New York Power Authority
Generating more than electricity

THE CHALLENGE OF CHANGE

Annual Report 2008

CREATING OPPORTUNITY from NEW YORK's energy challenges

The New York Power Authority is playing a key role in my Administration's efforts to achieve one of the most ambitious clean energy goals in the country.

My "45 by 15" plan calls for New York to meet 45 percent of its electricity needs through improved energy efficiency and clean, renewable energy by the year 2015.

We are on the way to meeting those goals, thanks in part to the Power Authority's extensive work in energy efficiency and renewable energy, including its huge hydroelectric projects in northern and western New York, and other clean energy technologies throughout New York.

However, there is much more work to do in improving energy reliability and efficiency, fostering economic development, and improving the environment.

This is a time for action – to control the cost of energy and how much we use; to develop our own sources of clean and renewable power, such as solar energy, wind power, fuel cells and more; and to improve the statewide systems for electric transmission and distribution.

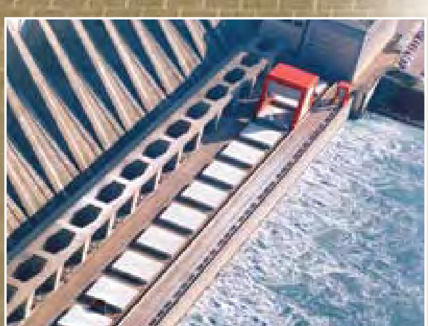
The Power Authority has placed the evaluation of rebuilding and possibly expanding its transmission system among its most critical strategic priorities, and modernizing the electric grid through "smart grid" technologies will improve system efficiency.

The future of transportation in America lies in electric-drive vehicles based on advanced battery technology, in order to help reduce air pollution and dependence on foreign oil. NYPA has been working with electric and hybrid-electric vehicles for years, placing more than 1,000 in service; these vehicles have traveled more than 10 million miles. As part of a nationwide initiative, NYPA will be testing the latest plug-in hybrid-electric vehicle technology in 2009.

There is a great potential to make New York the epicenter for clean energy jobs, such as the manufacture of silicon for solar energy panels or the production of ethanol, both of which are already under development in Niagara Falls. The Power Authority has agreed to provide low-cost hydropower for both from its Niagara Power Project – clean energy powering clean energy jobs.

We in New York understand that reviving our economy and protecting our planet go hand in hand. My "45 by 15" plan will help reduce global warming and to create an estimated 50,000 jobs. This is one way New York will provide jobs for our displaced and unemployed workers, and create the work force necessary for a clean energy economy.

We need to begin a clean energy revolution, with a vision to create a New York where we can use clean energy, create new jobs, breathe clean air, and leave our planet as unspoiled as when we inherited it.

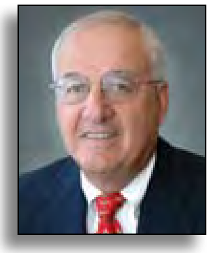


David A. Paterson

David A. Paterson
Governor

Michael J. Townsend
Chairman

Jonathan F. Foster
Vice Chairman



D. Patrick Curley
Trustee

Elise M. Cusack
Trustee

Eugene L. Nicandri
Trustee

TRUSTEES & OFFICERS
of the NEW YORK POWER AUTHORITY

Richard M. Kessel

Senior Management

Richard M. Kessel
President and Chief Executive Officer

Gil C. Quiniones
Chief Operating Officer

Terryl Brown Clemons
Executive Vice President and General Counsel

Joseph M. Del Sindaco
Executive Vice President and Chief Financial Officer

Joan Tursi
Acting Executive Vice President, Corporate Services and Administration;
Senior Vice President of Enterprise Shared Services

Edward A. Welz PE
Executive Vice President and Chief Engineer, Power Supply

Steven J. DeCarlo
Senior Vice President, Transmission

Angelo S. Esposito
Senior Vice President, Energy Services and Technology

Paul F. Finnegan
Senior Vice President, Public and Governmental Affairs

William J. Nadeau
Senior Vice President, Energy Resource Management and Strategic Planning

Donald A. Russak
Senior Vice President, Corporate Planning and Finance

James H. Yates
Senior Vice President, Marketing and Economic Development

Arnold M. Bellis
Vice President – Controller

Thomas A. Davis
Vice President, Energy Risk Assessment and Control

Brian C. McElroy
Treasurer

the CHALLENGE
to grow and build a bright future

The country elected a new President. New York State inaugurated a new Governor. The stock market and economy turned sharply downward. Even the nation's energy sector registered major changes.

Seemingly overnight, the realization has taken hold that we are using up the Earth's energy resources at an alarming rate, that global warming is real, and that we can find solutions if we put our minds to it.

Society is becoming energy and environmentally conscious, and equating the two.

Suddenly, investing in "green" technologies to protect the environment is smart business. Entire industries are forming around the search for new sources of energy, and achieving the critical mass necessary for profitability.

The New York Power Authority for years has been a leader in promoting energy efficiency and renewable power as two of New York State's energy solutions, and we are redoubling our efforts.

The Power Authority is proud to support Gov. David Paterson's clean energy goals for the state, one of the most aggressive programs in the country. By 2015, New York would meet 45 percent of its electricity needs through improved energy efficiency and clean renewable energy. Renewable energy sources would increase to 30 percent.

The effort will help rebuild our economy, create an estimated 50,000 jobs, meet our energy needs, fight global warming and protect our environment. It could help New Yorkers retrofit their homes and businesses to invest in energy savings. Overall, the Power Authority plans to invest $1.3 billion over the next several years to support the State's energy efficiency targets.

2008 was, if anything, a year of change

To date NYPA has invested $1.1 billion in energy efficiency and clean energy projects at public facilities, saving taxpayers $111 million in energy costs each year. Those projects also annually save 2.1 million barrels of oil and avoid 807,000 tons of air pollutants.

Most of the electricity we produce is clean, renewable hydropower. Because it also is lower-cost, much of it is directed toward economic development in the state. Our power and resources are now linked to about 410,000 jobs statewide. We're particularly excited by our new agreements with Alcoa that will protect approximately 1,000 jobs now and for at least 30 years at the company's aluminum-making facilities in Massena. Alcoa officials have told us that without these agreements, their company would not be in Massena.

The Power Authority also has 1,400 circuit-miles of transmission lines, but bottlenecks continue to impede the flow of power around the state. We're working to strengthen and expand our system through upgrades, building new infrastructure, and employing new technologies, so more power can be transported. Along with other transmission owners, we're studying New York transmission needs and how to involve new energy initiatives.

New sources of power must be found to match the state's growing needs, particularly in Southeastern New York. To facilitate NYPA's role in finding solutions in both transmission and generation, we combined our Power Generation and Transmission departments into one.

In 2008 we worked to make the Power Authority, along with the full range of services we provide, better known throughout the state, especially in upstate New York. We reached out for meetings with elected officials and community representatives, and had several press conferences, and "editorial board" meetings at newspapers, all designed to improve communication and air

***Right:** Deep in the Adirondacks, NYPA, National Grid and the villages of Tupper Lake and Lake Placid continued work on building a new 46-kilovolt power line to relieve longstanding electricity reliability problems.*

out all sides of important issues. And, we recently announced a rate freeze for all of our hydropower rates through April of 2010.

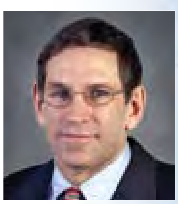
We also began holding our monthly Trustees meetings in various locations around the state, to be more accessible to our constituents. Improving accessibility, and becoming more open and transparent, will be a hallmark of the Power Authority in 2009 and beyond.

During 2008 several important changes in the Power Authority's top management were announced. We received a new chairman, vice chairman, chief executive officer, chief operating officer and general counsel.

We are pleased to report that financially in 2008 the Power Authority had its strongest year ever. Net income was up to a record $299 million and outstanding debt was down to its lowest levels since 1975 at $2.1 billion. NYPA's fiscal strength allowed it to provide substantial financial support to New York State at its time of great budgetary need.

During a two-year period, NYPA will provide $544 million in financial support to the State, including $318 million in temporary transfers of reserve funds that are to be returned to NYPA, and $226 million in direct contributions to the State's General Fund.

We're proud of the work that we perform for New York State, and we want to spread the word as we carry out our mission to supply economical electricity and support Governor Paterson's energy initiatives. We are committed to help.



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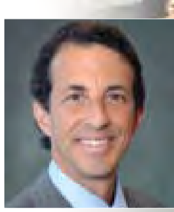
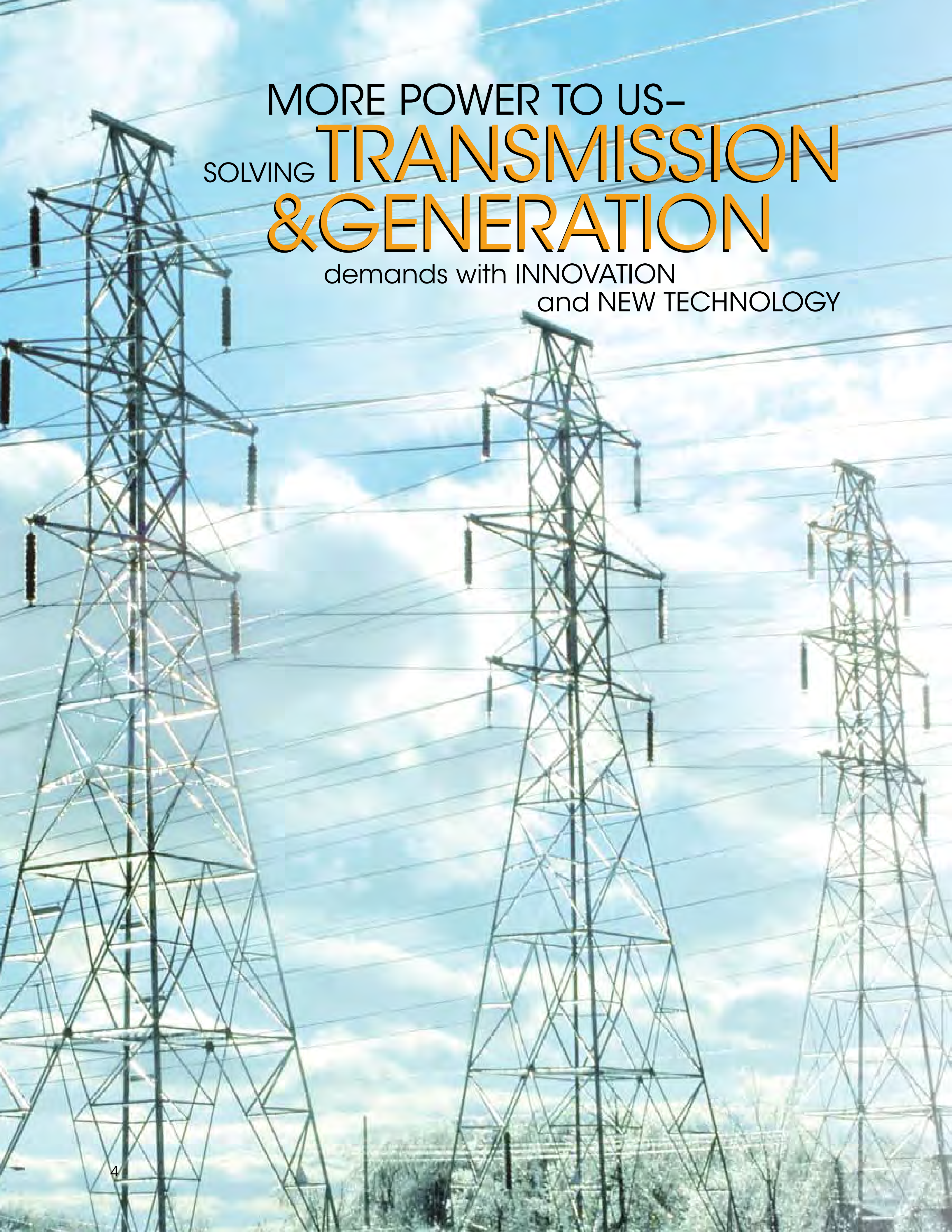


Jonathan F. Foster
Vice Chairman

MORE POWER TO US–
SOLVING TRANSMISSION &GENERATION demands with INNOVATION and NEW TECHNOLOGY



Growing demand for electricity carries both advantages and disadvantages.

It signifies a generally thriving economy, where use of electricity in turn creates higher efficiencies and leaps in productivity, in the workplace and at home. Powerful computers and electric vehicles are just two examples.

But from a utility's viewpoint, higher demand leads to an urgent need for stronger, more extensive, more reliable transmission systems, as well as new sources of power through both generation and more-creative technologies.

As an important player in the transmission and generation of electricity, the Power Authority is redoubling its efforts in both.

In 2008, incoming President and CEO Richard Kessel cited "improving the state's electricity infrastructure," particularly the Power Authority's transmission system, as a top priority for NYPA. Gil Quiniones, chief operating officer, said "rebuilding and possibly expanding our transmission system are among the Authority's most critical activities."

"Improving our transmission system will be a combination of building new and enhancing what's already there," said Ed Welz, executive vice president and chief engineer in NYPA's new Power Supply Business Group.

"We want to reuse the existing rights of way and increase the amount of power carried through those areas" with new technologies and appropriate upgrades, Welz said. Improving the half-century-old Moses-Adirondack line, running south from the St. Lawrence-FDR Power Project, is one example.

"The grid is designed around 100-year-old technology, including NYPA's most recently constructed overhead line built about 20 years ago," said Steve DeCarlo, senior vice president transmission in the Power Supply Business Group.

To underscore the need for improvements, the Power Authority in 2008 merged the Transmission Business Unit and the Power Generation Business Unit, as well as project development and licensing and compliance activities, into one new Power Supply Business Group, headed by Welz.

Increasing the power supply through new generation and other sources, especially renewable energy, also will play a major role in long-term power planning.

In 2008, NYPA authorized the selection of Astoria Energy LLC to provide 500 megawatts (mw) from a new clean natural gas-fueled generating plant in Queens, to help make up for the scheduled retirement in January 2010 of NYPA's Charles Poletti Power Project, also in Queens.

NYPA previously chose a joint proposal by Hudson Transmission and FPL Energy to construct a 345-kilovolt transmission line under the Hudson River to deliver up to 500 mw from an

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NYPA power: smoothing the ECONOMIC Bumps

Financial upheavals across the nation in 2008 served to further highlight a main element of the **Power Authority's** mission in New York State–economic development.

In short, **Power Authority** electricity protects jobs.

That's due largely to inexpensive hydropower produced at the **Niagara Power Project** in Lewiston and the **St. Lawrence-FDR Power Project** in Massena.

In 2008, more than 410,000 jobs at nearly 800 companies in New York State were linked to **NYPA's** low-cost power allocations, under state-mandated programs.

During the year, **NYPA** partnered with nine new businesses to help them remain competitive and keep their operations in New York State. In exchange, the companies agreed to create nearly 1,000 new jobs.

The nine companies were **Shipman Printing Industries** in Wheatfield; **Allied Frozen Food Storage** in West Seneca;

story continues on page 7

Rebuilding the transmission system is one of NYPA's most critical priorities. At right, Allied Frozen Food Storage in West Seneca is one of nine businesses that received new allocations of NYPA's low-cost power in 2008.

TRANSMISSION GENERATION & INNOVATION continued

existing power plant in Central New Jersey.

Increasing amounts of wind power are coming on-line in New York State, some over NYPA transmission lines; preliminary talks with Hydro-Quebec about buying large amounts of abundant hydropower from Canada; discussions about offshore wind projects or additional underwater transmission lines; and possible energy partnerships with other utilities, municipalities or large customers.

Meanwhile, transmission is considered the key. Strengthening and expanding NYPA's more than 1,400 circuit-miles of transmission lines will enable more power to be transported, improve reliability, help to meet New York's increasing power needs and feed the energy-hungry New York City region.

One objective is to collaborate with other transmission owners in the state to reinforce and expand the system. The Power Authority is working in partnership with other owners, studying New York's transmission needs and how to incorporate new energy initiatives.

The present system represents "veins and arteries with limited connections," Kessel said. The goal is to move power more efficiently throughout the state using new smart grid technologies.

"The Power Authority believes in greening the environment," said DeCarlo. Inexpensive, renewable hydropower from Upper New York and Canada could be used, along with wind power from Upper and Western New York, but the existing transmission system prevents transportation. Transmission infrastructure is key.

One NYPA project to ease transmission bottlenecking, the Convertible Static Compensator, enabled power to be redirected among transmission lines. It increased power flows, but congestion continues. "We need to build lines to relieve this congestion," DeCarlo said. "We hope that within the next several years we can begin to develop infrastructure."

Improving the transmission grid potentially could cost the industry billions of dollars. One challenge will be how to recover the costs. That's one role the Power Authority could play—NYPA's tax-exempt bonds could fund at least a portion of the work, if no other financial resources are available.

Other major issues regarding upgrading transmission:

1) Retirements and shortages of engineers. Will NYPA and the industry have the expertise?
2) Any siting questions from neighbors. Kessel believes that working with New York's communities is vital.
3) Failure to make the upgrades is not an option. New York State desperately needs improvements.

A turbine-generator returns to service deep within NYPA's St. Lawrence-FDR Power Project following major refurbishing. Upgrades for the project's 16 generating units will extend its life well into the 21st century.

NYPA's PARTNERSHIPS in energy efficiency ease power costs, supply

The challenge to find new sources of power to feed the nation's expanding–some would say insatiable–appetite for energy is requiring imagination, creativity and new ways of thinking.

In New York State, greater attention has turned to energy efficiency as one of those "sources"– cutting the need for new power by using less.

NYPA President Richard Kessel said he was encouraged that the public works plan set out by President Obama emphasized energy efficiency and clean new power sources.

"Not too long ago, it would have been heresy in many circles to suggest that environmental priorities could be so neatly merged with energy and economic requirements. But it's become increasingly clear that these diverse objectives can indeed complement each other," Kessel said.

As one example, on a brisk November morning last fall, NYPA officials gathered with administrators of Western New York's largest suburban school district to announce a broad-based plan to upgrade climate control systems in 13 schools, spread over 40 square miles. The project illustrates the dimensions and economics of the Power Authority's energy efficiency programs, in which more than $1 billion has been invested for public facilities statewide since the early 1990s.

The $8.6 million project in Williamsville will save the school district close to $500,000 a year in energy costs. The work to upgrade lighting, heating, ventilating and air-conditioning equipment includes new boilers and chillers, an energy management system, carbon dioxide sensors and a demonstration solar photovoltaic system.

HOW IT WORKS: Statewide, NYPA, in partnership with other agencies, has directed energy efficiency projects at some 2,900 public facilities, which produce taxpayer savings of more than $111 million each year. The Power Authority usually manages the entire project, recovering its investment from energy savings.

Project benefits go beyond the bottom line. Energy efficiency work thus far is saving more than 2 million barrels of oil annually statewide, and avoiding 800,000 tons of greenhouse gases per year. Williamsville, for example,

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NYPA power: LARGE BUSINESSES and small

Northern Ethanol LLC in Niagara Falls; **PortCoat LLC** in Lackawanna; **Val-Kro** in North Tonawanda; **Ashland Advanced Materials and Globe Specialty Metals,** Niagara Falls; **API Heat Transfer** in Buffalo; and **Certified Fabrications** in Sanborn.

Perhaps the centerpiece of **NYPA's** jobs program in 2008 was an agreement with **Alcoa** to preserve at least 900 well-paying manufacturing jobs in Massena.

More than two years in the making, the **Power Authority's** agreement with the world's leading manufacturer of aluminum was formally accepted by **NYPA** trustees in December 2008. Remarks from community representatives at a public hearing in November described in stark words how critically important the contract is to the entire North Country region. Governor Paterson approved the contract in early 2009.

The 30-year contract will commence in 2013. **Alcoa**–a **NYPA** customer at Massena since the 1950s–agreed to maintain a work force of at least 900 employees over

story continues on page 9

In December, good news resonated at Alcoa's Massena West plant, above, and throughout the North Country.

NYPA
ENERGY EFFICIENCY
continued

will avoid consumption of about 7,000 barrels of oil, and eliminate close to 2,100 tons of greenhouse gases, each year.

Overall, the Power Authority plans to invest $1.3 billion to support Gov. David Paterson's "45 by 15" Plan to cut electricity use in New York State by 15 percent below anticipated levels by 2015, and increase use of renewable energy and energy efficiency.

In 2008 New York City Mayor Michael Bloomberg enlisted NYPA's support to implement a plan to reduce energy consumption by 30 percent by 2017, as promised in his PlaNYC. The Mayor set ambitious goals of cutting greenhouse gases by nearly 1.7 million metric tons, and implementing a 220-megawatt cut in peak electric demand, goals consistent with Governor Paterson's plan. NYPA has a lengthy history of working with electricity customers and non-customers alike, across the state.

MTA NEW YORK CITY TRANSIT: Kingsbridge Bus Depot, replacing lighting with innovative fluorescent fixtures, reducing energy costs by $93,000 annually. Coney Island Yard, lighting upgrades and occupancy sensors, motors and a new compressed-air system for the brake shop will save $107,000 each year.

NYC HOUSING AUTHORITY: Reducing annual energy costs by $7 million yearly by installing "instant" hot water heaters. Work completed in most of 560 buildings in 55 of the authority's 344 developments. Replaced aging, inefficient units, ending the need to store thousands of gallons of hot water for residents' use, or to disrupt service for up to 12 hours to drain tanks for cleaning.

BROOKLYN PUBLIC LIBRARY: Three new 300-ton energy-efficient chillers will save $220,000 a year and eliminate more than 640 tons of carbon dioxide emissions.

NYC POLICE DEPARTMENT: Long-time NYPA-NYPD energy efficiency partnership. In 2008, lighting upgrades at four precincts began saving more than $63,000 each year.

PORT AUTHORITY: NYPA is directing installation of state-of-the-art LED lighting, with its promise of better quality illumination and sharply reduced energy and maintenance costs, at the Port Authority's George Washington Bridge.

Other projects around the state:

SUNY/CUNY: A variety of projects under way or in discussion at college campuses in Brockport, Buffalo, Cobleskill, Farmingdale, Geneseo, New Paltz, New York City, Oneonta and Syracuse will save close to $2.8 million annually.

OFFICE OF GENERAL SERVICES: NYPA has partnered with this agency to bring energy efficiencies to the 98-acre, 10-building Empire State Plaza–the defining profile in Albany's skyline–for many years. Last year NYPA installed new lighting and high-efficiency motors along the Plaza's marble platform and in the "Egg" amphitheater.

Right, one of five NYPA-provided electric trams circles historic Castle Williams, on Governors Island in New York Harbor. Tourists have discovered the 150 green acres. Far right, with a NYPA power allocation, FMC now supports more than 160 high-tech jobs in Tonawanda.

NYPA power & Alcoa: PERFECT together

the contract term. **Alcoa** also plans to invest at least $600 million to modernize its Massena East smelter.

In return, the company will receive 478 megawatts of the **Power Authority's** low-cost hydropower from its nearby St. Lawrence-FDR project.

The new **Alcoa** contract strategically links power rates to the cost of aluminum on the world market, helping to protect Alcoa against falling prices. It also allows **NYPA** and **Alcoa** to share in the benefits of any higher market prices for aluminum.

Another Power Authority economic development success story in 2008, this time in Western New York, was **FMC**, a small chemical manufacturing firm in Tonawanda.

Buoyed by an allocation of NYPA's hydropower in 2006, **FMC** made a strategic decision to stay put and take on the competition in China from New York, instead of moving its operations offshore. With electricity and gas representing 20 percent of its operating costs, NYPA's power allo-

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RENEWING OUR WORLD

with renewable energy

The concept of using renewable energy rather than fossil fuels to produce power is spreading like wildfire across the nation. The idea of cleaning the air while preserving precious resources has captured imaginations not only throughout business and industry, but right down to individual homeowners everywhere.

They want to be the first on their block with a solar energy panel on their roof, or to connect to a wind turbine, or to drive a hybrid-electric car. Average citizens toss around terms like "sustainable" or "green" or "carbon footprint" that were virtually unknown not long ago.

Everyone wants to get on board.

The Power Authority was "on board" more than 50 years ago as a leader in renewable energy with its two massive hydroelectric projects, the Niagara Power Project in Lewiston and the St. Lawrence-FDR Power Project in Massena. Those plants, along with NYPA's smaller hydropower facilities, account for about 12 percent of the electric energy used in the state. They also help meet the State's Renewable Portfolio Standard, which calls for at least 30 percent of the state's electricity to come from clean, renewable sources by 2015.

Since the early 1990s, the Power Authority has promoted further development of renewable energy technologies. Along with customer contributions and state and federal co-funding, NYPA has invested more than $20 million in a diverse mix of projects, successfully partnering with New York City, other state agencies, county and local government, public school districts and other utilities. NYPA stands ready to build on these successes. In 2008 it created a Renewable Energy Plan, largely to support the goals of the State Renewable Energy Task Force.

SOLAR ENERGY: To date, NYPA has implemented 30 solar photovoltaic projects in New York State. Seven Power Authority-installed photovoltaic systems together form New York City's largest source of solar power.

In addition to working with the Metropolitan Transportation Authority to target MTA sites for up to 6 megawatts (mw) of solar capacity, NYPA is developing additional sites with partners including the City University of New York, the State University of New York (SUNY), the State Office of General Services, the State Dormitory Authority and the State Municipal Electric Utilities Association. These could potentially produce 20 to 50 mw of solar capacity by 2015. NYPA expects to continue installing solar systems at customer sites through 2015 and beyond.

FUEL CELLS: NYPA has installed 15 fuel cells in the State. In addition, in 2008 NYPA announced that 12 clean-burning fuel cells would deliver close to 5 mw of power for the planned Freedom Tower and three other new towers to be built at New York City's World Trade Center site. They will constitute one of the largest such installations in the world. Fuel cells convert hydrogen and oxygen into electricity with virtually no emissions.

A total of eight NYPA fuel cells powered by anaerobic digester gas (ADG), a by-product of sewage treatment, have been built at four New York City waste water treatment plants.

WIND: While a number of private developers are aggressively pursuing wind farm opportunities, the Power Authority is performing transmission studies to allow new wind farms to safely and reliably access the transmission system. In 2008, wind-generated energy from some farms began flowing along NYPA transmission lines for the first time. In addition, NYPA has supported more than 72 mw of wind capacity through long-term power purchase agreements, and has made a three-year, $50,000-per-year commitment to help fund the Great Lakes Wind Collaborative, formed to assess the practicality of significant offshore wind investments.

CLEAN TRANSPORTATION: The Power Authority has helped make New York State a pacesetter in electric-drive and clean transportation technologies. NYPA has placed more than 1,000 electric and hybrid-electric vehicles in public and private fleets within the state, including heavy-duty hybrid trucks and buses, electric delivery vans, hybrid- and all-electric passenger vehicles, and off-road electric utility vehicles.

'GREEN' JOBS: NYPA's "green" efforts extend to Western New York, where low-cost NYPA hydropower allocated in 2008 will contribute to the reopening and expansion of Globe Specialty Metals, Inc. in Niagara Falls, and create as many as 500 "green collar" jobs. Globe will contribute production and research for solar energy products, and could help the state become a leader in the solar production industry.

Another key Niagara Power Project allocation will buttress plans for Toronto-based Northern Ethanol LLC to construct a new Niagara Falls ethanol production facility, office, laboratory and warehouse. The new facility, with 100 new jobs, would produce ethanol for use in vehicles.

NYPA power: anchoring NEW YORK Business

cation of 8,750 kilowatts, from the Niagara Power Project in Lewiston, was critical to **FMC's** decision to reinvest in its New York operation.

Today, as a result of a major cost cutting program and its investment in new cell technology, the Tonawanda facility's production capabilities have rebounded. **FMC's** Tonawanda work force has grown to approximately 165 and it has relocated several high-tech/high-salaried departments to the facility from out-of-state.

Like the high-tech jobs at **FMC**, many new jobs in the state are in growing industries. **Globe Specialty Metals**, for instance, will manufacture equipment for the solar industry, and **Northern Ethanol LLC** plans to produce ethanol as a fuel for vehicles.

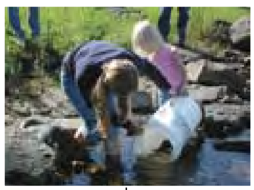
NYPA power purchase agreements will ensure markets for in-state wind power.

Right: *Globe Specialty Metals responds to demand for solar power systems with help from low-cost NYPA power.*

January 29 NYPA trustees approve Agreement in Principle with Alcoa for future power supply, protecting at least 900 jobs in Massena for 30 years.

February 7 Officials from NYPA and other agencies activate a fleet of electric vehicles to be used to haul and load baggage and cargo for Delta Air Lines flights at Albany International Airport.

March 14 Power Authority pledges support to Governor-Designate David Paterson to help achieve his ambitious energy and environmental goals, particularly in energy efficiency and renewable energy.



March 20 First four projects are approved by the St. Lawrence River Research and Education Fund, established by NYPA as part of relicensing of the St. Lawrence-FDR project in 2003.

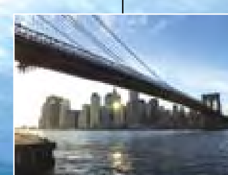
March 26 Proceeds from sale of surplus properties at the St. Lawrence-FDR project will be used to fund public projects in various North Country communities, under a program approved by Power Authority trustees.

March 29 The 50th anniversary of start of construction of the Niagara Power Project is observed with a program at the project's visitors center.

April 9 The $2 million Queens Clean Air Project funded by the Power Authority is completed with introduction of electric vehicles for Astoria Park.

April 10 The visitors center at the Blenheim-Gilboa Power Project is included in the Capital District Business Review's Top 25 Tourism and Attractions List.

April 23 To celebrate Earth Day, NYPA announces initiatives to protect the environment, conserve energy and raise public awareness, including joining The Climate Registry, which measures and publicly reports greenhouse gas emissions, and launching a new environmental web page.



April 29 Astoria Energy LLC is selected to provide an economic, clean and reliable power supply to NYPA's governmental customers in New York City. Astoria Energy will build a new clean natural gas-fueled generating plant in Queens to help make up for the Power Authority's scheduled retirement in January 2010 of the Charles Poletti Power Project, also in Queens.

April 29 NYPA accepts the first place American Public Power Association's Electric Utility Safety Award for safe operating practices. Since 1998, NYPA has placed first seven times and second three times in its category.

NYPA HIGHLIGHTS
— events that shaped 2008

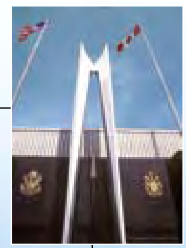
May 20 Empire State Development and NYPA announce an economic development package that will create 500 "green collar" jobs in Niagara Falls. The 40 megawatts of low-cost hydropower from the Niagara Power Project will assist in the reopening and expansion of Globe Specialty Metals in Niagara Falls, a leading manufacturer of silicon used in solar energy panels.

June 15 Governor Paterson announces that Roger Kelley has submitted his resignation as president of the Power Authority.

June 24 Fifty years of harnessing the St. Lawrence River for clean, low-cost and reliable electricity are commemorated by the Power Authority with a daylong series of events at the St. Lawrence-FDR project highlighted by the rededication of the International Friendship Monument.

June 24 The visitors center at the St. Lawrence-FDR project is renamed for NYPA Chairman Frank S. McCullough, Jr., who served on the Authority board for more than a decade.

July 7 NYPA announces it's poised to build on its longstanding partnership with New York City to help implement Mayor Bloomberg's PlaNYC to reduce energy consumption and greenhouse gas emissions at the City's municipal buildings and operations. NYPA's expertise includes energy efficiency, renewables and clean new energy technologies.



June 11 The redeveloped World Trade Center will have one of the largest fuel cell installations in the world under a $10.6 million agreement announced by NYPA for equipment purchases to provide heat and power. The fuel cells, totaling 4.8 megawatts of supplemental power, will help make the Freedom Tower and three other towers a model for environmentally friendly energy and energy efficiency.

June 19 Power Authority announces support for the Wildlife Conservation Society's "Madagascar!" exhibit at the Bronx Zoo, located inside the restored historic Lion House, with the installation of a fuel cell.

June 19 NYPA Sponsors 18th Annual Purchasing Exchange for Minority- and Women-Owned Business Enterprises.

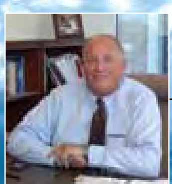
July 4 NYPA announces the start of its third annual summer travel campaign, "More Cruisin' Less Fuelin'... No Foolin'!" It encourages vacationers to save fuel by traveling close to home, using NYPA power project visitors centers and nearby sites as destinations. The program includes other energy-saving tips that also benefit the environment.

August 20 State Senate confirms two new NYPA trustees–Judge Eugene Nicandri of Massena and Jonathan Foster of New York City.

September 12 Power Authority launches $5 million "Weatherization Blitz" to help low-income homeowners with heating costs this winter. NYPA will distribute "do it yourself" energy-saving kits and energy savings tip sheets to customers served by municipal electric systems throughout Upstate New York, part of a larger energy package announced by Governor Paterson.

NYPA HIGHLIGHTS continued

September 27-28 Wildlife Festivals promoting the environment are held at the Power Authority's Niagara, St. Lawrence-FDR and Blenheim-Gilboa power projects. The Clark Energy Center sponsored a Wildlife Festival a week earlier at the Utica Zoo.



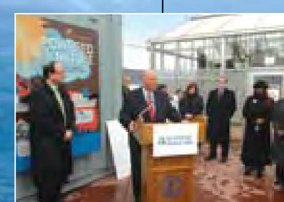
October 14 Richard Kessel takes office as NYPA president and chief executive officer. Kessel served as chief executive officer of the Long Island Power Authority (LIPA) from 1997 to 2006, and as chairman of the LIPA Board of Trustees from 1989 to 1995.

November 19 President Kessel announces innovative plans in the Williamsville Central School District, near Buffalo, for an $8.6 million energy efficiency and clean energy project that will result in major savings in electricity and fuel costs for the district's elementary, middle and high schools.

November 19 Board of Trustees meets in Buffalo, the first of "regional" board meetings.

December 3 President Kessel joins NYSERDA and Schenectady City Schools to launch the first national study of hybrid school bus technologies. These buses are expected to operate more cleanly and efficiently than traditional school buses, reduce greenhouse gas emissions and improve air quality.

December 16 NYPA trustees approve a new power supply contract for Alcoa in Massena. The aluminum company will maintain a minimum of 900 jobs over the 30-year contract, and invest at least $600 million to rebuild its Massena East smelter. Governor Paterson approves the agreement the following month.



December 18 Power Authority presents the first of three annual contributions to the Science Barge, a floating environmental center and urban farm anchored on the Yonkers waterfront, primarily as a teaching tool for students.

STAYING
FINANCIALLY FIT
in a changing economy

A strong financial position, supported by years of conservative fiscal strategies and experience in the marketplace, will enable the Power Authority's finances to remain sound despite the nation's current economic downturn.

One reason stems from a decision made more than a decade ago to implement an aggressive debt-reduction program, enabling the Power Authority to cut its outstanding debt by $1.3 billion, a third of the original amount. This has led to debt service savings of $100 million per year.

Today, NYPA operates with annual cash flows of $3 billion while its treasury staff manages $2.1 billion in outstanding debt and an investment portfolio of approximately $2 billion, much of which is committed to funds reserved for specific purposes.

Reducing outstanding debt has also helped NYPA maintain its Double-A credit rating, keeping interest rates favorable as well, an important consideration for both customers and investors.

In fact, when meeting with rating agencies, the Authority conducts its own self-assessment of potential risks to demonstrate how it considers and prepares for various scenarios that could affect the bottom line, be they natural (such as low river flows impacting hydropower generation), manmade or market-driven (including fuel costs, litigation or government regulation).

Even before competition came to the state's electricity marketplace, a milestone reached with creation of the New York Independent System Operator in 1999, the Power Au-

MAINTAINING NYPA's
INVESTMENT
in NEW YORK continued

thority operated more like a business than a government entity. Unlike most state agencies and certain other authorities, NYPA is a fiscally independent, self-supporting public corporation that does not receive state funds or tax revenues or credit. It finances its major construction projects through sales of bonds and notes to investors, and pays related debt service with revenues from the generation and transmission of electricity.

When other utilities had their own guaranteed service territories, the Power Authority had to perform more efficiently than the rest to be able to sell its power, a practice that now serves it well on the open market. NYPA offers reliable supplies of competitively priced electricity to its customers, including governmental customers who provide significant savings to their taxpayers and to business customers throughout the state using the electricity largely as a resource for economic development.

Throughout its history, the Power Authority has responded to energy challenges that others in the industry have been unable or unwilling to meet. It can do this, in large part, thanks to its strong financial position.

Adhering to various legal requirements while following investment guidelines monitored by its trustees, the Power Authority largely pursues a conservative philosophy, staying flexible enough to weather any near-term market disturbances while keeping a long-term view sufficient to handle any new challenges and opportunities presented by the Governor and State Legislature.

NYPA power statewide: top, the Buffalo skyline; right, the 500-megawatt plant while under construction in Astoria, Queens; bottom, a NYPA-powered New York City subway.

FINANCIAL REPORT 2008 the NEW YORK POWER AUTHORITY

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements of the Power Authority of the State of New York (the Authority), as well as all other information contained in the Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the Annual Report is consistent with the financial statements.

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with accounting principles generally accepted in the United States and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls as well as testing of all key controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's financial statements, Ernst & Young LLP, the Authority's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of the internal auditors, the Office of the State Comptroller (OSC), and the independent auditors concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Based on its structure and related processes, management believes that, as of December 31, 2008, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

The members of the Authority's Board of Trustees, appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Trustees' Audit Committee meets with the Authority's management, its Vice President of Internal Audit and its independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, the scope and results of the audit by the independent auditors and the periodic audits by the OSC, and the audit programs of the Authority's internal auditing department. The independent auditors, the Vice President of Internal Audit and the Vice President of Ethics & Employee Resources have direct access to the Audit Committee.

Joseph M. Del Sindaco
Executive Vice President & Chief Financial Officer

Report of Independent Auditors

ERNST & YOUNG LLP

To the Board of Trustees
Power Authority of the State of New York

We have audited the accompanying balance sheets and related statements of revenues, expenses, and change in net assets and of cash flows of the Power Authority of the State of New York (the "Authority") as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 20 to 26 and page 51, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

5 Times Square
New York, NY 10036

February 26, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment

The Authority's mission is to provide clean, economical and reliable energy consistent with its commitment to safety, while promoting energy efficiency and innovation, for the benefit of its customers and all New Yorkers. To accomplish its mission, the Authority's strategic goals are as follows:

- **Providing value to our customers and the people of New York State** by creating more value through low cost power and energy services;
- **Optimization and potential expansion of generation assets** by preparing the Authority to get the most out of its existing generation assets and to build the capacity to see that future energy needs of its customers and the people of New York State are met;
- **Optimization and upgrade of transmission assets** by preparing the Authority to get the most out of its existing transmission assets and upgrade where necessary to see that the future energy needs of its customers and the people of New York State are met;
- **Employee development and readiness** by providing for a skilled, motivated and diverse workforce prepared to meet the challenges it needs to confront in order to fulfill its mission;
- **Supporting New York State Energy Policy** by advancing Energy Policy goals as outlined by the Governor and/or the Legislature and approved by the Board of Trustees ;
- **Planning for the future** by providing the capability to plan for the long term and to ensure that approved plans are implemented.

The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500-MW plant); (d) a significant reduction of outstanding debt; and (e) implementation of an energy and fuel risk management program. Major accomplishments during 2008 supporting this program include an agreement (approved by Governor Paterson in January 2009) with Alcoa for the continued supply of hydropower from the Authority's St. Lawrence-FDR Power Project, additional funding of the Authority's Other Postemployment Benefits (OPEB) obligation and initiating the development of a program to assess enterprise-wide risk across the Authority.

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation has been addressed and mitigated by both the "Energy Charge Adjustment with Hedging" (ECA) cost recovery provisions in the new long-term supplemental electricity supply agreements and generation from the 500-MW plant. It should be noted that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market. In 2008, wholesale electricity prices peaked in the summer and declined towards year-end reflecting the weaknesses in the economy and in commodity prices. Wholesale electricity prices are forecasted to be lower in 2009, thereby resulting in lower costs of purchased power and fuel, but also unfavorably impacting the Authority in its role as a seller in the electricity market.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority, for example, the Power for Jobs program. The economic downturn has also caused severe budget problems for the State resulting in additional requests for voluntary contributions from the Authority. See Note L (7), "New York State Budget Matters and Other Issues."

During 2008, volatile financial markets severely impacted the world economy. According to the National Bureau of Economic Research (NBER), a recession in the United States began in December 2007. Many economists believe that this recession will be long and deep. The environment has been described as the worst financial crisis since the 1930's. Credit availability became scarce or non-existent even for the most creditworthy borrowers. In this environment, the Authority continued to exercise its financial flexibility. As an example, in early 2008, the periodic auctions in the $300 billion Auction Rate Securities (ARS) market began failing and the ARS market became illiquid. Investors were unable to readily sell their investments in ARS and if they were able to sell, it was at a significant discount. The Authority decided to refund its $72.1 million in ARS with tax-exempt commercial paper thereby rendering its holders of ARS whole in an illiquid market.

Summary Statement of Revenues, Expenses, and Changes in Net Assets
(*in Millions*)

	2008	2007	2006	2008 vs. 2007 Favorable/ (Unfavorable)	2007 vs. 2006 Favorable/ (Unfavorable)
Operating Revenues	**$3,185**	$2,906	$2,666	10%	9%
Operating Expenses					
Purchased power	**1,242**	1,182	1,067	(5%)	(11%)
Fuel	**615**	535	523	(15%)	(2%)
Operations & Maintenance	**456**	501	432	9%	(16%)
Wheeling	**388**	327	296	(19%)	(10%)
Depreciation	**173**	178	173	3%	(3%)
Total Operating Expenses	**2,874**	2,723	2,491	(6%)	(9%)
Operating Income	**311**	183	175	70%	5%
Nonoperating Revenues	**164**	166	72	(1%)	131%
Nonoperating Expenses	**176**	114	110	(54%)	(4%)
Nonoperating Income (Loss)	**(12)**	52	(38)	(123%)	237%
Net Income & Change in Net Assets	**299**	235	137	27%	72%
Net Assets – Beginning	**2,268**	2,033	1,896	12%	7%
Net Assets – Ending	**2,567**	$2,268	$2,033	13%	12%

The following summarizes the Authority's financial performance for the years 2008 and 2007:

The Authority had net income of $299 million in the year 2008, compared to $235 million in 2007. This $64 million increase in net income is attributable to higher operating revenues ($279 million) partially offset by higher operating expenses ($151 million) and lower nonoperating income ($64 million). Revenues were higher primarily due to increased production at the Flynn plant, higher delivery service revenues in serving the southeastern New York (SENY) Governmental Customers and higher market-based sales. The increase in delivery service revenues reflects the pass through to customers of a price increase instituted by our service provider. Market-based sales were higher mainly due to higher prices on power sold to the NYISO generated by the Authority's Poletti plant and the Small Clean Power Plants. Operating Expenses were higher primarily due to higher prices for purchased power, fuel and delivery service in serving the SENY Governmental Customers. Operations and maintenance expenses were lower primarily due to a lower voluntary contribution to New York State related to the Authority's Power for Jobs program. Pursuant to State budget legislation, the Authority made a voluntary payment of $60 million to the State unrelated to the Authority's Power for Jobs program. This payment has been reflected and classified as a Contribution to New York State in the nonoperating expenses section of the Authority's 2008 financial statements.

During 2008, total debt decreased by $168 million, or 7%, primarily due to scheduled maturities and early extinguishment of debt. Interest expense was $2 million higher than 2007 primarily due to the increase in interest expense related to relicensing cost obligations ($11 million) offset by reductions in interest costs related to a reduced level of long-term debt ($4 million) and short-term debt ($5 million) due to lower interest rates. During the period 1998 to 2008, the Authority reduced its total debt/equity ratio from 1.44 to 0.83. This is the first time that the Authority's total debt/equity ratio has gone below 1 and is also the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

The Authority had net income of $235 million in the year 2007, compared to $137 million in 2006. This $98 million increase in net income is attributable to higher revenues ($240 million) and non-operating income ($87 million) partially offset by higher operating expenses ($232 million). The increase in revenues was primarily due to the recovery of higher energy costs incurred in serving the SENY Governmental Customers and higher market-based sales of power generated by the Authority's 500 MW plant and the Small Clean Power Plants. The increase in nonoperating income was primarily due to the recognition of an initial payment of $72 million from subsidiaries of Entergy Corporation resulting from negotiation of revised agreements regarding the sharing of revenues generated by the nuclear power plants previously owned by the Authority. Operating expenses were higher due to increased purchased power and fuel costs combined with a higher voluntary contribution to New York State associated with the Power for Jobs program.

Operating Revenues
Operating revenues of $3,185 million in 2008 were $279 million or 10% higher than the $2,906 million in 2007, primarily due to increased production at the Flynn plant, higher delivery service revenues in serving the SENY Governmental Customers and higher market-based sales. The increase in delivery service revenues reflects the pass through to customers of a price increase instituted by our service provider. Market-based sales were higher mainly due to higher prices on power sold to the NYISO generated by the Authority's Poletti plant and the Small Clean Power Plants.

Purchased Power and Fuel
Purchased power costs increased by 5% in 2008 to $1,242 million from $1,182 million in 2007, primarily due to the higher prices and increased volume related to purchased power for the SENY Governmental Customer market area. Fuel costs were $80 million (15%) higher during 2008, reflecting higher fossil-fuel production and higher fuel prices at the Flynn and Poletti plants and related higher sales to the NYISO.

Operations and Maintenance
O&M expenses decreased by 9% in 2008 to $456 million primarily due to lower accrued voluntary contributions to New York State relating to the Power for Jobs program. (See Note L (7), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.)

Nonoperating Revenues
For 2008, nonoperating revenues decreased by $2 million or 1% due to slightly lower average invested balances and lower rates of return resulting from the flight to quality and safety of federal government securities in the financial market. Nonoperating revenues for 2008 and 2007 include income recognition of $72 million for each year resulting from the negotiation of a revised revenue sharing agreement relating to revenues generated at the nuclear power plants sold to subsidiaries of Entergy Corporation in 2000. See Note K (1), "Nuclear Plant Divestiture," for additional information.

Nonoperating Expenses
For 2008, nonoperating expenses increased by $62 million or 54% primarily due to the Authority's $60 million voluntary contribution to New York State that was not related to the Power for Jobs program.

Cash Flows
During 2008, the Authority generated cash flows of $448 million from operations compared to $326 million in 2007. Cash flows from operating activities for 2008 were higher than 2007 primarily due to increased revenue from energy sales to the NYISO at higher average prices than the prior year and higher receipts from customers for the sale of power, partially offset by an increase in purchased power cost due to increases in price.

Net Generation
Net generation for 2008 was 27.2 million megawatt-hours (MWh) compared to the 26.3 million MWh generated in 2007. Net generation from the Niagara (13.6 million MWh) and St. Lawrence (7.0 million MWh) facilities were 4% and 5% higher, respectively, than 2007 (13.1 million MWh and 6.7 million MWh, respectively). During 2008, combined net generation of the fossil fuel plants was 6.7 million MWh, level with 2007 (6.8 million MWh), with increased output from the older Poletti and Flynn plants offsetting decreases at the newer 500-MW and the Small Clean Power Plants due to maintenance outages.

Beginning in 1999 and continuing through 2003, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR projects, thereby requiring the periodic curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions have improved such that hydroelectric generation levels have returned to near long-term average from 2004 through 2008.

New York State Budget Matters
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 State legislation (generally budget legislation), 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) 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.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, authorizes the Authority "as deemed feasible and advisable by the Trustees," to make annual "voluntary contributions" into the State treasury in connection with the PFJ Program. Commencing in December 2002 through March 2008, the Authority made such voluntary contributions to the State in an aggregate amount of $424 million.

In recent years, annual extensions of the PFJ Program have been signed into law. The most recent in April 2008 (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2009; (2) authorizes the Authority to make an additional voluntary contribution of $25 million for the State Fiscal Year 2008-2009 with the aggregate amount of such contributions increasing to $449 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

In light of the severe budget problems facing the State at this time, the Governor proposed and the Legislature enacted additional budget legislation authorizing the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of $119 million during the remainder of State Fiscal Year 2008-2009 and $107 million during State Fiscal Year 2009-2010. Subsequent to year-end, the Authority's Trustees authorized additional voluntary contributions of $119 million that were paid in January 2009. With this $119 million payment, the Authority has made voluntary contributions to the State totaling $449 million in connection with the PFJ Program and $70 million unrelated to the PFJ Program along with the annual payment for 2008 and prepayments for 2009 and 2010 totaling $24 million to the New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The financial statements for the year ended December 31, 2008 include an accrued liability and charge against net income related to the portion applicable to 2008 ($33 million). The costs related to 2009 ($78 million) which is composed of the $70 million contribution to State and $8 million OPRHP payment were recorded in January 2009 to be reported and classified as a Contribution to State and an operating expense, respectively, in the 2009 income statement. The $8 million OPRHP payment applicable to 2010 was recorded as a prepayment for 2010 made in January 2009.

In addition to the authorization for the voluntary contributions, the Authority has also been requested to provide temporary transfers to the State of certain funds currently in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 ("MOU") between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority agreed to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have 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 during State Fiscal Year 2009-2010 $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.

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 would be 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 monies 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 February 2009, the Authority's trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) by March 27, 2009 and Asset A ($103 million) within 180 days of the enactment of the 2009-10 State Budget; and approved the payment of the voluntary contribution of $107 million by March 31, 2010. The temporary transfer of Asset A ($103 million) and the voluntary contribution of $107 million will require trustee reaffirmation prior to the actual dates of the transfer and contribution.

For financial reporting purposes, the Authority will classify the transfers of Asset A and Asset B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State will waive certain future payments from the Authority to the State. Firstly, the Authority's obligation to pay the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services would be waived until September 30, 2017. These payments would have been approximately $5 million per year based on current estimates but the waiver would be limited to a maximum of $45 million in the aggregate during the period. Secondly, the obligation to make payments in support of the Niagara State park and for the upkeep of State lands adjacent to the Niagara or St. Lawrence power plants would be waived from April 1, 2011 to March 31, 2017. These payments would have been $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 exceeds the present value of the lost interest income. The voluntary contribution of $107 million, if made, will be reflected and classified as a Contribution to State in the 2010 income statement.

Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its NYC Governmental Customers entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers. Beginning in 2005, the Authority implemented a new annual price setting process under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Under the Agreements, such market-risk hedging options include a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging.

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers.

In 2007, the NYC Governmental Customers selected an "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all Variable Costs are passed on to them, and which, once elected, applies for two consecutive years. Thus, an ECA mechanism applied during calendar year 2008. The Authority incorporated the Trustee-approved Fixed Costs, the Variable Costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new rates effective for 2008 billings. Since an ECA mechanism was in effect for 2008, Authority invoices included an addition or subtraction each month that reflected changes in the cost of energy as described in the Agreement. The parties have agreed to continue the ECA mechanism for 2009.

With the customers' guidance and approval, the Authority will continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

The Authority's other SENY Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County (County), and by first quarter 2008, the remaining 103 Westchester Governmental Customers had executed the new agreement. Among other things, under the agreement, an energy charge adjustment mechanism will be 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.

Energy Cost Savings Benefits

Certain business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs faced rate increases beginning November 1, 2005.

To remedy this situation, legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amended the Act and the New York Economic Development Law (''EDL'') in regard to several of the Authority's economic development power programs and the creation of energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS Benefits"), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and for a limited period up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits are administered by New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially scheduled to expire on December 31, 2006, additional laws in 2006, 2007 and 2008 (2006 law, 2007 law and 2008 law) extended the ECS Benefits program through June 30, 2009.

The 2006 law also provides that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits (ECS Funding Source). From the inception of the ECS Benefits program through December 31, 2007, there were no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of such hydropower. For 2008, the Authority paid $40 million in ECS Benefits from internal funds and for the first six months of 2009, it is estimated that it the Authority will pay approximately $10 million in ECS Benefits from internal funds.

Summary Balance Sheet

(*in Millions*)

	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Current Assets	**$1,475**	$1,370	$1,300	8%	5%
Capital Assets	**3,737**	3,773	3,427	(1%)	10%
Other Noncurrent Assets	**1,795**	1,865	1,672	(4%)	12%
Total Assets	**$7,007**	$7,008	$6,399	-	10%
Current Liabilities	**$ 895**	$830	$ 910	8%	(9%)
Long-term Liabilities	**3,545**	3,910	3,456	(9%)	13%
Total Liabilities	**4,440**	4,740	4,366	(6%)	9%
Net Assets	**2,567**	2,268	2,033	13%	12%
Total Liabilities and Net Assets	**$7,007**	$7,008	$6,399	-	10%

The following summarizes the Authority's balance sheet variances for the years 2008 and 2007:

In 2008, current assets increased by $105 million (8%) to $1,475 million primarily due to an increase in investment in securities ($101 million). Capital assets decreased by $36 million (1%) to $3,737 million primarily due to decreased activity in the capital assets area. Other noncurrent assets decreased by $70 million (4%) to $1,795 million primarily due to a decrease in the decommissioning fund ($167 million) and capital funds ($39 million) partially offset by an increase in other noncurrent assets ($143 million) of which $60 million relates to prepaid OPEB costs to be amortized against future earnings. The decrease in the decommissioning fund due to market value loss does not impact the Authority because its nuclear plant decommission obligation to Entergy is limited to the amount in the decommissioning fund as reflected in the decrease in long-term liabilities. Current liabilities increased by $65 million (8%) to $895 million primarily due to an increase in risk management obligations ($123 million) partially offset by reductions in accounts payable ($39 million) and current maturities of long-term debt ($24 million). Long-term liabilities decreased by $365 million (9%) to $3,545 million primarily due to decreases in long-term debt obligations ($149 million), nuclear plant decommissioning obligations ($167 million) and other long-term liabilities ($49 million). The changes in net assets for 2008 and 2007 are discussed on page 21, Summary Statement of Revenues, Expenses and Changes in Net Assets.

In 2007, current assets increased by $70 million (5%) to $1,370 million primarily due to an increase in investment in securities ($260 million) partially offset by decreases in cash and cash equivalents ($151 million), receivables ($30 million), and risk management assets ($9 million). Capital assets increased by $346 million (10%) to $3,773 million primarily due to the capitalization of the Niagara relicensing costs. Other noncurrent assets increased by $193 million (12%) to $1,865 million due to increases in capital funds ($157 million) and restricted funds ($84 million) partially offset by a decrease in other noncurrent assets ($48 million). Current liabilities decreased by $80 million (9%) to $830 million primarily due to decreases in accounts payable ($63 million) and current maturities of long-term debt ($13 million). Long-term liabilities increased by $454 million (13%) to $3,910 million primarily due to increases in deferred credits and other long-term liabilities ($312 million) and long-term debt ($141 million).

Capital Asset and Long-term Debt Activity

The Authority currently estimates that it will expend approximately $826 million for various capital improvements over the five-year period 2009-2013. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

Projects	(*in Millions*)
Niagara Relicensing Compliance/Implementation	$ 36
St. Lawrence-FDR Modernization Program	98
St. Lawrence-FDR Relicensing Compliance/Implementation	22
Blenheim-Gilboa Modernization Program	51
Transmission	113
Lewiston Pump Generating Plant Modernization Program	100
Other	406
Total	$826

In addition, the Authority's capital plan includes the provision of $800 million in financing for Energy Services and Technology Projects to be undertaken by the Authority's customers and other public entities in the State. It should also be noted that because of various issues related to transmission and generation in New York State, there is a potential for significant increases in the capital expenditures indicated in the table above.

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total cost associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately $210 million of which approximately $166 million has already been spent. The total cost could increase in the future as a result of additional requirements that may be imposed by FERC under the new license.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007. In November 2007, these entities filed a petition for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. Briefing by the parties has been completed and oral argument before the Court was held in February 2009. The Authority is unable to predict the outcome of this matter but the Authority believes that FERC has available meritorious defenses and positions with respect thereto.

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara Project, including the debt issued therefor, were incorporated into the cost-based rates of the Project beginning in 2007.

More detailed information about the Authority's capital assets is presented in Notes B and E to the financial statements.

Capital Structure
(*in Millions*)

	2008	2007	2006
Long-term debt			
Senior			
Revenue bonds	**$1,196**	$1,283	$1,052
Adjustable rate tender notes	**138**	144	150
Subordinated			
Subordinate revenue bonds		72	75
Commercial paper	**410**	394	474
Total long-term debt	**$1,744**	$1,893	$1,752
Net assets	**2,567**	2,268	2,033
Total Capitalization	**$4,311**	$4,161	$3,785

During 2008, long-term debt, net of current maturities, decreased by $149 million, due to early extinguishments of debt ($122 million) which included the February ($47 million) and August 2008 ($72 million) redemptions, described below, and scheduled maturities ($102 million) offset by a $75 million increase in commercial paper classified as long-term debt. During 2007, long-term debt, net of current maturities, increased by $141 million, primarily due to debt issuance ($602 million) partially offset by its use to refinance debt ($370 million) and scheduled maturities ($116 million). Total Debt to Equity as of December 31, 2008, decreased to 0.83 to 1 from 1.01 to 1 as of December 31, 2007. The Total Debt to Equity ratio as of December 31, 2008 is the lowest ratio since the Authority implemented proprietary accounting in 1982.

On February 15, 2008, in addition to redeeming the Series 1998 A Revenue Bonds maturing on that date ($29 million), the Authority also redeemed all the outstanding Series 1998 A Revenue Bonds maturing after such date ($47 million).

In August 2008, the Authority early extinguished its outstanding Auction Rate Securities when it redeemed the $72 million of Subordinate Revenue Bonds, Series 3 and 4, then outstanding.

Debt Ratings

NYPA's Underlying Credit Ratings:	Moody's	Standard & Poor's	Fitch
Senior Debt:			
Long-term debt	Aa2	AA-	AA
Adjustable Rate Tender Notes	Aa2/VMIG1	AA-/A-1+	N/A
Subordinate Debt:			
Commercial Paper	P-1	A-1	F1+
Municipal Bond Insurance Support Ratings:			
Senior Debt:			
Series 2007 A, B & C Revenue Bonds due 2013 to 2047	Aa2*	AA	AA*
Series 2006 A Revenue Bonds due 2009 to 2020	Aa2*	AA-*	AA*
Series 2003 A Revenue Bonds due 2009 to 2033	Aa2*	AAA	AAA

The Authority has a $775 million line of credit with a syndicate of banks supporting the Commercial Paper Notes which line expires January 31, 2011. More detailed information about the Authority's debt is presented in Note F to the financial statements.

During 2008, many bond insurers lost their coveted triple-A ratings. The impact of the bond insurers' credit downgrades on the market value of the Authority's insured bonds was not discernible because of the Authority's underlying double-A ratings. The following summarizes credit rating agency actions against the insurers of certain Authority's bonds.

Firstly, during 2008, Moody's and S&P downgraded the Aaa/AAA ratings of MBIA Inc. (MBIA) to Baa1 and AA, respectively, and consequently downgraded $602.4 million of the Authority's 2007 A, B & C Revenue Bonds that are due November 15, 2013 to 2047 to reflect the insurer's new rating. MBIA is no longer rated by Fitch. Secondly, during 2008, Moody's and S&P downgraded the Aaa/AAA ratings of Financial Guaranty Insurance Co. (FGIC) to Caa1 and CCC, respectively, and consequently downgraded $144.3 million of the Authority's 2006 A Revenue Bonds that are due November 15, 2010 through 2020 to reflect the insurer's new rating. FGIC is no longer rated by Fitch. And thirdly, during 2008, Moody's downgraded the Aaa rating of Financial Security Assurance Inc. (FSA) to Aa3 and consequently downgraded $209.1 million of the Authority's 2003 A Revenue Bonds that are due November 15, 2009 to 2033 to reflect the insurer's new rating. The underlying ratings of the Authority's insured bonds are set forth in the table above. In cases where the insurer's rating is downgraded below the underlying rating or when the insurer is no longer rated, the bonds carry the Authority's underlying rating (*).

Risk Management

The objective of the Authority's risk management program is to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. To achieve these objectives, the Authority's trustees have authorized the use of various interest rate, energy-price and fuel-price hedging instruments.

The Vice President and Chief Risk Officer - Energy Risk Assessment and Control reports to the Executive Vice President and Chief Financial Officer and is responsible for establishing policies and procedures for identifying, reporting and controlling energy-price and fuel-price-related risk exposure and risk exposure connected with energy- and fuel-related hedging transactions. This type of assessment and control has assumed greater importance in light of the Authority's participation in the NYISO energy markets.

Contacting the Authority

This financial report is designed to provide our customers and other interest parties with a general overview of the Authority's finances. If you have any questions about this report or need additional financial information, contact the New York Power Authority, 123 Main Street, White Plains, New York 10601-3107.

BALANCE SHEETS

December 31, 2008 and 2007 (*in Millions*)

Assets		**2008**	2007
Current Assets	Cash and cash equivalents		$ 6
	Investment in securities	**$ 955**	854
	Interest receivable on investments	**8**	20
	Accounts receivable	**188**	192
	Materials and supplies:		
	Plant and general	**84**	76
	Fuel (Notes H and L (11))	**39**	34
	Risk management assets (Note H)		53
	Miscellaneous receivables and other	**201**	135
	Total Current Assets	**1,475**	1,370
Noncurrent Assets			
Restricted Funds	Cash and cash equivalents	**21**	7
	Investment in securities (Notes D and K)	**892**	1,066
	Total restricted funds	**913**	1,073
Capital Funds	Cash and cash equivalents	**10**	48
	Investment in securities	**214**	215
	Total capital funds	**224**	263
Capital Assets	Capital assets not being depreciated	**306**	271
	Capital assets, net of accumulated depreciation	**3,431**	3,502
	Total capital assets	**3,737**	3,773
Other Noncurrent Assets	Unamortized debt expense	**18**	20
	Deferred charges, long-term receivables and other	**545**	402
	Notes receivable - nuclear plant sale (Note K)	**95**	107
	Total other noncurrent assets	**658**	529
	Total Noncurrent Assets	**5,532**	5,638
	Total Assets	**$7,007**	$7,008

Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	**$ 397**	$ 436
	Short-term debt (Note G)	**273**	268
	Long-term debt due within one year	**102**	126
	Risk management obligations	**123**	
	Total current liabilities	**895**	830
Noncurrent Liabilities			
Long-term Debt	Long-term debt (Notes C and F):		
	Senior		
	Revenue bonds	**1,196**	1,283
	Adjustable rate tender notes	**138**	144
	Subordinated		
	Subordinate revenue bonds		72
	Commercial paper	**410**	394
	Total long-term debt	**1,744**	1,893
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note K)	**812**	979
	Disposal of spent nuclear fuel (Note K)	**216**	211
	Deferred revenues and other	**773**	827
	Total other noncurrent liabilities	**1,801**	2,017
	Total Noncurrent Liabilities	**3,545**	3,910
	Total Liabilities	**4,440**	4,740
Net Assets	Invested in capital assets, net of related debt	**1,685**	1,701
	Restricted	**41**	27
	Unrestricted	**841**	540
	Total Net Assets	**2,567**	2,268
	Total Liabilities and Net Assets	**$7,007**	$7,008

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended December 31, 2008 and 2007 *(in Millions)*

		2008	2007
Operating Revenues	Power sales	**$2,643**	$2,430
	Transmission charges	**154**	149
	Wheeling charges	**388**	327
	Total Operating Revenues	**3,185**	2,906
Operating Expenses	Purchased power	**1,242**	1,182
	Operations	**357**	420
	Fuel oil and gas (Notes H and L (11))	**615**	535
	Maintenance	**99**	81
	Wheeling	**388**	327
	Depreciation	**173**	178
	Total Operating Expenses	**2,874**	2,723
	Operating Income	**311**	183
Nonoperating Revenues and Expenses			
Nonoperating Revenues	Investment income (Note D)	**80**	79
	Other income	**84**	87
	Total Nonoperating Revenues	**164**	166
Nonoperating Expenses	Contributions to New York State	**60**	
	Interest on long-term debt	**99**	103
	Interest - other	**26**	20
	Interest capitalized	**(5)**	(5)
	Amortization of debt premium	**(4)**	(4)
	Total Nonoperating Expenses	**176**	114
	Nonoperating Income (Loss)	**(12)**	52
	Net Income and Change in Net Assets	**299**	235
	Net Assets at January 1	**2,268**	2,033
	Net Assets at December 31	**$2,567**	$2,268

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007 (*in Millions*)

		2008	2007
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$ 3,204**	$ 2,938
	Disbursements for:		
	Purchased power	**(1,239)**	(1,184)
	Operations and maintenance	**(516)**	(577)
	Fuel oil and gas	**(626)**	(531)
	Wheeling of power by other utilities	**(375)**	(320)
	Net Cash Provided by Operating Activities	**448**	326
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**8**	5
	Sale of commercial paper	**250**	33
	Issuance of bonds		602
	Repayment of notes	**(6)**	(6)
	Retirement of bonds	**(229)**	(117)
	Defeasance of Series 2002 A Bonds		(268)
	Repayment of commercial paper	**(185)**	(120)
	Gross additions to capital assets	**(142)**	(137)
	Interest paid, net	**(92)**	(87)
	Net Cash Used in Capital and Related Financing Activities	**(396)**	(95)
Cash Flows From Noncapital -Related Financing Activities	Energy conservation program payments received from participants	**92**	84
	Energy conservation program costs	**(86)**	(88)
	Sale of commercial paper	**133**	85
	Repayment of commercial paper	**(129)**	(89)
	Interest paid on commercial paper	**(7)**	(10)
	Other Postemployment Benefits (OPEB) funding	**(125)**	(100)
	Contributions to New York State	**(60)**	
	Entergy value sharing agreement	**72**	
	Entergy notes receivable	**30**	94
	Net Cash Used in Noncapital-Related Financing Activities	**(80)**	(24)
Cash Flows From Investing Activities	Earnings received on investments	**57**	48
	Purchase of investment securities	**(8,385)**	(13,887)
	Sale of investment securities	**8,326**	13,487
	Net Cash Used in Investing Activities	**(2)**	(352)
	Net decrease in cash	**(30)**	(145)
	Cash and cash equivalents, January 1	**61**	206
	Cash and Cash Equivalents, December 31	**$ 31**	$ 61

Reconciliation to Net Cash Provided by Operating Activities	Net Operating Revenues	**$ 311**	$ 183
	Adjustments to reconcile net income to net cash provided by operating activities:		
	Provision for depreciation	**173**	178
	Change in assets and liabilities:		
	Net (increase)/decrease in prepayments and other	**(126)**	15
	Net (increase)/decrease in receivables and inventory	**2**	18
	Net (decrease)/increase in accounts payable and accrued liabilities	**88**	(68)
	Net Cash Provided by Operating Activities	**$ 448**	$ 326

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A - General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created 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 is authorized by the Power Authority Act to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority generates, transmits and sells electricity principally at wholesale. The Authority's primary customers are municipal and rural cooperative electric systems, investor-owned utilities, high-load-factor industries and other businesses, various public corporations located within the metropolitan area of New York City, including The City of New York, and certain out-of-state customers.

The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996 (Bond Act), the Authority administers a Clean Air for Schools Projects program, for which $125 million in Bond Act monies have been allocated for effectuation of such program. Also, in accordance with legislation enacted in 2006, the Authority was appropriated $25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by Governmental Accounting Standard (GAS) No. 39, "Determining Whether Certain Organizations Are Component Units," the Authority considers its relationship to the State to be that of a related organization.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by Chapter 908 of the Laws of 1972 to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

Note B - Accounting Policies

The Authority's accounting policies include the following:

(1) The Authority complies with all applicable pronouncements of the GASB. In accordance with GAS No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority also has elected to comply with all authoritative pronouncements applicable to non-governmental entities (i.e., Financial Accounting Standards Board (FASB) statements) that do not conflict with GASB pronouncements. The Authority also applies Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended. This standard allows utilities to capitalize or defer certain costs or revenue based on management's ongoing assessment that it is probable these items will be recovered or reflected in the rates charged for electricity.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) 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. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project prior to completion. Borrowed funds for a specific construction project are deposited in a capital fund account. Earnings on fund investments are held in this fund to be used for construction. Earnings on unexpended funds are credited to the cost of the related project (construction work in progress) until completion of that project. Construction work in progress costs are reduced by revenues received for power produced (net of expenditures incurred in operating the projects) prior to the date of completion. The costs of current repairs are charged to operating expense, and renewals and betterments are capitalized. The cost of capital assets retired less salvage is charged to accumulated depreciation.

(3) With the exception of the Authority's Small Clean Power Plants (SCPPs), depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the various classes of capital assets. The Authority is providing for depreciation of the SCPPs using the double-declining balance method based on a conclusion that the revenue-earning power of those units is greater during the earlier years of the units' lives. The Authority installed these eleven 44-MW natural-gas-fueled electric generation units at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the Summer of 2001 to meet capacity deficiencies and to meet ongoing local reliability requirements in the New York City metropolitan area.

(4) Capital assets, net of accumulated depreciation, at December 31, 2008 and 2007, and the related depreciation provisions expressed as a percentage of average depreciable capital assets on an annual basis were:

(*in Millions*)			Average Depreciation Rate	
Type of Plant	**2008**	2007	**2008**	2007
Production:				
Steam		$ 13	**3.0%**	5.1%
Hydro	**$1,069**	1,057	**1.8%**	1.8%
Gas Turbine\ Combined Cycle	**865**	908	**3.5%**	3.7%
Transmission	**909**	941	**2.8%**	2.8%
General	**736**	729	**3.4%**	3.8%
	3,579	3,648	**2.8%**	3.1%
Construction work in progress	**158**	125		
Total capital assets	**$3,737**	$3,773		

(5) The Authority applies FAS No. 143, "Accounting for Asset Retirement Obligations", which requires an entity to record a liability at fair value to recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority determined that it had legal liabilities for the retirement of certain SCPPs in New York City and, accordingly, has recorded a liability for the retirement of this asset. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.

FAS No. 143 does not apply to asset retirement obligations involving pollution remediation obligations within the scope of GAS No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." The Authority applies GAS No. 49 which, upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligations within the scope of GAS No. 49 were recorded prior to 2008. Therefore, restatement was not necessary. There were no such obligations recorded in 2008.

In addition to the FAS No. 143 asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers, and, under the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation," at December 31, 2008 and 2007 were approximately $208 million and $199 million, respectively, in Other Noncurrent Liabilities on the Balance Sheets.

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

(*in Millions*)	ARO Amounts	Regulatory Amounts
Balance – December 31, 2007	$19	$199
Depreciation expense	1	9
Balance – December 31, 2008	**$20**	**$208**

(6) The Authority applies GAS No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", which states that asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.

GAS No. 42 states that asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairments.

(7) Cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less. The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes changes in the fair value of these investments.

(8) The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. The Authority has adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities", as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," to the extent appropriate under Governmental Accounting Standards. These financial accounting standards establish accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The standard requires that the Authority recognize the fair value of all derivative instruments as either an asset or liability on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges. In June 2008, the GASB issued GAS No. 53, "Accounting and Financial Reporting for Derivative Instruments" which establishes accounting and reporting requirements for derivative instruments and which is effective for the Authority's 2010 calendar year. The adoption of GAS No. 53 is not expected to have a significant impact on the Authority's financial results.

(9) Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible amounts.

(10) Material and supplies are valued at the lower of average cost or market. These inventories are charged to expense during the period in which the material or supplies are used.

(11) At both December 31, 2008 and 2007, deferred charges include $124 million of energy services program costs. In addition, the deferred charges relating to the fair value of derivatives are included in this classification. See Note B (8) above and Note H for more detailed information. These deferred costs are being recovered from customers.

(12) Debt refinancing charges, representing the difference between the reacquisition price and the net carrying value of the debt refinanced, are amortized using the interest method over the life of the new debt or the old debt, whichever is shorter, in accordance with GAS No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities."

(13) The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The current year's cost is accounted for as a current operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets and in other noncurrent liabilities on the Balance Sheet.

(14) Net Assets represent the difference between assets and liabilities and are classified into three categories:

a. Investment in Capital Assets, Net of Related Debt – This reflects the net assets of the Authority that are invested in capital assets, net of related debt and accounts such as related risk management assets and liabilities. This indicates that these assets are not accessible for other purposes.
b. Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
c. Unrestricted Net Assets – This represents the net assets that are available for general use.

Restricted and unrestricted resources are utilized, as applicable, by the Authority for their respective purposes.

(15) Revenues are recorded when service is provided. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to three NYC Governmental Customers and three investor-owned utilities operating in the State accounted for approximately 42 and 44 percent of the Authority's operating revenues in 2008 and 2007, respectively. The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial

statements. The principal operating revenues are generated from the sale, transmission, and wheeling of power. The Authority's operating expenses include fuel, maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. All revenues and expenses not meeting this definition are reported as other income and expenses.

(16) Realized and unrealized gains and losses on investments are recognized as investment income in accordance with GAS No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Note C - Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented up to the present time, the "Bond Resolution"). The Bond Resolution covers all of the Authority's projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest authorized by the Act or by other applicable State statutory provisions, provided, however, that the term "Project" shall not include any Separately Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available therefor (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

The Bond Resolution also provides for withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the retirement of Obligations issued under the Bond Resolution, from amounts in the Operating Fund in excess of the operating expenses, debt service on Obligations and Parity Debt issued under the Bond Resolution, and subordinated debt service requirements. The Authority has periodically reacquired revenue bonds when available at favorable prices.

Note D - Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law.

Credit Risk

The Authority's investments are restricted to (a) collateralized certificates of deposit, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority's investments in the debt securities of Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's) and AAA by Standard & Poor's (S&P) and Fitch Ratings (Fitch). All of the Authority's investments in U.S.debt instruments are issued or explicitly guaranteed by the U.S. Government.

The Authority does not engage in securities lending or reverse repurchase agreements.

Interest Rate Risk

Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment. The agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or $100 million. The Authority has no other policies limiting investment maturities.

Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2008, $380 million (18 percent), $279 million (13 percent), and $274 million (13 percent) of the Authority's investments were in securities of Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Bank (FFCB) and Federal Home Loan Bank (FHLB), respectively.

Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see Note K), the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not required to be administered in accordance with the Authority's or New York State investment guidelines.

Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2008 and 2007, the Authority had investments in repurchase agreements of $4.0 million and $6.0 million, respectively. The bank balances were $22.8 million and $8.7 million, respectively, of which $22.3 million and $7.8 million, respectively, were uninsured and collateralized by assets held by the bank in the name of the Authority.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2008 and 2007, is in the Investment Summary.

<u>Investment Summary</u>
(in Millions)
Estimated Fair Value
December 31, 2008

			Restricted Funds				
	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds* & Other	ART Note Debt Reserve	Capital Fund	Current Assets
Cash and equivalents	$ 31	$ 21		$21		$ 10	
U.S. Government /Agencies							
Treasury Bills	60	60		60			
Treasury Notes							
GNMA	43						$ 43
	103	60		60			43
Other debt securities							
FNMA	380					28	352
FHLMC	85	5			$ 5	19	61
FHLB	275	9			9	45	221
FFCB	278					75	203
All Other	124	6			6	47	71
	1,142	20			20	214	908
Repurchase Agreements	4						4
Portfolio Manager	812	812	$812				
Total Investments	2,061	892	812	60	20	214	955
	$2,092	$913	$812	$81	$20	$224	$955

Summary of Maturities
Years

0-1	$ 282	$ 81	$ 24	$81		$ 49	$152
1-5	747	20	72		$20	131	596
5-10	131		103			14	117
10+	120		380			30	90
Common Stock	812	812	233				
	$2,092	$913	$812	$81	$20	$224	$955

* Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds - Legislation enacted into State law from 1995 to 2002 and 2007 authorized the Authority to utilize petroleum overcharge restitution (POCR) funds and other State funds (Other State Funds), to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes, with certain funding limitations. The legislation also states that the Authority “shall transfer” equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority’s transfers to the State totaling $60.9 million to date, took place from 1996 to 2007. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account until they are utilized.

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. The Authority anticipates that the funding for the projects will allow the conversion of 80 schools, of which 76 have been completed. The conversion program is currently scheduled to be completed in 2009. CAS Projects funds totaling $125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program. As of December 31, 2008, POCR and CAS Projects funds are $23 million and $11 million, respectively. The $47 million balance of these restricted funds is primarily related to the Lower Manhattan Energy Independence Initiative fund ($25 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($17 million).

Estimated Fair Value
December 31, 2007

	Total	Total Restricted Funds	Restricted Funds Decommissioning Trust Fund	POCR & CAS Projects Funds** & Other	ART Note Debt Reserve	Capital Fund	Current Assets
Cash and equivalents	$ 61	$ 7		$ 7		$ 48	$ 6
U.S. Government /Agencies							
Treasury Bills	66	66		66			
Treasury Notes	13					13	
GNMA	52						52
	131	66		66		13	52
Other debt securities							
FNMA	376	6			$ 6	20	350
FHLMC	133	14			14	6	113
FHLB	214					57	157
FFCB	178					68	110
All Other	119	1		1		51	67
	1,020	21		1	20	202	797
Repurchase Agreements	5						5
Portfolio Manager	979	979	$979				
Total Investments	2,135	1,066	979	67	20	215	854
	$2,196	$1,073	$979	$74	$20	$263	$860

Summary of Maturities
Years

0-1	$ 606	$ 106	$ 16	$74	$16	$ 87	$413
1-5	446	59	55		4	113	274
5-10	146	70	70			12	64
10+	651	491	491			51	109
Common Stock	347	347	347				
	$2,196	$1,073	$979	$74	$20	$263	$860

** As of December 31, 2007, POCR and CAS Projects funds are $27 million and $14 million, respectively. The $33 million balance of these restricted funds is primarily related to the Lower Manhattan Energy Independence Initiative fund ($26 million).

Note E – Changes in Capital Assets

(in Millions)

The changes in Capital Assets are as follows:

	2008	2007
Gross Capital Assets, beginning balance	**$6,089**	$5,586
Add: Acquisitions	**114**	530
Less: Dispositions (including retirements)	**32**	27
Gross Capital Assets, ending balance	**6,171**	6,089
Less: Accumulated depreciation	**2,592**	2,441
Add: Construction work in progress	**158**	125
Capital Assets - net, ending balance	**$3,737**	$3,773

Note F - Long-term Debt
(*in Millions*)

Components
Long-term debt at December 31, 2008 and 2007 consists of:

	2008	2007
Senior Debt:		
Revenue Bonds	**$1,196**	$1,283
Adjustable Rate Tender Notes	**138**	144
Subordinated Debt:		
Subordinate Revenue Bonds		72
Commercial Paper	**410**	394
	$1,744	$1,893

Senior Debt	**2008 Amount**	2007 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds					
Series 1998 A Revenue Bonds		$ 76	4.7% to 5.0%	2/15/2009 to 2016	Redeemed on 2/15/2008
Series 2000 A Revenue Bonds					
Term Bonds	**$ 10**	10	5.25%	11/15/2030	11/15/2010
Term Bonds	**67**	67	5.25%	11/15/2040	11/15/2010
Series 2001 A Revenue Bonds					
Serial Bonds		42	4.00% to 5.00%	11/15/2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	**168**	190	3.00% to 5.00%	11/15/2009 to 2022	11/15/2012
Series 2003 A Revenue Bonds					
Serial Bonds	**23**	27	3.97% to 4.83%	11/15/2009 to 2013	Any date
Term Bonds	**186**	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
Series 2006 A Revenue Bonds					
Serial Bonds	**154**	164	3.375% to 5.0%	11/15/2009 to 2020	11/15/2015
Series 2007 A Revenue Bonds					
Term Bonds	**82**	82	4.5% to 5.0%	11/15/2047	11/15/2017
Series 2007 B Revenue Bonds					
Serial Bonds	**18**	18	5.253% to 5.603%	11/15/2013 to 2017	Any date
Term Bonds	**239**	239	5.905% to 5.985%	11/15/2037 & 2043	Any date
Series 2007 C Revenue Bonds					
Serial Bonds	**264**	264	4.0% to 5.0%	11/15/2014 to 2021	11/15/2017
	1,211	1,365			
Plus: Unamortized premium	**29**	34			
Less: Deferred refinancing costs	**7**	9			
	1,233	1,390			
Less: Due within one year	**37**	107			
	$1,196	$1,283			

Interest on Series 2003 A and 2007 B Revenue Bonds is not excluded from gross income for bondholders' Federal income tax purposes.

In prior years, the Authority defeased certain Revenue Bonds and General Purpose Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2008 and 2007, $437 million and $515 million, respectively, of outstanding bonds were considered defeased.

In October 2007, the Authority issued its Series A, B and C Revenue Bonds (collectively called "2007 Bonds") listed in the table above. The 2007 Bonds total $602 million. The proceeds of the 2007 Bonds and other funds (totaling $633 million) were used to redeem $102 million of Commercial Paper Notes, finance a portion of the costs of relicensing and modernization of the Authority's St. Lawrence-FDR Project ($120 million) and of the relicensing of the Niagara Project ($118 million), to refund a portion of the Authority's Series 2002 A Revenue Bonds ($268 million) for a net present value savings of $10 million, and to pay the costs of issuance of the 2007 Bonds.

Certain 2007 A Bonds are subject to mandatory redemption by way of various sinking fund installments beginning on November 15, 2043 through November 15, 2047. Certain 2007 B term bonds are subject to mandatory redemption by way of various sinking fund installments beginning on November 15, 2018 through November 15, 2043. The 2007 Bonds are subject to optional redemption, in whole or in part, by the Authority.

On February 15, 2008, in addition to redeeming the Series 1998 A Revenue Bonds maturing on that date ($29 million), the Authority also redeemed all the outstanding Series 1998 A Revenue Bonds maturing after such date ($47 million).

Senior Debt	**2008 Amount**	2007 Amount	Interest Rate At 12/31/08	Maturity
2. Adjustable Rate Tender Notes (Notes)				
2016 Notes	**$ 69**	$ 75	1.6%	3/1/2016
2020 Notes	**75**	75	1.6%	3/1/2020
	144	150		
Less: Due within one year	**6**	6		
	$138	$144		

The Notes may be tendered to the Authority by the holders on any adjustment date. The rate adjustment dates are March 1 and September 1. The Authority has entered into a revolving credit agreement (Agreement) with The Bank of Nova Scotia to provide a supporting line of credit. Under the Agreement, which terminates on September 1, 2015, the Authority may borrow up to $144 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2008 or 2007) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. The Authority expects that it will be able to renew or replace this Agreement as necessary. In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million. See Note H for the Authority's risk management program relating to interest rates.

Subordinated Debt	**2008 Amount**	2007 Amount	Interest Rate At 12/31/08	Maturity
3. Subordinate Revenue Bonds				
Series 3		$38	N/A	Redeemed
Series 4		37	N/A	in 2008
	-	75		
Less: Due within one year		3		
	-	$72		

Senior Revenue Bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date. Series 2003 A Revenue Bonds (2003 A Bonds) are subject to optional redemption on any date. The 2003 A Term Bonds are subject to sinking fund redemptions in specified amounts beginning four years prior to their respective maturities. In August 2008, the Authority redeemed the $72.1 million of Subordinate Revenue Bonds, Series 3 and 4.

As indicated in Note C, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. Annual principal and interest payments on the Senior Debt are expected to require less than 35% of operating income plus depreciation. The total principal and interest remaining to be paid on the Senior Debt is $2.4 billion. Principal and interest paid for 2008 and Operating Income plus depreciation were $236 million and $484 million, respectively.

At December 31, 2008 and 2007, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $1.21 billion and $1.50 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinated Debt	Availability	**2008**	2007	Interest Rate At 12/31/08	Maturity
4. Commercial Paper (Long-term portion)					
EMCP (Series 1)	$ 100	**$ 85**	$ 90	1.13%	2009 to 2025
CP (Series 2)	450	**314**	243	1.69%	2009 to 2025
CP (Series 3)	350	**70**	71	1.85%	2009 to 2025
CP (Series 4)	220				
	$1,120	**469**	404		
Less: Due within one year		**59**	10		
		$410	$394		

Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $100 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. The proceeds of the EMCP Notes were used to refund Series 2 and 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the Series 2 and 3 CP Notes and the EMCP Notes as they mature so that their ultimate maturity dates will range from 2009 to 2025, as indicated in the table above.

The Authority has a line of credit under a revolving credit agreement (the 2008 RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing $775 million for such CP Notes until January 31, 2011, which succeeded another revolving credit agreement (the 2004 RCA) in January 2008. No borrowings have been made under the 2008 RCA or the 2004 RCA. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

CP Notes and EMCP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

Interest on the CP (Series 3) is taxable for Federal income tax purposes.

Long-term Debt
Maturities and Interest Expense
(*in Millions*)

Year	Principal	Interest	Total
2009	$ 102	$ 72	$ 174
2010	129	70	199
2011	121	66	187
2012	81	63	144
2013	97	61	158
2014-2018	449	255	704
2019-2023	334	171	505
2024-2028	110	128	238
2029-2033	131	97	228
2034-2038	85	64	149
2039-2043	106	35	141
2044-2047	79	10	89
	1,824	1,092	2,916
Plus : Unamortized bond premium	29		29
Less: Deferred refinancing cost	7		7
	$1,846	$1,092	$2,938

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2008.

Terms by Which Interest Rates Change for Variable Rate Debt:

Adjustable Rate Tender Notes

In accordance with the Adjustable Rate Tender Note Resolution adopted April 30, 1985, as amended up to the present time (Note Resolution), the Authority may designate a rate period of different duration, effective on any rate adjustment date. The Remarketing Agent appointed under the Note Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the Notes at par.

CP Notes and EMCP Notes (Long-term portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the Notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be (1.35 X SIFMA) + E, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" is a fixed percentage rate expressed in basis points (each basis point being 1/100 of one percent) that is determined based on the Authority's debt ratings. As of December 31, 2008, the reset rate would have been 2.39%.

Changes in Long-term Liabilities

(*in Millions*)

Changes in Long-term Debt	2008	2007	Changes in Other Long-term Liabilities	2008	2007
Long-term debt, beginning balance	**$1,893**	$1,752	Other long-term liabilities, beginning balance	**$2,017**	$1,704
Increases	**253**	800	Increases	**115**	380
Decreases	**(300)**	(533)	Decreases	**(331)**	(67)
	1,846	2,019			
Due within one year	**102**	126			
Long-term debt, ending balance	**$1,744**	$1,893	Other long-term liabilities, ending balance	**$1,801**	$2,017

Note G - Short-term Debt

CP Notes (short-term portion) outstanding was as follows:

	December 31, 2008		December 31, 2007	
(in Millions)	Availability	Outstanding	Availability	Outstanding
CP Notes (Series 1)	**$400**	**$273**	$400	$268

Under the Commercial Paper Note Resolution adopted June 28, 1994, as amended and restated on November 25, 1997, and as subsequently amended, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes). See Note F - Long-term Debt for Series 2, 3 and 4 CP Notes and the EMCP Notes. The proceeds of the Series 1 CP Notes have been and shall be used to finance the Authority's current and future energy services programs and for other corporate purposes.

The changes in short-term debt are as follows:
(in Millions)

Year	Beginning Balance	Increases	Decreases	Ending Balance
2008	**$268**	**$133**	**$128**	**$273**
2007	$272	$ 85	$ 89	$268

CP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

Note H - Risk Management and Hedging Activities

In addition to insurance, which is described in item (4) herein, another aspect of the Authority's risk management program is to manage the impacts of interest rate, energy and fuel market fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve its objectives the Authority's trustees have authorized the use of various interest rate, energy, and fuel hedging instruments that are considered derivatives under FAS No. 133. These standards establish accounting and reporting requirements for derivative instruments and hedging activities (see Note B (8)). The fair values of all Authority derivative instruments, as defined by FAS No. 133, are reported in Assets or Liabilities on the Balance Sheet.

(1) Interest Rate Risk Management

(a) Series 1998 B Revenue Bonds

In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations expected to be issued to refinance $499.4 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 and 2001 (the 2002 SWAPS and 2001 SWAPS, respectively). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7 percent to 5.1 percent) to the counterparties through February 15, 2015. In return, the counterparties would pay interest to the Authority based upon the SIFMA municipal swap index (SIFMA Index) on the established reset dates. In 2001, upon completion of the $231.2 mandatory redemption of the Series 1998 B Revenue Bonds, the Authority terminated the 2001 SWAPS at a cost of $12.7 million. Since the Authority anticipates the recovery of the swap termination cost from customers, the cost of the 2001 SWAPS was amortized as an adjustment to the hedged debt's interest cost over the shorter of the original Series 1998 B Revenue Bonds debt (hedged) period or the refinanced period.

On November 15, 2002 the Authority completed the remaining mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 and Series 3 CP Notes. The 2002 SWAPS became active on November 15, 2002 and terminate on February 15, 2015. They are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes that were issued to make the mandatory payments. During 2008 and 2007, net settlement payments on the 2002 SWAPS resulted in increases in interest costs of $7.1 million and $3.8 million, respectively. On December 31, 2008 and 2007, the fair values of the 2002 SWAPS were unrealized losses of $18.6 million and $16.1 million, respectively. Since the Authority anticipates the recovery from customers of any future settlement costs of the 2002 SWAPS, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

(b) Adjustable Rate Tender Notes

In 2006 the Authority entered into a forward interest rate swap with the objective of limiting exposure to rising interest rates on the Authority's Adjustable Rate Tender Notes (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 percent on the initial notional amount of $156 million. In return, the counterparty pays interest to the Authority based upon 67 percent of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. During 2008 and 2007, the net settlement payments on the ART Note swaps resulted in increases in interest cost of $2.0 million and $0.1 million, respectively. On December 31, 2008 and 2007, the fair values of the ART Note swap were unrealized losses of $16.4 million and $6.3 million, respectively. Since the Authority anticipates the recovery of these losses from customers these unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

Relating to 1(a) and 1(b), if any of the underlying hedged debt was retired prior to maturity, the unamortized gain or loss of the related interest rate swaps would be included in the gain or loss on the extinguishment of the obligation.

(c) 2007 Series B Revenue Bonds

In 2006, the Authority entered into a forward interest rate swap to effectively fix rates on long-term obligations anticipated to be issued in October of 2007 for the relicensing and modernization costs of the St. Lawrence/FDR and Niagara Power Projects. The forward interest swap had an initial notional amount of $290 million to coincide with the then anticipated 2007 Series B Revenue Bond issuance and a commencement date of October 16, 2007 and ending date of November 15, 2037. The terms of the forward interest rate swap provided for early optional termination as well as for a mandatory termination on

October 16, 2007. On October 10, 2007, the Authority priced the 2007 B Revenue Bonds and terminated the forward interest rate swap and received a payment of $7.6 million from the counterparty. The termination calculation was based upon the Authority paying interest at a fixed rate of 5.1923 percent to the counterparty and the counterparty paying interest to the Authority based upon the three month USD-LIBOR. The proceeds of the termination are being amortized against interest cost over the life of the 2007 Series B Revenue Bond debt.

(d) Series 1 CP Notes
In 2004, an interest rate cap was purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes. The interest rate for the Series 1 CP Notes was capped at 5.9 percent and was based upon the SIFMA Index for a notional amount ($250 million) through July 1, 2007. Throughout the life of this interest cap interest rate market conditions did not exceed the contractual cap. On August 2, 2007 a continuation interest rate cap was purchased with the same objective commencing on August 15, 2007. The interest rate cap for the Series 1 CP Notes is 5.9% and is based upon the SIFMA Index for a notional amount ($300 million) through August 15, 2010. During 2007 and 2008 interest rate market conditions did not exceed the contractual cap. On December 31, 2008 and 2007 the fair values of this interest rate cap were not significant.

(2) Energy Market Risk Management
(a) Customer Load Requirements
In 2001, the Authority entered into a long-term forward energy swap agreement to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. During 2007, net settlements on this forward energy swap resulted in Purchased Power cost decreases of $18.0 million. In 2003, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2005 and 2008. During 2008 and 2007, net settlements on this forward energy swap resulted in Purchased Power cost decreases of $18.5 million and $13.2 million, respectively. On December 31, 2007, the fair value of this forward energy swap was an unrealized gain of $18.5 million. Since the Authority anticipated the pass-through of any benefits to customers, this unrealized gain was deferred in Other Noncurrent Liabilities on the Balance Sheet.

In 2005, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2008 and 2010. On December 31, 2008 and 2007, the fair values of this forward energy swap were an unrealized loss of $7.1 million and an unrealized gain of $29.0 million, respectively. Since the Authority anticipates the pass-through of any benefits to customers of this forward energy swap, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets, respectively, on the Balance Sheets.

In 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparty's wind-farm-power-generating facilities between 2008 and 2017. The fixed price ranges from $74 to $75 per megawatt and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist specific governmental customers in acquiring such environmental attributes. During 2008, net settlements on the forward energy swaps resulted in a Purchase Power cost increase of $1.0 million. On December 31, 2008 and 2007, the fair values of these forward energy swaps were unrealized losses of $10.2 million and $3.5 million, respectively. Since the customers are contractually obligated to pay the Authority for any net settlement costs resulting from these forward energy swaps the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

In 2008 and 2007, the Authority entered into a number of short-term energy swaps to fix the price of purchases of energy in the New York Independent System Operator (NYISO) electric market to meet short-term forecasted load requirements for the Authority's Power for Jobs program. During 2008 and 2007, the net settlements of these short-term energy swaps resulted in Purchased Power cost increases of $2.7 million and $0.4 million, respectively. On December 31, 2008 and 2007, the fair values of these short-term energy swaps were unrealized losses of $0.3 million and $0.3 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheets.

In 2008 and 2007, the Authority entered into a number of short-term energy swaps to either (a) fix the cost of energy purchases or (b) fix the margin between the prices of purchases and sales of energy in the NYISO electric market to the benefit of the Authority's NYC Governmental Customers. During 2008 and 2007, net settlements of these short-term energy purchases and sales swaps resulted in net increases in Purchased Power costs of $3.5 million and $22.3 million, respectively. On December 31, 2008 and 2007, the fair values of these short-term energy swaps were unrealized losses of $2.6 million and unrealized gains of $5.0 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers or the pass-through of any benefits to customers, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities, respectively, on the Balance Sheets.

In 2008 and 2007, the Authority purchased a number of short-term energy swaps to fix the price of power to meet the forecasted load requirements of certain Energy Cost Savings Benefits program customers. During 2008, the net settlements of these short-term energy swaps resulted in Purchased Power cost increases of $6.0 million. On December 31, 2008 and 2007, the fair values of these short-term energy swaps resulted in additional Purchased Power cost increases of $8.3 million and $0.2 million, respectively.

In 2008, the Authority purchased a number of short-term energy swaps to meet the forecasted load requirements for certain Power for Jobs customers that ultimately opted to leave the program. During 2008, the net settlements of these short-term energy swaps resulted in Purchased Power cost increases of $2.1 million. On December 31, 2008, the fair value of these short-term energy swaps resulted in Purchased Power cost increases of $3.4 million.

(b) Generating Capacity
In 2007, the Authority entered into a number of fixed-to-floating energy swaps relating to a portion of the Small Clean Power Plants (SCPP) generation, with the objectives of hedging prices in a rising market and mitigating the effect of falling market prices on revenue during the summer period. In 2007, net settlements with counterparties on these fixed-to-floating energy swaps resulted in Operating Revenue increases of $1.0 million. There were no open positions relating to the SCPP on December 31, 2008 and 2007.

(3) Fuel Market Risk Management
In 2008 and 2007, the Authority purchased a number of natural gas swaps and NYMEX gas and oil futures contracts to limit its exposure to the floating market price of natural gas required for electrical generation at its Poletti facilities. During 2008 and 2007, net settlements and liquidation of these natural gas swaps and gas and oil NYMEX futures contracts resulted in fuel costs decreases of $6.3 million and fuel cost increases of $32.2 million, respectively.

On December 31, 2008 and 2007, the fair values of these natural gas swaps and NYMEX gas and oil futures contracts were unrealized losses of $49.7 million and $5.1 million, respectively. Since the Authority anticipates recovery of any net settlement and liquidation costs of these natural gas swaps and NYMEX gas and oil futures contracts from customers or the pass-through of any benefits to customers, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities in the Balance Sheets.

In 2008 and 2007, the Authority entered into a number of natural gas basis swaps with the objective of limiting exposure to the floating market natural gas pipeline transportation costs to the New York City Gate. During 2008 and 2007, the net settlements of these natural gas basis swaps resulted in fuel cost increases of $1.4 million and $2.9 million, respectively. On December 31, 2008 and 2007, the fair values of these natural gas basis swaps were unrealized losses of $6.2 million and unrealized gains of $0.2 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers or the pass-through of any benefits to customers of these natural gas basis swaps, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities on the Balance Sheets.

(4) Insurance

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance purchase protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance purchase protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. In addition, the Authority pursues subrogation claims against any entities that cause damage to its property.

Note I - Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

Pension Plans:

Substantially all employees of the Authority are members of the New York State and Local Employees Retirement System (System), which is a cost-sharing, multiple public employer defined benefit pension plan. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average salary, and, effective July 17, 1998, all benefits generally vest after five years of accredited service.

Members of the System with less than “10 years of service or 10 years of membership” contribute 3% of their gross salaries, and the Authority pays the balance of the annual contributions for these employees. The Authority pays the entire amount of the annual contributions for employees with at least 10 years of service. The Authority’s contributions to the System are paid in December of each year on the basis of the Authority’s estimated salaries for the System’s fiscal year ending the following March 31. Contributions are made in accordance with funding requirements determined by the actuary of the System using the aggregate cost method.

Current law requires, among other things, a minimum annual contribution by employers to the System. The objective of the law is to reduce the volatility of annual employer contributions by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible. Under this plan, the Authority’s required contributions to the System were $11.8 million, $12.3 million, and $12.7 million for the years ended March 31, 2009, 2008, and 2007, respectively (paid on or about December 15, 2008, 2007, and 2006). For detailed information concerning the System, reference is made to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 2008. In addition, the System issues a publicly available financial report that includes financial statements, expanded disclosures, and required supplementary information for the System. The report may be obtained by writing to the New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York 12244-0001.

The Authority’s net Pension obligation as of December 31, 2008, 2007, and 2006 are as follows:

(In Millions)	**2008**	2007	2006
Annual required contribution	**$ 12**	$ 12	$ 13
Contributions made to the System	**(12)**	(12)	(13)
Net pension obligation – end of year	**$ 0**	$ 0	$ 0

During 2008, the global decline in financial markets adversely impacted state pension fund balances including the System’s. The average contribution rates for the fiscal years ended March 31, 2009 and 2010 are fixed at approximately 8 percent and 7 percent, respectively. If the System’s fund balances do not recover, significant increases in the annual contributions to the System in subsequent years are expected. For the Authority, such increases would initially appear during calendar year 2010.

Other Postemployment Benefits (OPEB):

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working at the Authority. Approximately 2,100 participants were eligible to receive these benefits at December 31, 2008. The Authority applies GAS No. 45, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” 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 initiate the establishment of a trust for OPEB obligations, with the trust fund to be held by an independent custodian. During 2007, the Authority partially funded its prior service OPEB obligation by contributing $100 million to the trust fund. In May and June 2008, the Authority made additional contributions totaling $125 million to the trust fund. As of the current date, the Authority has funded approximately sixty-five percent of its prior service OPEB obligation. The Authority’s unfunded prior service OPEB obligation as of December 31, 2008 was reduced to $126 million from $233 million at December 31, 2007. The Authority will evaluate the performance of the trust fund before making decisions on additional actions.

The most current actuarial valuation date is January 1, 2008. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented, as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(In Millions)	**2008**	2007	2006
Unfunded Actuarial Accrued Liability (UAAL):			
Beginning Balance	**$233**	$317	$322
Medicare adjustment			24
Discount rate change (6% to 7%)			(45)
Net actuarial adjustment	**4**		
Adjusted beginning balance	**237**	317	301
Normal costs	**6**	6	6
Interest accrual	**23**	22	21
Payments to retirees during year	**(15)**	(12)	(11)
Payments to Trust Fund*	**(125)**	(100)	
Ending Balance	**$126**	$233	$317
Covered payroll	**$144**	$136	$134
Ratio of UAAL to covered payroll	**88%**	171%	236%

* Total contributions to the Trust Fund through 12/31/08 are $225 million. The fair market value of the Trust Fund investments at 12/31/08 was $191 million.

In June 2006, GASB issued GASB Technical Bulletin No. 2006-1, "Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D" (TB 2006-1). Under TB 2006-1, payments from the Federal Government are accounted for as other revenue and are not used to offset current or future OPEB expenditures. The present value of the Authority's prior service OPEB obligation, as of January 1, 2006, of $322 million, has been reduced by $21 million to $301 million. The $21 million reduction includes the impact of an increase in the discount rate from 6% to 7% to reflect a higher estimated investment return after the establishment of the trust, partially offset by an increase to reflect TB 2006-1. Additional changes result from a decrease in the assumed medical inflation rates and updated demographics and claims experience. As of January 1, 2008, the present value of the unfunded portion of the Authority's prior service OPEB obligation increased by $4 million to $237 million from $233 million. Certain prior year amounts have been adjusted and reclassified to conform with the current year's presentation. These adjustments and reclassifications had no effect on the financial statements.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The 2008, 2007 and 2006 OPEB provisions of $32 million, $37 million and $35 million, respectively, include the amortization of the prior service obligation, a provision for active employees as of the beginning of the year, and an interest charge on the unfunded balance at year end. The Authority's net OPEB obligation or net deferred asset balance as of December 31, 2008, 2007, and 2006 are as follows:

(In Millions)	**2008**	2007	2006
Annual required contribution	**$ 32**	$ 37	$ 35
Contributions made (payment to retirees/trust fund)	**(140)**	(112)	(11)
Increase/(Decrease) in net OPEB obligation	**(108)**	(75)	24
Net OPEB obligation – beginning of year	**38**	113	89
Net OPEB obligation – end of year	**$ 0**	$ 38	$ 113
Prepaid OPEB Charge – end of year**	**$ 70**	-	-

** Cumulative contributions made to the OPEB Trust Fund as of December 31, 2008, have exceeded the Authority's accrued OPEB liability and have resulted in a prepaid OPEB asset balance of $70 million, in the Authority's Balance Sheet.

The Authority is not required to issue a publicly available financial report for the plan.

Deferred Compensation and Savings Plans:

The Authority offers union employees and salaried employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees, with a minimum of one year of service, up to limits specified in the plan. Such matching annual contributions for 2008 and 2007 totaled $2.4 million and $2.2 million respectively.

Independent trustees are responsible for the administration of the 457 and 401(k) plan assets under the direction of a committee of union representatives and non-union employees and a committee of non-union employees, respectively. Various investment options are offered to employees in each plan. Employees are responsible for making the investment decisions relating to their savings plans.

Note J - NYISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), a subsidiary of the Long Island Power Authority (doing business as "LIPA" hereafter referred to as "LIPA") and the Authority, and certain other entities, established two not-for-profit organizations, the New

York Independent System Operator (NYISO) and the New York State Reliability Council (Reliability Council). The mission of the NYISO is to assure the reliable, safe and efficient operation of the State's major transmission system, to provide open-access non-discriminatory transmission services and to administer an open, competitive and non-discriminatory wholesale market for electricity in the State. The mission of the Reliability Council is to promote and preserve the reliability of electric service on the NYISO's system by developing, maintaining, and from time to time, updating the reliability rules relating to the transmission system. The Authority, the current IOUs and LIPA are members of both the NYISO and the Reliability Council.

The NYISO is responsible for scheduling the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and for collecting ancillary services, losses and congestion fees from transmission customers. Each IOU and the Authority retains ownership, and is responsible for maintenance, of its respective transmission lines. All customers of the NYISO pay fees to the NYISO. Each customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire transmission revenue requirement.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State. The NYISO surveys the capacity of generating installations serving the State (installed capacity) and the load requirements of the electricity servers and provides an auction market for generators to sell installed capacity. The NYISO also administers day-ahead and hourly markets whereby generators bid to serve the announced requirements of the local suppliers of energy and ancillary services to retail customers. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services. A significant feature of the energy markets is that prices are determined on a location-specific basis, taking into account local generating bids submitted and the effect of transmission congestion between regions of the State. The NYISO collects charges associated with the use of the transmission facilities and the sale of power and services bid through the markets that it operates. It remits those proceeds to the owners of the facilities in accordance with its tariff and to the sellers of the electricity and services in accordance with their respective bids.

Because of NYISO requirements, the Authority is required to bid into the NYISO day-ahead market (DAM) virtually all of the installed capacity output of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such units' generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority and whether the unit is needed by the NYISO to meet expected demand. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price (the Market Clearing Price), based on NYISO pricing methodology, for the energy dispatched above that needed to meet Authority contractual load (the Excess Energy). For the energy needed to meet Authority contractual load (the Contract Energy), the Authority receives the price in its contracts with its customers (the Contract Price).

This procedure has provided the Authority with economic benefits from its units' operation when selected by the NYISO and may continue to do so in the future. However, such bids also obligate the Authority to supply the energy in question during a specified time period, which does not exceed two days (the Short Term Period), if the unit is selected. If a forced outage occurs at the Authority plant that is to supply such energy, then the Authority is obligated to pay during the Short Term Period (1) in regard to the Excess Energy amount, the difference between the price of energy in the NYISO hourly market and the Market Clearing price in the day-ahead market, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO hourly market, which is offset by amounts received based on the Contract Price. This hourly market price is subject to more volatility than the day-ahead market price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the day-ahead market and the Contract Price may be well below the price in the NYISO hourly market, with the Authority required to pay the difference. In times of maximum energy usage, this cost could be substantial. This outage cost risk is primarily of concern to the Authority in the case of its Poletti plant and its 500-MW plant (discussed in Note L (6)) because of their size, nature and location.

In addition to the risk associated with the Authority bidding into the day-ahead market, the Authority could incur substantial costs, in times of maximum energy usage, by purchasing replacement energy for its customers in the NYISO day-ahead market or through other supply arrangements to make up for lost energy due to an extended outage of its units or failure of its energy suppliers to meet their contractual obligations. As part of an ongoing risk mitigation program, the Authority investigates financial hedging techniques to cover, among other things, future maximum energy usage periods.

Note K - Nuclear Plant Divestiture and Related Matters

(1) Nuclear Plant Divestiture

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

As of December 31, 2008 and 2007, the present value of the notes receivable were:

(*in Millions*)	**2008**	2007
Notes receivable - nuclear plant sale	**$107**	$118
Less: Due within one year	**12**	11
	$ 95	$107

As a result of competitive bidding, the Authority agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 500 MW during the period 2005 to 2008.

On September 6, 2001, a subsidiary of Entergy Corporation completed the purchase of Indian Point 1 and 2 (IP1 and IP2) nuclear power plants from Consolidated Edison Company of New York Inc. Under an agreement between the Authority and Entergy, which was entered into in connection with the sale of the Authority's nuclear plants to Entergy, the acquisition of the IP2 nuclear plant by a subsidiary of Entergy resulted in the Entergy subsidiary which now owns IP3 being obligated to pay the Authority $10 million per year for 10 years beginning September 6, 2003, subject to certain termination and payment reduction provisions upon the occurrence of certain events, including the sale of IP3 or IP2 to another entity and the permanent retirement of IP2 or IP3. The September 6, 2008 and 2007 payments were received and are included in Other Income.

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. In essence, these contracts provide that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005-2014). During 2006 and 2007, disputes arose concerning the calculation of the amounts due the Authority for 2005 and 2006, respectively. In October 2007, the parties reached an agreement resolving these disputes and amending the VSAs. In essence, these amended VSAs 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. The Authority has received the maximum annual payments related to calendar years 2007 and 2008. In all other material respects, the terms of the amended and original VSAs are substantially similar. The payments, related to the calendar years ending after December 31, 2008, are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. Entergy has proposed a corporate restructuring involving, among other things, the spin-off of its nuclear business (including IP3 and JAF) to a new, publicly-traded company. While Entergy initially indicated that it was of the view that the spinoff would cause the VSAs to be terminated, discussions between the Authority and Entergy produced an accord in August 2008 whereby the parties agreed that such spinoff would not constitute a terminating event for the VSAs. Relating to calendar year 2008, payments totaling $72 million have been accrued by the Authority and are reflected in Other Income in the Authority's Statements of Revenues, Expenses, and Changes in Net Assets.

(2) Nuclear Fuel Disposal
In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation. (See Note L (7), " New York State Budget Matters and Other Issues," relating to a temporary transfer of such funds to the State.) As of December 31, 2008, the liability to Entergy totaled $216 million. The Authority retained its pre-closing claim against DOE under the DOE standard contract for failure to accept spent fuel on a timely basis.

(3) Nuclear Plant Decommissioning
The Decommissioning Agreements with each of the Entergy Subsidiaries deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority will retain contractual decommissioning liability until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, described below, if any. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund.

The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the U.S. Nuclear Regulatory Commission (NRC) minimum cost estimate amounts applicable to the plant.

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 license for IP3 or JAF is extended, an amount equal to $2.5 million per year, for a maximum of 20 years, would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension during which the plant operates. In August 2006 and April 2007, the NRC received license renewal applications (for an additional 20 years) for JAF and IP3, respectively. The current licenses for JAF and IP3 expire in 2014 and 2015, respectively.

Decommissioning Funds of $812 million and $979 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2008 and 2007, respectively.

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

Note L - Commitments and Contingencies

(1) Competition
The Authority's mission is to provide clean, economical and reliable energy consistent with its commitment to safety, while promoting energy efficiency and innovation, for the benefit of its customers and all New Yorkers. The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500-MW plant); (d) a significant reduction of outstanding debt; and (e) implementation of an energy and fuel risk management program. Major accomplishments during 2008 supporting this program include an agreement (approved by Governor Paterson in January 2009) with Alcoa for the continued supply of hydropower from the Authority's St. Lawrence-FDR Power Project, additional funding of the Authority's Other Postemployment Benefits (OPEB) obligation and initiating the development of a program to assess enterprise-wide risk across the Authority.

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation has been addressed and mitigated by both the "Energy Charge Adjustment with Hedging" (ECA) cost recovery provisions in the new long-term supplemental electricity supply agreements and generation from the 500-MW plant. It should be noted that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market. In 2008, wholesale electricity prices peaked in the summer and declined towards year-end reflecting the weaknesses in the economy and in commodity prices. Wholesale electricity prices are forecasted to be lower in 2009, thereby resulting in lower costs of purchased power and fuel, but also unfavorably impacting the Authority in its role as a seller in the electricity market.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority, for example, the Power for Jobs program. The economic downturn has also caused severe budget problems for the State resulting in additional requests for voluntary contributions from the Authority. See Note L (7), "New York State Budget Matters and Other Issues."

During 2008, volatile financial markets severely impacted the world economy. According to the National Bureau of Economic Research (NBER), a recession in the United States began in December 2007. Many economists believe that this recession will be long and deep. The environment has been described as the worst financial crisis since the 1930's. Credit availability became scarce or non-existent even for the most creditworthy borrowers. In this environment, the Authority continued to exercise its financial flexibility. As an example, in early 2008, the periodic auctions in the $300 billion Auction Rate Securities (ARS) market began failing and the ARS market became illiquid. Investors were unable to readily sell their investments in ARS and if they were able to sell, it was at a significant discount. The Authority decided to refund its $72.1 million in ARS with tax-exempt commercial paper thereby rendering its holders of ARS whole in an illiquid market.

The Authority's restructuring of its long-term debt through open-market purchases and refundings, begun prior to the adoption of the Bond Resolution, has resulted in, and is expected to continue to result in, cost savings and increased financial flexibility. Since December 31, 1998, the Authority has reduced its total debt by $0.3 billion, or 11%, resulting in the reduction of its total debt/equity ratio from 1.44 to 0.83, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982. During 2008, long-term debt, net of current maturities, decreased by $149 million, or 8%, primarily due to early extinguishments of debt ($122 million) and scheduled maturities (i.e., reclassifications to long-term debt due within one year of $102 million) offset by a $75 million increase in commercial paper classified a long-term debt. The Authority expects to continue debt retirements in the future to the extent funds are available and not needed for the Authority's expenses, reserves, or other purposes.

The Authority can give no assurance that even with these measures it will not lose customers in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants. In addition, the Authority's ability to market its power and energy on a competitive basis is limited by provisions of the Act that restrict the marketing of Poletti and the 500-MW plant outputs, restrictions under State and Federal law as to the sale and pricing of a large portion of the output from the Niagara and St. Lawrence-FDR projects, and restrictions on marketing arising from Federal tax laws and regulations.

(2) Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its eleven NYC Governmental Customers, including the Metropolitan Transportation Authority, The City of New York, the Port Authority of New York and New Jersey (Port Authority), the New York City Housing Authority, and the New York State Office of General Services, entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers. Beginning in 2005, the Authority implemented a new annual price setting process under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Under the Agreements, such market-risk hedging options include a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging.

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers.

In 2007, the NYC Governmental Customers selected an "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all Variable Costs are passed on to them, and which, once elected, applies for two consecutive years. Thus, an ECA mechanism applied during calendar year 2008. The Authority incorporated the Trustee-approved Fixed Costs, the Variable Costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new rates effective for 2008 billings. Since an ECA mechanism was in effect for 2008, Authority invoices included an addition or subtraction each month that reflected changes in the cost of energy as described in the Agreement. The parties have agreed to continue the ECA mechanism for 2009.

With the customers' guidance and approval, the Authority will continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

The NYC Governmental Customers are committed to pay for any supply secured for them by the Authority which results from a collaborative effort. At their November 2006 meeting, the Authority's Trustees authorized entering into negotiations for the execution of long-term supply agreements with Hudson Transmission Partners, LLC (Hudson) and FPL Energy, LLC (FPLE), as the winning bidders in response to the Authority's Request for Proposals (RFP) for Long-Term Supply of In-City Unforced Capacity and Optional Energy issued in March 2005. These supply agreements are intended to serve the long-term requirements of the NYC Governmental Customers under the Agreements.

The Authority would secure these long-term supplies through the transmission rights associated with Hudson's proposed transmission line extending from Bergen County, New Jersey, to Con Edison's West 49 Street substation and the Unforced Capacity associated with FPLE ownership of capacity produced at the existing Red Oak combined cycle power plant in Sayreville, New Jersey. In accordance with the bidders' proposals, the purchases would qualify as 500 MW of locational capacity in New York City, and facilitate the purchase of energy from the neighboring PJM Interconnection for resale into New York City. Subject to reaching final negotiated contract terms and the approval thereof by the NYC Governmental Customers, the costs associated with the contracts will be borne by the customers. Based on an impact study completed in June 2007, PJM Interconnection notified Hudson that it would be responsible for substantial interconnection and system upgrade costs in order to obtain the firm transmission withdrawal rights for the Bergen, New Jersey substation it had requested. Thereafter, Hudson agreed to sponsor the facilities study relating to such interconnection and upgrade facilities.

In anticipation of the closure of the Authority's existing Poletti Project in January 2010, and in addition to the Hudson/FPLE supply agreements, the Authority, in November 2007, issued a non-binding 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 as early as the summer of 2010. At its April 2008 meeting, the Authority's Trustees authorized negotiation of a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a new 500-MW power plant to be constructed in Astoria, Queens, adjacent to its existing plant. Following approval of the NYC Governmental Customers, the Authority and Astoria Energy entered into a long-term supply contract in July 2008. The costs associated with the contract will be borne by these customers. It is anticipated that the new plant would enter into service by the summer of 2011.

The Authority's other SENY Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County (County), and by first quarter 2008, the remaining 103 Westchester Governmental Customers had executed the new agreement. Among other things, under the agreement, an energy charge adjustment mechanism will be applicable, and customers are allowed to partially terminate 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.

(3) Power for Jobs
In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized the PFJ Program to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, the New York State Economic Development Power Allocation Board (EDPAB) recommends for Authority approval allocations to eligible recipients of power from power purchased by the Authority through a competitive procurement process and power from other sources. Under the 2000 legislation, the Authority is authorized to provide power through an alternate method to the competitive procurement process if the cost of the power through the alternate method is lower than the cost of power available through a competitive procurement process, provided that the use of power from Authority sources does not reduce the availability of, or cause an increase in the price of, power provided by the Authority for any other PFJ Program. If the Authority decides to not make power available to an entity whose allocation has been recommended by EDPAB, the Authority must explain the reasons for such denial. The PFJ Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are based on the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into New York law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" (PFJ Rebates) from termination until December 31, 2005. Generally, the amount of such PFJ Reimbursements for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period. Annually from 2005 to 2008, provisions of the approved State budgets extended the PFJ Program, currently through June 30, 2009. As of December 31, 2008, 238 PFJ Program customers have opted to extend their contracts and 243 PFJ Program customers have opted to receive PFJ Rebates. The Authority approved PFJ Reimbursements payments of $54 million and $42 million for 2008 and 2007, respectively. (See Note L (7), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.)

Two Authority PFJ customers initiated an Article 78 proceeding challenging the Authority's implementation of Chapter 645 of the Laws of 2006, signed by the Governor on August 16, 2006. The Authority was served on February 8, 2007. The petition alleged three Authority misinterpretations of the new law: (a) the Authority limited the restitution benefits provided by the new law only to PFJ customers who chose to continue with the standard PFJ contracts; (b) the Authority refuses to pay those restitution benefits until late 2007; and (c) the Authority computes the rebates available to petitioners who now elect the PFJ Rebates option (in lieu of the standard contract) based on 2006 rates rather than 2005 rates. The petition did not quantify the damages it sought but asked the court to order an inquest to determine the amount. In its responsive papers served on February 23, 2007, the Authority maintained that its implementation of the new legislation is lawful and appropriate in all respects. By decision dated April 26, 2007, the Court dismissed the petition and ruled in favor of the Authority. The petitioners appealed this decision to the Appellate Division, Third Department, and by decision issued April 17, 2008, the court modified the lower court's decision and held that the Authority's determinations on the first and third issues discussed above were erroneous. Thereafter, the Authority moved the court for reargument and, in the alternative, for permission to appeal to the Court of Appeals. That motion was denied and the Authority's subsequent motion to the Court of Appeals for leave to appeal was granted on December 16, 2008. Briefing by the parties is scheduled to be completed in April 2009. The Authority is unable to predict the outcome of this matter but the Authority believes it has meritorious defenses and positions with respect thereto.

(4) Legal and Related Matters
a. 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 Indians.

On May 30, 2001, the United States District Court (the Court) denied, with one minor exception, the defendants' motion to dismiss the land claims. However, the Court barred the Federal government and one of the tribal plaintiffs, the American Tribe of Mohawk Indians from relitigating a claim to 144 acres on the mainland which had been lost in the 1930s by the Federal government. The Court rejected the State's broader defenses, allowing all plaintiffs to assert challenges to the islands and other mainland conveyances in the 1800s, which involved thousands of acres.

On August 3, 2001, the Federal government sought to amend its complaint in the consolidated cases to name only the State and the Authority as defendants. The State and the Authority advised the Court that they would not oppose the motion but reserved their right to challenge, at a future date, various forms of relief requested by the Federal government.

The Court granted the Federal government's motion to file an amended complaint. The tribal plaintiffs still retain their request to evict all defendants, including the private landowners. Both the State and the Authority answered the amended complaint. In April 2002, the tribal plaintiffs moved to strike certain affirmative defenses and, joined by the Federal government, moved to dismiss certain defense counterclaims. The defendants filed their opposition papers in September 2002. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims.

Thereafter, settlement discussions produced a land claim settlement, 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. Members of all three tribal entities voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement would also require, among other things, Federal and State legislation to become effective. Litigation in the case had been stayed to permit time for passage of such legislation and thereafter to await decision of appeals in two relevant New York land claim litigations (Cayuga and Oneida) to which the Authority is not a party.

The legislation was never enacted and once the Cayuga and Oneida appellate decisions were issued in 2005 and 2006, respectively, efforts to obtain legislative approval for the settlement ceased. Because the recently issued appellate decisions dismissed land claims by the Cayugas and Oneidas based on the lengthy delay in asserting such claims (i.e., the defense of laches), on November 26, 2006, the defense in the instant St. Regis litigation moved to dismiss the three Mohawk complaints as well as the United States' complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007. The defendants filed reply papers December 5, 2007, and plaintiffs filed surreply papers on January 11, 2008. A decision on the defendants' motions is pending.

The Authority had previously accrued an estimated liability based upon the provisions of the settlement described above. This liability is reflected in the Balance Sheet as of December 31, 2008.

The Authority is unable to predict the outcome of the matters described above, but believes that the Authority has meritorious defenses or positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

b. A customer of the Authority, the City of New York (City), recently reached a settlement with Consolidated Edison Company of New York, Inc. (Con Edison) for delivery overcharges and interest stemming from Con Edison's inaccurate register of the City's street lighting usage. The register failed to reflect certain energy efficient upgrades the City made beginning in the 1990s and ending in 2003. The City took the position that the Authority, due to Con Edison's inaccurate register, overcharged the City in increased delivery and production charges. In August 2008, the Authority reached a negotiated settlement for approximately $4 million with the City and this matter is considered closed.

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

(5) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $156 million at December 31, 2008.

Non-cancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Commitments under non-cancelable operating leases are as follows:

(*in Millions*)	Total	2009	2010	2011	2012	2013
Gross Operating Leases	$4.6	$2.4	$1.5	$0.3	$0.2	$0.2
Less: Subleases/Assignments	2.0	1.5	0.5	-	-	-
Net Operating Leases	$2.6	$0.9	$1.0	$0.3	$0.2	$0.2

(6) Small, Clean Power Plants and 500-MW Plant

To meet capacity deficiencies and ongoing local requirements in the New York City metropolitan area, which could also adversely affect the statewide electric pool, the Authority placed in operation, in the Summer of 2001, the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, each having a nameplate rating of 47 MW at six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses two units, as early as the commercial operation date of either the 500-MW plant (December 31, 2005) or another specified plant being constructed in the New York City area, if the Mayor of New York City directs such cessation. No such cessation has occurred.

To serve its New York City Governmental Customers and to comply with the NYISO in-City capacity requirement in the New York City area, the Authority has constructed a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW plant) as the most cost-effective means of effectuating such compliance. The 500-MW plant is centered around two combustion turbines, each exhausting to a dedicated heat recovery steam generator, and also includes a steam turbine, and an air-cooled condenser. At a cost of approximately $745 million, the Authority's 500-MW plant began commercial operation on December 31, 2005.

In June 2007, the Authority awarded a long-term service agreement (LTSA) for the 500-MW plant with a term of up to 15 years and at a cost of up to $105 million. The LTSA will cover scheduled major maintenance, including parts and labor; contingencies for escalation of materials and labor; and potential extra work.

In connection with the licensing of the 500-MW plant, the Authority has entered into an agreement which will require the closure of the Authority's existing Poletti Project in January 2010. The agreement also imposes restrictions on the Authority's fuel oil use at the existing Poletti Project and limitations on the overall amount of potential generation that could be generated from the existing Poletti Project each year.

(7) New York State Budget Matters and Other Issues

a. Section 1011

Section 1011 of the Power Authority Act (Act) constitutes a pledge of the State to holders of Authority obligations not to limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged or unless adequate provision is made by law for the protection of the holders thereof. Several bills have been introduced into the State Legislature, some of which propose to limit or restrict the powers, rights and exemption from regulation which the Authority currently possesses under the Act and other applicable law or otherwise would affect the Authority's financial condition or its ability to conduct its business, activities, or operations, in the manner presently conducted or contemplated by the Authority. It is not possible to predict whether any of such bills or other bills of a similar type which may be introduced in the future will be enacted.

In addition, from time to time, legislation is enacted into New York law which purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that in the case of each such provision, the Authority will be immune from the financial obligations imposed by such provision.

b. Budget / Power for Jobs

1) 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 State legislation (generally budget legislation), 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) 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.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, authorizes the Authority "as deemed feasible and advisable by the Trustees," to make annual "voluntary contributions" into the State treasury in connection with the PFJ Program. Commencing in December 2002 through March 2008, the Authority made such voluntary contributions to the State in an aggregate amount of $424 million.

In recent years, annual extensions of the PFJ Program have been signed into law. The most recent in April 2008 (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2009; (2) authorizes the Authority to make an additional voluntary contribution of $25 million for the State Fiscal year 2008-2009 with the aggregate amount of such contributions increasing to $449 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

In light of the severe budget problems facing the State at this time, the Governor proposed and the Legislature enacted additional budget legislation authorizing the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of $119 million during the remainder of State Fiscal Year 2008-2009 and $107 million during State Fiscal Year 2009-2010. Subsequent to year-end, the Authority's Trustees authorized additional voluntary contributions of $119 million that were paid in January 2009. With this $119 million payment, the Authority has made voluntary contributions to the State totaling $449 million in connection with the PFJ Program and $70 million unrelated to the PFJ Program along with the annual payment for 2008 and prepayments for 2009 and 2010 totaling $24 million to the New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The financial statements for the year ended December 31, 2008 include an accrued liability and charge against net income related to the portion applicable to 2008 ($33 million). The costs related to 2009 ($78 million) which is composed of the $70 million contribution to State and $8 million OPRHP payment were recorded in January 2009 to be reported and classified as a Contribution to State and an operating expense, respectively, in the 2009 income statement. The $8 million OPRHP payment applicable to 2010 was recorded as a prepayment for 2010 made in January 2009.

In addition to the authorization for the voluntary contributions, the Authority has also been requested to provide temporary transfers to the State of certain funds currently in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 ("MOU") between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority agreed to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have 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 during State Fiscal Year 2009-2010 $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.

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 would be 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 monies 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 February 2009, the Authority's trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) by March 27, 2009 and Asset A ($103 million) within 180 days of the enactment of the 2009-10 State Budget; and approved the payment of the voluntary contribution of $107 million by March 31, 2010. The temporary transfer of Asset A ($103 million) and the voluntary contribution of $107 million will require trustee reaffirmation prior to the actual dates of the transfer and contribution.

For financial reporting purposes, the Authority will classify the transfers of Asset A and Asset B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State will waive certain future payments from the Authority to the State. Firstly, the Authority's obligation to pay the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services would be waived until September 30, 2017. These payments would have been approximately $5 million per year based on current estimates but the waiver would be limited to a maximum of $45 million in the aggregate during the period. Secondly, the obligation to make payments in support of the Niagara State park and for the upkeep of State lands adjacent to the Niagara or St. Lawrence power plants would be waived from April 1, 2011 to March 31, 2017. These payments would have been $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 exceeds the present value of the lost interest income. The voluntary contribution of $107 million, if made, will be reflected and classified as a Contribution to State in the 2010 income statement.

Unrelated to the preceding paragraphs, the Authority has also agreed to provide $10 million to the OPRHP to fund the development of energy efficiency measures and clean energy technologies at the Rivers and Estuaries Center in Beacon, New York of which approximately $2 million has been provided to date.

2) Certain business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs faced rate increases beginning November 1, 2005.

To remedy this situation, legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amended the Act and the New York Economic Development Law (''EDL'') in regard to several of the Authority's economic development power programs and the creation of energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS Benefits"), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and for a limited period up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits are administered by New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially scheduled to expire on December 31, 2006, additional laws in 2006, 2007 and 2008 (2006 law, 2007 law and 2008 law) extended the ECS Benefits program through June 30, 2009.

The 2006 law also provides that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits (ECS Funding Source). From the inception of the ECS Benefits program through December 31, 2007, there were no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of such hydropower. For 2008, the Authority paid $40 million in ECS Benefits from internal funds and for the first six months of 2009, it is estimated that it the Authority will pay approximately $10 million in ECS Benefits from internal funds.

c. Accountability Act and Other Issues

Legislation entitled "Public Authorities Accountability Act of 2005" (PAAA), which addresses public authority reform, was signed into law by the Governor in January 2006. The PAAA is effective for and applied to the Authority beginning with its 2006 calendar year.

The Authority's previous and current procedures include many of the practices and information submittals now required by the PAAA including adoption of a code of ethics; filing of an annual report; independent audits by a certified public accounting firm; oversight by an audit committee; and the posting of key information on a website available to the general public. Other PAAA provisions including additional reporting requirements, accelerated filing of budgetary information; report certification by management; and the expanded role of the Board of Trustees have been addressed by the Authority. The PAAA also established a State Inspector General's Office and a Public Authority Budget Office.

Effective March 29, 2006, the Office of the State Comptroller (OSC) issued regulations that are applicable in whole or in part to many public authorities in New York State, including the Authority. Among other things, the regulations require public authorities, including the Authority, to adhere to prescribed budgeting and financial plan procedures, certain financial reporting and certification requirements, and detailed investment guidelines and procedures, including obtaining the approval of the OSC before adoption of certain changes in accounting principles.

(8) Relicensing of St. Lawrence and Niagara

On October 23, 2003, FERC issued to the Authority a new 50-year license (New St. Lawrence License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project, compliance with license conditions, and compliance with settlement agreements, for a period of 50 years will be approximately $210 million, of which approximately $166 million has already been spent. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New St. Lawrence License.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license (New Niagara License) for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007. In November 2007, these entities filed a petition for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. Briefing by the parties has been completed and oral argument was held before the Court in February 2009. The Authority is unable to predict the outcome of this matter but the Authority believes that FERC has available meritorious defenses and positions with respect thereto.

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara Project, including the debt issued therefor, were incorporated into the cost-based rates of the Project beginning in 2007.

(9) Advanced Clean Coal Power Plant Initiative

In September 2006, as part of New York State's Advanced Clean Coal Power Plant Initiative, the Authority issued a non-binding request for proposals that solicited up to 600 MW of electric capacity and energy from one or more clean coal facilities that may be developed in the State by one or more private sector entities and which would be subject to one or more purchased power agreements with the Authority. On December 19, 2006, the Authority's Trustees, in response to proposals from four bidders, determined that NRG Energy, Inc. (NRG) was the highest evaluated bidder but that the pricing terms of NRG's bid (and the other highly evaluated bids) were too high to be workably competitive for the Authority. The Trustees authorized the Authority to negotiate a strategic alliance with NRG, to explore approaches for bringing down the cost of the project and its output, including securing additional financial assistance, grants, or tax credits. The Trustees also conditionally awarded a power purchase agreement to NRG, contingent upon, among other things, the success of the strategic alliance and future Trustee approval. However, on July 16, 2008, the Authority advised NRG that despite the best efforts of the parties, it did not appear that there would be a sufficient reduction in the price of the output of the proposed facility such that Authority staff could recommend to the Trustees the ultimate approval of a final purchased power agreement for the output of the facility. Accordingly, efforts to develop the project under the State's Advanced Clean Coal Power Plant Initiative came to an end.

(10) Regional Greenhouse Gas Initiative

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 will require 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 Poletti, Flynn, SCPPs, and 500-MW Plant will be subject to the RGGI requirements. The Authority has participated in the two auctions conducted in September and December of 2008. The costs of compliance to the Authority and other generators in the region could be significant. The Authority is monitoring the potential federal programs that are under discussion and debate for their potential impact on RGGI in the future.

(11) Natural Gas Contract

In 1990, the Authority entered into a long-term contract (Enron Contract) with Enron Gas Marketing, Inc., which was succeeded in interest by Enron North America Corp. (Enron NAC).

On November 30, 2001, pursuant to the terms of the Enron Contract, the Authority issued its notice of termination of the Enron Contract, with an effective termination date of December 14, 2001. On December 2, 2001, Enron Corp. and certain of its subsidiaries, including Enron NAC, filed for Chapter 11 bankruptcy protection. It appears from bankruptcy court filings that Enron NAC had listed the Enron Contract as one of its executory contracts.

By letter to the Authority dated February 12, 2003, counsel to Enron NAC asserted that the Authority's attempted termination of the Enron Contract was invalid and that the Authority owes Enron NAC a termination payment. In the letter, it was also asserted that the termination was invalid because of the intervening bankruptcy filing between the date that notice of termination was given by the Authority and the termination date. The letter also asserted that, even if the Enron Contract had terminated, Enron NAC should be entitled to a termination payment, notwithstanding the fact that the Enron Contract had no provision which would have allowed Enron NAC such a termination payment. The letter stated that "NYPA's failure to comply with its contractual provisions will force Enron to pursue its rights under the contract and the Bankruptcy Code."

By letter dated February 28, 2003, the Authority responded to Enron NAC's assertions by restating its view that the termination of the Enron Contract was valid and by asserting that no termination payment was due because the Enron Contract did not provide for such termination payment.

In a subsequent letter to the Authority dated March 21, 2003, counsel for Enron NAC proposed a reduction in Enron NAC's termination payment claim to settle the dispute. The Authority determined that it would not respond to this proposal.

On July 15, 2004, the Enron Contract was not included as an assumed executory contract in the reorganization plan for Enron Corp. and its subsidiaries confirmed by the bankruptcy court. By the terms of the reorganization plan, all contracts not assumed are deemed rejected. It should be noted that the disclosure statement filed in connection with the reorganization plan listed the Authority as a party against whom Enron NAC held a potential collection action for accounts receivable.

On December 8, 2006, counsel for Enron sent a letter to counsel for the Authority and presented a previously unasserted theory to the effect that the Authority's November 30, 2001 notice establishing a termination date for the Enron Contract constituted a violation of the automatic stay that was effective as of the filing of Enron's bankruptcy petition on December 2, 2001. Enron's counsel claimed the Authority's notice, which was dispatched on November 30, 2001, did not arrive at Enron's offices in Houston until after the time of the bankruptcy petition. Enron's counsel also demanded that the Authority provide access to the Authority's historical gas purchase records in order for an amount of damages to be ascertained.

Based on various sources including contemporaneous documentation, the Authority refuted Enron's factual assertions and rejected the request for access to business records. Enron's counsel has not replied to the Authority's response.

No formal action on this matter was commenced in the bankruptcy proceeding, and no litigation on this matter has yet been commenced. The Authority is unable to predict the outcome of the matter described above, but believes that the Authority has meritorious defenses or positions with respect thereto. The Authority is not involved in any transaction with Enron Corp. or any of its subsidiaries, except for the terminated gas contract and a small claim by the Authority against an Enron Corp. subsidiary for certain NYISO-related services provided by the Authority.

New York Power Authority

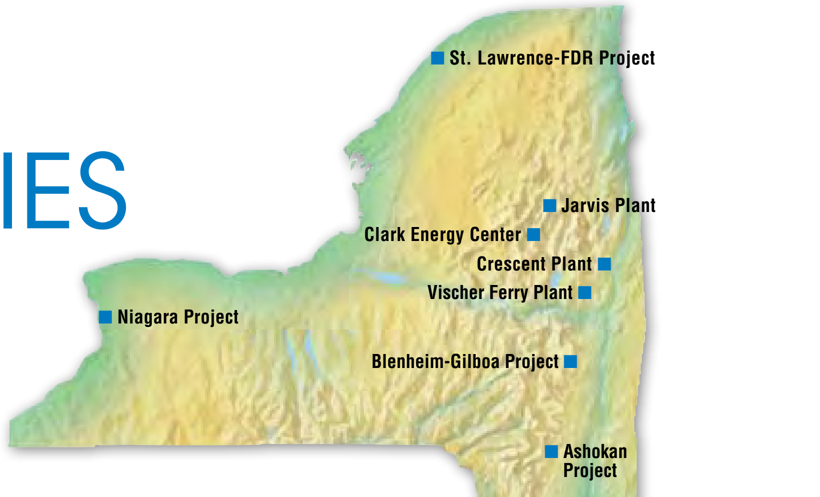
Required Supplementary Information

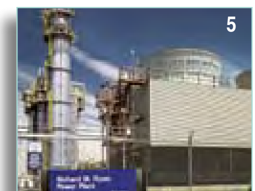
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
For the Retiree Health Plan
(in Millions)

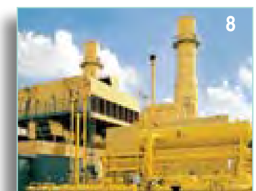
Actuarial Valuation Date	Actuarial Value of Assets (a)*	Actuarial Accrued Liability (AAL) --- Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
1/1/08	$100	$337	$237	30%	$136	174%
1/1/06	0	301	301	0%	130	232%
1/1/04	0	279	279	0%	116	240%
1/1/02	0	271	271	0%	107	254%

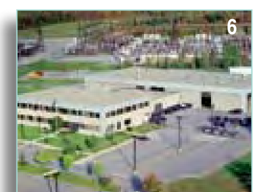
* During 2007, a trust for the Authority's OPEB obligations was funded with an initial amount of $100 million. This amount is reflected in the table above as of the 1/1/08 Actuarial Valuation Date. See Note I, "Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans," for additional information.

NYPA FACILITIES









1. ST. LAWRENCE-FRANKLIN D. ROOSEVELT POWER PROJECT

Type: Hydroelectric

Location: Massena, on the St. Lawrence River, St. Lawrence County

Net Dependable Capability: 800,000 kw

First Commercial Power: July 1958

2008 Net Generation: 6.9 billion kwh

Net Generation Through 2008: 339.2 billion kwh

2. NIAGARA POWER PROJECT

Type: Hydroelectric

Location: Lewiston, on the Niagara River, Niagara County

Net Dependable Capability: 2,441,000 kw

First Commercial Power: January 1961

2008 Net Generation: 13.5 billion kwh

Net Generation Through 2008: 694.6 billion kwh

3. BLENHEIM-GILBOA PUMPED STORAGE POWER PROJECT

Location: Blenheim and Gilboa, southwest of Albany, in Schoharie County

Net Dependable Capability: 1,100,000 kw

First Commercial Power: July 1973

2008 Net Generation: 0.5 billion kwh

Gross Generation Through 2008: 48.8 billion kwh

4. CHARLES POLETTI POWER PROJECT

Type: Gas/Oil

Location: New York City, on the East River

Net Dependable Capability: 885,000 kw

First Commercial Power: March 1977

2008 Net Generation: 2.0 billion kwh

Net Generation Through 2008: 75.6 billion kwh

5. RICHARD M. FLYNN POWER PLANT

Type: Gas/Oil

Location: Holtsville, Suffolk County

Net Dependable Capability:135,000 kw

First Commercial Power: May 1994

2008 Net Generation: 1.2 billion kwh

Net Generation Through 2008: 16.3 billion kwh

6. FREDERICK R. CLARK ENERGY CENTER

Function: Coordinates NYPA system operations

Location: Marcy, north of Utica, Oneida County

Opened: June 1980

7. SMALL HYDRO FACILITIES

Located on reservoirs and waterways around the state, these facilities include the Ashokan Project (shown), the Kensico Project, the Gregory B. Jarvis Plant, the Crescent Plant and the Vischer Ferry Plant, with a combined net capability of 13,000 kw. They produced a total of 180 million kwh in 2008.

8. SMALL, CLEAN POWER PLANTS

Type: Gas

Location: Six New York City sites and Brentwood, Suffolk County

Net Dependable Capability: 461,000 kw

First Commercial Power: June 2001

2008 Net Generation: 0.7 billion kwh

Net Generation Through 2008: 5.5 billion kwh

9. 500-MW COMBINED-CYCLE PLANT

Type: Gas/Oil

Location: New York City, on the East River

Net Dependable Capability: 500,000 kw

First Commercial Power: December 2005

2008 Net Generation: 2.6 billion kwh

Net Generation Through 2008: 8.9 billion kwh

Our Mission is...

to provide clean, economical and reliable energy consistent with our commitment to safety, while promoting energy efficiency and innovation for the benefit of our customers and all New Yorkers.

♻ This 2008 Annual Report was designed, written, photographed and produced entirely in-house by the New York Power Authority's Corporate Communications staff, and was digitally printed by the Power Authority Repro Department's iGen3 printer, on recycled paper.

New York Power Authority
Generating more than electricity

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