

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 On June 28, 2011, the Authority's Trustees authorized the use of revenues from the sale of withdrawn hydropower under the RNY legislation into the wholesale market or, as necessary, internal funds to fund the residential consumer discount program for its first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.

<u>Major Factors</u>	<u>Better (Worse)</u>
<p><u>Niagara</u> 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.</p>	\$22.8
<p><u>St. Lawrence</u> 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).</p>	23.0
<p><u>Blenheim-Gilboa</u> Lower prices on capacity sales into the market.</p>	(13.2)
<p><u>Market Supply Power</u> Primarily accrual and payment of voluntary contributions (\$13.5) not in budget (extension of Power for Jobs program).</p>	(13.7)
<p><u>Flynn</u> Primarily lower fuel costs due to lower prices.</p>	4.7
<p><u>Other facilities</u> Includes positive variance at the SCPP's (\$1.4) due to higher production and prices partially offset by higher O&M.</p>	2.7
<p><u>Non-facility (including investment income)</u> 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)</p>	29.0
Total	\$55.3

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

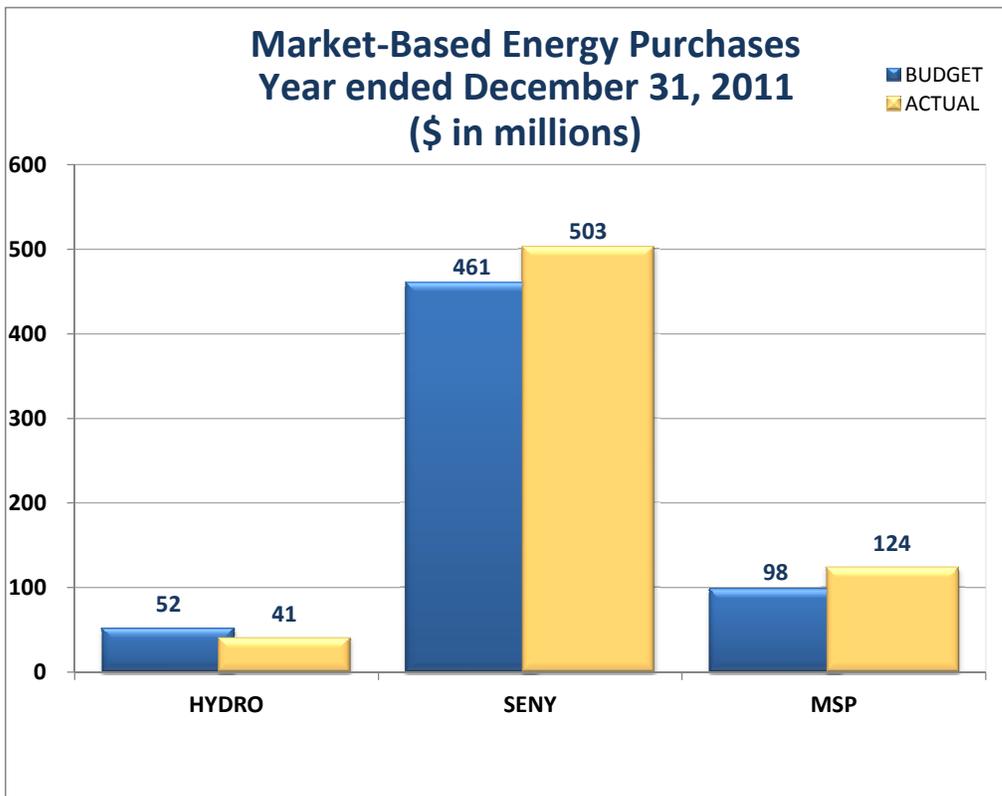
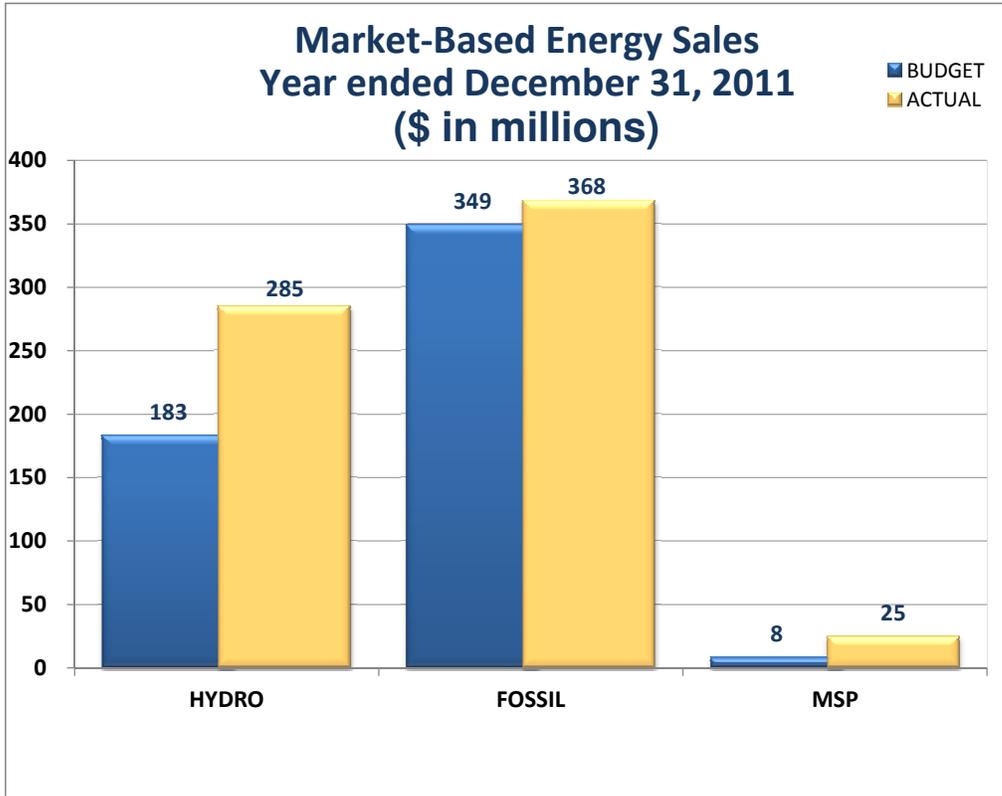
	2011	2010	Variance Favorable/ (Unfavorable)
Operating Revenues	\$2,650.4	\$2,568.0	\$82.4
Operating Expenses			
Fuel consumed - oil & gas	257.9	223.8	(34.1)
Purchased power and ancillary services	853.0	929.7	76.7
Wheeling	543.0	528.6	(14.4)
Operations and maintenance	330.0	309.9	(20.1)
Other expenses	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.



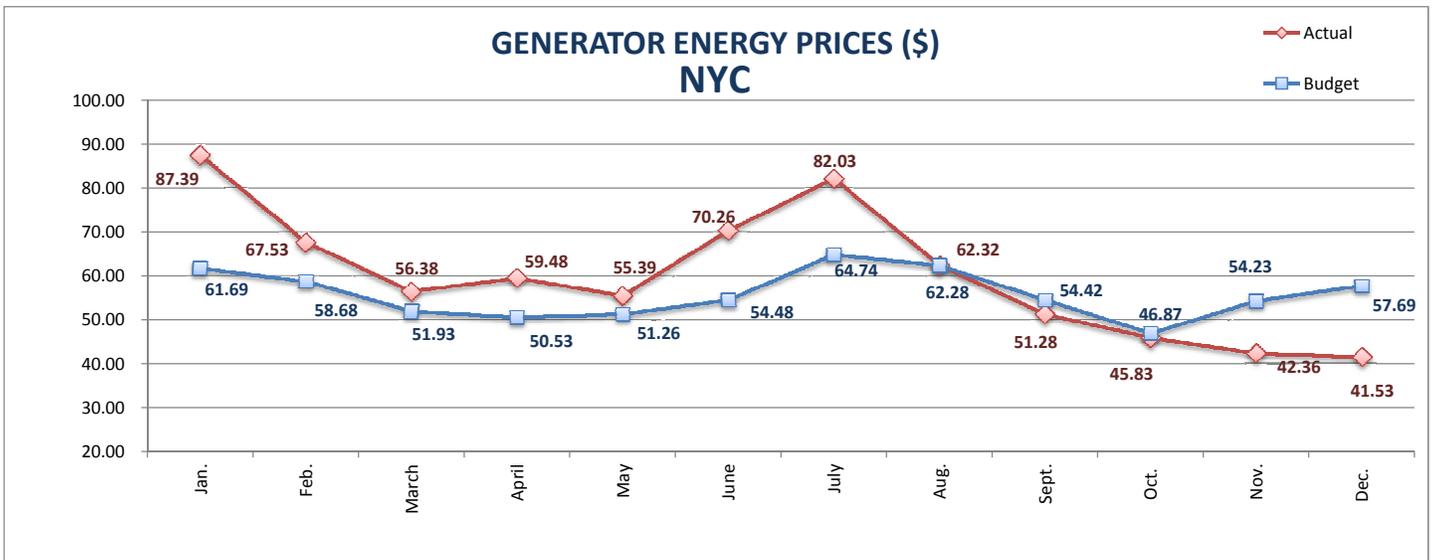
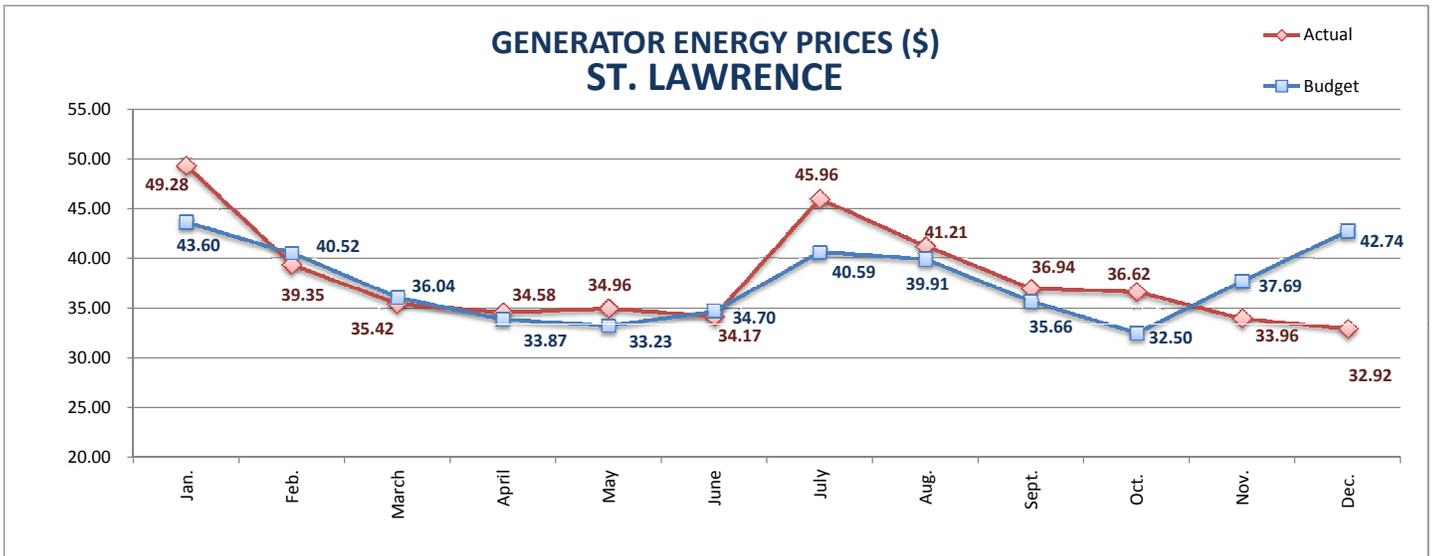
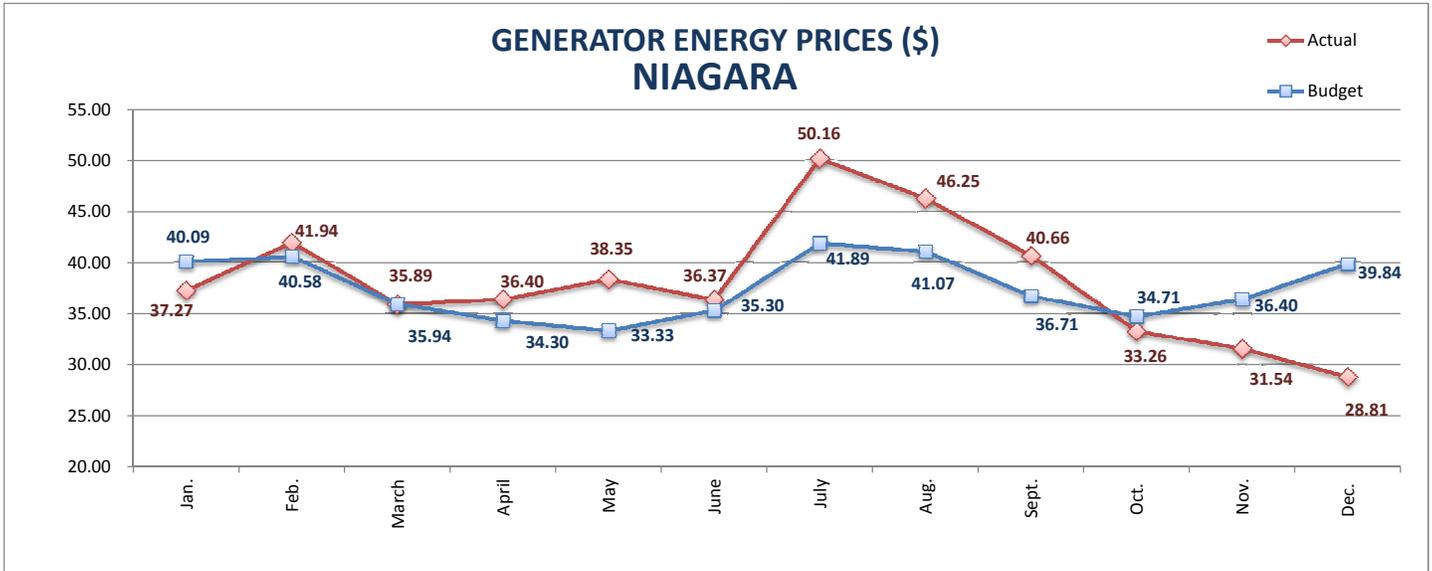
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	3,741,254	6,890,019
Fossil	5,513,186	5,601,467
MSP	222,518	574,397
TOTAL	9,476,958	13,065,883
PRICES (\$/MWH)		
Hydro*	\$41.11	\$39.97
Fossil	\$56.79	\$58.26
MSP	\$35.06	\$43.66
AVERAGE	\$50.09	\$47.97

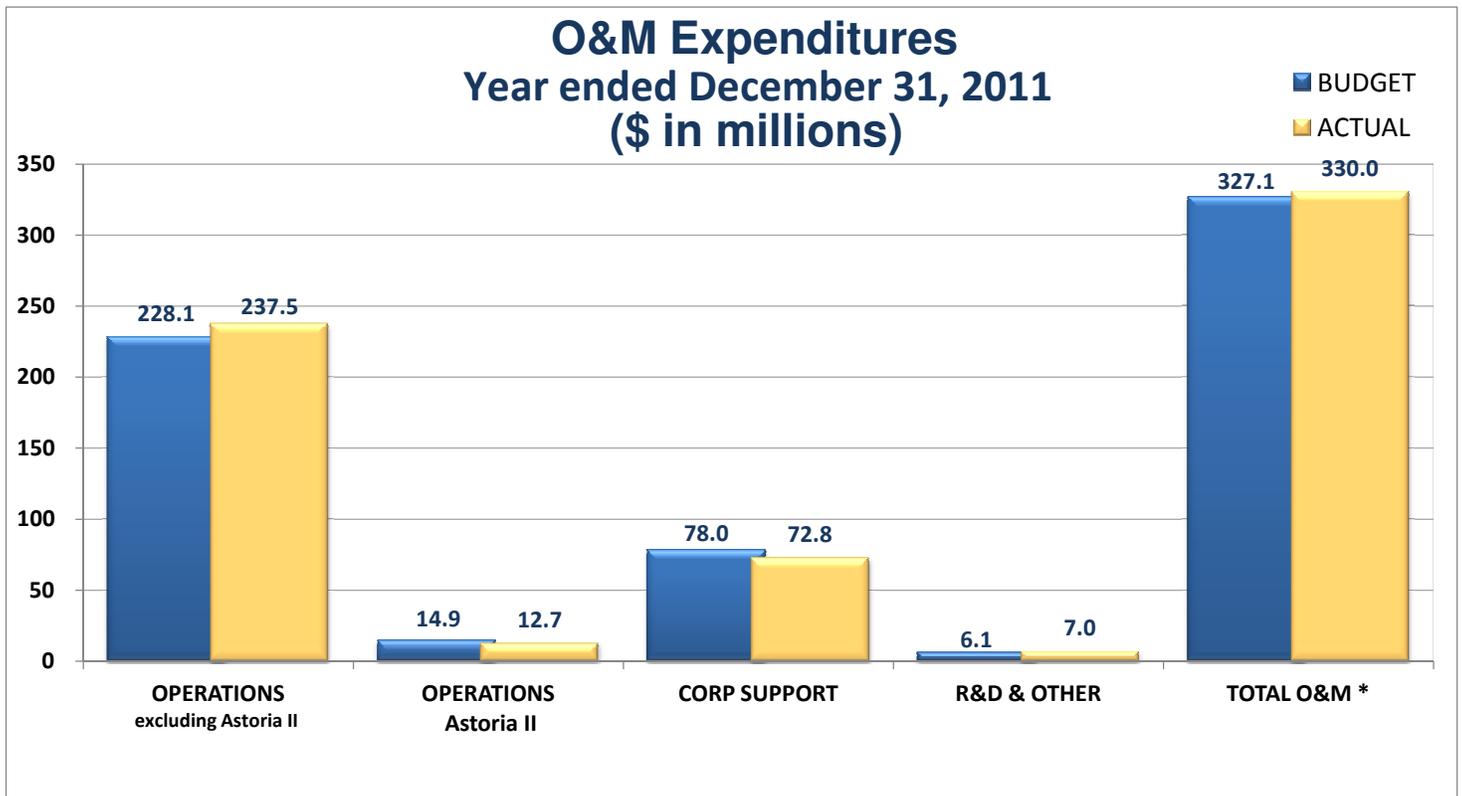
* Includes Niagara, St. Lawrence, B-G, and Small Hydro.

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

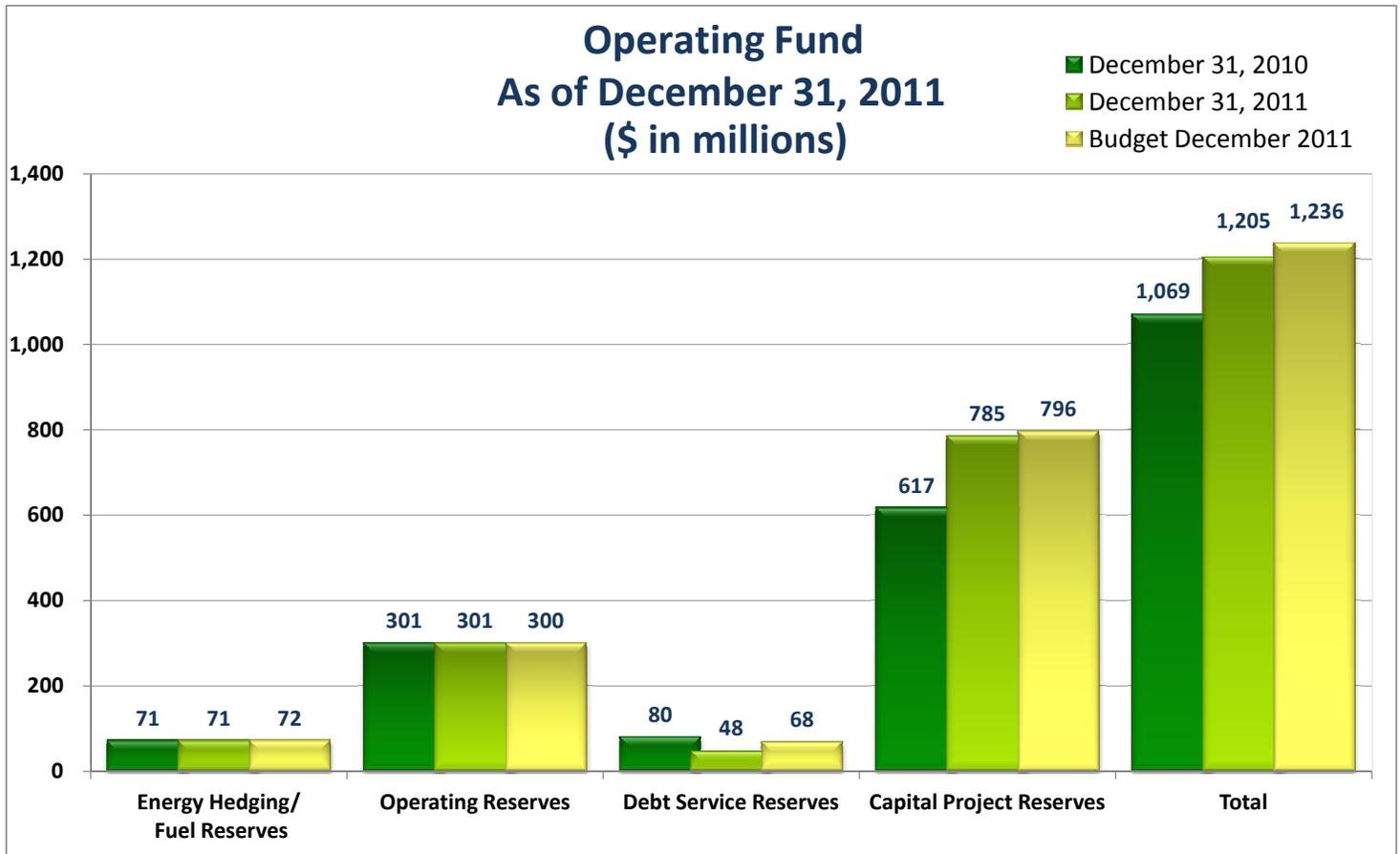
RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget



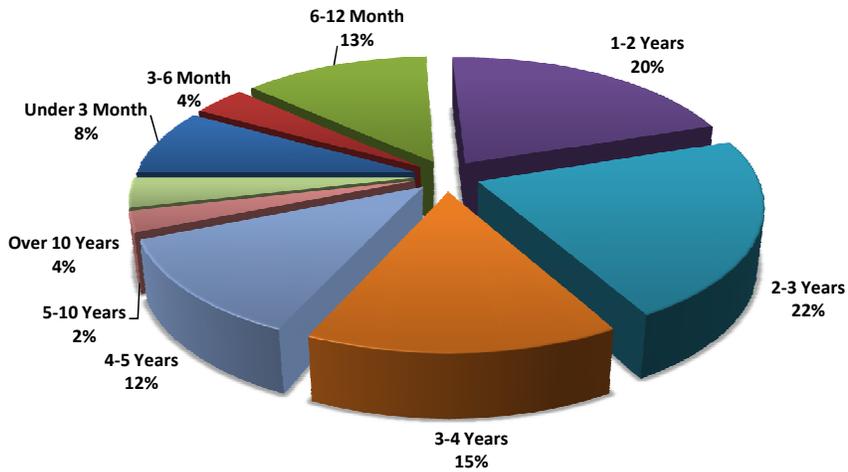


- For the year ended December 31, 2011, O&M expenses were \$2.9 higher than the budget.
- Operations expenditures excluding Astoria II were \$9.4 higher than budgeted. Overruns at the Small Clean Power Plants (\$8.4) and Operations Shared Services (\$4.6) were partially offset by under-runs at Niagara (\$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.

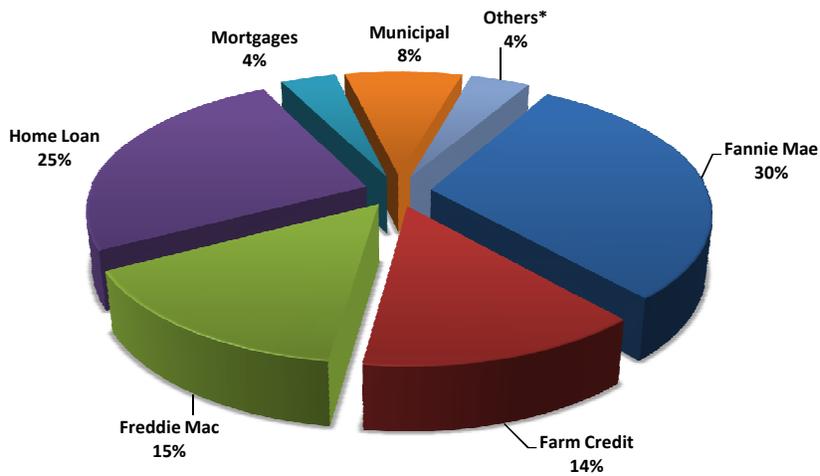
* In September, the Trustees approved an additional \$9.6 primarily for emergent work at the SCPP's and the transmission facilities. This amount is not included in the budgeted amounts above.



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.

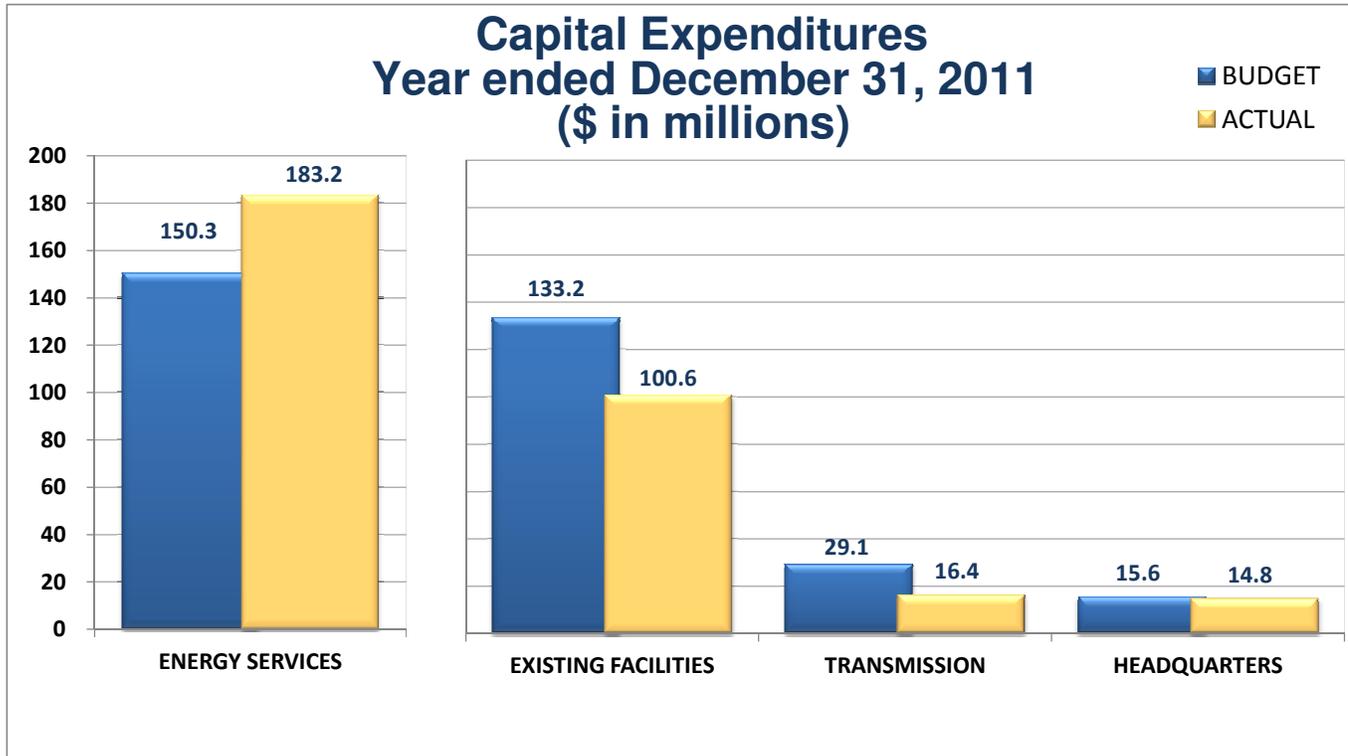
**Maturity Distribution
As of December 31, 2011**


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
As of December 31, 2011**


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.

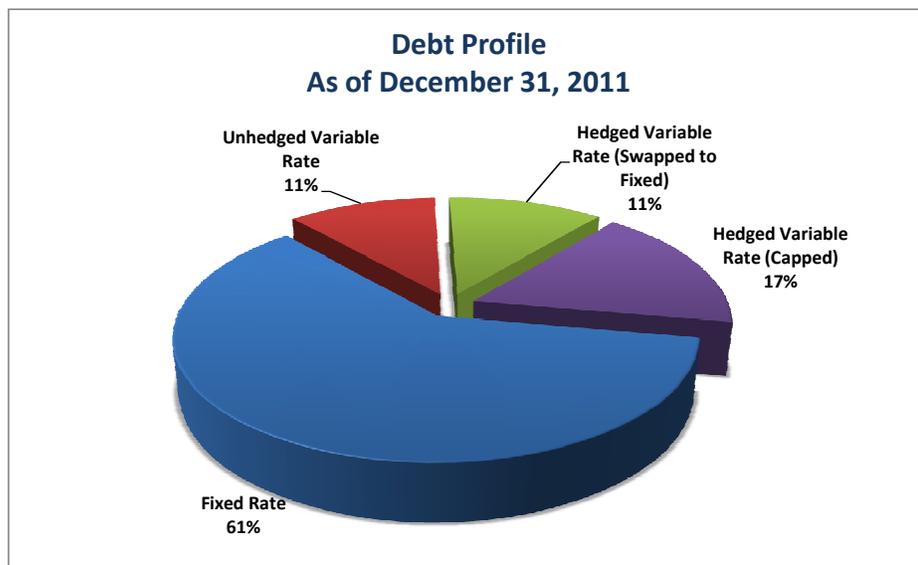
- Headquarters expenditures were less than budgeted due to timing for several IT projects.

- 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 Svcs 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. Svcs	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. Svcs	122.9	9/1/2006	Floating-to-Fixed	(15.1)
CP - 1	Morgan Stanley Cap. Svcs	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			Total
	YTD ¹	2012	2013	>=2014	
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)

¹Reflects 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.

Exhibit 1: February to December 2012 Forward Price

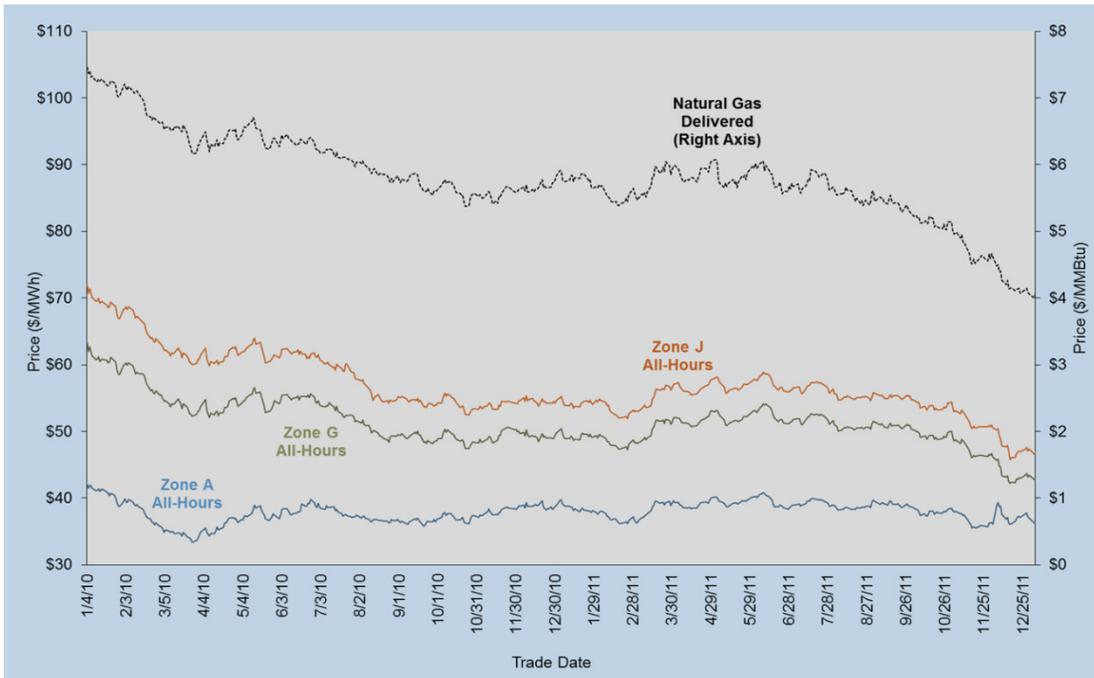
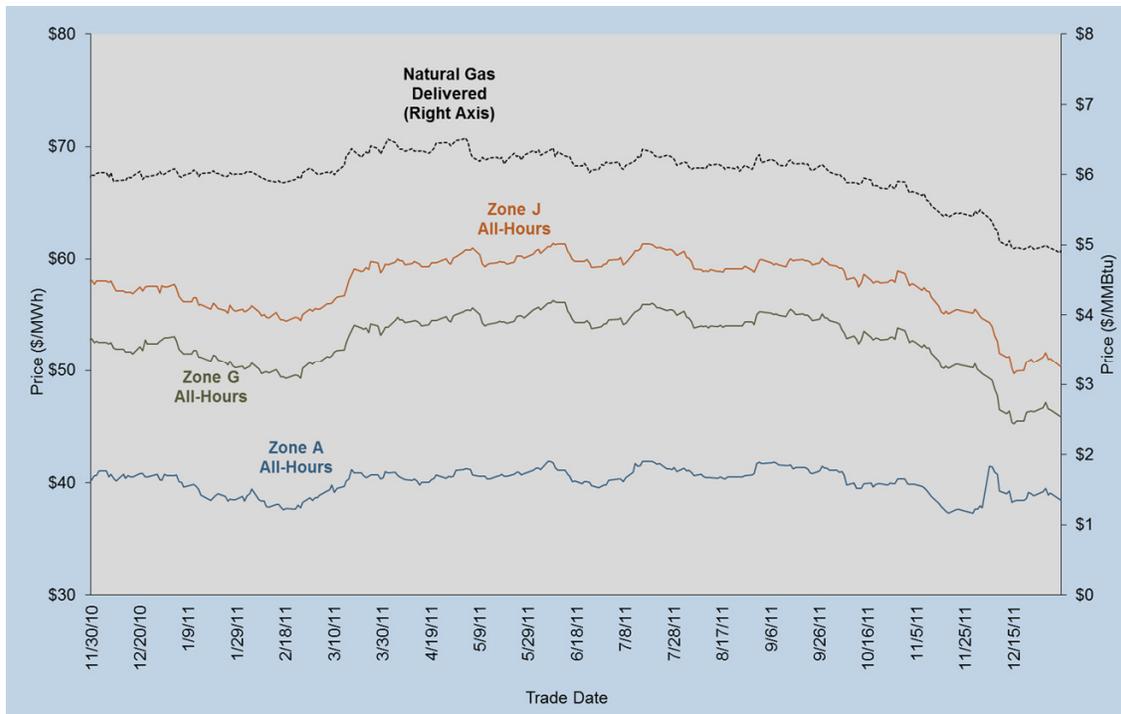


Exhibit 2: Average January to December 2013 Forward Price



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.

**New York Power Authority
Financial Reports**

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.