generation market readiness factor is 99.9 percent.

There were no significant unplanned generation events[5] in December.

Generation revenue in December was $155.3 million, with no loss of revenue for the month. Year-to-date lost opportunity cost is $2.31 million, about 0.12 percent of year-to-date generation revenue of $2,007.4 million.

Niagara River flows in December 2011 were above the historical average. They are expected to be above average in the beginning of 2012. St. Lawrence River flows during December 2011 were above forecast. River flows are expected to be at or above historical levels average for 2012.

Transmission Performance

Transmission reliability[6] in December was 93.76 percent, which was below the target of 98.53 percent. Year-to-date transmission reliability is 96.71 percent, below the target of 97.71 percent.

There were four significant unplanned transmission events[7] in December that affected the transmission reliability measure. The two forced outages were: Y-49 Feeder tripped on a B Phase fault; Marcy Cap #2 tripped on blown fuses. The two emergency outages were: Marcy Cap #2 was repaired for a phase imbalance; Marcy STACOM had repairs for coolant leaks.

Environmental

There were three reportable events for December.

Year-to-date number of recordable environmental incidents is 34; the 2011 target is 27.

Relicensing – Niagara Power Project

A non-capacity license amendment application was prepared and submitted to FERC for the LPGP LEM program.

Interior construction work continues at Reservoir State Park including completion of new Winter Pavilion for turnover to OPRHP by February 1.

Bids were received for the construction of the Motor Island HIP recommendation for award has been prepared and placed on the January Trustee meeting agenda.

NYPA submitted a request to recipients of the Niagara Relicensing Host Community Settlement Fund asking for a description of projects that were funded and undertaken under the settlement agreement.

Relicensing – St. Lawrence-FDR Power Project

An award recommendation and trustee item has been placed on the January Trustee meeting agenda for the construction of the Little Sucker Brook Habitat Improvement Project.

NYSDEC approval for a temporary cofferdam will allow the installation of the discharge pipe installation for WHWMA pump house the construction of which continues through this winter.

The 2011-2012 shoreline erosion stabilization work continues through this winter.

Relicensing – Blenheim-Gilboa Project

Began tasks associated with the review and acquisition of existing information to assist in the preparation of the Preliminary Application Document (PAD).

Transmission Initiative

With the decision to move ahead with the HTP project, the economic benefits of the Transmission Initiative (“TI”) were substantially reduced and a decision was made to suspend work on the TI into NYC. Studies with National Grid on an HVDC line to a point north of NYC, using PA Consulting and EIG Consulting were completed. Began work with NYPA System Planners on developing and evaluating reinforcements for the NYS transmission system to address reliability and economic needs, including the importation of additional Canadian hydropower, facilitation and development of renewable energy sources within NYS and replacement of aging transmission infrastructure.

Life Extension and Modernization Programs

<u>St. Lawrence LEM Upgrade</u>

Work on Unit 19 at the St. Lawrence-FDR Power Project, the 15th of the 16 units, began on July 25, 2011, as part of the Project’s Life Extension and Modernization[i] (LEM) program. The unit is expected to return to service on April 18, 2012. The 2013 scheduled completion date for the LEM project remains unchanged.

Technical Compliance – NERC Reliability Standards

In December, NYPA continued to implement its work plan for responding to a 2010 NERC Alert Recommendation that requires NYPA to review its current facility ratings methodology for their solely and jointly owned transmission lines to verify that the methodology used to determine facility ratings is based on actual field conditions (in particular line ground clearances). NYPA met with staff of the Northeast power Coordinating Council (NPCC) to discuss the status of the assessment. NYPA plans to meet with NYISO staff in the first quarter of 2012 to review the assessment results, revise the priorities of NYPA’s transmission lines, and to discuss plans for field verifying the assessment findings for the high priority lines. NYPA’s plan requires that potential violations be field verified prior to reporting any possible violations to NERC. The next semi-annual status update to NERC is due January 15, 2012.

In December, the NERC Board of Trustees approved a new definition of the Bulk Electric System (BES) that will be filed with FERC in January 2012. NYPA staff developed a master list of all NYPA’s BES assets, including those newly identified BES elements based on the new definition. Several of NYPA’s transmission assets, not previously considered part of the BES, will become subject to the NERC reliability standards. Once the list of newly identified BES assets is confirmed by NPCC, NYPA staff will conduct a compliance gap assessment for the standards applicable to its current and potential future NERC registrations as part of a transition plan NPCC will file with NERC in January 2012.

Representatives from the NYISO and the New York Transmission Owners (NYTOs) continue to work together to plan for reliability compliance management obligations that could result from the revised BES definition. Discussions in December continued to focus on reaching agreement on the methodology for managing the requirements for Transmission Operator (TOP) and Transmission Planner (TP) registration for newly defined BES assets under the new definition. The NYISO and the NYTOs are developing a document that will be the basis for an agreement in which they will share the functional responsibility and compliance accountability for the NERC Reliability Standards and requirements applicable to new BES assets in New York. The impacts of the potential new functional registrations for NYPA continue to be monitored and reviewed by the NYPA staff.

In December, NYPA staff completed the mitigation plans for self reported violations of standards related to relay protection system and disturbance monitoring equipment maintenance. The mitigation closure documents will be filed with NPCC in January 2012. NYPA staff are preparing for settlement discussions with NPCC that will likely lead to the assessment of a penalty for violating two requirements of these standards. The settlement discussions are expected to conclude within the first quarter of 2012.

NYPA staff will be conducting a reliability standards compliance management staffing assessment in the first quarter of 2012. This assessment is being done in response to an Internal Audit recommendation. The assessment is intended to identify possible deficiencies or misallocations of resources required to sustain NYPA's internal reliability standards compliance program.

Research & Technology Development (R&TD)

R&TD initiated the following projects: "Non-destructive Methods for Detection of High Temperature Damage in CSEF Steels (Grades 91 and 92 used in power transformers and other equipment) as a Basis for Life Evaluation" and "Guidelines for Managing Flexible Operations" (the identification and documentation of successful strategies for reducing the impact of cycling plant generation on operations, maintenance, and equipment wear and tear costs).

The contract with The Valley Group for the Dynamic Line Rating project has been executed by NYPA. This project will install equipment for dynamic estimation of the loading capability of transmission lines (utilizing actual weather and transmission line loading conditions instead of fixed, conservative assumptions) and utilization of such information along with real-time system operational data for optimization of the power system operation. NYSERDA will cofund this project in the amount of $1,683,494.

The joint NYPA / EPRI "Fish Friendly Hydropower Development and Deployment: Alden turbine Preliminary Engineering and Model Testing" project was completed. The primary goal was to provide a commercially competitive turbine design that would yield fish passage survival rates comparable to or better than the survival rates of bypassing or spilling flow. Based on selected head and flow design conditions, fish passage survival through the final turbine is estimated to be approximately 98% for 7.9-inch length fish (which make up more than 90% of fish trapped at hydro projects) and predicted survival reaches 100% for 3.9-inches or less. Completion of this project provided a mechanical and electrical design that may be readily adapted to site-specific conditions with additional engineering development.

Staff attended the Power Systems Engineering Research Center's (PSERC) Future Grid initiative workshop and Industry Advisory Board meeting. Staff also attended the NYPA/NYISO formal on-site review meeting for the DoE Smart Grid Investment Grant (SGIG) project and provided feedback regarding cyber security and networking concerns regarding NYISO-NYPA Phasor Measurement Unit /Phasor Data Concentrators.

Energy Resource Management

NYISO Markets

In December, Energy Resource Management (ERM) bid more than 2.7 million MWh of NYPA generation into the NYISO markets, netting $49.2 million in power supplier payments to the Authority. Year-to-date net power supplier payments are $569.2 million.

Fuel Planning & Operations

In December, NYPA's Fuels Group transacted $21.5 million in natural gas and oil purchases, compared with $29.5 million in December 2010. Year-to-date natural gas and oil purchases are $258.0 million, compared with $223.8 million at year-end 2010. The total year-to-date $34.2 million increase is mainly attributed to the start up of Astoria Energy II Plant (+$48.8 million), decreased fuel cost at the 500-MW Combined Cycle Plant (-$7.0 million), and increased generation at the Small Clean Power Plants (+$3.1 million) and the Richard M. Flynn Power Plant (+$1.9 million), which was offset by cessation of operations at the Poletti Power Project (-$12.6 million, the last day of operations was January 31, 2010).

Regional Greenhouse Gas Initiative

On December 7th, Auction 14 of the Regional Greenhouse Gas Initiative[8] was held. During the auction, RGGI allowances cleared at the auction price floor of $1.89/ton for Vintage 2011 for the fourth straight quarterly auction this year. NYPA bid into and was awarded 250,000 tons of 2011 allowances during the December auction. This amount was secured to ensure enough allowances to meet NYPA's allowance requirement for all plants not only for 2011 but also the 2009-2011 Compliance Period. Since the inception of this program, NYPA has spent $20.14 million on 8.5 million RGGI allowances, or $2.38/ton on average. For only 2011, NYPA spent $1.89/ton on average for Vintage 2011 allowances.

2011 Highlights

- 2011 NPCC Audits
- Flood response to Hurricane Irene
- No fines or penalties leveled against the Authority for EHS related programs
- HTP Project
- Celebrated Niagara's 50th Anniversary of 1st Power
- Jarvis Emergency Action Plan
- Managed the Astoria Energy II (AE II) Tolling Agreement

GLOSSARY

[1] **Net Generation –** The energy generated in a given time period by a power plant or group of plants, less the amount used at the plants themselves (station service) or for pumping in a pumped storage facility. Preliminary data in the COO report is provided by Accounting and subject to revision.

[2] **Megawatt-hour (MWh) –** The amount of electricity needed to light ten thousand l00-watt light bulbs for one hour. A megawatt is equal to 1,000 kilowatts and can power about 800 homes, based on national averages.

[3] **Availability Factor –** The Available Hours of a generating unit over the Period Hours (hours in a reporting period when the unit was in an active state). Available Hours are the sum of Service Hours (hours of generation), Reserve Shutdown Hours (hours a unit was not running but was available) and Pump Hours (hours a pumped storage unit was pumping water instead of generating power).

[4] **Generation Market Readiness Factor –** The availability of generating facilities for bidding into the New York Independent System Operator (NYISO) market. It factors in available hours and forced outage hours that drive the results.

[5] **Significant Unplanned Generation Events –** Forced or emergency outages of individual generator units of duration greater than 72 hours, or with a total repair cost of greater than $75,000, or resulting in greater than $50,000 of lost revenues.

[6] **Transmission Reliability –** A measurement of the impact of forced and scheduled outages on the statewide system's ability to transmit power.

[7] **Significant Unplanned Transmission Events –**Forced or emergency outages of individual transmission lines that directly affect the reliability of the state's transmission network, or affect

the availability of any component of the state's transmission network for greater than eight hours, or have a repair cost greater than $75,000.

[8] **Regional Greenhouse Gas Initiative (RGGI) –** A cooperative effort by Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. These nine states have capped CO_2 emissions from the power sector, and will require a 10 percent reduction in these emissions by 2018. RGGI is composed of individual CO_2 Budget Trading Programs in each of the nine participating states. Regulated power plants can use a CO_2 allowance issued by any of the nine participating states to demonstrate compliance with the state program governing their facility. Taken together, the nine individual state programs function as a single regional compliance market for carbon emissions, the first mandatory, market-based CO_2 emissions reduction program in the United States. New Jersey was a tenth state within the RGGI program but New Jersey's governor has announced that the state is being pulled out of the program.

[i] **Life Extension and Modernization Program —** A major undertaking in which all the turbines at the St. Lawrence-Franklin D. Roosevelt project are being replaced and the generators and other components significantly refurbished. The program is intended to ensure that the project operates at maximum efficiency far into the future.

New York Power Authority

Report of the Acting Chief Financial Officer

Year Ended December 31, 2011

Report of the Acting Chief Financial Officer
For the Year Ended December 31, 2011*
Executive Summary

Results of Operations

Net income for the year ended December 31, 2011 was $234.6 million which was $55.3 million higher than budgeted. Positive variances attributable to higher net margins on sales ($69.1 million) and higher non-operating income ($41.1 million) were partially offset by higher other operating expenses ($53.6 million).

Net margins were higher primarily at St. Lawrence ($44.5 million) and Niagara ($39.5 million) due to higher generation and higher prices on market-based sales. Net generation at Niagara and St. Lawrence was 22% higher than budgeted for the month of December and 14% higher than budgeted for the year. These positives were partially offset by a lower net margin at Blenheim-Gilboa ($11.6 million) primarily due to lower prices on capacity sales. Non-operating income included a mark-to-market gain on the Authority's investment portfolio ($13.3 million), lower interest costs ($18.7 million) and the settlement of the spent nuclear fuel claim ($11 million) against the United States Department of Energy not included in the budget. The mark-to-market gain and lower interest costs resulted primarily from lower than budgeted market interest rates. Other operating expenses were higher due to additional Power for Jobs related voluntary contributions to New York State ($13.5 million) and the recognition of residential consumer discounts ($41.5 million) included in the Recharge New York (RNY) Power Program legislation. The additional Power for Jobs voluntary contributions include $7.5 million relating to 2010 and $6 million for 2011. On June 28, 2011, the Authority's Trustees authorized the use of revenues from the sale of withdrawn hydropower under the RNY legislation into the wholesale market or, as necessary, internal funds to fund the residential consumer discount program for its first six months.

Net income for the year ended December 31, 2011 ($234.6 million) was $54.0 million higher than the year ended 2010 ($180.6 million). The current year increase included higher net operating income ($7.1 million), higher non-operating income ($3.9 million) and lower non-operating expenses ($43 million). Net operating income in 2011 included higher revenues due to higher generation (primarily Niagara and St. Lawrence, 10%) substantially offset by higher retiree health benefits and higher Power for Jobs related contributions to NY State. Non-operating expenses were lower in 2011 due to lower voluntary contributions to New York State ($82 million) partially offset by higher interest costs ($39 million), primarily related to Astoria II. Voluntary contributions were $65 million in 2011 compared to $147 million in 2010.

* *Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

Cash & Liquidity

The Authority ended the year with total operating funds of $1,205 million as compared to $1,069 million at the end of 2010. The increase ($136 million) is primarily attributable to net cash from operations and payments received from Entergy partially offset by voluntary contributions to New York State, debt service payments and a contribution of $40 million made to the OPEB Trust Fund.

Net Income*
Year ended December 31, 2011
($ in millions)

	Actual	Budget	Variance
Niagara	$116.2	$93.4	$22.8
St. Lawrence	47.4	24.4	23.0
Blenheim-Gilboa	(18.9)	(5.7)	(13.2)
SENY	40.2	39.7	0.5
SCPP	16.0	14.6	1.4
Market Supply Power	(52.0)	(38.3)	(13.7)
Flynn	7.5	2.8	4.7
Transmission	34.8	34.0	0.8
Non-facility	43.4	14.4	29.0
Total	**$234.6**	**$179.3**	**$55.3**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

Major Factors	**Better (Worse)**
Niagara Primarily higher net margin on sales ($39.5) due to higher market based sales (13% higher net generation) partially offset by higher purchased power costs to support customer loads and hydro subsidies related to the Recharge NY Power Program. Purchased power costs were higher due to an extended outage at an upstate transmission line.	$22.8
St. Lawrence Higher net margin ($44.5) resulting from 17% higher generation and higher prices on market sales ($38/mwh vs $36/mwh), partially offset by hydro subsidies related to the Recharge NY Power Program ($22.9).	23.0
Blenheim-Gilboa Lower prices on capacity sales into the market.	(13.2)
Market Supply Power Primarily accrual and payment of voluntary contributions ($13.5) not in budget (extension of Power for Jobs program).	(13.7)
Flynn Primarily lower fuel costs due to lower prices.	4.7
Other facilities Includes positive variance at the SCPP's ($1.4) due to higher production and prices partially offset by higher O&M.	2.7
Non-facility (including investment income) Mark-to-market gain on the Authority's investment portfolio ($13.3) due to lower than budgeted market interest rates during the period and settlement of spent nuclear fuel claim ($11.0)	29.0
Total	**$55.3**

Net Income*
Years Ended December 31, 2011 and December 31, 2010
($ in millions)

	2011	2010	Variance Favorable/ (Unfavorable)
Operating Revenues	**$2,650.4**	**$2,568.0**	**$82.4**
Operating Expenses			
Fuel consumed - oil & gas	257.9	223.8	(34.1)
Purchased power and ancillary services	853.0	929.7	76.7
Wheeling	543.0	528.6	(14.4)
Operations and maintenance	330.0	309.9	(20.1)
Other expenses	189.1	134.9	(54.2)
Depreciation and amortization	190.9	162.9	(28.0)
Allocation to capital	(8.6)	(9.8)	(1.2)
Total Operating Expenses	**2,355.3**	**2,280.0**	**(75.3)**
Net Operating Income	**295.1**	**288.0**	**7.1**
Investment and other income	137.0	133.3	3.7
Mark to Market Adjustment	6.3	6.1	.2
Total Nonoperating Income	**143.3**	**139.4**	**3.9**
Contributions to New York State	65.0	147.0	82.0
Interest and other expenses	138.8	99.8	(39.0)
Total Nonoperating Expenses	**203.8**	**246.8**	**43.0**
Net Nonoperating Income (Loss)	**(60.5)**	**(107.4)**	**46.9**
Net Income	**$234.6**	**$180.6**	**$54.0**

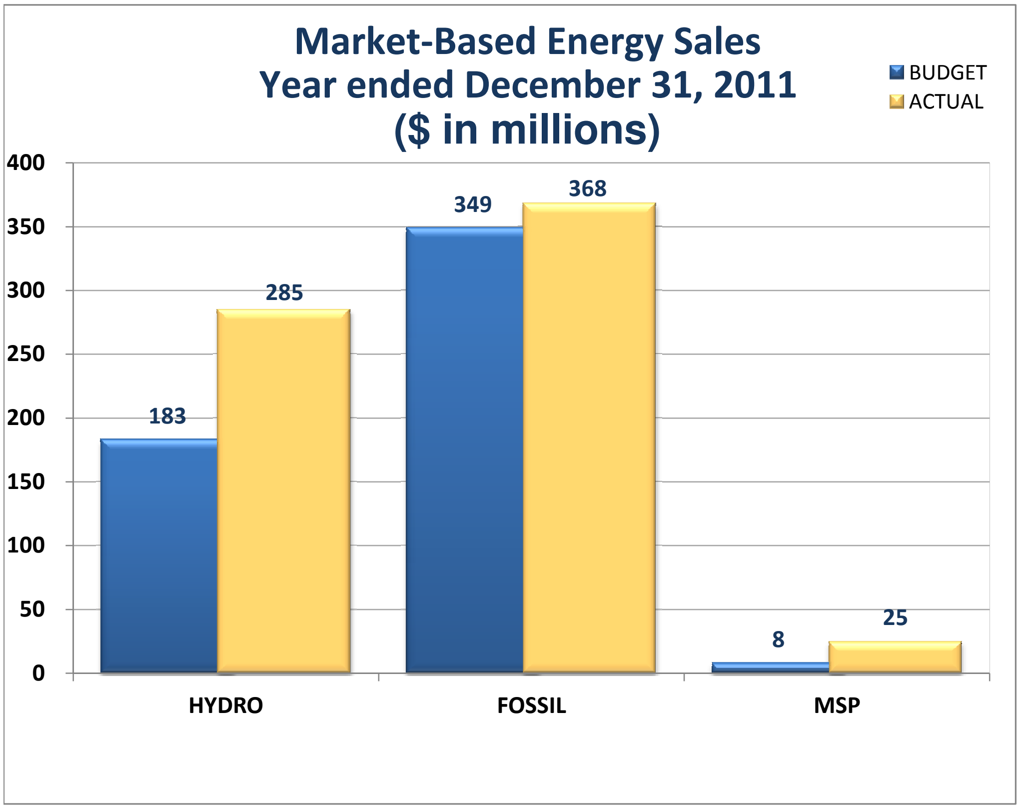
** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

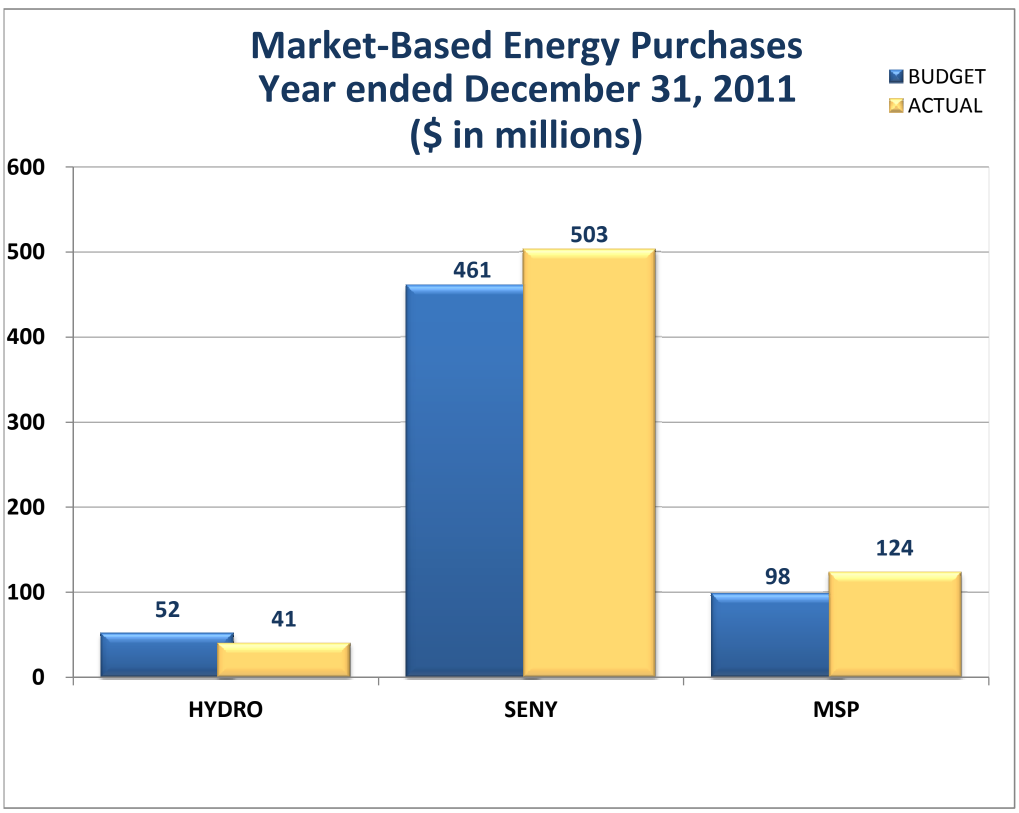
Net income for the year ended December 31, 2011 ($234.6 million) was $54.0 million higher than the year ended 2010 ($180.6 million). The current year increase included higher net operating income ($7.1 million), higher non-operating income ($3.9 million), and lower non-operating expenses ($43 million).

Net operating income in 2011 included higher revenues due to higher generation (primarily Niagara and St. Lawrence, 10%) substantially offset by higher retiree health benefits and higher Power for Jobs related contributions to NY State. Large year-to-year variances in Operations and Maintenance, Depreciation and Amortization and Interest expense resulted from the commercial operation of the Astoria II generating unit in 2011, and were offset by recoveries in Operating Revenues. These line item variances had a minimal impact on NYPA's current year net income.

Non-operating expenses were lower in 2011 due to lower voluntary contributions to New York State ($82 million) partially offset by higher interest costs ($39 million), primarily related to Astoria II. Voluntary contributions were $65 million in 2011 compared to $147 million in 2010.

RESULTS OF OPERATIONS





REVENUES

SALES (MWH)	BUDGET	ACTUAL
Hydro*	3,741,254	6,890,019
Fossil	5,513,186	5,601,467
MSP	222,518	574,397
TOTAL	9,476,958	13,065,883
PRICES ($/MWH)		
Hydro*	$41.11	$39.97
Fossil	$56.79	$58.26
MSP	$35.06	$43.66
AVERAGE	$50.09	$47.97

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

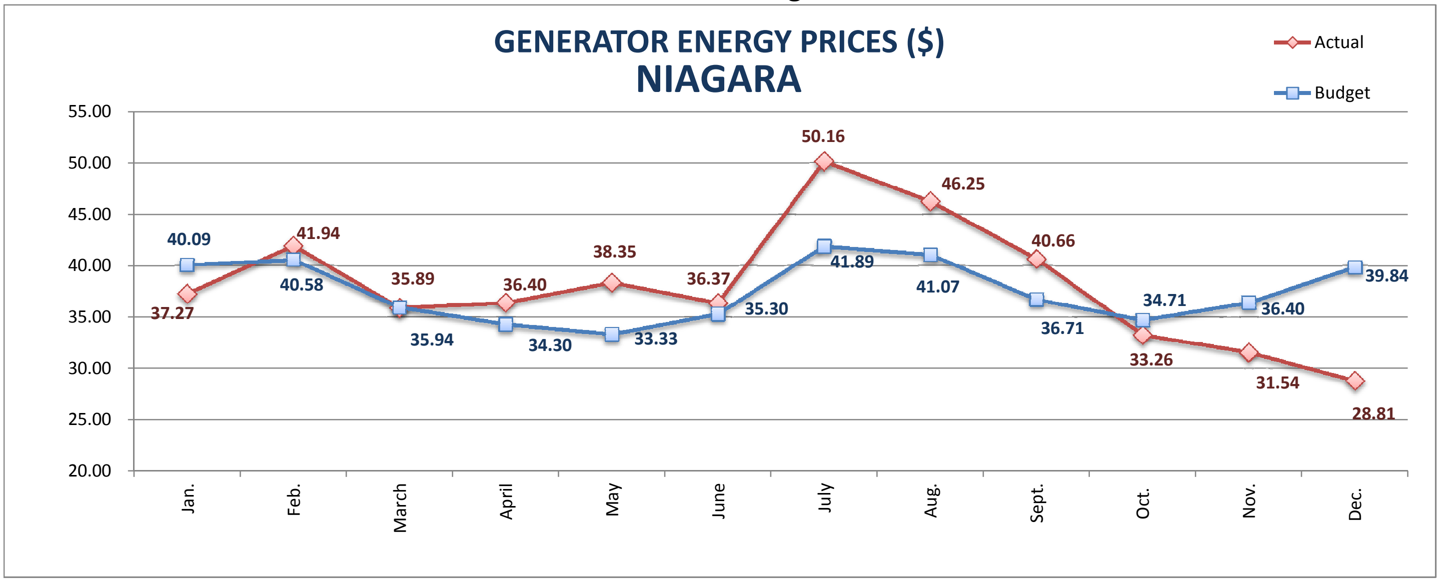
REVENUES

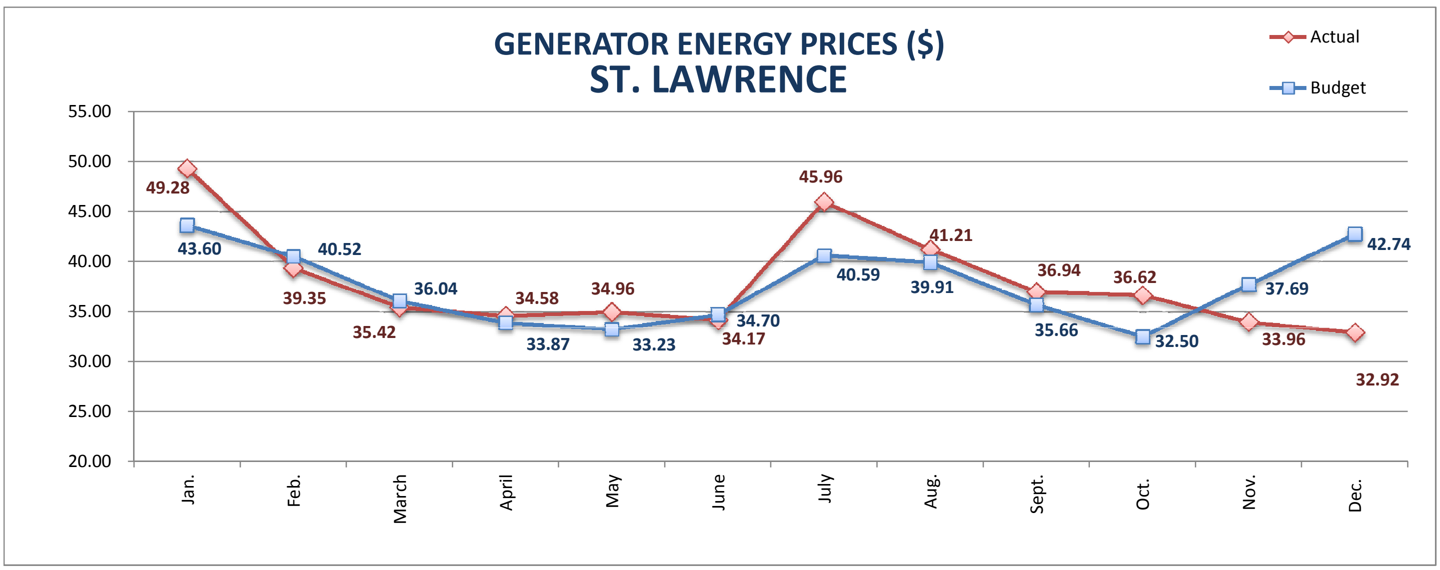
SALES (MWH)	BUDGET	ACTUAL
Niagara	1,898,172	4,261,978
St. Law.	1,046,658	2,230,605
PRICES ($/MWH)		
Niagara	$38.77	$38.12
St. Law.	$36.14	$38.03

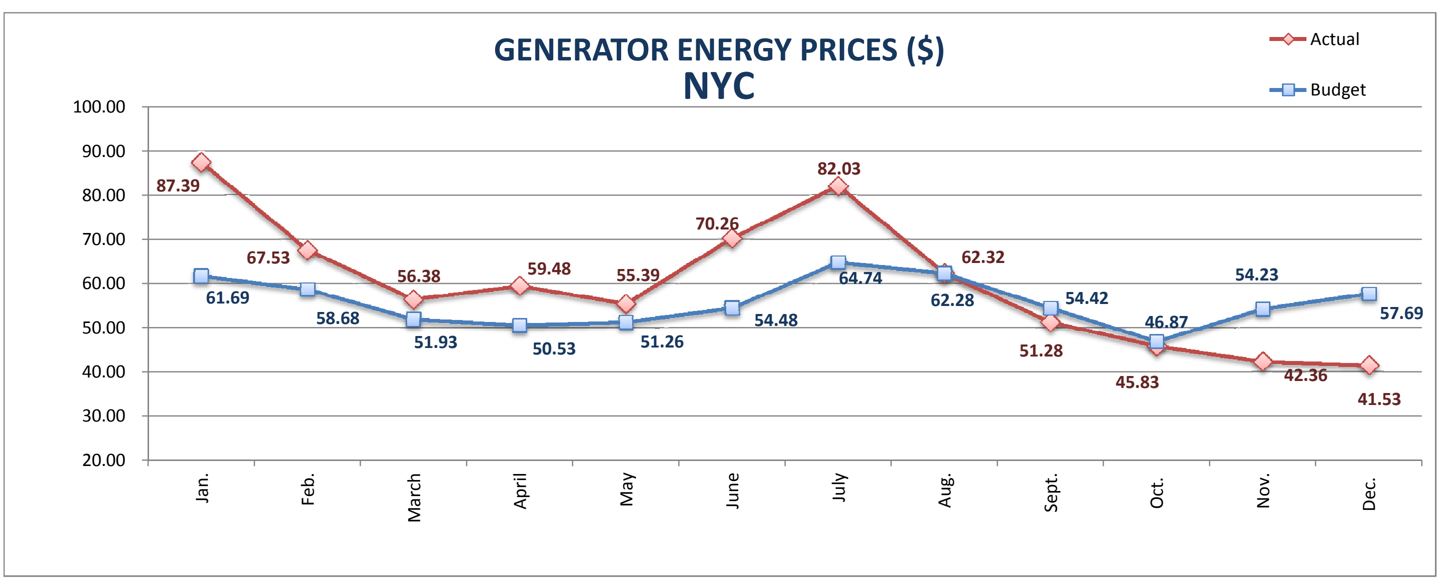
COSTS

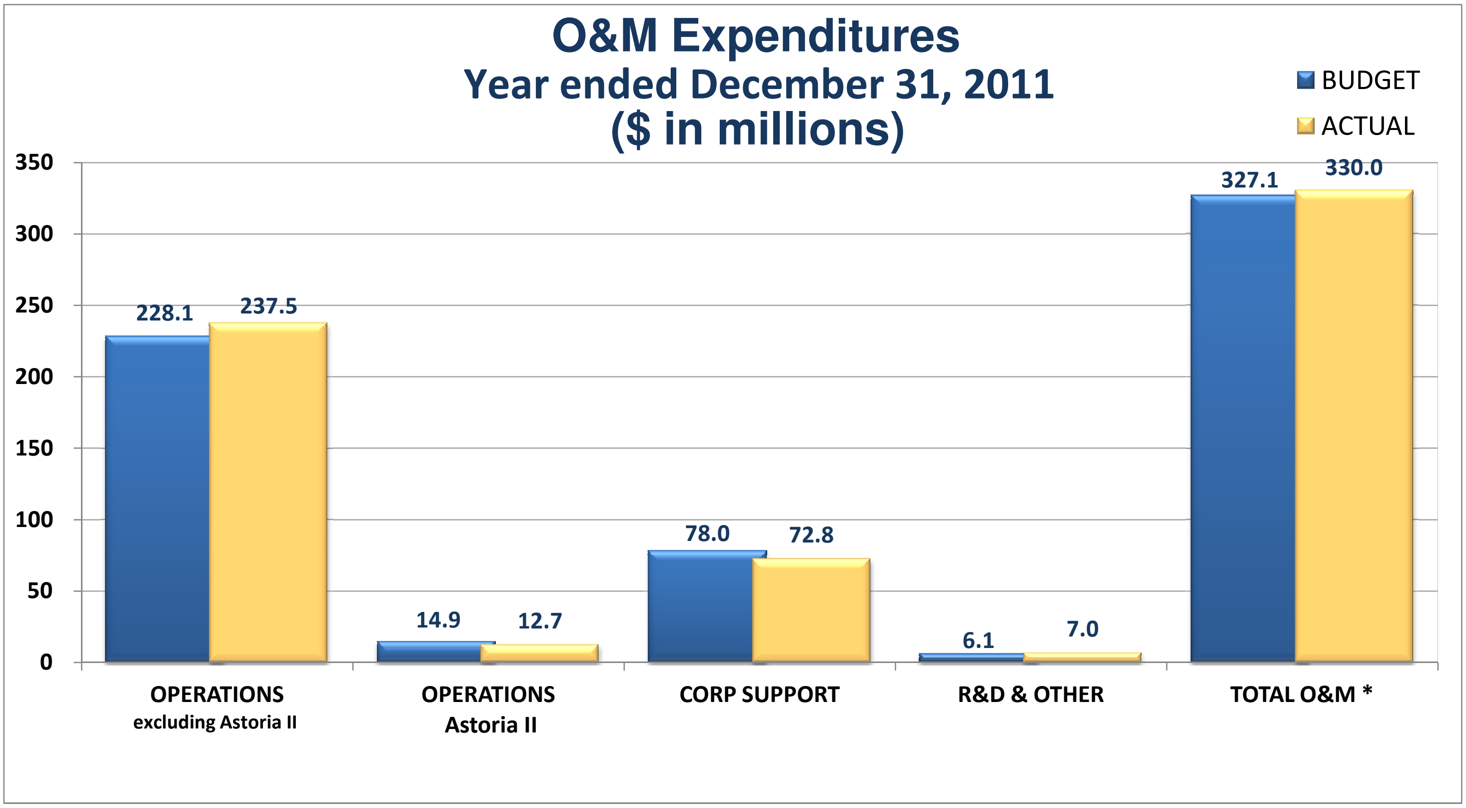
PURCHASES (MWH)	BUDGET	ACTUAL
Hydro	2,065,815	1,207,446
SENY	8,910,312	9,329,090
MSP	2,685,524	2,930,937
TOTAL	13,661,651	13,467,473
COSTS ($/MWH)		
Hydro	$25.07	$33.54
SENY	$51.72	$53.92
MSP	$36.65	$42.46
AVERAGE	$44.73	$49.60

RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget









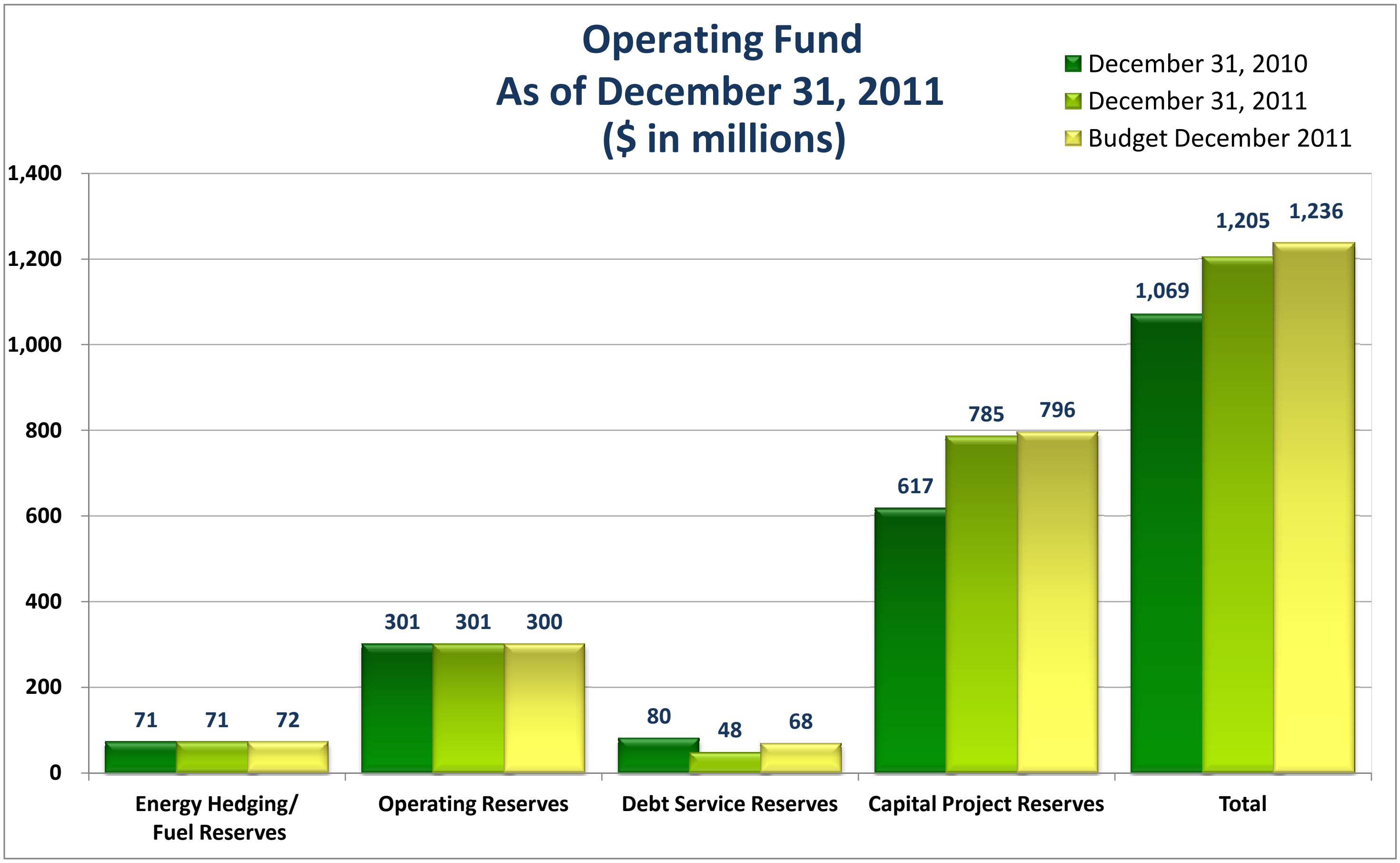
• For the year ended December 31, 2011, O&M expenses were $2.9 higher than the budget.

• Operations expenditures excluding Astoria II were $9.4 higher than budgeted. Overruns at the Small Clean Power Plants ($8.4) and Operations Shared Services ($4.6) were partially offset by under-runs at Niagara ($3.0). Higher than anticipated expenditures at the SCPP's resulted from emergent work (Harlem River Step Up Transformer and Pouch Blade Repair). Operations Shared Services reflected less than anticipated labor charged to capital projects. These negatives were offset by timing under runs in non-recurring projects at Niagara and in recurring maintenance at St. Lawrence and the Small Hydro facilities ($2.1). Operations O&M was lower by $2.2 for Astoria II as a result of a one-month delay in the commercial operation date.

• HQ Corporate Support was under budget by $5.2 due to lower than expected expenses for Human Resource contract services and employment agency fees, WPO building operations, computer software, hardware and services, and fuel cell maintenance.

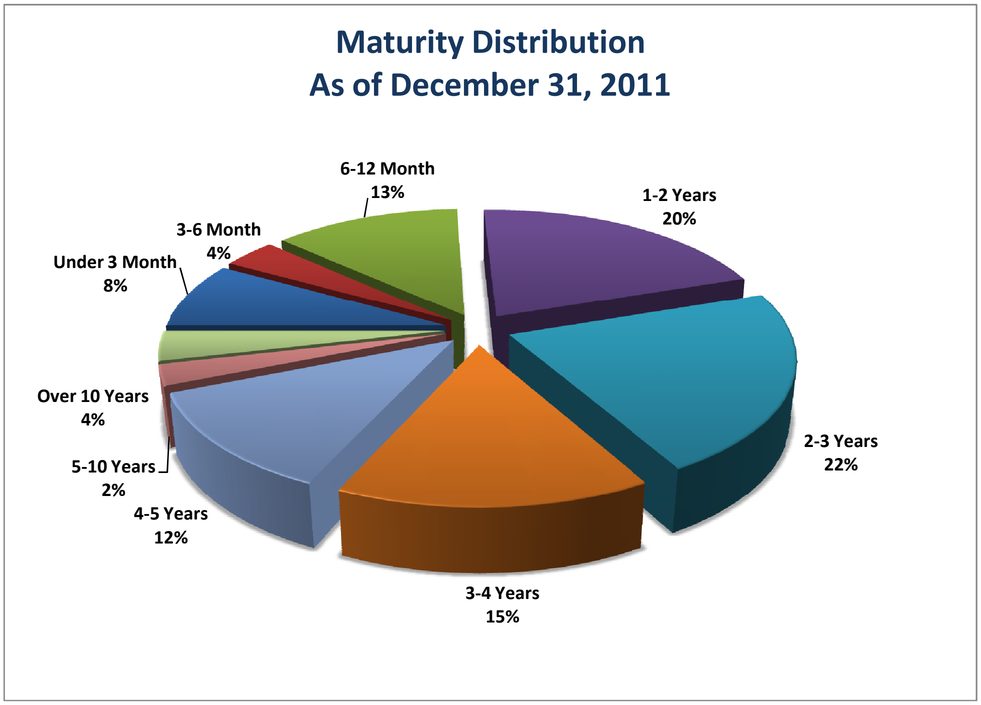
•R&D was over budget due to the $1.6 NYSERDA payment for membership fees not included in the budget.

* In September, the Trustees approved an additional $9.6 primarily for emergent work at the SCPP's and the transmission facilities. This amount is not included in the budgeted amounts above.

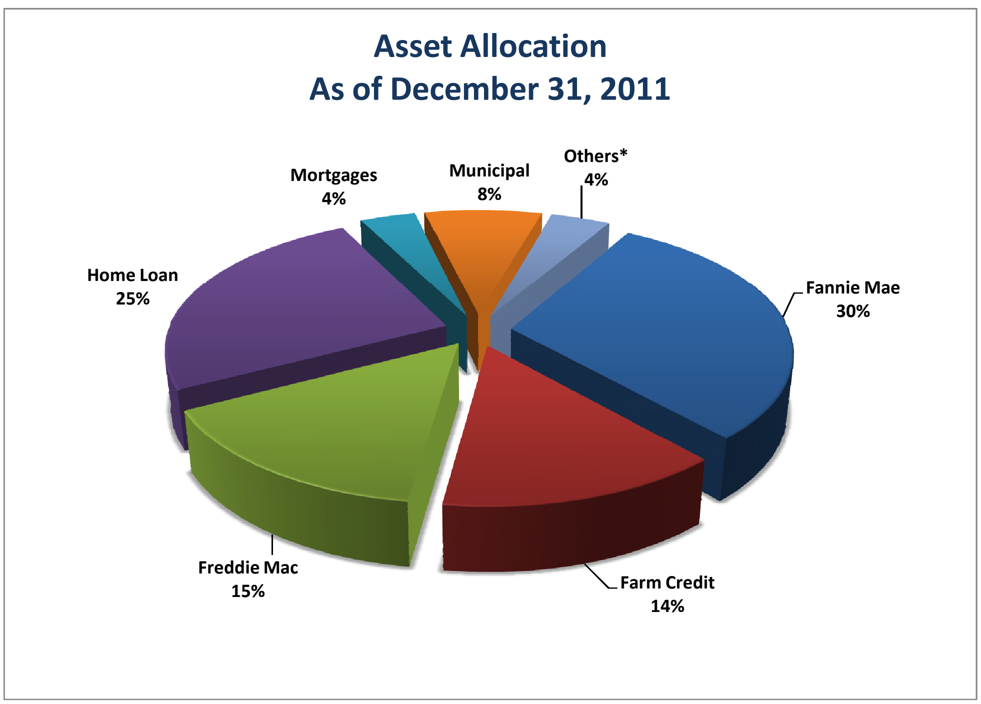


The increase of $136 in the Operating Fund (from $1,069 to $1,205) was primarily attributable to positive net cash provided by operating activities, the payments received from Entergy ($102) and the settlement of the spent nuclear fuel claim ($11), substantially offset by voluntary contributions to New York State ($73) and scheduled debt service payments. In November, the Authority made a contribution of $40 to the OPEB Trust Fund, which was the primary reason for the negative variance from the budget.

CASH AND LIQUIDITY
INVESTMENT PORTFOLIO

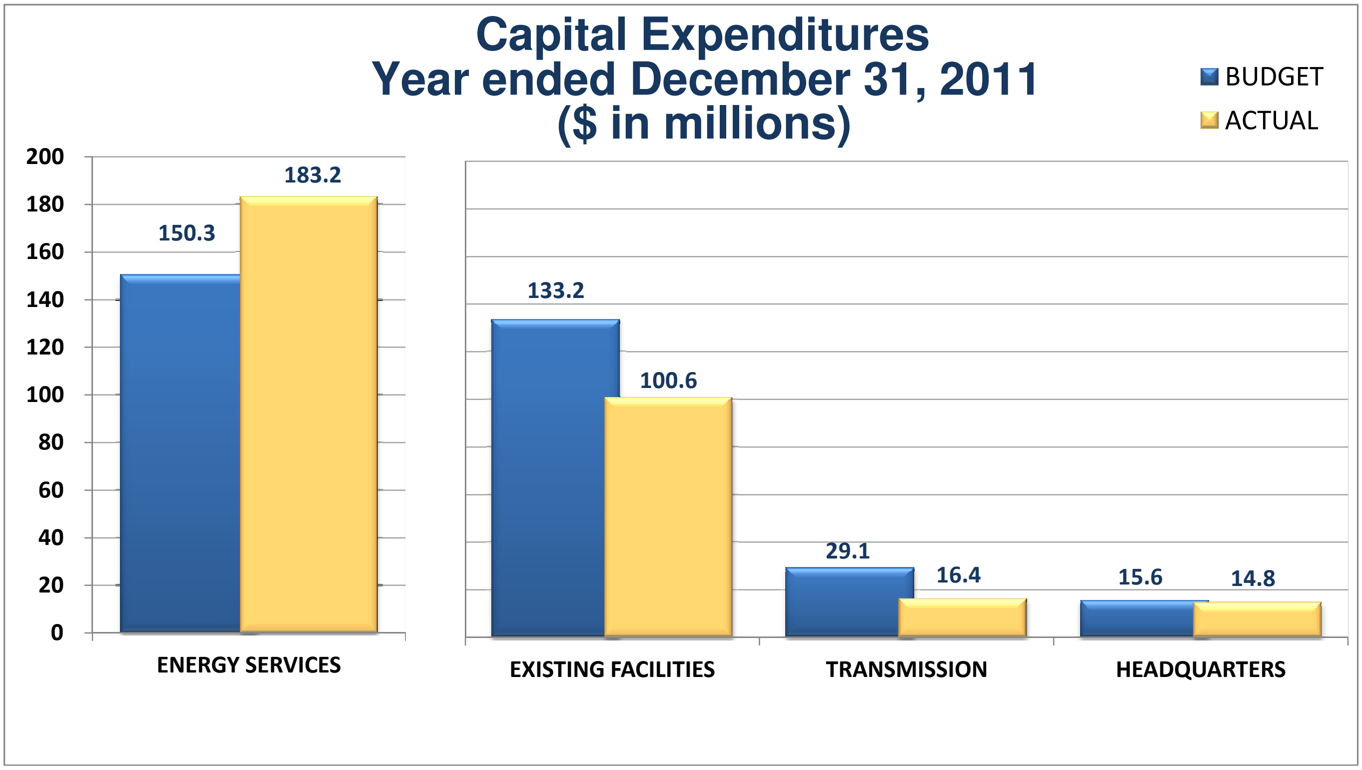


MATURITY DISTRIBUTION ($ in millions)	
Under 3 Month	$105.3
3-6 Month	46.5
6-12 Month	163.0
1-2 Years	263.9
2-3 Years	284.2
3-4 Years	194.0
4-5 Years	155.9
5-10 Years	32.4
Over 10 Years	46.6
Total	**$1,291.8**



ASSET ALLOCATION ($ in millions)	
Fannie Mae	$389.4
Farm Credit	177.4
Freddie Mac	194.4
Home Loan	327.3
Mortgages	48.2
Municipal	103.3
Others*	51.8
Total	**$1,291.8**

*Includes CDs and Repos



• Energy Services expenditures were over budget primarily due to accelerated construction activity in the Governmental Services Program (primarily Queens Supreme Court-Chiller).

• Existing facilities expenditures were under budget by $32.6 primarily due to the delays in permitting for projects related to the Niagara and St. Lawrence Relicensing Implementation and Compliance.

• Transmission expenditures were less than anticipated due to timing for several projects, primarily the 765 kv transmission line relay and switch replacements.

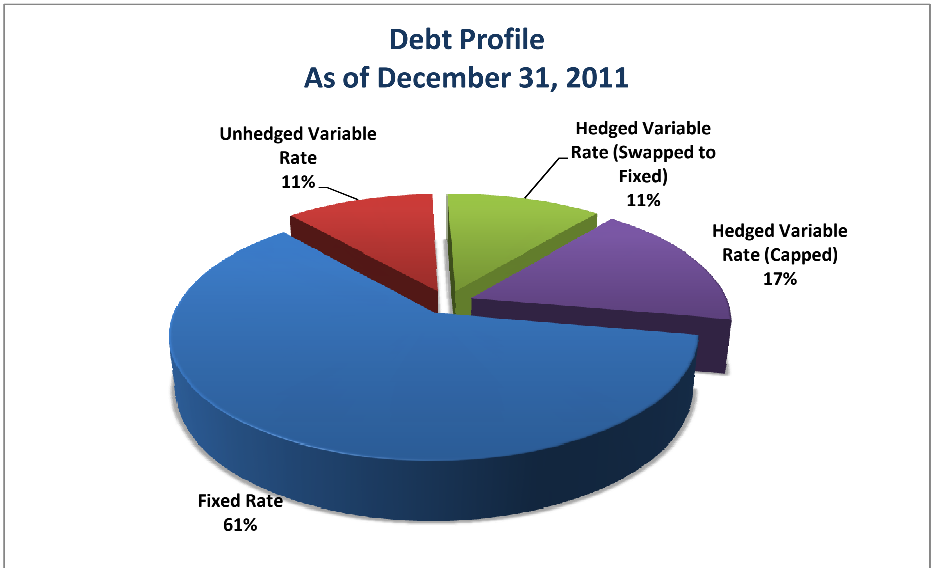
• Headquarters expenditures were less than budgeted due to timing for several IT projects.

• Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of $25.0 for 2011. There were no new authorizations in December.

Debt Activity
Year Ended December 31, 2011
($ in millions)

	Beginning Balance	New Issues	Scheduled Retirements	Additional Retirements	Ending Balance
Fixed Rate Debt	$1,134.4	108.4	$117.7	41.7	$1,083.4
Variable Rate Debt	443.0	-	65.7	74.2	303.1
Variable Rate Energy Srvcs Debt	347.2	166.1	-	115.7	397.6
Sub-total Variable Rate Debt	790.2	166.1	65.7	189.9	700.7
Total	**$1,924.6**	**$274.5**	**$183.4**	**$231.6**	**$1,784.1**

DEBT



DEBT PROFILE	
($ in millions)	
Fixed Rate	$1,083.4
Unhedged Variable Rate	196.0
Hedged Variable Rate (Swapped)	204.7
Hedged Variable Rate (Capped)	300.0
Total	**$1,784.1**

On September 21, 2011, the Authority priced and sold the Series 2011 A Bonds. The proceeds were used to current refund $77.2 of the Series 2000A bonds and advance refund, on November 15, 2012, $41.7 of the Series 2002A bonds. The refunding transaction resulted in $19.4 in present value savings or 16.3% of the par amount of bonds refunded. The transaction closed on October 6, 2011.

Interest Rate Derivatives

The Authority periodically enters into Interest Rate Swaps and Caps to manage interest rate volatility associated with variable rate debt and to hedge future debt issuance. Each transaction is approved by the Board of Trustees and is governed by NYPA's SWAP policy and an ISDA Master Agreement and Schedule to the Agreement with authorized Counterparties. The EVP, CFO and the Treasury department, in consultation with the Authority's financial advisor continually monitor market conditions for potential hedging strategies that may benefit the Authority and its customers. All transactions were competitively bid.

Open Positions

The 1998B transaction is an interest rate swap that was bid March 13, 1998 with an effective date of November 15, 2002. The swap had the effect of fixing the rate on tax-exempt commercial paper at 5.123% on a forward starting basis. It was one component of the 1998 debt refinancing that reduced debt service costs by $740 million and allowed the Authority to adopt a new *General Resolution authorizing Revenue Obligations* in preparation for the competitive marketplace.

The ARTN transaction is an interest rate swap that was bid July 27, 2006 with an effective date of September 1, 2006. It allowed the Authority to lock in a 3.7585% synthetic fixed rate on the Adjustable Rate Tender Notes ("ARTN's"). The synthetic fixed rate was below the historical average rate on the ARTN's and below the rate used in developing NYPA's transmission tariff.

On January 24, 2011 the Authority purchased an interest rate cap on the Series 1 Commercial Paper with a strike rate of 5.50% and term of 2 years. The transaction provides customers participating in the energy services program an interest rate ceiling on their financial rate. The cap was approved by the Board in October 2010 and the Authority's swap advisor administered the competitive bid.

Summary of Derivative Positions ($ in millions)

Transaction	Counterparty	Notional Amount*	Effective Date	Type of Swap	Mark-to-Market
1998B	Goldman Sachs Mitsui Marine Derivatives	$24.5	11/15/2002	Floating-to-Fixed	($2.0)
1998B	Merrill Lynch Cap. Srvcs	40.9	11/15/2002	Floating-to-Fixed	(3.3)
1998B	Citigroup Financial Prod.	16.4	11/15/2002	Floating-to-Fixed	(1.3)
ARTN	Merrill Lynch Cap. Srvcs	122.9	9/1/2006	Floating-to-Fixed	(15.1)
CP - 1	Morgan Stanley Cap. Srvcs	300.0	1/26/2011	CAP	-
Totals		**$504.7**			**($21.7)**

* *The notional amount of each SWAP amortizes according to the provisions contained in the transaction documents.*

ENERGY DERIVATIVES

Results

For year 2011, energy derivative settlements have resulted in a net loss of $85.6. 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 2011 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions

($ in Millions)

	Settlements	Fair Market Value			
	YTD[1]	**2012**	**2013**	**>=2014**	**Total**
NYPA	$ (1.4)	$ -	$ -	$ -	$ -
Customer Contracts	$ (84.2)	$ (117.3)	$ (47.1)	$ (58.7)	$ (223.1)
Total	**$ (85.6)**	**$ (117.3)**	**$ (47.1)**	**$ (58.7)**	**$ (223.1)**

[1]Reflects December 2011 preliminary settlements.

At the end of December 2011, the fair market value of outstanding positions was valued at an unrealized loss of $223.1 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of February to December 2012 futures contracts and how they have traded since the beginning of 2010, while Exhibit 2 illustrates the average price of futures contracts for entire year 2013 since 11/30/2010.

New York Power Authority

Exhibit 1: February to December 2012 Forward Price

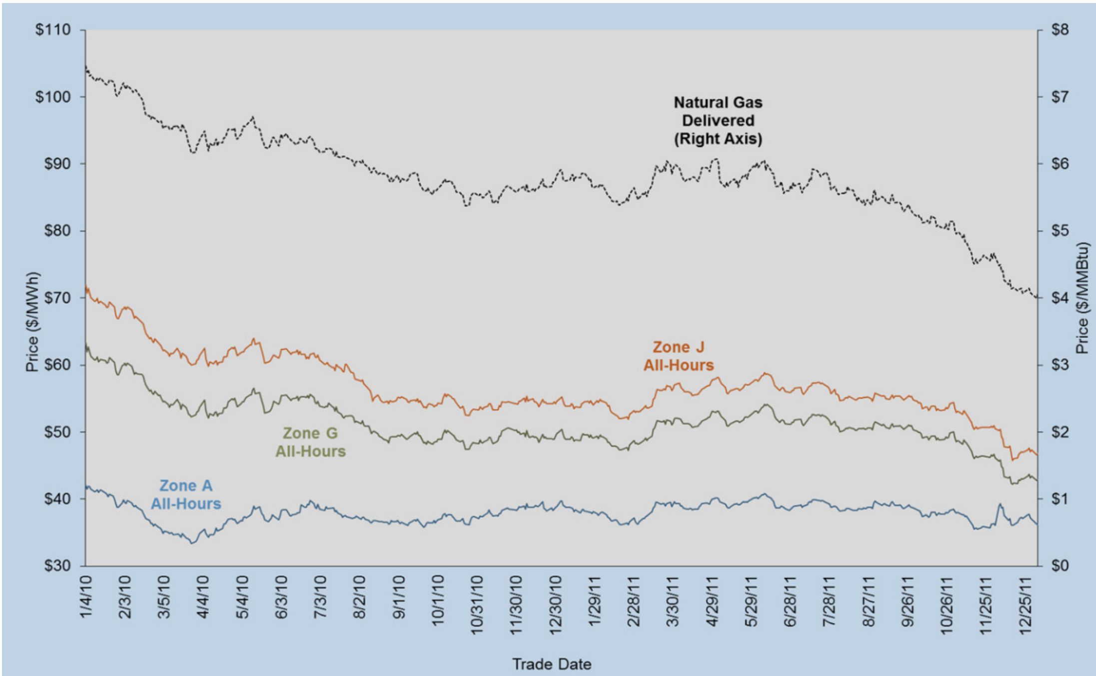
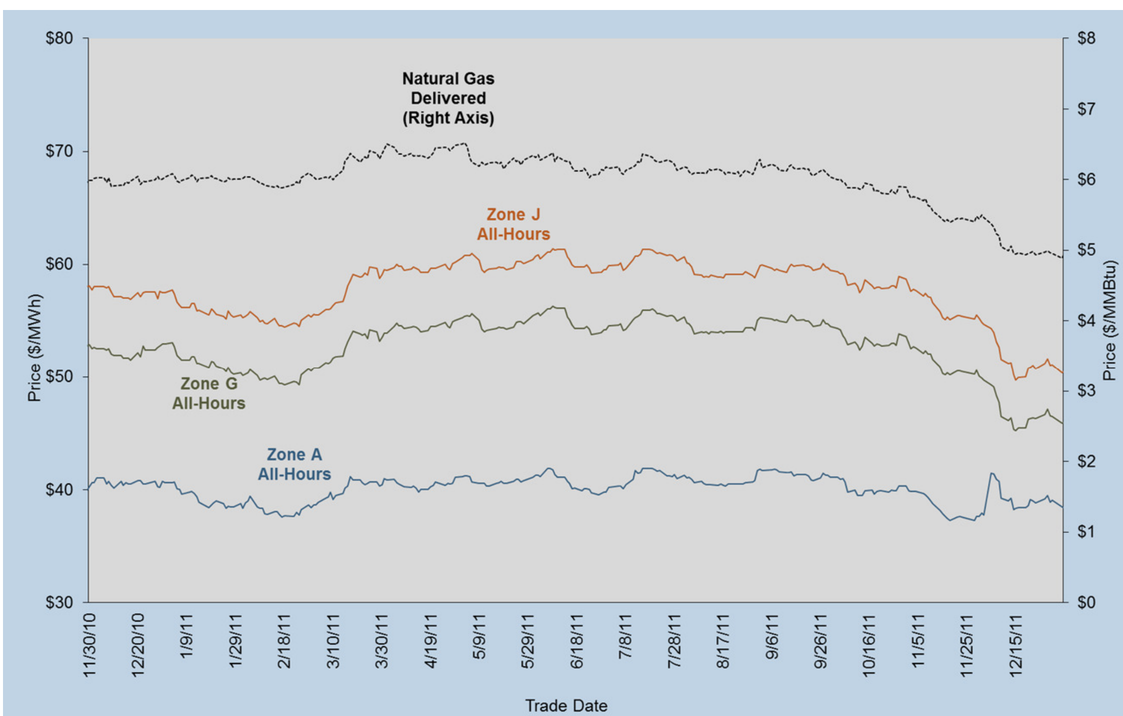


Exhibit 2: Average January to December 2013 Forward Price



STATEMENT OF NET INCOME*
For the Year Ended December 31, 2011
($ in millions)

	Actual	Budget	Variance Favorable/ (Unfavorable)
Operating Revenues			
Customer	**$1,955.5**	**$2,070.5**	**($115.0)**
Market-based power sales	558.4	463.4	95.0
Ancillary services	24.9	30.6	(5.7)
NTAC and other	111.5	114.9	(3.4)
Total	**694.8**	**608.9**	**85.9**
Total Operating Revenues	**2,650.3**	**2,679.4**	**(29.1)**
Operating Expenses			
Purchased power	797.8	804.7	6.9
Fuel consumed - oil & gas	257.8	295.6	37.8
Ancillary services	55.1	108.2	53.1
Wheeling	542.9	543.4	0.5
Operations and maintenance	330.0	327.1	(2.9)
Depreciation and amortization	190.9	194.9	4.0
Other expenses	189.1	135.5	(53.6)
Allocation to capital	(8.5)	(10.9)	(2.4)
Total Operating Expenses	**2,355.1**	**2,398.5**	**(43.4)**
Net Operating Income	**295.2**	**280.9**	**14.3**
Nonoperating Revenues			
Post nuclear sale income	87.9	88.0	(0.1)
Investment income	37.9	39.9	(2.0)
Mark to market - investments	6.2	(7.0)	13.2
Other income	11.2	-	11.2
Total Nonoperating Revenues	**143.2**	**120.9**	**22.3**
Nonoperating Expenses			
Contributions to New York State	65.0	65.0	-
Interest and other expenses	138.8	157.5	18.7
Total Nonoperating Expenses	**203.8**	**222.5**	**18.7**
Net Income	**$234.6**	**$179.3**	**$55.3**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

COMPARATIVE BALANCE SHEETS*
December 31, 2011
($ in millions)

Assets		December 31, 2011	December 31, 2010
Current Assets			
	Cash	$0.1	$0.1
	Investments in government securities	1,233.0	1,091.1
	Interest receivable on investments	5.6	5.5
	Accounts receivable - customers	187.8	204.0
	Materials and supplies, at average cost:		
	Plant and general	80.1	75.1
	Fuel	23.1	15.3
	Prepayments and other	220.1	190.5
	Total Current Assets	**1,749.8**	**1,581.6**
Noncurrent Assets			
Restricted Funds	Investment in decommissioning trust fund	1,089.8	1,032.4
	Other	76.4	83.3
	Total Restricted Funds	**1,166.2**	**1,115.7**
Capital Funds	Investment in securities and cash	97.2	144.8
	Total Capital Funds	**97.2**	**144.8**
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,413.7	3,344.1
	Capital lease, less accumulated amortization	1,009.0	-
	Construction work in progress	133.4	123.3
	Net Utility Plant	**4,556.1**	**3,467.4**
Other Noncurrent Assets	Receivable - NY State	318.0	318.0
	Deferred charges, long-term receivables and other	656.6	604.6
	Notes receivable - nuclear plant sale	143.0	157.1
	Total other noncurrent assets	**1,117.6**	**1,079.7**
	Total Assets	**$8,686.9**	**$7,389.2**
Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	$862.6	$881.7
	Short-term debt	373.7	323.2
	Total Current Liabilities	**1,236.3**	**1,204.9**
Noncurrent Liabilities			
Long-term Debt	Revenue bonds	1,107.4	1,151.2
	Adjustable rate tender notes	122.9	130.5
	Commercial paper	204.2	336.5
	Total Long-term Debt	**1,434.5**	**1,618.2**
Other Noncurrent Liabilities	Nuclear plant decommissioning	1,089.8	1,032.4
	Disposal of spent nuclear fuel	216.2	216.1
	Capital lease obligation	1,122.7	-
	Deferred revenues and other	293.0	316.5
	Total Other Noncurrent Liabilities	**2,721.7**	**1,565.0**
Net Assets	Accumulated Net Revenues - January 1	3,001.1	2,820.4
	Contributed capital**	58.7	-
	Net Income	234.6	180.7
	Total Net Assets	**3,294.4**	**3,001.1**
	Total Liabilities and Net Assets	**$8,686.9**	**$7,389.2**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

*** Windfarm related transmission assets transferred to NYPA from Noble and Marble River AES accounted for as a capital contribution.*

SUMMARY OF OPERATING FUND CASH FLOWS*
For the Year Ended December 31, 2011
($ in millions)

Operating Fund	
Opening	$1,069.2
Closing	1,204.6
Increase/(Decrease)	**135.4**
Cash Generated	
Net Operating Income	295.1
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	190.9
Net Change in Receivables, Payables & Inventory	(122.5)
Other	(5.8)
Net Cash Generated from Operations	**357.7**
(Uses)/Sources	
Utility Plant Additions	(27.6)
Debt Service	
Issuance of 2011A Bonds	123.3
Defeasance of 2002A Bonds	(46.0)
Retirement of 2000A Revenue Bonds	(79.2)
Revenue Bonds Principal and Interest	(67.6)
Commercial Paper 2	(45.6)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(88.7)
ART Notes	(7.6)
Investment Income	23.3
OPEB Funding	(40.0)
Entergy Value Sharing Agreement	72.0
Entergy IP2 Purchase Agreement	10.0
Entergy Additional Facilities Note	20.0
Voluntary Contributions to NY State	(72.5)
Other	3.9
Total (Uses)/Sources	**(222.3)**
Net Increase in Operating Fund	**$135.4**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

January 31, 2012
Exhibit "5-A"

New York Power Authority

Governing Policy for Energy Risk Management

Revision Date:	January 31, 2012
Superseding:	Trustee Resolution & Policy of September 28, 2010

ARTICLE I. PURPOSE OF THE ENERGY RISK MANAGEMENT PROGRAM

Section 1.01 Introduction

The New York Power Authority (“NYPA”or “the Authority”) and its customers are routinely exposed to energy commodity price risk in the conduct of operations. In most cases price and volume variability impose a substantial and direct risk (or opportunity) to the goals of NYPA’s business units as well as to their competitive posture. Management of these risks is important to our success and our customers’ wellbeing. This Governing Policy for Energy Risk Management (“Policy”) sets forth the philosophy, framework, and delegation of authority necessary to govern NYPA’s activities related to its energy risk management program (“Program”).

NYPA will conduct risk management activities in a manner that supports NYPA’s mission, mitigates energy-market exposure related to price and volume variability, and prevents unauthorized financial risk, including counterparty risk. Subordinate to those goals, the objective of cost reduction and the achievement of financial goals will be pursued within the constraints stated herein and as further delineated by management. All Program objectives and activities will be conducted in accordance with this Policy. Controls and procedures to be further delineated by management shall be in conformance with this Policy.

Section 1.02 Scope and Objectives

The objectives of the program are: to identify exposures to energy price volatility as well as volumetric risk; to quantify the potential impact on the Authority’s customers and its own financial condition, including the attendant credit risks; and to monitor and mitigate those exposures where they might exceed management-determined risk tolerances while maintaining adequate flexibility to improve financial performance. The successful management of NYPA’s resources as outlined in its mission statement requires predictability in financial performance related to its core business dealings. Hedging activities will be conducted to secure more certainty in this regard. The diligent measurement and awareness of risk factors will enable both enhancement of operating decisions and improved extraction of value from physical assets, thereby enhancing financial performance.

This Policy applies to all forward[1] transactions for electrical energy, capacity, ancillary services, transmission rights, natural gas, fuel oil, traded emissions, environmental attributes and other energy-market products used for generation, the fulfillment of customer load obligations or related requirements. The Policy governs forward physical supplies, sales and financial derivatives that impact NYPA's risk exposures in the energy market. ERMC delegation of transaction authority for forward transactions shall be for no more than four (4) years beyond the last day of the month in which the transaction is entered. Transactions of more than four (4) years term, as well as competitive solicitations relating to such transactions require the prior approval of the Trustees.

This Policy does not govern: spot[2] transactions for the purchase or sale of natural gas, natural gas transportation, fuel oil and emissions allowances, including CO_2, NOx and SO_2, transactions with the New York Independent System Operator ("NYISO"), including the bidding of generator energy and capacity, and the scheduling of load; nor transactions related to strategic procurement.

NYPA will operate under a "non-speculative" philosophy. Hedging will be conducted with a

[1] "Forward" refers to all periods beyond the current month.
[2] "Spot" refers to transactions for physical commodities, with delivery typically during the same month in which they are transacted. In certain cases, where transactions occur later in the month, commodity delivery may occur in the following month.

clear recognition of the hierarchy of the following risk management objectives:

1. **Match Core Business Objectives:** Secure fixed or floating price structures or related options on energy-market commodities associated with generation or load-serving requirements.

   Fixed-price commitments shall not be executed for volumes in excess of high-confidence volume forecasts, including customer requirements and estimates of generating assets' supply and sales. The nature of derivative obligations shall be no more firm than the certainty of volumetric expectations, using options to secure financial rights without obligation where volumes are substantially uncertain.

2. **Mitigate Risk:** Given volatile energy markets, manage energy and energy-related product costs and revenues toward the mitigation of unfavorable results and the promotion of results within acceptable boundaries.
3. **Improve Financial Performance:** Where practical and in deference to objectives #1 and #2, reduce costs or increase revenues relative to defined targets and/or budgets by securing market positions or realigning existing hedge positions as deemed favorable.

ARTICLE II. ENERGY RISK MANAGEMENT POLICY

Section 2.01 Delegation of Authorities

a) Board of Trustees

This Policy has been established by the Board of Trustees ("Trustees") and the Trustees must approve any amendments to this Policy.

b) Executive Risk Management Committee

Subject to Paragraph (c) below, an Executive Risk Management Committee ("ERMC") is established by this Policy as management's controlling authority with respect to energy market risk and hedging activities; the ERMC shall be governed by the provisions herein.

- The ERMC shall consist of five (5) members, including four (4) members appointed from NYPA's executive corps by the CEO;

- It shall be chaired by the Chief Financial Officer ("CFO"); or, in the absence of the "CFO", another member delegated this responsibility by the "CFO";
- A quorum shall consist of any three (3) members including the chair;
- Actions of the ERMC shall be authorized by an affirmative vote of a simple majority of appointed members.

The "ERMC" is hereby charged with the following responsibilities, and necessary authorities are conveyed accordingly:

1. To ensure that all energy market hedging activities are conducted in accordance with this Policy;
2. To establish management procedures ("Procedures") for the administration of the Program, including:
    - Hedge strategy formulation and execution protocols
    - Permissible risk-mitigation products and instruments
    - Transaction limits
    - Organizational roles and separations
    - Approval hierarchies
    - Contract procedures
    - Credit and collateral management procedures
    - Risk quantification and monitoring procedures
    - Other controls and procedures as deemed necessary for the orderly conduct of the Program;
3. To establish risk tolerances related to price and volume variability and their potential impact on financial results for NYPA and its customers; and
4. To provide directives and guidance to NYPA management regarding all aspects of the Program.

c) Chief Financial Officer

The Chief Financial Officer ("CFO") is ultimately responsible for the financial integrity of NYPA and, accordingly, no delegation of authority to the ERMC is intended to impair the CFO's ability to protect such financial integrity. Under normal circumstances it is expected that tolerances and other Program issues will be determined by the ERMC, but in the event of unusual circumstances the CFO may act, as deemed necessary in his or her discretion, to preserve financial viability. In the event of such circumstances the Trustees shall be notified expeditiously of the conditions and resolution associated with such action.

Section 2.02: Separation of Duties

The ERMC, in formulating Procedures, shall provide for separation of duties in a manner that assures checks and balances among three distinct organizational functions delineated below:

1. Front Office – responsible for the execution of hedge strategy and transactions,
2. Middle Office – responsible for risk and compliance monitoring
3. Back Office – responsible for deal confirmations, cash management and accounting.

In fulfilling its role, the Back Office shall independently obtain primary documentation from counterparties with respect to deal confirmations and shall not depend solely on information provided by internal sources.

Also, in accordance with its independent role, the Office of Internal Audit shall conduct periodic reviews of the Program of a scope and on a schedule of its choosing.

Section 2.03 Activities

Permissible transactions for purposes of risk management shall be restricted to products and instruments specified by the ERMC and deployed for the following applications:

i. Mitigating risk related to the cost of energy or related products to be procured for normal business purposes.
ii. Mitigating risk related to the price of energy and related products sold by NYPA.
iii. Mitigating risk related to margins where NYPA owns generation or other capacity.
iv. Mitigating risk related to the locational cost differentials of energy and fuel procured or sold for transmission or transportation to an ultimate location.
v. Mitigating risk related to customer contract obligations related to energy markets.
vi. Mitigating risk of excessive out-of-the-money settlements associated with hedge transactions.

Section 2.04 Reporting

Maintenance of timely reports is critical to an orderly Program. At a minimum, the Program shall maintain a record of transactions; volumes and values of hedged and floating positions, both physical and financial; the linking of financial hedges with physical volumes; and quantification of the company’s exposure to market volatility. These and other records shall be maintained in accordance with directives of the ERMC.

Quarterly, the CFO shall provide to the Trustees a report regarding Procedures established under the Program, as well as Program results and a summary of compliance status for the period.

~~September 28, 2010~~
January 31, 2011
Exhibit "~~A~~B"

New York Power Authority

Governing Policy for Energy Risk Management

Revision Date: ~~September 28, 2010~~January 31, 2012

Superseding: Trustee Resolution & Policy of ~~January 31, 2006~~September 28, 2010

ARTICLE I. PURPOSE OF THE ENERGY RISK MANAGEMENT PROGRAM

Section 1.01 Introduction

The New York Power Authority ("NYPA "or "the Authority") and its customers are routinely exposed to energy commodity price risk in the conduct of operations. In most cases price and volume variability impose a substantial and direct risk (or opportunity) to the goals of NYPA's business units as well as to their competitive posture. Management of these risks is important to our success and our customers' wellbeing. This Governing Policy for Energy Risk Management ("Policy") sets forth the philosophy, framework, and delegation of authority necessary to govern NYPA's activities related to its energy risk management program ("Program").

NYPA will conduct risk management activities in a manner that supports NYPA's mission, mitigates energy-market exposure related to price and volume variability, and prevents unauthorized financial risk, including counterparty risk. Subordinate to those goals, the objective of cost reduction and the achievement of financial goals will be pursued within the constraints stated herein and as further delineated by management. All Program objectives and activities will be conducted in accordance with this Policy. Controls and procedures to be further delineated by management shall be in conformance with this Policy.

Section 1.02 Scope and Objectives

The objectives of the program are: to identify exposures to energy price volatility as well as volumetric risk; to quantify the potential impact on the Authority's customers and its own financial condition, including the attendant credit risks; and to monitor and mitigate those exposures where they might exceed management-determined risk tolerances while maintaining adequate flexibility to improve financial performance.

The successful management of NYPA's resources as outlined in its mission statement requires predictability in financial performance related to its core business dealings. Hedging activities will be conducted to secure more certainty in this regard. The diligent measurement and awareness of risk factors will enable both enhancement of operating decisions and improved extraction of value from physical assets, thereby enhancing financial performance.

This Policy applies to all forward[1] transactions for electrical energy, capacity, ancillary services, transmission rights, natural gas, fuel oil, traded emissions, environmental attributes and other energy-market products used for generation ~~or~~, the fulfillment of customer load obligations or related requirements. The Policy governs forward physical supplies, sales and financial derivatives that impact NYPA's risk exposures in the energy market. ~~Forward~~ERMC delegation of transaction authority for forward transactions shall be for no more than four (4) years beyond the last day of the month in which the transaction is entered. Transactions of more than four (4) years term, as well as competitive solicitations relating to such transactions require the prior approval of the Trustees.

This Policy does not govern: spot[2] transactions for the purchase or sale of natural gas, natural gas transportation, fuel oil and emissions allowances, including CO_2, NOx and SO_2, transactions with the New York Independent System Operator ("NYISO"), including the bidding of generator energy and capacity, and the scheduling of load; nor transactions related to strategic procurement.

[1] "Forward" refers to all periods beyond the current month.
[2] "Spot" refers to transactions for physical commodities, with delivery typically during the same month in which they are transacted. In certain cases, where transactions occur later in the month, commodity delivery may occur in the following month.

NYPA will operate under a "non-speculative" philosophy. Hedging will be conducted with a clear recognition of the hierarchy of the following risk management objectives:

1. **Match Core Business Objectives:** Secure fixed or floating price structures or related options on energy-market commodities associated with generation or load-serving requirements.

   Fixed-price commitments shall not be executed for volumes in excess of high-confidence volume forecasts, including customer requirements and estimates of generating assets' supply and sales. The nature of derivative obligations shall be no more firm than the certainty of volumetric expectations, using options to secure financial rights without obligation where volumes are substantially uncertain.

2. **Mitigate Risk:** Given volatile energy markets, manage energy and energy-related product costs and revenues toward the mitigation of unfavorable results and the promotion of results within acceptable boundaries.
3. **Improve Financial Performance:** Where practical and in deference to objectives #1 and #2, reduce costs or increase revenues relative to defined targets and/or budgets by securing market positions or realigning existing hedge positions as deemed favorable.

ARTICLE II. ENERGY RISK MANAGEMENT POLICY

Section 2.01 Delegation of Authorities

a) Board of Trustees

This Policy has been established by the Board of Trustees ("Trustees") and the Trustees must approve any amendments to this Policy.

b) Executive Risk Management Committee

Subject to Paragraph (c) below, an Executive Risk Management Committee ("ERMC") is established by this Policy as management's controlling authority with respect to energy market risk and hedging activities; the ERMC shall be governed by the provisions herein.

- The ERMC shall consist of five (5) members, including four (4) members appointed from NYPA's executive corps by the CEO;
- It shall be chaired by the Chief Financial Officer ("CFO"); or, in the absence of the "CFO", another member delegated this responsibility by the "CFO";
- A quorum shall consist of any three (3) members including the chair;
- Actions of the ERMC shall be authorized by an affirmative vote of a simple majority of appointed members.

The "ERMC" is hereby charged with the following responsibilities, and necessary authorities are conveyed accordingly:

1. To ensure that all energy market hedging activities are conducted in accordance with this Policy;
2. To establish management procedures ("Procedures") for the administration of the Program, including:
    - Hedge strategy formulation and execution protocols
    - Permissible risk-mitigation products and instruments
    - Transaction limits
    - Organizational roles and separations
    - Approval hierarchies
    - Contract procedures
    - Credit and collateral management procedures
    - Risk quantification and monitoring procedures
    - Other controls and procedures as deemed necessary for the orderly conduct of the Program;
3. To establish risk tolerances related to price and volume variability and their potential impact on financial results for NYPA and its customers; and
4. To provide directives and guidance to NYPA management regarding all aspects of the Program.

c) Chief Financial Officer

The Chief Financial Officer ("CFO") is ultimately responsible for the financial integrity of NYPA and, accordingly, no delegation of authority to the ERMC is intended to impair the CFO's ability to protect such financial integrity. Under normal circumstances it is expected that tolerances and other Program issues will be determined by the ERMC, but in the event of unusual circumstances the CFO may act, as deemed necessary in his or her discretion, to preserve financial viability. In the event of such circumstances the Trustees shall be notified expeditiously of the conditions and resolution associated with such action.

Section 2.02: Separation of Duties

The ERMC, in formulating Procedures, shall provide for separation of duties in a manner that assures checks and balances among three distinct organizational functions delineated below:

1. Front Office – responsible for the execution of hedge strategy and transactions,
2. Middle Office – responsible for risk and compliance monitoring
3. Back Office – responsible for deal confirmations, cash management and accounting.

In fulfilling its role, the Back Office shall independently obtain primary documentation from counterparties with respect to deal confirmations and shall not depend solely on information provided by internal sources.

Also, in accordance with its independent role, the Office of Internal Audit shall conduct periodic reviews of the Program of a scope and on a schedule of its choosing.

Section 2.03 Activities

Permissible transactions for purposes of risk management shall be restricted to products and instruments specified by the ERMC and deployed for the following applications:

i. Mitigating risk related to the cost of energy or related products to be procured for normal business purposes.
ii. Mitigating risk related to the price of energy and related products sold by NYPA.
iii. Mitigating risk related to margins where NYPA owns generation or other capacity.
iv. Mitigating risk related to the locational cost differentials of energy and fuel procured or sold for transmission or transportation to an ultimate location.
v. Mitigating risk related to customer contract obligations related to energy markets.
vi. Mitigating risk of excessive out-of-the-money settlements associated with hedge transactions.

Section 2.04 Reporting

Maintenance of timely reports is critical to an orderly Program. At a minimum, the Program shall maintain a record of transactions; volumes and values of hedged and floating positions, both physical and financial; the linking of financial hedges with physical volumes; and quantification of the company's exposure to market volatility. These and other records shall be maintained in accordance with directives of the ERMC.

Quarterly, the CFO shall provide to the Trustees a report regarding Procedures established under the Program, as well as Program results and a summary of compliance status for the period.