

**MINUTES OF THE REGULAR MEETING  
OF THE  
AUDIT COMMITTEE**

**September 29, 2015**

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September 29, 2015

Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York, at approximately 8:00 a.m.

**The following Members of the Audit Committee were present:**

Trustee Eugene Nicandri, Chairman  
Trustee Jonathan Foster  
Trustee Anthony Picente, Jr.

Trustee Terrance Flynn – excused

**Also in attendance were:**

John Koelmel	Chairman, NYPA
Anne Kress	Trustee, NYPA
Tracy McKibben	Trustee, NYPA
Gill Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Soubhagya Parija	Chief Risk Officer
Justin Driscoll	Executive Vice President and General Counsel
Robert Lurie	Executive Vice President and Chief Financial Officer
Jill Anderson	Senior Vice President – Public Affairs and Business Development
Jennifer Faulkner	Senior Vice President – Internal Audit
Iannarelli, Rocco	Senior Vice President – Corporate Affairs
James Pasquale	Senior Vice President – Economic Development and Energy Efficiency
Kristine Pizzo	Senior Vice President – Human Resources & Enterprise Shared Services
Thomas Concadoro	Vice President and Controller
Karen Delince	Vice President and Corporate Secretary
Joseph Gryzlo	Vice President & Chief Ethics & Compliance Officer
Ethan Riegelhaupt	Vice President – Corporate Communications
Vincent Esposito	Special Counsel – General Counsel – Law
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Baughman	Senior Assistant Corporate Secretary
Peter Prunty	Director – Infrastructure
Gottor, Jaiah	Manager – Network Services
Glen Martinez	Senior Network Analyst
Todd Fowler	Lead Engagement Audit Partner – KPMG
Nick DiVirgilio	Lead Engagement Audit Senior Manager – KPMG

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Chairman Eugene Nicandri presided over the meeting. Corporate Secretary Delince kept the Minutes.

**Introduction**

***Chairman Nicandri welcomed committee members, Trustees Jonathan Foster and Anthony Picente, and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.***

1. **Adoption of the Proposed Meeting Agenda**

Upon motion made and seconded the agenda for the meeting was adopted.

2. **CONSENT AGENDA**

Upon motion made and seconded the Consent Agenda was approved.

a. **Approval of the Minutes**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on March 26, 2015 were approved.

**b. Mid-Year Financial Statements**

The Vice President and Controller submitted the following report:

“The Authority is required to file mid-year financial statements with certain banking institutions and other interested parties within 105 days of the end of the period. In the interest of continuing disclosure, the Authority also files these statements with the Electronic Municipal Market Access (‘EMMA’) system maintained by the Municipal Securities Rulemaking Board. The mid-year financial statements present the financial position and results of operations of the Authority as of June 30, 2015 under generally accepted accounting principles. The statements are prepared by staff and are not required to be audited by the Authority’s independent accountants. (Exhibit ‘2b-A’)

The results reported in this report are consistent with the financial reports presented at the July 2015 Board meeting. The cover page of the report indicates that this report should be read in conjunction with the statements and notes contained in the Authority’s December 31, 2014 Annual Report. Consistent with past practice, the footnotes to these financial statements are abbreviated when compared to the Authority’s annual financial statements.”

**DISCUSSION AGENDA:**

**3. Internal Audit Activity Report**

**Internal Audit Update**

*Ms. Jennifer Faulkner, Senior Vice President of Internal Audit, provided an update of the Internal Audit (“IA”) activity to the Committee (Exhibit “4-A”).*

**Status of Audit Recommendations**

*Ms. Faulkner said, to date, IA has issued 14 of the 31 audit reports related to the 2015 Audit Plan. All of the audits in the Plan will be completed by the end of the year. As of July 30, three reports have been issued, First Energy Cost Validation related to the HTP transmission line; Operations & Maintenance Cross Functionality, looking at best practices and bench-marking across all of the sites; and Physical Security. The three audits related to Cyber Security and NERC CIP compliance have been postponed until next year. IA plans to introduce three new audits to the Audit Plan, including a Minority and women-owned business and IT audit and report at the next meeting.*

*In terms of the 2015 and earlier audit recommendations, a number of recommendations are still open, and this is due mainly to the timing of when the recommendations were created. IA is also focusing on recommendations from 2014 and earlier, to which end a project team has been created to see if those remediation plans still need to be opened or if they can be closed. Since the last meeting, IA has closed twenty percent of those recommendations as either not valid or were completed and not reported as such. High-risk issues are still being addressed.*

*In response to a question from Trustee Foster, Ms. Faulkner said all of the high-risk issues have been reported on through IA’s monthly communications. There are no high-risk issues that are currently overdue and the remediation plans that have been put in place, as well as the dates by which the remediation plans will be closed is on target.*

*In response to a question from Chairman Koelmel Ms. Faulkner said for high-risk issues IA usually requests that management respond within thirty days; for low-risk issues, remediation plans within one year. IA is of the opinion that the high-risk issues are being appropriately*

*addressed and that there are interim steps in place to complete the remediation for those risks. For example, some of the IT or OT issues will be completed at the end of next year when the new SCADA is replaced.*

*Responding to further questioning from Trustee Foster, Ms. Faulkner said at the end of December, she would envision that approximately five or six audits would be outstanding.*

*Responding to further questioning from Chairman Koelmel, Ms. Faulkner said most of the high-risk remediation plans have multiple steps to them, so although IA expects some type action on those high risk issues within thirty days it may take up to a year to fully complete that remediation.*

*In response to questioning from Trustee Foster and Chairman Koelmel, Ms. Faulkner said IA staff will work on closing out the 14 open items by December 31st. President Quiniones added that the Authority will work with Ms. Faulkner to better capture the actual picture of where things are and accelerate the process for closing open items.*

*In response to a question from Chairman Nicandri, Ms. Faulkner said the staffing is adequate for completing the work.*

*In response to questioning from Trustee Foster, Ms. Faulkner said IA is still in the on-boarding phase, but expects that by the end of the year the majority of the staff will be in place. IA has started to ramp-down the services of E&Y, replacing them on audits they led with NYPA staff.*

*Responding to further questioning from Trustee Foster, Ms. Faulkner said the budget estimate for third-party vendors for next year is approximately \$1.5 million, given the fact that IA plans to continue to outsource IT audits (approximately 10 audits), as well as 5 subject-matter expertise-led audits. This year E&Y's bill is approximately \$4.5 million.*

**Department Transformation Status**

*Ms. Faulkner said IA has made significant progress since the last meeting regarding staffing. To date, 13 personnel have been hired and there are now three open positions. Five people will be starting over the course of the next 4-6 weeks; there have been five departures since the beginning of the transformation program.*

*Ms. Faulkner ended by saying she feels confident that with the new recruiting strategy which HR has put in place, IA will be able to fill the remaining three positions by the end of the year and will have a full team in place by the end of the year which is significant progress from the last meeting.*

4. Presentation of Audit Plan

*Mr. Todd Fowler, KPMG's Lead Engagement Audit Partner, presented an overview of the Authority's 2015 Audit Plan (Exhibit "4-A"). He said the Authority is a relatively stable organization; therefore, KPMG did not have any significant changes to the prior year Audit Plan. He outlined the Client Service team saying that the team is knowledgeable about the Authority and will be able to perform an effective and efficient audit.*

*Mr. Fowler said the objective is to perform an audit in accordance with government auditing standards and to report on the financial statements in accordance with GAAP; reports are issued on the financial statements of the Authority, internal controls, investment compliance and compliance in accordance with Circular A1-33 related to the government grants received.*

Risk Assessment

*Mr. Fowler said in preparing the Audit Plan, KPMG met with the Authority's senior management to conduct a holistic risk assessment of the Authority, specifically as to the risks related to the financial statements and potential misstatements. As a result of this discussion, they have identified items that would be viewed as having more significant risks than others; those are the areas of the audit that KPMG focuses on and will spend a significant amount of their time on.*

*Mr. Fowler then outlined the areas on the financial statements that KPMG viewed as significant audit areas. In response to a question from Trustee Foster, Mr. Fowler said long-term debt is a significant audit area. KPMG always looks at debt covenants to ensure that the Authority is in compliance.*

*In response to a question from Chairman Nicandri, Mr. Lurie said since NYPA finances all of its debt under a general resolution, there is one set of covenants for all of its bonds and when the Authority re-finances any particular series of bonds, the general covenants do not change that overlie of all of its debt. Therefore, it would be very unusual for any additional covenants to be contained within a new series resolution.*

*In response to a question from Trustee Picente, Mr. Lurie said that compared to its total capacity, the Authority debt is at a very manageable level and the Authority operates very conservatively in that respect.*

*Mr. Fowler then outlined KPMG's timeline for performing the audit. He said the audit started over the summer with meetings with staff of the Authority to discuss the risk assessment and audit planning process. During November, KPMG plans to perform a walk-through of the internal controls, perform an assessment of entity-wide monitoring controls, look at general IT controls, and conduct interim testing of internal controls, as well as substantive testing with the goal of completing its audit procedures by February or early March and reporting on its audit of the financial statements to the Audit Committee in March.*

*Mr. Fowler ended by saying that the KPMG team has met Ms. Faulkner to discuss IA's audit plan, the audits that they are performing and how they can leverage the work that she is performing to support KPMG's audit.*

5. **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.* Upon motion made and seconded, an executive session was held.

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

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

7. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on December 17, 2015 at the Clarence D. Rappleyea Building in White Plains, New York, at a time to be determined.

**Closing**

Upon motion made and seconded, the meeting was adjourned by the Chairman at approximately 10:10 a.m.

A handwritten signature in black ink, appearing to read "Karen Delince". The signature is fluid and cursive, with a long horizontal stroke at the end.

Karen Delince  
Corporate Secretary

September 29, 2015

# **EXHIBITS**

**For**

**September 29, 2015**

**Audit Committee**

**Meeting Minutes**

Confidential draft –v#18

**NEW YORK POWER AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**(Unaudited)**

**The accompanying Financial Statements are the responsibility of the Authority's management and reflect all appropriate estimates and all known liabilities. These unaudited financial statements should be read in conjunction with the audited financial statements and notes contained in the Authority's December 31, 2014 Annual Report.**

**/s/ Thomas J. Concadoro**

**Thomas J. Concadoro**

**Vice President and Controller**

**New York Power Authority  
Financial Statements  
June 30, 2015**

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**New York Power Authority**  
**Statements of Net Position**  
(in millions)  
(Unaudited)

<b>Assets</b>		<b>June 30, 2015</b>	<b>December 31, 2014</b>
Current Assets:	Cash and cash equivalents	\$ 130	\$ 78
	Investment in securities	1,263	1,258
	Receivables - customers	173	188
	Materials and supplies, at average cost:		
	Plant and general	91	91
	Fuel	28	49
	Miscellaneous receivables and other	162	261
		<b>1,847</b>	<b>1,925</b>
Noncurrent Assets:			
Restricted Funds:	Cash and cash equivalents	20	18
	Investment in securities	1,490	1,486
		<b>1,510</b>	<b>1,504</b>
Capital Funds:	Cash and cash equivalents	-	1
	Investment in securities	32	36
		<b>32</b>	<b>37</b>
Capital Assets:	Capital assets not being depreciated	462	421
	Capital assets, net of accumulated depreciation	4,230	4,310
		<b>4,692</b>	<b>4,731</b>
Other Noncurrent Assets:	Receivable - New York State	279	279
	Other long-term assets	1,085	1,031
		<b>1,364</b>	<b>1,310</b>
	<b>Total Assets</b>	<b>9,445</b>	<b>9,507</b>
<b>Deferred Outflows</b>			
	Accumulated decrease in fair value of hedging derivatives	-	17
	<b>Total Assets and Deferred Outflows</b>	<b>\$ 9,445</b>	<b>\$ 9,524</b>
<b>Liabilities</b>			
Current Liabilities:	Accounts payable and accrued liabilities	\$ 276	\$ 334
	Short-term debt	476	466
	Long-term debt due within one year	74	90
	Capital lease obligation due within one year	18	16
	Risk management activities - derivatives	10	21
		<b>828</b>	<b>927</b>
Long-term debt:	Senior:		
	Revenue bonds	901	902
	Adjustable rate tender notes	75	86
	Subordinated:		
	Subordinated Notes, Series 2012	23	23
	Commercial paper	40	44
		<b>1,065</b>	<b>1,055</b>
Other Noncurrent Liabilities:	Capital lease obligation	1,177	1,189
	Liability to decommission divested nuclear facilities	1,419	1,415
	Disposal of spent nuclear fuel	217	217
	Relicensing	280	279
	Risk management activities - derivatives	8	16
	Other long-term liabilities	141	149
		<b>3,242</b>	<b>3,265</b>
	<b>Total Liabilities</b>	<b>5,135</b>	<b>5,247</b>
<b>Deferred Inflows</b>			
	Cost of Removal Obligation	290	286
	Accumulated increase in fair value of hedging derivatives	1	-
	<b>Total Liabilities and Deferred Inflows</b>	<b>5,426</b>	<b>5,533</b>
<b>Net Position</b>			
	Net investment in capital assets	1,997	1,992
	Restricted	26	25
	Unrestricted	1,996	1,974
	Total Net Position	4,019	3,991
	<b>Total Liabilities and Net Position</b>	<b>\$ 9,445</b>	<b>\$ 9,524</b>

See accompanying notes to the financial statements.

**New York Power Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
(in millions)  
(Unaudited)

		<b>Six Months Ended June 30,</b>	
		<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>			
Power Sales	\$	1,051	\$ 1,427
Transmission charges		81	86
Wheeling charges		267	284
<b>Total Operating Revenues</b>		<b>1,399</b>	<b>1,797</b>
<b>Operating Expenses</b>			
Purchased power		416	635
Fuel oil and gas		164	252
Wheeling		267	284
Operations and Maintenance		281	270
Depreciation		118	115
<b>Total Operating Expenses</b>		<b>1,246</b>	<b>1,556</b>
<b>Operating Income</b>		<b>153</b>	<b>241</b>
<b>Nonoperating Revenues</b>			
Investment income		12	14
Other		7	58
<b>Total Nonoperating Revenues</b>		<b>19</b>	<b>72</b>
<b>Nonoperating Expenses</b>			
Contribution to New York State		65	90
Interest on long-term debt		28	30
Interest-other		58	58
Interest capitalized		(6)	(4)
Amortization of debt premium		(1)	(1)
<b>Total Nonoperating Expenses</b>		<b>144</b>	<b>173</b>
<b>Net Income</b>		<b>28</b>	<b>140</b>
<b>Net Position, January 1</b>		<b>3,991</b>	<b>3,719</b>
<b>Net Position, June 30</b>		<b>\$ 4,019</b>	<b>\$ 3,859</b>

See accompanying notes to the financial statements.

**New York Power Authority**  
**Statements of Cash Flows**  
(in millions)  
(Unaudited)

**Six Months Ended June 30,**

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 1,379	\$ 1,759
Disbursements for:		
Purchased power	(431)	(631)
Fuel, oil and gas	(152)	(280)
Wheeling of power by other utilities	(257)	(274)
Operations and maintenance	(291)	(313)
<b>Net cash provided by operating activities</b>	<b>248</b>	<b>261</b>
Cash flows from capital and related financing activities:		
Earnings received on construction fund investments	-	-
Repayment of notes	(10)	(10)
Repayment of commercial paper	(21)	(27)
Gross additions to capital assets	(117)	(84)
Interest paid, net	(27)	(29)
<b>Net cash used in capital and related financing activities</b>	<b>(175)</b>	<b>(150)</b>
Cash flow from noncapital-related financing activities:		
Energy conservation program payments received from participants	71	76
Energy conservation program costs	(77)	(91)
NYISO Collateral	5	-
Issuance of commercial paper	70	59
Repayment of commercial paper	(60)	(75)
Interest paid on commercial paper	(2)	(2)
Transmission line interconnection costs	(40)	30
Contributions to New York State	(65)	(90)
Energy value sharing agreement	71	72
<b>Net cash used in noncapital-related financing activities</b>	<b>(27)</b>	<b>(21)</b>
Cash flow from investing activities:		
Earnings received on investments	9	10
Purchase of investment securities	(2,599)	(1,604)
Sale of investment securities	2,597	1,587
<b>Net cash used in investing activities</b>	<b>7</b>	<b>(7)</b>
<b>Net increase in cash</b>	<b>53</b>	<b>83</b>
<b>Cash and cash equivalents, January 1</b>	<b>97</b>	<b>33</b>
<b>Cash and cash equivalents, June 30</b>	<b>\$ 150</b>	<b>\$ 116</b>
Reconciliation to net cash provided by operating activities:		
Operating Income	\$ 153	\$ 241
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Provision for depreciation	118	115
Net (increase) decrease in prepayments and other	(5)	7
Net (increase) decrease in receivables and inventory	35	(60)
Net decrease in accounts payable and accrued liabilities	(53)	(42)
<b>Net cash provided by operating activities</b>	<b>248</b>	<b>\$ 261</b>

See accompanying notes to the financial statements.

**New York Power Authority**  
**Notes to the Financial Statements**  
*(Unaudited)*

**A. General**

The Power Authority of the State of New York (the Authority), doing business as The New York Power Authority, is a corporate municipal instrumentality and political subdivision of the State of New York (State) created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended (Power Authority Act or Act).

The Authority acts through a Board of Trustees. The Authority's Trustees are appointed by the Governor of the State of New York, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through a combination of internally generated funds and sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. Under the criteria set forth in Governmental Accounting Standards Board (GASB) the Authority considers its relationship to the State to be that of a related organization.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by the Power Authority Act to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

The financial statements are the responsibility of the Authority's management and reflect all appropriate estimates and all known liabilities. Certain information and note disclosures that are normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The results for the six months ended June 30, 2015 are not necessarily indicative of the results of the entire fiscal year ending December 31, 2015. The Authority's financial statements should be read in conjunction with the audited financial statements and the notes to the financial statements included in the Authority's Annual Report for the year ended December 31, 2014.

**Accounting Policies**

Reference is made to "Summary of Significant Accounting Policies" in Note (2) of the notes to the Authority's December 31, 2014 Financial Statements.

The Authority is subject to the provisions of Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent amounts that are collected from customers through the ratemaking process associated with costs to be incurred in future periods. Based on the action of the Board of Trustees, the Authority believes the future collection of the

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**Notes to the Financial Statements**  
*(Unaudited)*

costs held over through regulatory assets is probable. For regulatory assets see note E “Other Long-Term Assets” of the notes to the financial statements.

In 2012, GASB issued Statement of Governmental Accounting Standards No. 68 (Statement No. 68), Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Statement No. 68 is effective for fiscal years beginning after June 15, 2014. Statement No. 68 requires governments that provide defined benefit pension plans to their employees to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplemental information. In 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which is effective for fiscal years beginning after June 15, 2014 and should be applied simultaneously with Statement No. 68. This statement addresses the transition provisions of Statement No. 68, relating to amounts associated with contributions, if any, by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The Authority is in the process of evaluating the impact of Statement No. 68 and Statement No. 71. Net income for the year will be impacted by the implementation of this pronouncement effective December 31, 2015.

**B. Investments**

The Authority’s investments, which comply with the New York State Comptroller’s investment guidelines for public authorities, have been restricted to (a) collateralized certificates of deposit, which shall not exceed 25% of the Authority’s invested funds, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority is also authorized to enter into repurchase agreements for the purchase and sale of authorized investments. Designated custodians hold all investments in the name of the Authority. Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment, and the agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or \$100 million. Investments are reported in the statements of net position at fair value, using quoted market prices. Realized and unrealized gains and losses on investments are recorded as investment income in accordance with GAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**C. Capital Assets**

Capital assets are stated at original cost and consist of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Depreciation of capital assets is generally provided on a straight-line

**New York Power Authority**  
**Notes to the Financial Statements**  
*(Unaudited)*

basis over the estimated useful lives of the various classes of capital assets. Capital assets, net of accumulated depreciation at June 30, 2015 and December 31, 2014 were:

<u>Type of Plant</u>	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	(in millions)	
Production:		
Hydro	\$ 1,984	\$ 1,963
Gas Turbine/Combined Cycle	2,423	2,420
Transmission	1,988	1,985
General	<u>1,213</u>	<u>1,204</u>
	7,609	7,572
<u>Accumulated Depreciation:</u>		
Production:		
Hydro	(756)	(740)
Gas Turbine/Combined Cycle	(934)	(881)
Transmission	(1,164)	(1,139)
General	<u>(524)</u>	<u>(502)</u>
	(3,377)	(3,262)
Net value of capital assets depreciated	4,230	4,310
Land	160	160
Construction work in progress	<u>302</u>	<u>261</u>
	<u>\$ 4,692</u>	<u>\$ 4,731</u>

**D. Debt**

**Revenue Bonds**

<u>Revenue Bonds Outstanding:</u>	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	(in millions)	
Principal amount outstanding	\$ 941	\$ 941
Add: Unamortized premium and discount	21	22
Less: Deferred refinancing costs	<u>8</u>	<u>8</u>
	954	955
Less: Due within one year	<u>53</u>	<u>53</u>
	<u>\$ 901</u>	<u>\$ 902</u>

The Revenue Bonds outstanding at June 30, 2015, have an average interest rate of 5.28%, and mature through 2047. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (F) of the notes to the financial statements. There were no

**New York Power Authority**  
**Notes to the Financial Statements**  
*(Unaudited)*

issuances, retirements or defeasances of revenue bonds during the six months ended June 30, 2015.

**Adjustable Rate Tender Notes**

The Adjustable Rate Tender Notes (ART Notes) were issued pursuant to a resolution adopted April 30, 1985 (subsequently amended). The ART Notes had an average interest rate of 0.07% effective March 2015 through September 2015 (average interest rate effective for the period September 2015 through March 2016 is 0.14%) and are scheduled to mature through 2020. The holders may tender the ART Notes to the Authority on any adjustment date. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (F) of the notes to the financial statements. As of June 30, 2015 and December 31, 2014, the Authority had ART Notes outstanding of \$86 million and \$96 million, respectively, of which \$11 million and \$10 million, respectively, were current and classified as long-term debt due within one year.

The Authority has a revolving credit agreement (RCA) with The Bank of Nova Scotia to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the ART Notes. The amount of the RCA is equal to the outstanding principal of the ART Notes. The RCA provides for interest on outstanding borrowings at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. At June 30, 2015, there were no outstanding borrowings under this RCA.

On September 1, 2015, the RCA by its terms expired. The Authority has determined to exercise its option, pursuant to Section 7.5 (B) of the ART Note Resolution, not to extend the RCA or secure a substitute line of credit. If in the event, all or a portion of the Notes are tendered and not remarketed, the Authority will instead use its internal liquidity to pay the principal amount of the Notes, including the purchase price of Notes which have been tendered but not remarketed.

**Subordinated Debt:**

**Subordinate Notes**

In November 2012, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes), in a principal amount not to exceed \$30 million for the purpose of accelerating the funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation. The Authority issued the Subordinated Notes on December 18, 2012 in the amount of \$25 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

**Commercial Paper**

Under the Extendible Municipal Commercial Paper Note Resolution, adopted December 17, 2002, as subsequently amended and restated, the Authority may issue a series of notes, designated Series 1 (EMCP Notes) maturing not more than 270 days from the original date of issue, up to a

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maximum amount outstanding at any time of \$200 million. It is the Authority's intent to remarket the EMCP Notes as they mature with their ultimate retirement dates to range from 2015 to 2023.

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of \$400 million (Series 1 CP Notes); \$450 million (Series 2 CP Notes); \$350 million (Series 3 CP Notes); and \$220 million (Series 4 CP Notes). It is the Authority's intention to remarket the CP Notes as they mature with their ultimate retirement dates to range through 2025. There were no Series 4 Notes outstanding as of June 30, 2015.

The Authority has a line of credit under a 2015 revolving credit agreement (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to \$600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1-3 CP Notes. The 2015 RCA terminates January 20, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded the 2011 revolving credit agreement (2011 RCA) which expired January 20, 2015. There are no outstanding borrowings under the 2015 RCA or the 2011 RCA.

The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed marketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

CP Notes and EMCP Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

**Long-Term Subordinated Notes & CP**

**Notes outstanding:**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	(in millions)	
Subordinated Notes, Series 2012	\$ 24	\$ 24
Series 1 – EMCP	49	53
Series 2 CP Notes - Tax Exempt	-	17
	73	94
Less: Due within one year	10	27
	\$ 63	\$ 67

**Short-Term CP Notes outstanding (1):**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	(in millions)	
Series 1 CP Notes - Tax Exempt	\$ 339	\$ 308
Series 2 CP Notes - Tax Exempt	124	143
Series 3 CP Notes - Taxable	13	15
	\$ 476	\$ 466

(1) The Authority currently issues short-term CP Notes to finance its energy efficiency programs.

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**E. Other Long- Term Assets**

Other long-term assets at June 30, 2015 and December 31, 2014 consist of the following:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
(in millions)		
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	\$ 209	\$ 183
Risk management activities	19	20
Other regulatory assets	30	32
Total regulatory assets	258	235
Energy efficiency program costs (b)	226	215
Other long-term receivables	241	245
Transmission line interconnection costs	266	233
Other	94	103
Total other long-term assets	\$ 1,085	\$ 1,031

(a) Regulatory assets reflect previously incurred costs that are expected to be recovered from customers through the ratemaking process.

(b) Energy efficiency program costs will be recovered from certain customers through the terms of contracts.

**F. Risk Management and Hedging Activities**

**Overview**

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. Insured losses by the Authority did not exceed coverage for any of the four preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. The Authority is also self-insured for portions of its medical, dental and workers' compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

Another aspect of the Authority's risk management program is to manage risk and related volatility on its earnings and cash flows associated with electric energy prices, fuel prices, electric capacity prices and interest rates.

Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate potential

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adverse effects and to moderate cost impacts to its customers (many of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks through the use of financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity.

To achieve the Authority's risk management program objectives, the Authority's Trustees have authorized the use of various interest rate, energy, and fuel derivative instruments for hedging purposes that are considered derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the statements of net position as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred outflows or deferred inflows on the statements of net position. In cases where commodity options are used as hedging derivative instruments the change in fair value is applied to interest expense and related commodity revenue or expense in the period incurred. For renewable energy derivative instruments, designated as investment derivative instruments, changes in fair value are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value of interest rate swaps take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. The fair values were estimated using the zero-coupon discounting method. The fair value for over-the-counter and exchange-traded energy, renewable energy natural gas, natural gas transportation and capacity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using the prices published by Platts or internal pricing models or derived from pricing models for option and/or option-based derivative instruments using the underlying price, time to expiry and observed volatilities based upon Platts published prices and other variables.

**Derivative Instruments**

The following table shows the fair value of outstanding derivative instruments used as hedges as of June 30, 2015 and December 31, 2014 and changes in fair value during the six months ended June 30, 2015:

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Derivative instrument description	Fair value balance December 31, 2014	Net change in fair value	Fair value balance June 30, 2015	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount June 30, 2015	Volume
	(\$ in millions)						
Interest rate swaps	\$ (5)	\$ 2	\$ (3)	Cash Flow	Deferred outflow	86.1	USD
Energy/Electric swaps/futures	(8)	10	2	Cash Flow	Deferred inflow	(1,317,200)	MWh
Renewable energy swaps	(20)	1	(19)	Investment	Regulatory Asset	448,088	MWh
Energy capacity swaps/futures	5	(3)	2	Cash Flow	Deferred inflow	(10,525,000)	KWm
Fuel swaps	(9)	9	—	Cash Flow	Deferred outflow	—	MMBtu
Totals	<u>\$ (37)</u>	<u>\$ 19</u>	<u>\$ (18)</u>				

*Interest rate swaps* — The Authority had outstanding forward interest rate swaps intended to fix rates on long-term obligations initially issued to refinance revenue bonds that were required to be tendered in the year 2002 (the 2002 Swaps). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at a fixed rate of 5.123% to the counterparties through February 15, 2015. In return, the counterparties would pay interest to the Authority based upon the Securities Industry and Financial Markets Association municipal swap index (SIFMA Index) on the established reset dates. The 2002 swaps terminated on February 15, 2015. Net settlement payments were \$0.1 million and \$1.0 million in the six months ended June 30, 2015 and year end December 31, 2014, respectively.

In addition, the Authority has outstanding a forward interest rate swap intended to fix the interest rates on the Authority's Adjustable Rate Tender Notes (ART Notes) for the period September 1, 2006 to September 1, 2016. Based upon the terms of the forward interest rate swap, the Authority pays interest calculated at a fixed rate of 3.7585% on the outstanding notional amount. In return, the counterparty pays interest to the Authority based upon 67% of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. Net settlement payments were \$1.5 and \$3.5 million in the six months ended June 30, 2015 and year end December 31, 2014, respectively.

*Energy/Electric swaps* — The Authority also has outstanding short-term forward energy swaps to manage the cost of forecasted purchased power requirements and transmission congestion for certain business customers in 2014 and 2015. Net settlements were payments of \$0.2 million and receipts of \$3.9 million in the six months ended June 30, 2015 and in the year ended December 31, 2014, respectively.

*Renewable energy swaps* — The Authority has outstanding long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities through 2017. The fixed price ranges from \$74 to \$75 per MWh and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist certain customers in acquiring and investing in wind power and related environmental attributes to satisfy certain New York State mandates to support renewable energy. Net settlement payments were \$4.0 million and \$4.7 million in the six months ended June 30, 2015 and year end December 31, 2014, respectively. The Authority anticipates the recovery of any net settlements through specific contractual agreements with customers.

*Energy capacity swaps/futures* — The Authority sold forward installed capacity swaps and futures intended to mitigate the volatility of market prices for sales into the NYISO markets in 2014 and

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2015. Net settlements were receipts of \$0.8 million and payments \$0.5 million in the six months ended June 30, 2015 and year end December 31, 2014, respectively.

*Fuel swaps and futures* – The Authority purchased forward natural gas swaps and natural gas futures intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2014 and 2015 for the benefit of certain of the Authority’s customers. Net settlement receipts were \$5.0 million and \$15 million in the six months ended June 30, 2015 and year end December 31, 2014, respectively. In connection with the purchase of fuel swaps and futures and for the benefit of the Authority’s customers, the Authority purchased natural gas transportation basis swaps to mitigate the volatility of market prices for pipeline transportation to New York City in 2014 and 2015. Net settlement payments were \$6.1 million in the six months ended June 30, 2015 and there was no settlement in year ended December 31, 2014.

*Other* – The Authority from time to time enters into certain derivative instruments that may become ineffective as hedging instruments due to changes in the hedged item. The change in fair value of such derivative instruments is recognized as other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. The fair value of these derivative instruments was insignificant to the Authority’s financial statements at June 30, 2015 and December 31, 2014.

**Counterparty Credit Risk**

The Authority’s policy regarding the creditworthiness of counterparties for interest rate derivative instruments is defined in the Bond Resolution. The policy requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers at the time the derivative instrument is executed or have a guarantee from another appropriate entity or an opinion from the rating agencies that the underlying bonds or notes will not be downgraded on the derivative instrument alone. The Authority’s Board of Trustees has adopted a Policy for the Use of Interest Rate Exchange Agreements which provides the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification as well as reporting standards.

The Authority also imposes thresholds, based upon agency-published credit ratings, for unsecured credit that can be extended to counterparties to the Authority’s commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of mark-to-market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty’s market-implied credit ratings and financial ratios and the Authority can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of June 30, 2015, the Authority’s individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

**Other Considerations**

The Authority from time to time may be exposed to any of the following risks.

*Basis risk* – The Authority is exposed to basis risk on its pay-fixed interest rate swaps since it receives variable-rate payments on these hedging derivative instruments based on indexes which

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differ from the actual interest rates the Authority pays on its variable-rate debt. The Authority remarkets its Notes at rates that approximate SIFMA and LIBOR after considering other factors such as the Authority's creditworthiness.

The Authority is exposed to other basis risk in a portion of its electrical commodity-based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the delivery price of the related energy.

*Tax risk* – The Authority is at risk that a change in Federal tax rates will alter the relationship between the interest rates incurred on its ART Notes and LIBOR Index used in the pay-fixed receive-variable interest rate swap transaction.

*Rollover risk* – The Authority is exposed to rollover risk on the hedging derivative instrument that terminate prior to the maturity of the Authority's ART Notes, which this derivative instrument hedges. When the derivative instrument terminates the Authority will be re-exposed to the variable interest rate risk being hedged by the derivative instruments. The termination of the interest rate swaps on September 1, 2016 exposes the Authority to rollover risk since the hedged debt matures on March 1, 2020.

Certain electrical commodity-based derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments (varying from one month to 48 months) the Authority is subject to the corresponding market volatilities.

*Termination risk* – The Authority or its counterparties may terminate a derivative instrument agreement if the either party fails to perform under the terms of the agreement. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right to terminate only as a result of certain events, which includes a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; bankruptcy or insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination the Authority has a liability position, related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

*Market access risk* – The Authority remarkets its CP Notes on a continuous basis and its ART Notes every March 1 and September 1. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support both the CP Note and ART Note programs. See note D of the notes to the financial statements.

**Dodd –Frank Act**

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) which addresses, among other things, interest rate and energy related commodity swap transactions of the type in which the Authority engages (Swaps). The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). Pursuant to CFTC rules thus far, the Authority, as a public entity

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and electric utility which uses swaps solely to manage its risk, will be exempted from posting collateral beyond that of any existing credit support annexes in support of its open over-the-counter (OTC) hedge positions. These CFTC rules are not anticipated to have significant impact on the Authority's liquidity and/or future risk mitigation activities. CFTC DF Act rules are still being promulgated, and the Authority will continue to monitor their potential impact on the Authority's liquidity and/or future risk mitigation activities.

**G. Power Programs**

**Recharge New York Power Program**

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to \$9 million for the year July 1, 2012 – June 30, 2013. As of June 30, 2015, approximately \$8.1 million of such discounts has been paid with approximately an additional \$3 million in payments remaining to be made pursuant to the authorization. On February 26, 2015, the Authority's Trustees approved an additional \$8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of \$100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, \$70 million for the fourth year, \$50 million for the fifth year, and \$30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total \$337.5 million through January 2014 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the

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August 2011 start of the program through June 30, 2015, totaling cumulatively \$104 million. Operations and maintenance expenses included \$35 million and \$50 million of residential consumer discounts in the six months ended June 30, 2015 and 2014. On February 26, 2015, the Authority's Trustees approved up to an additional \$63 million to fund the RCDP payments anticipated to be made in 2015.

**Western New York Power Proceeds Allocation Act**

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees approved the release of up to \$58 million in net earnings, calculated for the period August 30, 2010 through December 31, 2015 as provided in the legislation, for deposit into the Fund. Actual net earnings deposited into the Fund for this period totaled \$38.5 million. As of June 30, 2015, \$41 million has been deposited into the Fund. As of June 30, 2015, the Authority has approved awards of Fund money totaling approximately \$21 million to businesses that have proposed eligible projects and has made payments totaling approximately \$7 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

**Northern New York Power Proceeds Allocation Act**

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Proceeds Allocations Board (NNYPPAB) to be appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards. The NNYPPAB has yet not started operating.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the

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Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to \$3 million, into the NNY Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015. As of June 30, 2015, approximately \$1 million has been deposited into the NNY Fund.

#### **H. Financial Assistance to the State**

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) 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 (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt. In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury (a) in connection with the Power for Jobs (PFJ) Program and (b) for other purposes as well. The PFJ Program ended on June 30, 2012 and was replaced by the RNYPP (discussed in note (G) of the notes to the financial statements above). Cumulatively through December 31, 2012, the Authority made voluntary contributions to the State totaling \$475 million in connection with the PFJ Program.

In the six months ended June 30, 2015 and June 30, 2014, the Authority made \$65 million and \$90 million, respectively, in contributions to the State that are not related to the PFJ Program. These contributions were recorded as nonoperating expenses in the statements of revenues,

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expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2015 contributions of \$65 million included \$42 million that was paid to Empire State Development (ESD), as were the contributions of \$90 million paid in 2014, in furtherance of ESD's statewide economic development initiatives. Cumulatively, between January 1, 2008 and June 30, 2015, the Authority has made voluntary contributions to the State totaling \$647 million unrelated to the PFJ program. In addition, the Authority made a \$25 million contribution on July 30, 2015, to ESD.

In addition to the voluntary contributions described above, Section 3 of Subpart H of Part C of Chapter 20 of the Laws of 2015 (Chapter 20), which became effective upon enactment on June 26, 2015, authorizes the Authority as deemed "feasible and advisable by its trustees" to provide up to \$6 million in additional contributions to the State's general fund, or as otherwise directed in writing by the State's director of the budget for the state fiscal year commencing April 1, 2015.

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately \$215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget \$103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B (\$215 million) and Asset A (\$103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately \$5 million per year based on current estimates but the waiver is limited to a maximum of \$45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of State lands adjacent to the Niagara

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and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately \$8 million per year but the waiver would be limited to a maximum of \$43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU that provides that the State shall, subject to appropriation by the State Legislature, return the \$103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) \$18 million for State Fiscal Year 2014-2015; (2) \$21 million for State Fiscal Year 2015-2016; (3) \$21 million for State Fiscal Year 2016-2017; (4) \$21 million for State Fiscal Year 2017-2018; and (5) \$22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority received the first \$18 million installment on October 1, 2014. The Assets A and B transfers are reported in miscellaneous receivable and other (\$21 million at both June 30, 2015 and December 31, 2014) and in other noncurrent assets (\$279 million at both June 30, 2015 and December 31, 2014) in the statements of net position.

## **I. Pension Plans and Other Postemployment Benefits**

### **Pension Plans**

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer defined benefit retirement plans. The ERS is contributory except for employees who joined the ERS on or prior to July 27, 1976. The Authority also provides its retirees with Other Postemployment Benefits (OPEB). Refer to the Authority's 2014 Annual Report for further information including plan benefits, employer contributions, employee eligibility, vesting, contributions, and OPEB.

Current law requires, among other things, a minimum annual contribution to be made by employers to the ERS. Under current law, the State Comptroller shall certify annually the rates expressed as portions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The required contributions to the ERS were \$28 million, \$29 million and \$27 million, for the ERS's fiscal years ended March 31, 2015, 2014, and 2013, respectively. The Authority's contributions to the ERS were equal to 100% of the required contributions for each year. The Authority's pension contribution to the ERS for fiscal year ended March 31, 2016 is expected to be approximately \$28 million. The average contribution rates relative to payroll for the ERS fiscal years ended March 31, 2015 and 2016 have been set at approximately 18% and 17%, respectively. See Note A – Accounting Policies.

### **Other Postemployment Benefits (OPEB)**

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these

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benefits when the employee has at least 10 years of service and retires or upon death while employed by the Authority.

Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. In December 2006, the Authority's Trustees authorized staff to establish a trust for OPEB obligations (OPEB Trust), with the trust fund to be held by an independent custodian. Prior to 2009, the Authority funded the OPEB Trust with contributions totaling \$225 million. Plan members are not required to contribute to the OPEB Trust. In 2011, the Authority's Trustees approved ongoing annual funding of the Trust in order to strengthen the Authority's financial position. Employer contributions toward OPEB costs totaled \$39 million in 2014 including \$22 million in benefit payments for retirees paid from the operating fund and \$17 million in employer contributions to the trust fund. The Authority expects to make a contribution of approximately \$13 million to the OPEB Trust prior to December 31, 2015 based on its 2014 biennial actuarial valuation report.

The Authority's OPEB costs were \$19 million and \$20 million, respectively, for the six months ended June 30, 2015 and June 30, 2014. The Authority's actuarial valuations are performed biennially. The Authority's most recent valuation was performed as of January 1, 2014 and resulted in actuarial accrued liability of \$575 million which was funded with assets totaling \$422 million, indicating that the Authority's retiree health plan was 73% funded as of the valuation date. As of December 31, 2014, the balance in the OPEB Trust was \$467 million and the actuarial accrued liability was approximately \$606 million. As of June 30, 2015, the balance in the OPEB Trust totaled \$477 million and the actuarial accrued liability was \$642 million.

## **J. Nuclear Plant Divestiture and Related Matters**

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants—Indian Point 3 (IP3) and James A. FitzPatrick (JAF) to two subsidiaries of Entergy Corporation (collectively Entergy or the Entergy Subsidiaries) for cash and noninterest-bearing notes totaling \$967 million (subsequently reduced by closing adjustments to \$956 million) maturing over a 15-year period. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was \$680 million.

As of June 30, 2015 and December 31, 2014, the present value of the notes receivable inclusive of related accrued discount was \$20 million and \$19 million, respectively and is reported in miscellaneous receivables and others in the statements of net positions.

As part of the Authority's sale of its nuclear projects to Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. These VSAs, as amended, provide for the Entergy Subsidiaries to pay the Authority a set price (\$6.59 per MWh for IP3 and \$3.91 per MWh for JAF) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of \$72 million. Nonoperating income, in the statements of revenues, expenses, and changes in net position, for the years ended December 31, 2014 and 2013 included \$71 million and \$72 million, respectively, relating to these agreements. The payments are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. The final payment under the VSA was received on January 15, 2015 in the amount of \$71 million.

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In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note (H) "Financial Assistance to the State" of the notes to the financial statements, relating to a temporary transfer of such funds to the State). As of June 30, 2015, the liability to Entergy totaled \$217 million.

In connection with the Authority's sale of the nuclear plants, the Authority entered into a Decommissioning Agreement with each of the Entergy Subsidiaries relating to the responsibility for decommissioning the nuclear plants acquired (Decommissioning Agreements). The Decommissioning Agreements deal with the decommissioning funds (Decommissioning Funds), which are currently maintained by the Authority under a master decommissioning trust agreement. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority retains contractual decommissioning liability for IP3 and JAF until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, described below, if any. The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the NRC minimum cost estimate amounts applicable to the plant. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Decommissioning Fund.

Certain provisions of the Decommissioning Agreements provide that if the relevant Entergy Subsidiary purchases, or operates, with the right to decommission, another plant at the IP3 site, then the Inflation Adjusted Cost Amount would decrease by \$50 million. In September 2001, a subsidiary of Entergy purchased the Indian Point 1 and Indian Point 2 plants adjacent to IP3.

If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost Amount or the plant's Decommissioning Fund amount.

Decommissioning Funds of \$1,419 million and \$1,415 million are included in restricted funds and other noncurrent liabilities in the statements of net position at June 30, 2015 and December 31, 2014, respectively.

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**K. Other Commitments and Contingencies**

**Governmental Customers in the New York City Metropolitan Area**

In 2005, the Authority and its eleven NYC Governmental Customers, including the Metropolitan Transportation Authority, the City of New York, the Port Authority of New York and New Jersey (Port Authority), the New York City Housing Authority, and the New York State Office of General Services, entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers.

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers. The Authority provides the customers with indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Such market-risk hedging options include a full cost energy charge adjustment ("ECA") pass-through arrangement relating to fuel, purchased power, and NYISO-related costs (including such an arrangement with some cost hedging) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements. For 2014 and 2015, the NYC Governmental Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above. Under the Agreements, the Authority committed to finance up to \$100 million annually over the term of the Agreements for energy efficiency projects and initiatives at such governmental customers' facilities. Amounts financed may exceed \$100 million if mutually agreed to by the customers and the Authority. The costs of such projects are recovered from such customers.

As a result of a Request for Proposals for Long-Term Supply issued in 2005 and subsequent negotiations, in 2011 the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (HTP) for the purchase of capacity to meet the long-term requirements of the Authority's NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the transmission rights associated with HTP's planned transmission line (the Line) extending from Bergen County, New Jersey, to Consolidated Edison's West 49th Street substation.

In 2011, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP which would provide the Authority with 75% of the Line's 660 MW capacity, or 495 MW, for 20 years. The Authority's capacity payment obligations under the FTCPA began upon the Line's commencement of commercial operation, which occurred on June 3, 2013. Also upon commercial operation, the FTCPA obligates the Authority to reimburse HTP for the cost of interconnection and transmission upgrades in New York and New Jersey associated with the Line and to pay for all remaining upgrade costs as they are incurred. Under the FTCPA, the Authority

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is obligated to pay the costs of certain interconnection and transmission upgrades associated with the Line, which are now estimated to total up to approximately \$319 million. As of June 30, 2015, the Authority paid approximately \$285 million of such costs related to the interconnection and transmission upgrades.

The Authority is currently in discussions with certain of its NYC Governmental Customers regarding use of the Line. It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the initial 20-year term of the FTCPA. Depending on a number of variables, it is estimated that the Authority's under-recovery of costs under the FTCPA could be in the range of approximately \$72 million to \$105 million per year over the next five years of commercial operation. In April 2013, the Authority entered into a three-year contract with Con Edison Energy, Inc. (CEE), an affiliate of Consolidated Edison Company of New York, Inc. to manage the Authority's transmission capacity on the Line and make economical energy transactions.

In anticipation of the closure of the Authority's Poletti plant in 2010, the Authority, in 2007, issued a nonbinding request for proposals for up to 500 MW of in-city unforced capacity and optional energy to serve the needs of its NYC Governmental Customers. This process, which included approval of the NYC Governmental Customers, resulted in a long-term electricity supply contract in 2008 between the Authority and Astoria Energy II LLC for the purchase of the output of Astoria Energy II, a new 550-MW plant, which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens. The costs associated with the contract will be borne by these customers for the life of the Astoria Energy II contract. The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of \$1,195 billion as of June 30, 2015, which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly. Fuel for the plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). The Authority has entered a supplemental electricity supply agreement with all 103 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months' notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

**Small, Clean Power Plants and 500-MW Plant**

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area that could also adversely affect the statewide electric pool, the Authority has in operation, the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, each having a nameplate rating of 47 MW at six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses

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two units, under certain conditions and if the Mayor of New York City directs such cessation. No such cessation has occurred.

**St. Lawrence-FDR Relicensing – Local Task Force Agreement**

The St. Lawrence-FDR Power Project No. 2000 Relicensing Agreement (LGTFSFA) between the Authority and the Local Government Task Force (LGTF) provides for a review of the LGTFSFA every ten years to discuss issues not contemplated at the time of relicensing in 2003. The first such review commenced in December 2013. The Authority and the LGTF entered into an agreement effective May 4, 2015 in which the Authority agreed to commit up to \$45.1 million over 10 years for certain actions, including to: (1) fund an economic development strategic marketing study; (2) temporarily reduce electricity costs for certain farms and businesses; (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities.

**St. Regis Litigation**

In 1982 and again in 1989, several groups of Mohawk Indians, including a Canadian Mohawk tribe, filed lawsuits against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil islands (St. Regis litigation). These islands are within the boundary of the Authority's St. Lawrence-FDR Project and Barnhart Island is the location of significant Project facilities. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal government intervened on behalf of all Mohawk plaintiffs.

The parties agreed to a land claim settlement, dated February 1, 2005, which if implemented would include, among other things, the payment by the Authority of \$2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215 acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence FDR project.

The legislation required to effectuate the settlement was never enacted and the litigation was reactivated. In November 2006, all defendants moved to dismiss the three Mohawk complaints as well as the United States' complaint based on the lengthy delay in asserting the land claims (i.e., the laches defense).

On September 28, 2012, the U.S. Magistrate recommended dismissal of all land claims brought against the Authority by three St. Regis tribal factions as well as the Federal government. The Magistrate upheld the Authority's laches defense and also recommended dismissal on the same grounds of all claims by the same plaintiffs against the other defendants relating to all but one of the other challenged mainland parcels.

In orders dated July 2013, the Judge assigned to the case accepted the Magistrate's recommendation and granted the Authority judgment on the pleadings. The Judge accepted all but one of the Magistrate's other recommendations, which results in dismissal of all land claims against the other defendants except those relating to two mainland parcels. Barring an appeal by

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the plaintiffs, all claims against the Authority have been dismissed and the lawsuit against the Authority is concluded.

The State and the St. Regis Mohawk Tribe (Tribe) have been discussing a settlement of the land claims, as well as other issues between the State and the Tribe. On May 28, 2014, the State of New York, the Tribe, St. Lawrence County and the Authority executed a Memorandum of Understanding (St. Regis MOU) that outlined a framework for the possible settlement of all the St. Regis land claims. In the St. Regis MOU, the Authority endorses a negotiated settlement that, among other terms and conditions, would require the Authority to pay the Tribe \$2 million a year for 35 years and provide up to 9 MW of its hydropower at preference power rates to serve the needs of the Tribe's Reservation. The St. Regis MOU would require an Act of Congress to forever extinguish all Mohawk land claims prior to such a settlement becoming effective.

Any settlement agreement, including the terms endorsed in the St. Regis MOU, would in the first instance need to be negotiated and agreed upon by all parties to the St. Regis litigation. In addition, on or before a final settlement of the litigation, all parties to the St. Regis litigation would have to agree to a settlement of all outstanding claims, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. Before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, however, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims.

**Tropical Storm Irene**

In August 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") initiated a lawsuit in Schoharie County Supreme Court against the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in August 2011. The Municipalities essentially alleged that they sustained property damage and lost tax revenues resulting from lowered assessed valuation of taxable real property due to the Authority's negligence in its operations at the Blenheim-Gilboa pumped-storage hydroelectric facility located on the Schoharie Creek in Schoharie County, New York. The Municipalities complaint seeks judgment "in an amount to be determined at trial with respect to each [of the ten plaintiffs] in the sum of at least \$5,000,000, plus punitive damages in the sum of at least \$5,000,000" as well as attorney fees. As of October 31, 2014, all of the Municipalities have discontinued their lawsuits against the Authority.

In February 2012, a private landowner filed a similar lawsuit in such court on behalf of a park campground and makes nearly the same allegations with the plaintiff seeking at least \$5 million in damages, at least \$5 million in punitive damages, as well as attorney's fees. In December 2012, the Authority was served with a third lawsuit by five plaintiffs arising out of Tropical Storm Irene and the Authority's operation of its Blenheim-Gilboa Pumped Storage Project. Plaintiffs previously filed timely notices of claim. The five plaintiffs include three individual landowners and two corporations. The three individual landowners own properties located in Schoharie, NY and Central Bridge, NY and are claiming damages in the aggregate amount of \$1.55 million. The two corporations also own properties in Schoharie, NY and are claiming damages in the aggregate amount of \$1.05 million. On October 27, 2014, the Court granted NYPA's motion to change the place of trial. The Court directed the Clerk of Court to transfer the proceedings to Albany County. Discovery is ongoing in these two remaining actions, which are joined for discovery.

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While the Authority cannot presently predict the outcome of this or any related litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues. While the Authority is unable to predict whether and to what extent any lawsuits will be initiated based on notices of claim or similar claims that may be filed in the future, or the outcome of any litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. Conversely, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

**Other Actions or Claims**

In January 2014, one of the Sound Cable Project underwater cables was severely impacted by an anchor and /or anchor chain dropped by one or more vessels, causing the entire electrical circuit to fail and the circuit to trip. As a result of the impact to the cable, dielectric fluid was released into Long Island Sound. NYPA incurred approximately \$33 million in costs arising out of this incident. The statement of net position at June 30, 2015 includes \$23 million in long-term assets, reflecting the cost of the damages net of insurance recoveries. The Authority believes that it will be able to recover the full amount of its damages through legal proceedings, other insurance coverage and contractual obligations.

In addition to the matters described above, other actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries), in contract, and for environmental, employment and other matters. All of such other actions or claims will, in the opinion of the Authority, be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amount which the Authority has available therefore and without any material adverse effect on the business of the Authority.

**Regional Greenhouse Gas Initiative, Clean Power Plant Rule and Air Pollution Rule**

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by Northeastern and Mid-Atlantic states, including New York, to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn plant, SCPPs, and 500-MW Plant are subject to the RGGI requirements as is AEII. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. Beginning 2014, the number of allowances offered in the auction by RGGI cap and trade program was reduced (from allowances covering 165 million tons of carbon dioxide emissions in 2013 to 91 million tons in 2014), and will decline by 2.5% each year from 2015 through 2020. This reduction has increased the price for carbon dioxide allowances, which NYPA acquires to cover operation of its fossil- fueled power plants and the AEII plant. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

In 2013, President Obama sent a memorandum to EPA on "Power Sector Carbon Pollution Standards" (Presidential Memorandum) as part of the President's Climate Action Plan. The

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Presidential Memorandum requires the EPA to propose carbon pollution standards for power plants. On August 3, 2015, the EPA met a milestone by releasing its final Clean Power Plant Rule for existing power plants [Clean Air Act 111(d)]. The objective is to reduce by 2030 carbon pollution (carbon dioxide emissions) nationwide from the power sector (plants in operation before December 31, 2012) by 32% from 2005 levels. Under the EPA's regulations for existing sources, New York State will have 1 year to submit its implementation plan to the EPA. New York State will need to be compliant with carbon dioxide reduction starting in 2022, with the state's final goal to be met in 2030. The Authority continues to monitor developments in this area.

During 2011, the Environmental Protection Agency (EPA) issued a series of rulings to establish the Cross-State Air Pollution Rule ("CSAPR"). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. Certain trading of allowances is authorized under the CSAPR. Following decisions by the U.S. Court of Appeals (D.C. Circuit) and the U.S. Supreme Court, the EPA issued an interim final rule on November 21, 2014 to amend the compliance deadline from 2012 and 2013 to 2015 and 2016 for CSAPR's Phase 1 emissions budgets, and from 2014 to 2017 for Phase 2 emissions budgets and assurance provisions. On July 28, 2015, the D.C. Circuit remanded part of CSAPR to the EPA for reconsideration, finding that the EPA erred in 2014 sulfur dioxide and ozone budgets for 13 states by imposing uniform emission reductions instead of assessing each upwind state's contribution (the D.C. Circuit found the result is over-control of emissions in those states based on emissions budgets). While the emissions budgets were not vacated, the DC Circuit remanded the matter for EPA to develop compliant regulations. The Authority continues to operate its fossil-fueled plants within the allocated allowances and anticipates that operation of its fossil fueled power plants will not be impacted by CSAPR.

**Wind and Solar Initiatives**

The Long-Island-New York City Offshore Wind Collaborative (Collaborative), which consists of the Authority, Consolidated Edison of New York, and the Long Island Power Authority (LIPA), is evaluating the potential development of between 350 MW and 700 MW of offshore wind. The Collaborative is currently planning the next steps in project evaluation. On September 15, 2011, the Authority, on behalf of the Collaborative, submitted an application to the federal Bureau of Ocean Energy Management (BOEM) for a commercial lease on the Outer Continental Shelf approximately 13 nautical miles off the south shore of Long Island. Pursuant to federal regulations, BOEM issued a request in January 2013 to determine whether there is competitive interest in wind power development in federal waters off the coast of the Rockaway Peninsula and Long Island. Two potential competitors indicated interest in obtaining a commercial lease for possible offshore wind projects situated in the Collaborative's proposed lease site. At this time, BOEM is currently considering whether competitive interest for the lease site exists. If BOEM determines that competitive interest exists, it may result in an auction to determine an award of the commercial lease site.

In March 2012, the Authority's Trustees authorized up to \$30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects. As of June 30, 2015, the Authority has approved the award of contracts with cumulative value of up to approximately \$19 million.

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**Other Developments**

**New York Energy Highway**

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about \$5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2014 legislative session, which ended in June 2014, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. On January 16, 2015, the Authority filed at FERC in opposition of the cost allocation methodology proposed by the Four-Party Transco. The Authority is co-developing one of the TOTS projects with NYSEG and has filed at FERC to recover the costs of its portion of that project.

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**Build Smart NY Initiative**

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide \$450 million in low-cost financing for this initiative for state owned buildings and an additional \$350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority’s commercial paper or another form of debt. The Authority’s costs of financing would be recovered from the energy efficiency customers in this program. In addition, as provided for in EO 88, the Authority has established a central management and implementation team to carry out the Build Smart NY plan. As of June 30, 2015, the Authority has in aggregate provided approximately \$169 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

**Energy Efficiency Market Acceleration Program**

In June 2012, the Authority’s Trustees authorized up to \$30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of June 30, 2015, the Authority has approved the award of contracts with a cumulative value of up to approximately \$26 million.



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# ***Audit Committee Meeting Internal Audit Update***

*09/29/2015*



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## Executive Summary

- 2015 Status: 14 of 31 audits have been issued as of 9/29/15. 3 reports have been issued since 7/30/15.

2015 Internal Audit Report	Report Rating	
First Energy Cost Validation (CON15001)	Improvement Needed	
O&M Cross Functionality (OPR15230)	Improvement Needed	
Physical Security (OPR15900)	Satisfactory	

- The following changes have been made to the 2015 IA plan:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Operations	NERC CIP 5 Collaboration	Postponed: Timing	Name changed to NERC CIP V5 Policy and Procedures Assessment. New audit to assess the overall CIP V5 organizational structure. Deferred to FY 2016 due to readiness of the organization.	2016	-1
Operations	Cyber Security - Maturity Assessment (C2M2)*	Postponed: Timing	Cyber Security - Maturity Assessment (C2M2) with OT. Previous assessment only focused on IT. Deferred to FY 2016 due to organizational changes in Operations.	2016	-1
Enterprise Shared Services	CIP VERSION 5 Transition and Implementation Plan*	Name, Timing	Name previously changed to BES (Bulk Electric System) Cyber System Categorization, changed to NERC CIP Initiatives to reflect changes in scope to ad-hoc management support.	Q3	0

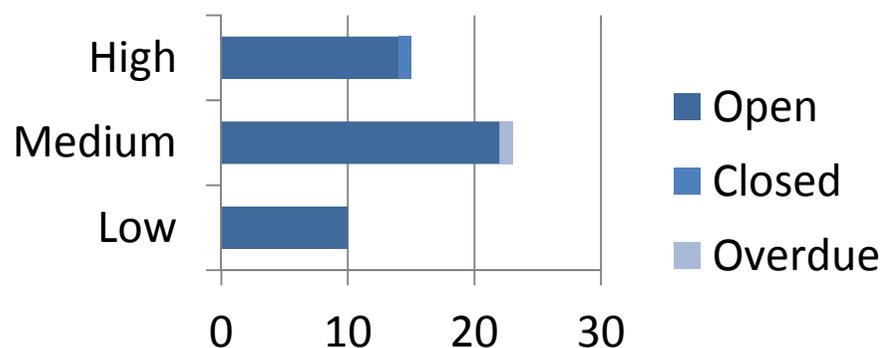
- Note: the remaining hours for the audits moved to 2016 have either been allocated to consulting projects or will result in an E&Y fee reduction.

## Status of 2015 Audit Recommendations

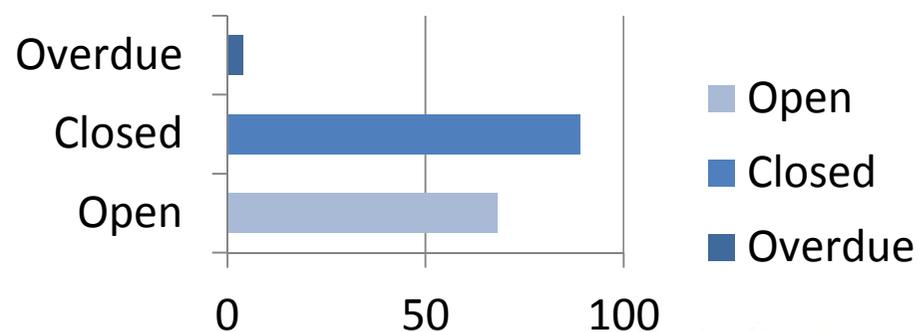
- Below is the status of the 2015 recommendations per rating of the individual findings.
- A Project Team has been created to re-evaluate and formally update issues and recommendations prior to 2015.
- 26% of 2014 & Prior open recommendations have been completed since 7/30/15.

2015 Remediation	Total	High	Medium	Low
At 7/30/15	37	13	16	8
Added in Period	10	2	6	2
Closed in Period	1	1	0	0
Open @ End of Period	46	14	22	10

### 2015 Open Recommendations



### 2014 & Prior Open Recommendations



\*As ratings have been established for 2015 reports onwards, recommendations prior to 2015 do not include monitoring of the recommendations per ratings.

# Transformation Status

People	
Activity	Status
Staffing	●
Hired: 11	
Open: 5	
Departures: 5	
Creation of on-boarding program	●
Training and development program creation	●
NERC CIP V5 Training	
Work-paper Documentation Training	
Develop guest auditor program	●
Launch customer feedback evaluations	●
Develop learning plans / training programs supporting competency & career mapping	●
Update job descriptions and core competencies	●
Office Site Team Building Meeting	●

Process	
Activity	Status
Execute 2015 Plan	●
2016 Audit Plan Development	●
Design Risk Assessment Process	
Execute 2016 RA	
Develop 2016 Audit Plan	
Revise IA Charter	●
Develop department templates	●
Analytics	●
Design analytics program	
Pilot analytics program	
Launch analytics program	
Recommendation Status	●
Formalize Follow-up Process	
Review/Validate 2014 & earlier Recommendations	
Develop Quality Assurance Process	●

Other	
Activity	Status
Re-Branding	●
Lunch and Learns	
Fordham - Beta Alpha Site Presentation	
Networking	●
NYISO Market Participant Advisory Council	
NYSSCA Local Events	
Quarterly Meeting with local CAE of Peers	
2016 IT & SME Co-Source Partner RFP	●

Technology	
Activity	Status
Toolset	●
Document requirements analysis	
Consult with Risk Alignment and Controls Committee	
Build FY16 budget for technology and tool enhancement	
Select toolset and procure/design customization	●
Conduct training and education on use of tool and pilot initial audits	●

## Legend

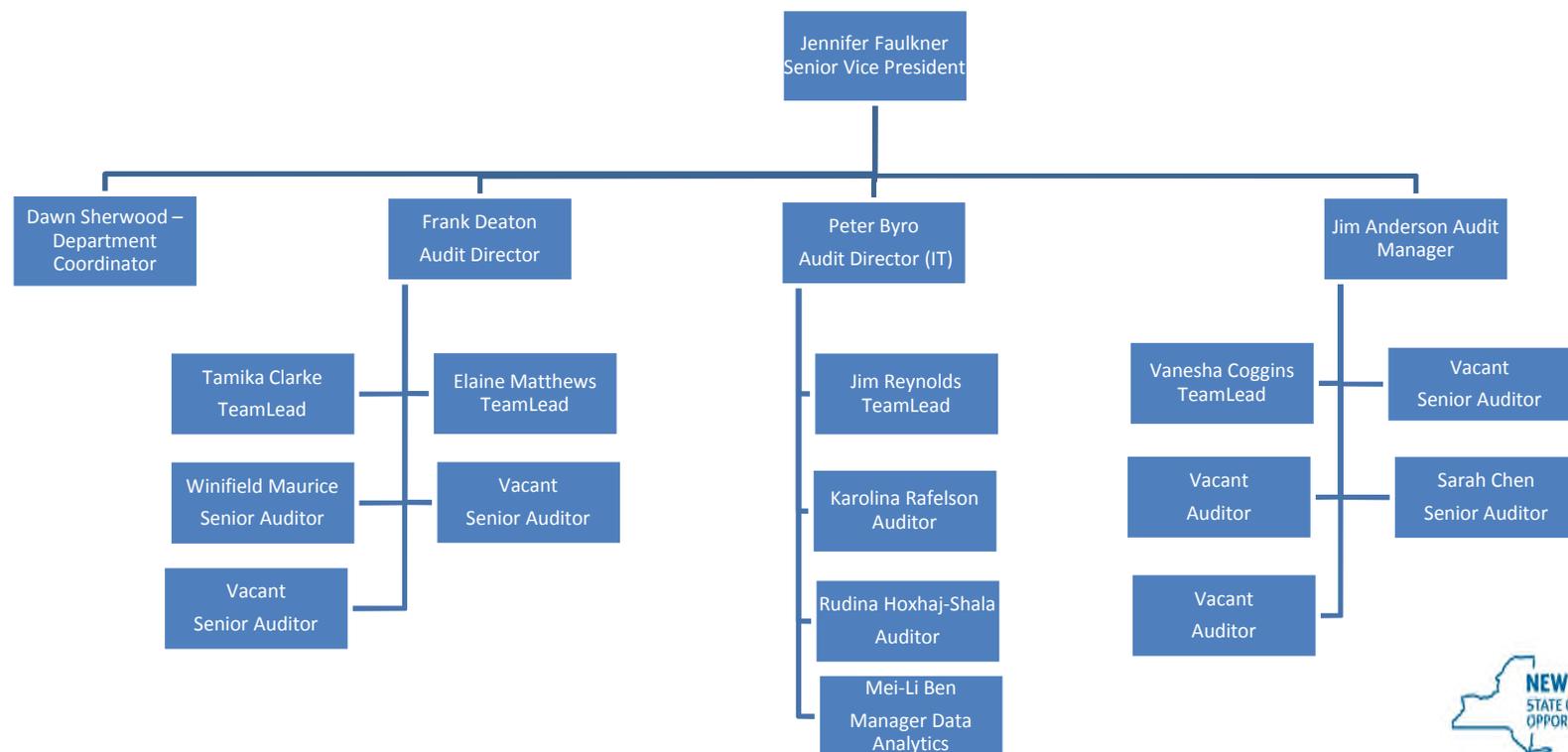
● Completed   
 ● On track   
 ● Not started   
 ● At risk   
 ● Will not complete

# Recruiting Update

## ➤ Recruiting Status Update

	IT Director	Mgr Data Analytics	Sr. Auditors	Auditors
Positions Open	1	1	2	2
Verbally Accepted	1	1	0	1

## ➤ New Organization Chart



## Appendix A – 2015 IA Plan

Ref	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Report Issued: 14</b>					
1	IS015380	IT Project Management Office (PMO)	Enterprise Shared Services	Audit	5-13-15
2	FIN15440	Strategic Plan Governance and Execution	Business Services	Consultative	5-21-15
3	FIN15400	Compensation & Benefits	Enterprise Shared Services	Audit	6-04-15
4	IS015320	Cyber Security - Network Discovery	Enterprise Shared Services	Audit	6-09-15
5	OPR15140	Fleet Operations	Enterprise Shared Services	Audit	6-10-15
6	FIN15450	Cost Accounting Study	Business Services	Consultative	6-12-15
7	IS015390	Records Management	Enterprise Shared Services	Audit	6-26-15
8	OPR15220	Construction Projects	Business Services	Audit	7-10-15
9	OPR15260	Fraud Awareness Risk Assessment	Law Department	Consultative	7-14-15
10	IS015310	Cyber Security - Maturity Assessment with IT	Enterprise Shared Services	Audit	7-15-15
11	FIN15900	Niagara Finance & Accounting	Business Services	Audit	7-15-15
12	CON15001	First Energy Cost Validation	Law Department	Audit	7-30-15
13	OPR15230	O&M Cross Functionality	Operations	Audit	9-16-15
14	OPR15900	Physical Security	Operations	Audit	9-29-15
<b>Fieldwork Complete – Report Pending Issuance: 5</b>					
15	IS015340	Access Control Repository	Enterprise Shared Services	Audit	
16	FIN15420	Budgeting and Forecasting	Business Services	Audit	
17	FIN15460	Disposal of Personal Property	Economic Development & Efficiency	Audit	
18	OPR15009	Licensing Operations	Public & Regulatory Affairs	Audit	
19	FIN15115	Travel & Entertainment	Enterprise Shared Services	Audit	

## Appendix A – 2015 IA Plan

### Fieldwork In Progress: 7

20	OPR15210	Contractor Tenure	Business Services	Audit	
21	FIN15430	Energy Efficiency Controls	Economic Developm't & Efficiency	Consultative	
22	FIN15251	Purchasing/Warehousing - BG	Business Services	Audit	
23	IS015116	Asset Accounting/Maximo Post Implementation	Enterprise Shared Services	Audit	
24	IS015350	Data Loss Prevention	Enterprise Shared Services	Audit	
25	OPR15250	FERC Dam Safety	Operations	Audit	
26	OPR15003	NERC CIP Initiatives	Operations	Audit	

### Audit Planning In Progress: 2

27	IS015720	Incident Response Plan Phase 2	Enterprise Shared Services	Audit	
28	FIN15260	Energy Settlements, Scheduling and Load Forecasting	Economic Developm't & Efficiency	Audit	

### Planning not started: 3

29	FIN15410	Meter to Cash	Business Services	Audit	
30	IS015410	Enterprise Architecture Review	Enterprise Shared Services	Consultative	
31	OPR15130	HR Succession Planning	Operations	Consultative	



*cutting through complexity*

# New York Power Authority Audit Plan December 31, 2015

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September 29, 2015

# Agenda

## Presentation

- 1.0 Client service team
- 2.0 Objective of an audit
- 3.0 Risk assessment
- 4.0 Audit plan
- 5.0 KPMG's Audit Committee Institute and Global Energy Institute

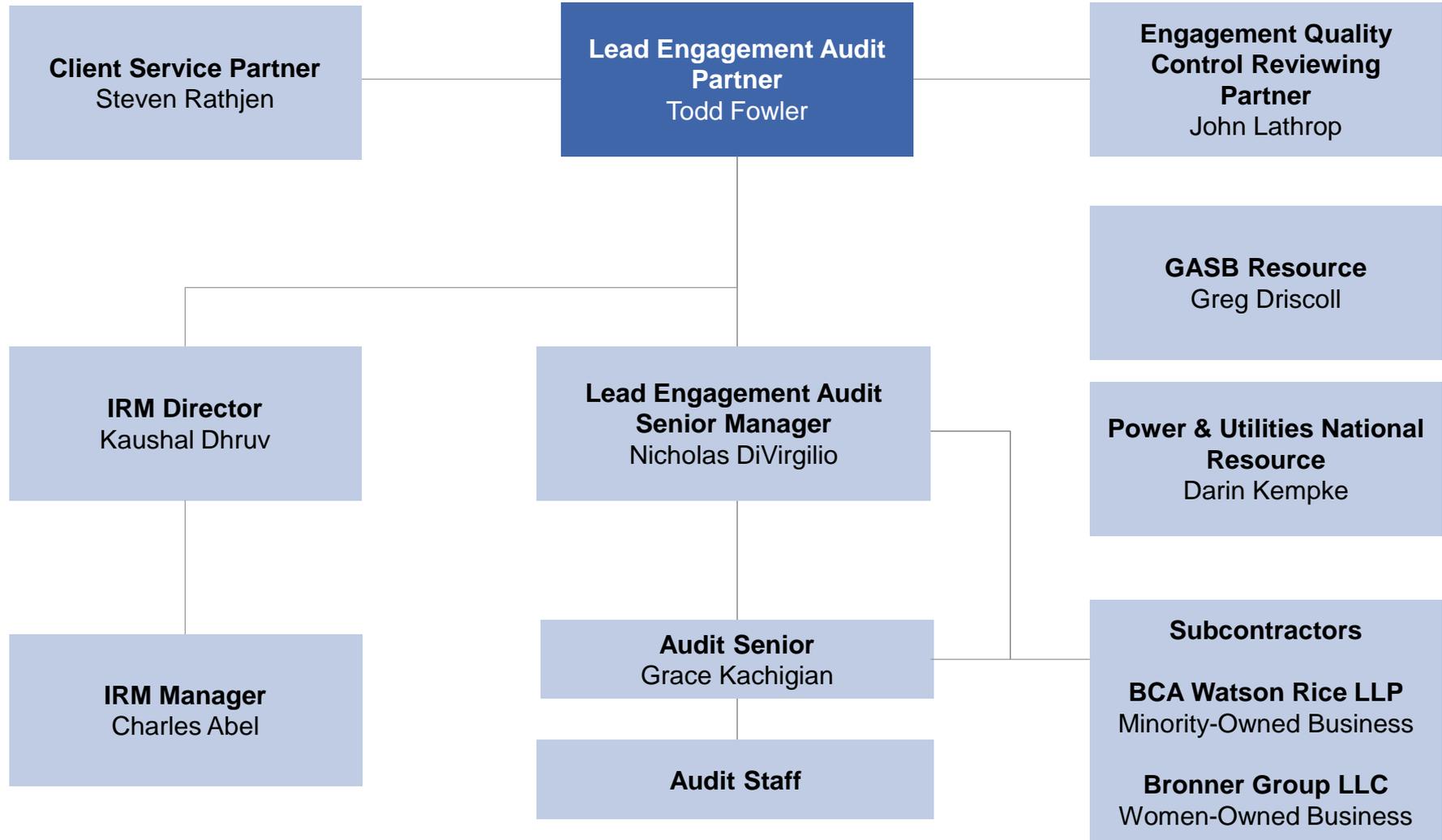
## Appendices

- A.1 Responsibilities
- A.2 KPMG's audit approach and methodology
- A.3 Materiality
- A.4 Auditing and accounting matters
- A.5 Audit Fees
- A.6 Independence

# **1.0**

## **Client service team**

# Client service team



## **2.0**

# **Objective of an audit**

# Objective of an audit

- The objective of an audit of the financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP), including Government Accounting Standards, as issued by the Government Accounting Standards Board (GASB).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error.
- We perform our audit in accordance with:
  - Auditing standards generally accepted in the United States of America as issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (U.S. GAAS).
  - Government Auditing Standards issued by the Comptroller of the United States.
- Our audit includes:
  - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement, to provide a reasonable basis for our opinion.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall presentation of the financial statements.
- Reports to be issued:
  - Opinion on the financial statements of the Authority as of and for the two-year period ended December 31, 2015
  - Report on Internal Controls and Other Matters as of December 31, 2015
  - Report on Investment Compliance as of December 31, 2015
  - Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

# **3.0**

## **Risk assessment**

# Risk Assessment

As part of the planning process of our audit, KPMG met with management to discuss the business risks, industry risks, and financial statement risks most significant to the Authority. As part of our planning, we held discussions with:

- Robert Lurie
- Soubhagya Parija
- Jennifer Faulkner
- Tom Concadoro

Based on these discussions and our understanding of the entity's business, industry, and environment, we have identified the significant risks discussed on the proceeding slides that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such risks.

## Risk assessment (continued)

Significant risk	Financial statement impact	Planned audit approach
Revenue recognition	Appropriate recognition of revenue as power is delivered.	<ul style="list-style-type: none"> <li>• Test key internal controls over the revenue process</li> <li>• Confirmation of receivables and detail testing of SENY/Wholesale revenue</li> <li>• Agree SENY/Wholesale billed rates to the approved tariffs</li> <li>• Confirmation and detail testing of Revenue/Receivables with NYISO</li> </ul>
Derivative valuation and hedge effectiveness	Appropriate valuation and disclosure of derivative contract, including appropriate conclusions regarding hedge effectiveness	<ul style="list-style-type: none"> <li>• Test management's determination of the fair value of derivatives utilizing firm valuation specialists</li> <li>• Confirm open derivative contracts and key terms with counterparties</li> <li>• Test management's determination of hedge effectiveness utilizing firm specialists</li> </ul>
Regulatory accounting	Appropriate assessment of the recoverability of amounts deferred	<ul style="list-style-type: none"> <li>• Detail test additions to deferred charges/regulatory assets throughout the year</li> <li>• Assess the recoverability of the charges to ensure they are appropriately deferred</li> </ul>

## Risk assessment (continued)

Significant risk	Financial statement impact	Planned audit approach
Long term debt	Appropriate classification of debt (long-term vs. current) on the statement of net position.	<ul style="list-style-type: none"> <li>• Confirm outstanding debt balances, including commercial paper, directly with third parties</li> <li>• Recalculate interest expense throughout the year</li> <li>• Review debt covenants to ensure the Authority is in compliance as of December 31, 2015</li> </ul>
Capital assets	Appropriate classification of capital assets or expense on the statement of net position and statement of revenue, expenses and changes in net position.	<ul style="list-style-type: none"> <li>• Detail test additions and disposals from capital assets. Ensure amounts added are appropriately capitalized (vs. expensed)</li> <li>• Test depreciation expense for the year</li> <li>• Review the Authority's impairment policy and determine if any triggering events occur throughout the year</li> </ul>
Investments (including Nuclear Decommissioning Trust)	Appropriate valuation and disclosure of the Authority's investments within the financial statements. Ensure that the Authority has appropriately concluded on their investment compliance for the year.	<ul style="list-style-type: none"> <li>• Test the fair market value of a selection of investments. Utilize the KPMG National Pricing Desk to assist with the valuations.</li> <li>• Review a sample of investments for compliance with Board approved policies</li> <li>• Confirm the investment balance with the bank as of year-end</li> <li>• Review the financial statement for completeness and accuracy of trust assets and obligation</li> </ul>
Pension and other post-employment benefits	Appropriate determination and disclosure of other postemployment benefits within the financial statements	<ul style="list-style-type: none"> <li>• Review the Authority's adoption of GASB 68. Utilize KPMG specialists to review the disclosures within the financial statements</li> <li>• Select and test a sample of the census data utilized by the actuary</li> </ul>

# Risk assessment (continued)

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> <li>■ Revenue recognition</li> <li>■ Derivatives and hedging</li> <li>■ Regulatory accounting</li> <li>■ Long term debt</li> <li>■ Capital assets</li> <li>■ Investments (including Nuclear Decommissioning Trust)</li> </ul>	<ul style="list-style-type: none"> <li>■ Asset retirement obligations</li> <li>■ Derivative valuations</li> <li>■ Other post-employment benefits</li> <li>■ Accounting for rate regulation</li> <li>■ Investments (including Nuclear Decommissioning Trust)</li> </ul>	<ul style="list-style-type: none"> <li>■ Litigation matters and inquiries with general counsel</li> </ul>	<ul style="list-style-type: none"> <li>■ General information technology environment</li> </ul>

# 4.0 Audit plan

# Audit plan – Deliverables and time line

September – November 2015		December 2015	January – February 2016	March 2016
<ul style="list-style-type: none"> <li>• Present 2015 Audit Plan to the Audit Committee</li> <li>• Identify specific and pervasive financial statement fraud risks and assess the effect on the audit plan</li> <li>• Perform risk assessment procedures and identify risks</li> <li>• Assessment of audit risk and planning of substantive audit procedures</li> <li>• Determine audit strategy and identify critical accounting matters</li> <li>• Plan audit procedures</li> <li>• Finalize planned audit approach</li> </ul>	<ul style="list-style-type: none"> <li>• Perform walkthroughs of internal control processes</li> <li>• Test entity-wide and monitoring controls</li> <li>• Evaluate design of selected key controls</li> <li>• Test IT general controls</li> <li>• Test operating effectiveness of selected key controls</li> <li>• Perform interim substantive procedures</li> <li>• Evaluation of interim results and establish plan for performance of substantive audit procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Perform/send year-end confirmations (e.g. legal, debt, cash, investments, accounts receivable, revenue and derivatives)</li> <li>• Inventory observation attendance</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings with management to discuss key issues</li> <li>• Test operating effectiveness of selected year-end controls</li> <li>• Perform substantive procedures and tests of detail</li> <li>• Perform procedures related to the Authority's investment compliance with the State of New York guidelines</li> <li>• Consider if audit evidence is sufficient and appropriate</li> <li>• Conclude on critical accounting matters and issues</li> </ul>	<ul style="list-style-type: none"> <li>• Confirm completion procedures</li> <li>• Form audit conclusions</li> <li>• Perform overall evaluation of financial statements and disclosures</li> <li>• Present required communications to Audit Committee</li> <li>• Form audit opinion on financial statements</li> <li>• Report on Internal Control over Financial Reporting and Compliance on Other Matters</li> <li>• Report on Investment Compliance</li> <li>• Finalize all deliverables</li> <li>• Prepare management letter comments, if applicable</li> </ul>

# Audit plan – Involvement of others

## Internal Audit

**KPMG will work with the Authority's Internal Audit function to perform a more efficient audit. Throughout our audit we will regularly meet with Jen Faulkner to discuss:**

- The status of the internal audit reports
- Findings made by internal audit and determine the impact to our audit
- Reports we can leverage as part of our audit
- Findings made by KPMG which could have an impact on internal audit's reports
- Best practices observed by KPMG

## External Experts and Service Organizations

External Expert / Service Organization	Financial Statement Account	Description of Work
Swap Financial Group	Risk management activities - derivatives	Determine the fair value and hedge effectiveness of interest rate swaps
PA Consulting Group	Risk management activities – derivatives	Determine the fair value of commodity swaps
Buck Consulting	Other postemployment benefit obligation/asset	Actuarial report for the Authority's GASB 45 Other Postemployment Benefits
J.P. Morgan	Investment in securities	Custodian for the Authority's investment portfolio
Ceridian	Payroll expense	Payroll services for the Authority
New York ISO	Revenue and accounts receivable	Billing and settlement services related to the purchase and sale of power in New York

**5.0**

**KPMG's Audit Committee  
Institute and Global Energy  
Institute**

# KPMG's Audit Committee Institute (ACI)

*In depth insights. In time to matter.*

## ACI Programs

- Audit Committee Roundtable Series
  - approximately 25 cities each Spring/Fall
- Quarterly Audit Committee Webcast
  - September 24, 2015
- 12<sup>th</sup> Annual Audit Committee Issues Conference
  - February 1-2, 2016, San Francisco, CA

## Webcasts on Demand

- Revenue from Contracts with Customers – Amendments and Implementation Issues
- Harnessing the Power of SOC2 Reporting for Vendor Risk Management
- When one crisis meets another: Focusing on talent for the long term

## Suggested Publications (available for download at [www.kpmg.com/aci](http://www.kpmg.com/aci))

- Directors Quarterly
- Global Boardroom Insights
- On the 2015 Audit Committee and Board Agendas
- 2015 Global Audit Committee Survey

## Resources

- ACI Web site: [www.kpmg.com/aci](http://www.kpmg.com/aci)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)



# KPMG's Global Energy Institute

## Events

- Power and Utilities Chief Accounting and Controller Share Forum (September 23, 2015)

## Recent publications

- [2015 Energy Business Outlook – Power & Utilities Key Findings](#)
- [Addressing the challenges in the current energy price environment](#)

## Webcasts on Demand

- [The Agile CFO's Blueprint for Growth Amidst Constant Change](#)
- Asset Management Analytics

## Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)

# Appendices

# **A.1**

## **Responsibilities**

# Responsibilities

## Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with GAAP
- Establishing and maintaining effective internal control over financial reporting (ICFR), including programs and controls to prevent, deter, and detect fraud
- Identifying and ensuring that the Authority complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud
  - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

# Responsibilities (continued)

## **The Audit Committee is responsible for:**

- Oversight of the financial reporting process
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent, deter, and detect fraud

## **Management and the Audit Committee are responsible for:**

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

**The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.**

# Responsibilities (continued)

## **KPMG is responsible for:**

- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of the Audit Committee, are presented fairly, in all material respects, in conformity with GAAP
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

# Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing the audited financial statements, excluding required supplementary information.
- We are required to:
  - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
  - Make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date.
- Any material inconsistencies or misstatements of fact that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.

**A.2**

**KPMG's audit approach  
and methodology**

# KPMG's audit approach and methodology

## Technology enabled audit work flow

### Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

### Completion

- Update risk assessment
- Perform overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Audit Committee communications
- Debrief audit process



### Risk Assessment

- Understand your business and financial processes
- Identify significant risks
- Plan involvement of specialists and others including experts, internal auditors, service organizations, and other auditors
- Determine audit approach
- Evaluate design and implementation of your internal controls

### Testing

- Test effectiveness of internal controls, as applicable
- Perform substantive tests

# **A.3**

## **Materiality**

# Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

**A.4**

**Auditing and accounting  
matters**

# Auditing and accounting matters

## Other matters for discussion with the Audit Committee include their views about:

- The appropriate person (Audit Committee Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the Audit Committee
- Entity's objectives and strategies and related business risks
- Areas that warrant particular attention during the audit and additional procedures to be undertaken
- The nature and extent of communications expected with the Audit Committee about misappropriations perpetrated by lower-level employees
- Significant communications with the regulators
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and its importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- The actions in response to developments in law, accounting standards, corporate governance, and other related matters
- The actions in responses to previous communications with the auditor

# **A.5**

## **Audit fees**

# Audit fees

	2015	2014
Audit fees		
Financial statements and related notes to the financial statements		
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Accounting Standards</i>	\$288,000	\$279,000
Investment Compliance Report		

\* 2015 fees will be based on the actual number of hours incurred at the applicable hourly rates set out in our agreement. The represents the amount not to exceed for the 2015 audit.

# **A.6**

## **Independence**

# KPMG Independence Quality Controls

## **KPMG maintains a comprehensive system of quality controls designed to maintain our independence**

- Pre-approval of all worldwide engagements by the audit engagement team through Sentinel, a KPMG independence verification system
- Monitoring employment relationships
- Tracking partner rotation requirements using PRS, the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs
- Compliance testing programs
- Annual reporting to the Audit Committee

**In our professional judgment, we are independent with respect to the Power Authority of the State of New York, as that term is defined by the professional standards.**

# Independence – New requirements

## Change to KPMG policies resulting from changes in the IESBA Code – Effective April 1, 2014

- This change does not change any independence requirements, only the requirements for communicating independence breaches, should one occur
- For any breaches of the IESBA independence requirements, KPMG will:
  - Assess the impact of the breach
  - Identify the actions performed or to be performed to address the consequences of the breach
  - Communicate in writing and discuss the breach and actions to address the breach with the Audit Committee
    - Significant breaches are communicated to the Audit Committee “as soon as possible” – all other breaches of the Code shall be communicated on a timely basis
  - Obtain concurrence from the Audit Committee on our conclusion regarding the breach (i.e., that the actions taken satisfactorily address the consequences of the breach)
  - Document the details of the breach, the actions described above and the result
- Breaches of AICPA rules and any violations involving a member of the audit engagement team will be reported consistent with the requirements described above
- Less significant breaches of AICPA rules shall be reported on the basis agreed with the Audit Committee



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