FINANCIAL REPORT 2004

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 generally accepted accounting principles 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 that independently assesses the effectiveness of internal controls and reports findings and recommends possible improvements to management. The Inspector General is responsible for investigating allegations of wrongdoing; monitoring compliance with the Authority's rules and regulations; and initiating reviews and investigations into areas of special concern or vulnerability. In addition, as part of its audit of the Authority's financial statements, Ernst & Young LLP, independent auditors, considers internal controls in determining the nature, timing and extent of audit procedures to be applied. Management has considered the recommendations of the internal auditors 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. Management believes that, as of December 31, 2004 and 2003, 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 Authority's Board of Trustees has an Audit Committee composed of Trustees who are not employees of the Authority. The Audit Committee meets with the Authority's management, its Director of Internal Audits and its independent auditors, periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, and the scope and results of the audit by the independent auditors and of the audit programs of the Authority's internal auditing department. The independent auditors, the Director of Internal Audits, the Inspector General and the Vice President of Ethics and Regulatory Compliance have direct access to the Audit Committee.

Joseph M. Del Sindaco
Senior 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 sheet and related statement 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 year ended December 31, 2004. 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 audit. The financial statements of the Authority for the year ended December 31, 2003, were audited by other auditors, whose report dated February 17, 2004, expressed an unqualified opinion on those statements and included an explanatory paragraph that disclosed the change in the Authority's method of accounting for asset retirement obligations discussed in Note B(5) and for other postretirement benefits discussed in Note I of these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis on pages 4 to 8 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 15, 2005

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. The Authority's financial performance goal is 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) the completion of negotiations with its major Southeastern New York (SENY) governmental customers resulting in new long-term agreements; (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site; (d) a significant reduction of outstanding debt and (e) implementation of an energy and fuel risk management program.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

(*in Millions*)

	2004	2003	2002	2004 vs. 2003 Favorable/ (Unfavorable)	2003 vs. 2002 Favorable/ (Unfavorable)
Operating Revenues	**$2,215**	$2,292	$2,061	(3%)	11%
Operating Expenses					
Purchased power	**1,015**	1,132	953	10%	(19%)
Fuel	**260**	281	196	7%	(43%)
Operations & Maintenance	**356**	338	332	(5%)	(2%)
Wheeling	**277**	278	273	0%	(2%)
Depreciation	**148**	159	176	7%	10%
Asset impairment charge	**64**		63	n/m	100%
	2,120	2,188	1,993	3%	(10%)
Net Operating Revenues	**95**	104	68	(9%)	53%
Investment and other income	**64**	62	94	3%	(34%)
Interest expense	**77**	77	78	0%	1%
Revenues, net before cumulative effect of change in accounting principle	**82**	89	84	(8%)	6%
Cumulative effect of change in accounting principle		16		100%	n/m
Net Revenues	**82**	73	84	12%	(13%)
Net Assets - Beginning	**1,756**	1,683	1,599	4%	5%
Net Assets - Ending	**$1,838**	$1,756	$1,683	5%	4%

The following summarizes the Authority's financial performance for the years 2004 and 2003:

The Authority had net revenues of $ 82 million in the year 2004, compared to $89 million in 2003 before the cumulative effect of a change in accounting principle. This $7 million decrease in net revenues before the cumulative effect adjustment is primarily attributable to the negative impact of lower revenues ($77 million), and an asset impairment charge ($64 million), partially offset by lower purchased power costs ($117 million). Revenues for 2004 were lower than those in the prior year period primarily due to a lower volume of market-based sales. The 2004 asset impairment charge of $64 million includes $30 million related to the Authority's CSC transmission project (CSC) and $34 million related to the Small Clean Power Plants (SCPPs). During 2004, higher production at the Authority's hydroelectric facilities resulted in significantly lower purchased power costs. Higher operations and maintenance expenses incurred during 2004 were more than offset by lower fuel costs and lower depreciation. During 2003, the Authority adopted Financial Accounting Standards Board Statement No. 143 "Accounting for Asset Retirement Obligations" (see Note B(5)). As a result, 2003 net revenues were reduced by $16 million to $ 73 million reflecting the cumulative effect of this change on prior periods.

Non-operating income was slightly higher in 2004 due to an increase in sales of excess emission allowances. Interest costs for the year were substantially unchanged. The Authority continued to prudently manage its capital structure. During 2004, long-term debt, net of current maturities, decreased by $288 million, or 13%, primarily due to early extinguishment of debt and scheduled maturities. The impact of lower outstanding debt on interest costs was offset by slightly higher rates on variable rate debt. During the period 1994 to 2004, the Authority reduced its debt/equity ratio from 2.52 to 1.25, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

Net revenues before the cumulative effect of the change in accounting principle were $89 million for 2003, compared to $84 million in 2002. This $5 million increase includes higher net operating revenues of $36 million and lower interest expense of $1 million, offset by a $32 million decrease in investment and other income. The increase in net operating revenues of $36 million during 2003 was substantially attributable to a reduction in depreciation of $18 million and the $63 million asset impairment charge recognized in 2002. During 2003, higher energy prices contributed to higher purchased power and fuel costs ($264 million) incurred by the Authority. These higher costs were substantially offset by higher operating revenues ($231 million), including increased revenues from market-based sales to the New York Independent System Operator (ISO). During 2003, a substantial portion of the increased fuel and purchased power costs were incurred in providing service to the Authority's SENY governmental customers. Interest costs were relatively unchanged in 2003 due to continued low interest rates on variable rate debt. Lower investment income was primarily the result of a mark-to-market adjustment which reduced the carrying value of the Authority's investment portfolio.

Operating Revenues

Operating revenues of $2,215 million in 2004 were $77 million or 3% lower than the $2,292 million in 2003, primarily due to a lower volume of market-based sales to the ISO partially offset by higher customer revenues. Revenues from market-based sales were approximately $100 million lower due to the availability of less energy for sale to the market. This was mainly due to a scheduled maintenance outage at the Poletti Plant and the expiration of purchase power agreements with certain Entergy Corp. subsidiaries. Prices on market-based sales were comparable during the 2-year period. Customer revenues were higher primarily due to an increase in rates charged to the Authority's SENY governmental customers effective April 2004.

Purchased Power and Fuel

Purchased power costs decreased by 10% in 2004 to $1,015 million in 2004 from $1,132 million in 2003, primarily due to the availability of additional hydroelectric energy produced at the Authority's Niagara and St. Lawrence facilities. Net generation at these plants increased by 12% during 2004 to 20.4 million megawatt-hours (mwh). Fuel costs were $21 million (7 %) lower during 2004, reflecting lower fossil-fuel production due to the Poletti outage partially offset by higher prices for natural gas and fuel oil

Operations and Maintenance

O&M expenses increased by 5% in 2004 to $356 million. This increase included higher costs incurred in performing scheduled maintenance at Poletti, increased right-of-way maintenance costs, and a higher contribution to the New York State and Local Retirement System to fund employee pension benefits.

Depreciation and Asset Impairment Charge

Depreciation expense for the year 2004 was less than the prior year primarily due to a significant reduction in the book value of the SCPPs since the units were installed in the year 2001. This reduction resulted from the asset impairment provisions discussed below and the continued application of accelerated depreciation for these facilities.

The Authority has performed asset impairment analyses on its facilities on an ongoing basis and recognized a charge of $64 million in 2004, including $34 million related to the SCPPs and $30 million related to a transmission-related project (CSC Project). The Authority had previously recognized asset impairment charges of $63 million in 2002 and $62 million in 2001 related to the SCPPs. The Authority's CSC Project was undertaken to enhance the efficiency of the transmission system in New York State. The project was completed but with significant uncertainty regarding the mechanisms that would be available to the Authority to recover its capital cost. The Authority's SCPPs were installed 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 ongoing local reliability requirements in the New York City metropolitan area. These impairments were recognized based on the standards promulgated by the Financial Accounting Standard Board. Such standards require the recognition of an impairment charge when the cash flows resulting from the operation of a plant asset are expected to be less than its book value. The Governmental Accounting Standards Board has established new rules regarding the recognition of asset impairments which will apply to the Authority's financial statements effective January 1, 2005. Under these rules, asset impairments will generally be recognized only when the service utility of an asset is reduced or physically impaired.

Cash Flows

During 2004, the Authority generated cash flows of $283 million from operations compared to $190 million in 2003. Cash flows from operating activities for 2004 were higher than 2003 primarily due to lower purchased power and fuel costs incurred by the Authority, partially offset by higher operations and maintenance costs. As described above, higher hydroelectric production was a major factor in reducing purchased power costs in 2004.

Net Generation

Net generation for the year 2004 was 24.2 million mwh compared to the 22.4 million mwh generated in 2003. The 8% increase was attributable to higher production at the Authority's Niagara and St. Lawrence-FDR projects, partially offset by lower generation at the fossil facilities. Purchased power costs decreased by 10% in 2004, primarily due to the additional hydroelectric energy produced.

Beginning in 1999, 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 curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions improved somewhat in 2002; however, hydroelectric generation continued to be below average in 2003 and 2004. Water levels improved somewhat in 2004 from 2003, but continued to be below average and are expected to be about average in 2005.

SENY - Customer Long-term Supply Agreement

The Authority and its four major SENY Governmental customers (SENY Customers) have finalized a new long-term supply agreement (Agreement) under which the Authority will continue to provide full-requirements service to these SENY Customers through the end of the year 2017. These Agreements have been executed by the Authority and three of the SENY Customers, with the fourth, the Port Authority of New York and New Jersey, expected to execute the Agreement in early April, 2005. For the year 2005, production charges have been revised to produce an additional $105 million in revenues. Rates for 2005 will be fixed and not subject to adjustment based on actual costs incurred by the Authority in providing service to these SENY Customers. During 2005, under the Agreement, the Authority and the SENY Customers will consult on developing three risk management options and the SENY Customers can select a single such option to be implemented by the Authority starting in the year 2006. For certain of the options selected, a sharing plan would apply that would represent the Authority's maximum exposure under the Agreement. Under such plan, the first $60 million of cost under-recoveries would be shared equally by the Authority and its SENY Customers. Under-recoveries in excess of $60 million would be borne by the Authority. Cost savings are also subject to a sharing plan: however the first $10 million in savings are to be fully credited to the SENY Customers. In addition, beginning in 2006, the SENY Customers can select a full cost pass through mechanism or such a mechanism with additional cost hedging. Except for any such amounts borne by the Authority under a sharing plan, the SENY Customers would pay all of the costs incurred to serve them, including hedging costs. Any customer can terminate the Agreement upon three years' notice, and under certain limited circumstances, one year's notice, to the Authority but the customer would be subject to an exit fee representing its pro-rata share of any resources purchased on behalf of this customer class through a collaborative procurement process.

Summary Balance Sheet

(*in Millions*)

	2004	2003	2002
Capital Assets	**$3,255**	$3,190	$2,973
Other Assets	**2,780**	2,882	2,924
Total Assets	**$6,035**	$6,072	$5,897
Long-term Liabilities	**$3,556**	$3,673	$3,579
Other Liabilities	**641**	643	635
Total Liabilities	**4,197**	4,316	4,214
Net Assets	**1,838**	1,756	1,683
Total Liabilities and Net Assets	**$6,035**	$6,072	$5,897

Capital Asset and Long-term Debt Activity

The Authority currently estimates that it will expend approximately $1,224 million for various capital improvements over the five-year period 2005-2009. 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. Projected capital requirements during this period include:

Projects	(*in Millions*)
Niagara Upgrade	$ 37
Niagara Relicensing	132
St. Lawrence-FDR Modernization Program	102
St. Lawrence-FDR Relicensing Process/ Implementation	58
500-MW Project	176
Blenheim-Gilboa Modernization Program	116
Energy Services and Technology Projects	318
Transmission	22
Other	263
Total	$1,224

In connection with the licensing of its 500-MW electric generating project, currently under construction, the Authority has entered into an agreement which will require the closure of its existing Poletti project by no later than 2010 and possibly as early as 2008. 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 from such project each year. Because of issues relating to claims made by the Authority's general contractor under the Authority's contract for the construction of the 500-MW Project, the completion of the Project has been delayed, and the estimated cost of the Project has increased. With respect to these claims, the Authority and the general contractor have entered into a settlement agreement which will result in an estimated commercial operation date of the Project in the first quarter of 2006 and the estimated direct construction and overhead costs of the Project increasing to approximately $740 million, with additional increases possible as a result of finalization of work on the Project.

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license (New 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 for a period of 50 years will be approximately $210 million of which approximately $117 million has already been spent or will be spent in near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

In connection with the Authority's preparation of an application for a renewal of its FERC license for its Niagara Project, the Authority has reached a tentative settlement agreement with Niagara County and certain other municipal entities (collectively, the "Host Communities") in the vicinity of the Niagara Project. Under the settlement agreement, the Host Communities would, among other things, support the Authority's application for a license renewal for a 50-year term, and the Authority would, among other things, (1) provide 25 MW of power to the Host Communities or their designees for the term of the new license, (2) establish a Host Community Fund, which would be funded by annual Authority payments of at least $5 million per year (with the possibility of increased payments dependent upon electric market conditions) for the term of the new license, including a one-time payment of $8 million from such Fund upon the signing of the settlement agreement, and (3) pay $3 million annually for the term of the new license to a Recreation/Tourism Fund in Niagara County. In addition, the Authority is negotiating settlement packages with various other entities involving the Niagara "Greenway" project, ecological projects, recreational projects, groundwater infiltration abatement projects, and benefits for the Tuscarora Indian Nation. Although the final cost of all such packages will be dependent upon their final form, if they became effective, these settlement packages, based on current estimates, would result in significant additional financial obligations on the Authority and those customers receiving Niagara Project power, commencing in 2007.

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

Capital Structure

(*in Millions*)

	2004	2003	2002
Long-term debt			
Senior			
Revenue bonds	**$1,299**	$1,421	$1,265
Adjustable rate tender notes	**162**	167	172
Subordinated			
Subordinate revenue bonds	**110**	232	438
Commercial paper	**405**	444	451
Total long-term debt	**$1,976**	$2,264	$2,326
Net assets	**1,838**	1,756	1,683
Total Capitalization	**$3,814**	$4,020	$4,009

During 2004, long-term debt, net of current maturities, decreased by $288 million, primarily due to early extinguishments of debt ($161 million) and scheduled maturities ($127 million). During 2003, long-term debt, net of current maturities, decreased by $62 million, primarily due to early extinguishments of debt ($209 million) and scheduled maturities ($66 million), offset by the issuance of $213 million Series 2003 A Revenue Bonds, which will be used principally to finance certain costs associated with the relicensing of the Authority's St. Lawrence-FDR project and a modernization program for this project. Total Debt to Equity as of December 31, 2004, decreased to 1.25 to 1 from 1.45 to 1 as of December 31, 2003. The Total Debt to Equity ratio as of December 31, 2004 is the lowest ratio since the Authority implemented proprietary accounting in 1982.

Debt 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+
Weekly Rate Bonds and Commercial Paper Bonds	Aa3/VMIG1	A+/A-1	AA/F1+
Municipal Bond Insurance Support:			
Series 2003 A Revenue Bonds (Senior Debt)	Aaa	AAA	AAA
Auction Rate Bonds (Subordinate Debt)	Aaa	AAA	AAA

In September 2004, Fitch Ratings increased the Authority's subordinate debt rating to "AA" from "AA-".

The Authority has a $700 million line of credit with a syndicate of banks supporting the Commercial Paper Notes and the Weekly Rate Bonds. The line expires February 1, 2007.

More detailed information about the Authority's debt is presented in Note F to the financial statements.

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, Chief Risk Officer - Energy Risk Assessment and Control reports to the President and Chief Executive 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 ISO energy markets.

New York State Budget Matters

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003 and 2004, provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund," in connection with the Power for Jobs Program. The Authority has made voluntary contributions totaling $169 million (including $50 million and $52 million in December 2004 and 2003, respectively). Under existing law, the Authority may make such voluntary contributions up to an aggregate total of $275 million. . The Authority's staff expects to recommend to the Authority's Trustees that voluntary contributions be made to the State during 2005 in the amount of $50 million under the above aggregate cap, in addition to the reimbursement payments to Power for Jobs customers (expected not to exceed $35 million for the current Program) in connection with the Power for Jobs legislation, (see Note M(3), "Power for Jobs"), if such monies are not needed for other Authority purposes.

The Executive Budget for State Fiscal Year 2005-2006 proposes to extend the Power for Jobs Program to December 31, 2006 and to increase the cap on Authority contributions from $275 million to $394 million. If the Power for Jobs Program is extended to December 31, 2006, the Authority expects to be authorized to make additional voluntary contributions to the State, and upon such authorization, the Authority's staff expects to recommend to the Authority's Trustees that voluntary contributions be made to the State in the first quarter of 2006 in the amount of $75 million. Such amount would be in addition to reimbursement payments to Power for Jobs customers in connection with the current Program and any additional reimbursements which may be made as a result of the extension of the Program. The Authority's Trustees would only provide such additional financial assistance if and to the extent that monies are available to the Authority for such purpose and are not needed for Authority purposes.

BALANCE SHEETS

December 31, 2004 and 2003 (*in Millions*)

Assets		2004	2003
Utility Plant	Electric plant in service	**$4,461**	$4,460
	Less accumulated depreciation	**2,015**	1,887
		2,446	2,573
	Construction work in progress	**809**	617
	Net Utility Plant	**3,255**	3,190
Restricted Funds	Cash and cash equivalents	**2**	2
	Investment in securities, at fair value (Notes D, J and L)	**894**	878
		896	880
Capital Funds	Cash and cash equivalents	**44**	10
	Investment in securities, at fair value	**166**	429
		210	441
Current Assets	Cash and cash equivalents	**77**	62
	Investment in securities, at fair value	**497**	430
	Interest receivable on investments	**10**	9
	Receivables-customers	**185**	200
	Materials and supplies, at average cost:		
	Plant and general	**61**	50
	Fuel (Notes H and M(4))	**17**	14
	Risk management assets (Note H)	**109**	31
	Miscellaneous receivables and other	**111**	85
		1,067	881
Other Noncurrent Assets	Unamortized debt expense	**16**	19
	Deferred charges, long-term receivables and other	**337**	346
	Notes receivable-nuclear plant sale (Note L)	**254**	315
		607	680
	Total Assets	**$6,035**	$6,072

Liabilities and Net Assets			
Long-term Debt	Long-term debt (Notes C and F):		
	Senior		
	Revenue bonds	**$1,299**	$1,421
	Adjustable rate tender notes	**162**	167
	Subordinated		
	Subordinate revenue bonds	**110**	232
	Commercial paper	**405**	444
		1,976	2,264
Current Liabilities	Long-term debt due within one year	**127**	65
	Short-term debt (Note G)	**198**	217
	Accounts payable and accrued liabilities	**316**	361
		641	643
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note L)	**822**	771
	Disposal of spent nuclear fuel (Note L)	**187**	184
	Deferred revenues and other	**571**	454
		1,580	1,409
Net Assets	Invested in capital assets, net of related debt	**1,604**	1,625
	Restricted	**24**	23
	Unrestricted	**210**	108
		1,838	1,756
	Total Liabilities and Net Assets	**$6,035**	$6,072

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended December 31, 2004 and 2003 (in Millions)

		2004	2003
Operating Revenues	Power sales	**$1,796**	$1,870
	Transmission charges	**142**	144
	Wheeling charges	**277**	278
	Total Operating Revenues	**2,215**	2,292
Operating Expenses	Purchased power	**1,015**	1,132
	Operations	**276**	279
	Fuel oil and gas (Notes H and M(4))	**260**	281
	Maintenance	**80**	59
	Wheeling	**277**	278
	Depreciation	**148**	159
	Asset impairment charge (Note B (6))	**64**	
	Total Operating Expenses	**2,120**	2,188
	Net Operating Revenue	**95**	104
Other Income	Investment income (Note D)	**43**	47
	Other	**21**	15
	Total Other Income	**64**	62
Other Expenses	Interest on long-term debt	**99**	92
	Interest-other	**5**	5
	Interest capitalized	**(23)**	(16)
	Amortization of debt discount/ (premium) and expense	**(4)**	(4)
	Total Other Deductions	**77**	77
	Net Revenues, before cumulative effect of change in accounting principle	**82**	89
	Cumulative effect of change in accounting principle (Note B(5))		(16)
	Net Revenues	**82**	73
	Net Assets at January 1	**1,756**	1,683
	Net Assets at December 31	**$1,838**	$1,756

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2004 and 2003 (*in Millions*)

		2004	2003
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$2,225**	$2,241
	Paid to suppliers and employees for:		
	Purchased power	**(1,035)**	(1,131)
	Operations and maintenance	**(372)**	(357)
	Fuel oil and gas	**(259)**	(287)
	Wheeling of power by other utilities	**(276)**	(276)
	Net Cash Provided by Operating Activities	**283**	190
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**6**	11
	Sale of commercial paper	**25**	135
	Issuance of Series 2003 A Revenue Bonds		213
	Repayment of notes	**(5)**	(5)
	Retirement of Bonds (2004: $181 and 2003: $301 principal amount)	**(180)**	(301)
	Repayment of commercial paper	**(64)**	(142)
	Gross additions to utility plant	**(216)**	(229)
	Interest paid, net	**(104)**	(98)
	Net Cash Used in Capital and Related Financing Activities	**(538)**	(416)
Cash Flows From Noncapital -Related Financing Activities	Energy conservation program payments received from participants	**66**	38
	Energy conservation program costs	**(55)**	(50)
	Sale of commercial paper	**47**	57
	Repayment of commercial paper	**(66)**	(40)
	Interest paid on commercial paper	**(6)**	(5)
	Entergy notes receivable	**84**	84
	Entergy Fuel Payment Note		105
	Entergy contingent payment	**10**	10
	POCR funds received from New York State (Note J)		2
	Payment to New York State (Note J)		(2)
	Net Cash Provided by Noncapital-Related Financing Activities	**80**	199
Cash Flows From Investing Activities	Earnings received on investments	**24**	27
	Purchase of investment securities	**(7,288)**	(5,019)
	Sale of investment securities	**7,488**	5,037
	Net Cash Provided by Investing Activities	**224**	45
	Net increase in cash	**49**	18
	Cash and cash equivalents, January 1	**74**	55
	Cash and Cash Equivalents, December 31	**$123**	$73
Reconciliation to Net Cash Provided by Operating Activities	Net Operating Revenues	**$95**	$104
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Provision for depreciation	**148**	159
	Asset impairment charge	**64**	
	Net increase in prepayments and other	**(5)**	(21)
	Net (increase)/decrease in receivables and inventory	**2**	(21)
	Net decrease in accounts payable and accrued liabilities	**(21)**	(31)
	Net Cash Provided by Operating Activities	**$283**	$190

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 by the Legislature of the State by Chapter 772 of the Laws of 1931, as last amended by Chapter 386 of the Laws of 2004.

The Authority is authorized by the Power Authority Act (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, to serve five-year terms. 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. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by 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) Accounts of the Authority are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). 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 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) Utility plant is stated at original cost and consists 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 utility plant retired less salvage is charged to accumulated depreciation.

(3) With the exception of the Authority's Small Clean Power Plants (SCPPs), depreciation of plant assets is provided on a straight-line basis over the estimated useful lives of the various classes of plant, as determined by independent engineers. The Authority is providing for depreciation of the SCPPs using the double-declining balance method based on the expectation that the revenue- earning power of those units will be 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, which could have adversely affected the statewide electric pool.

(4) Net electric plant in service at December 31, 2004 and 2003, and the related depreciation provisions expressed as a percentage of average depreciable electric plant on an annual basis were:

(*in Millions*)	Net Electric Plant in Service		Average Depreciation Rate	
Type of Plant	**2004**	2003	**2004**	2003
Production:				
Steam	**$ 78**	$ 97	**4.5%**	4.5%
Hydro	**952**	944	**1.7%**	1.7%
Other	**284**	361	**6.6%**	7.6%
Transmission	**938**	981	**2.7%**	2.7%
General	**194**	190	**4.8%**	6.2%
	$2,446	$2,573	**3.3%**	3.5%

(5) Effective January 1, 2003, the Authority implemented FAS No. 143, "Accounting for Asset Retirement Obligations" (FAS No. 143), 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 has determined that it has legal liabilities for the retirement of certain SCPPs in New York City. As of January 1, 2003 the liability calculated under the provisions of FAS No. 143 is approximately $15.8 million, which was charged to the cumulative effect of a change in accounting principle. This charge represents the amount that would have been recorded at January 1, 2003 if FAS No. 143 had always been applied to the existing legal obligations.

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," were previously included in accumulated depreciation. The Authority has estimated that the balance of such regulatory liabilities included in accumulated depreciation at December 31, 2004 and 2003 were approximately $169.0 million and $159.0 million, respectively, and has reclassified such amounts to 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, 2003	$16	$159
Accretion expense	1	--
Depreciation expense	--	10
Balance – December 31, 2004	**$17**	**$169**

(6) Management assesses the economic value of the Authority's operating facilities on an ongoing basis in light of increasing competition in the utility industry. An asset is considered impaired, and is reduced to estimated fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of that asset. The Authority determines fair value by estimating the net present value of future cash inflows and outflows over the life of the project.

The impairment analysis requires estimates of possible future market prices, load, competition and many other factors. The recorded impairment charge is the result of utilizing these underlying assumptions in the analysis.

The Authority has performed asset impairment analyses on its facilities an ongoing basis and recognized a charge of $64 million in 2004, including $34 million related to the SCPPs and $30 million related to a transmission-related project (CSC Project). The Authority had previously recognized asset impairment charges of $63 million in 2002 and $62 million in 2001 related to the SCPPs. The Authority's CSC Project was undertaken to enhance the efficiency of the transmission system in New York State. The project was completed but with significant uncertainty regarding the mechanisms that would be available to the Authority to recover its capital cost. The Authority's SCPPs were installed at various sites in New York City and in the service territory of LIPA during the summer of 2001 to meet capacity deficiencies and ongoing local reliability requirements in the New York City metropolitan area. These impairments were recognized based on the standards promulgated by the Financial Accounting Standard Board. Such standards require the recognition of an impairment charge when the cash flows resulting from the operation of a plant asset are expected to be less than its book value. The GASB has established new rules regarding the recognition of asset impairments which will apply to the Authority's financial statements effective January 1, 2005. Under these new rules, asset impairments will generally be recognized only when the service utility of an asset is reduced or physically impaired.

(7) At December 31, 2004 and 2003, deferred charges included $62.4 million and $61.7 million, respectively, of energy-services-program costs and $9.2 million and $10.2 million, respectively, of fixed gas costs in excess of current recoveries. These deferred costs are being recovered from customers.

(8) 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.

(9) Material and supplies are valued at the lower of cost or market. These inventories are charged to expense during the period in which the maintenance or repair occurs.

(10) 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."

(11) 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 Southeastern New York (SENY) governmental customers and three investor-owned utilities operating in the State accounted for approximately 68 and 67 percent of the Authority's operating revenues in 2004 and 2003, 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.

(12) 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.

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

(14) 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" (FAS No. 133), 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. Application of FAS No. 133 may increase the volatility of reported earnings.

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

- 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.
- Restricted Net Assets – This represents the net assets that are not accessible for general use because its use is subject to restrictions enforceable by third parties.
- 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) 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."

(16) Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on net income.

Note C - Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (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 Series 1998 Revenue Bonds when available at favorable prices.

Note D - Cash and Investments

Credit Risk

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. 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) 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 and interest, and the agreements are limited to a maximum fixed term of five business days. 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. At December 31, 2004, 14.4 percent and 12.5 percent of the Authority's investments were in FNMA and FHLMC securities, respectively.

Decommissioning Fund

The Decommissioning Trust Fund is managed by an external investment portfolio manager. Under the Decommissioning Agreements (see Note L), 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.

Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2004 and 2003, the Authority had investments in repurchase agreements of $54.1 million and $2.5 million, respectively. The bank balances were $6.6 million and $12.9 million, respectively, of which $5.0 million and $11.7 million, respectively, were collateralized.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2004 and 2003, is in the Investment Summary.

Investment Summary

(in Millions)

Estimated Fair Value

December 31, 2004

			Restricted Funds				
	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
U.S. Government /Agencies							
Treasury Bills	$91	$51		$51		$40	
Treasury Notes							
GNMA	85						$85
	176	51		51		40	85
Other debt securities							
FNMA	242	6			$6	64	172
FHLMC	209	8			8	61	140
FHLB	43					13	30
FFCB	32					13	19
All Other	100	7		2	5	19	74
	626	21		2	19	170	435
Repurchase Agreements	54						54
Cash	2	2		1	1		
Portfolio Manager	822	822	$822				
	1,680	896	822	54	20	210	574
Less: Cash and equivalents	123	2		2		44	77
	$1,557	$894	$822	$52	$20	$166	$497
Summary of Maturities							
Years							
0-1	$356	$56	$2	$54		$132	$168
1-5	402	112	92		$20	66	224
5-10	142	141	141				1
10+	500	307	307			12	181
Common Stock	280	280	280				
	$1,680	$896	$822	$54	$20	$210	$574

Estimated Fair Value
December 31, 2003

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
US Government /Agencies							
Treasury Bills	$73	$63		$63		$10	
Treasury Notes	45					11	$34
GNMA	105						105
	223	63		63		21	139
Other debt securities							
FNMA	307	10			$10	183	114
FHLMC	173	5			5	89	79
FHLB	128					23	105
FFCB	67					67	
All Other	138	30		25	5	56	52
	813	45		25	20	418	350
Repurchase Agreements	3						3
Cash	1	1		1			
Portfolio Manager	771	771	$771				
	1,811	880	771	89	20	439	492
Less: Cash and equivalents	74	2		2		10	62
	$1,737	$878	$771	$87	$20	$429	$430

Summary of Maturities Years	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
0-1	$526	$121	$28	$89	$4	$280	$125
1-5	471	106	90		16	159	206
5-10	142	140	140				2
10+	443	284	284				159
Common Stock	229	229	229				
	$1,811	$880	$771	$89	$20	$439	$492

Note E – Changes in Capital Assets
(in Millions)

The Changes in Capital Assets are as follows:

	2004	2003
Gross utility plant, beginning balance	**$4,460**	$4,411
Add: Acquisitions	**76**	62
Less: Dispositions (including retirements) and impairments, if any	**75**	13
Gross utility plant, ending balance	**4,461**	4,460
Less: Accumulated depreciation	**2,015**	1,887
Add: Construction work in progress	**809**	617
Net utility plant, ending balance	**$3,255**	$3,190

Note F - Long-term Debt

(*in Millions*)

Components

Long-term debt at December 31, 2004 and 2003 consists of:

	2004	2003
Senior Debt		
Revenue Bonds	**$1,299**	$1,421
Adjustable Rate Tender Notes	**162**	167
Subordinated Debt		
Subordinate Revenue Bonds	**110**	232
Commercial Paper	**405**	444
	$1,976	$2,264

Senior Debt	**2004 Amount**	2003 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds					
Series 1998 A	**$ 212**	$ 257	4.375% to 5.5%	2/15/2005 to 2016	2/15/2008
Series 2000 A Revenue Bonds					
Serial Bonds	**195**	203	4.35% to 5.50%	11/15/2005 to 2020	11/15/2005
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	**182**	185	4.00% to 5.50%	11/15/2005 to 2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	**520**	520	2.00% to 5.25%	11/15/2005 to 2022	11/15/2012
Series 2003 A Revenue Bonds					
Serial Bonds	**28**	28	3.69% to 4.83%	11/15/2008 to 2013	Any date
Term Bonds	**186**	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
	1,400	1,456			
Plus: Unamortized premium	**40**	46			
Less: Deferred refinancing costs	**21**	25			
	1,419	1,477			
Less: Due within one year	**120**	56			
	$1,299	$1,421			

Interest on Series 2003 A 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, 2004 and 2003, $500 million and $600 million, respectively, of outstanding bonds were considered defeased.

Senior Debt	**2004 Amount**	2003 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
2. Adjustable Rate Tender Notes (Notes)					
2007 Notes	**$ 17**	$ 22	At 12/31/04: 1.35%	3/1/2007	May be tendered
2016 Notes	**75**	75	At 12/31/04: 1.35%	3/1/2016	by holder on any
2020 Notes	**75**	75	At 12/31/04: 1.35%	3/1/2020	adjustment date.
	167	172			
Less: Due within one year	**5**	5			
	$162	$167			

The Notes may be tendered to the Authority by the holders on any adjustment date. The next rate adjustment dates are March 1, 2005 and September 1, 2005. The Authority has entered into a revolving credit agreement (Agreement) with Dexia Credit Local, acting through its New York Agency, to provide a supporting line of credit. Under the Agreement, which terminates on September 5, 2006, the Authority may borrow up to $167 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2004 and 2003) 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 is confident 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.

Subordinated Debt	**2004 Amount**	2003 Amount	Interest Rate At 12/31/04	Maturity
3. Subordinate Revenue Bonds				
Series 2		$ 55		02/15/2018
Series 3	**$ 40**	40	Auction Rate: 1.600%	02/15/2025
Series 4	**40**	40	Auction Rate: 1.067%	02/15/2025
Series 5	**30**	75	Variable: 1.950%	11/15/2011
Series 12		25		11/15/2011
	110	235		
Less: Due within one year		3		
	$110	$232		

During 2004, Subordinate Revenue Bonds, Series 2 and 12, were redeemed. During 2003, Subordinate Revenue Bonds, Series 1, 8, 9 and 10, were redeemed.

Senior and Subordinate 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. Subordinate Revenue Bonds, Series 3 through 5, may be redeemed on any interest payment date.

At December 31, 2004 and 2003, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $1.6 billion and $1.8 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinated Debt	Availability	**2004**	2003	Interest Rate At 12/31/04	Maturity
4. Commercial Paper (Long-term portion)					
EMCP (Series 1)	$ 50	**$ 20**	$ 50	1.87%	2008 to 2009
CP (Series 2)	450	**269**	297	1.76%	2014
CP (Series 3)	350	**118**	99	2.24%	2005 to 2017
CP (Series 4)	220				11/15/2011
	$1,070	**407**	446		
Less: Due within one year		**2**	2		
		$405	$444		

Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, the Authority has issued a series of notes, designated EMCP Notes, Series 1, in the principal amount of $50 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds. The proceeds of the EMCP Notes were used to refund Series 2 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 2005 to 2017, as indicated in table above.

The Authority has a line of credit under a revolving credit agreement (the RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing $700 million for such CP Notes and for other purposes until February 1, 2007, which succeeded another revolving credit agreement (the Prior RCA) in January 2004. No borrowings have been made under the RCA or the Prior 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 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A 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
2005	$ 127	$ 81	$ 208
2006	143	76	219
2007	127	70	197
2008	226	63	289
2009	161	56	217
2010-2014	491	229	720
2015-2019	401	148	549
2020-2024	217	72	289
2025-2029	66	46	112
2030-2034	76	25	101
2035-2039	34	10	44
2040	16	1	17
	2,085	877	2,962
Plus : Unamortized bond premium	39		39
Less: Deferred refinancing cost	21		21
	$2,103	$877	$2,980

Interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2004.

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 (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.

Subordinate Revenue Bonds

The Authority determines the rate period (or auction rate period) based on needs and/or advice of the Remarketing Agent (or the Auction Agent).

Series 3 and 4 Bonds - The Auction Agent appointed under the Subordinate Resolution determines the Auction Rate for each Auction Period based on the Auction Procedures set forth in the supplemental resolution authorizing the issuance of the Bonds.

Series 5 Bonds - The Remarketing Agent appointed under the Subordinate Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the Bonds 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 BMA) + E, where BMA is the Bond Market 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, 2004, the reset rate would have been 3.85%.

Changes in Long-term Liabilities

(*in Millions*)

Changes in Long-term Debt	**2004**	2003	Changes in Other Long-term Liabilities	**2004**	2003
Long-term debt, beginning balance	**$2,264**	$2,326	Other long-term liabilities, beginning balance	**$1,409**	$1,253
Increases	**30**	355	Increases	**244**	224
Decreases	**(191)**	(351)	Decreases	**(73)**	(68)
	2,103	2,330			
Due within one year	**127**	66			
Long-term debt, ending balance	**$1,976**	$2,264	Other long-term liabilities, ending balance	**$1,580**	$1,409

Note G - Short-term Debt

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

	December 31, 2004		December 31, 2003	
(in Millions)	Availability	Outstanding	Availability	Outstanding
CP Notes (Series 1)	**$350**	**$198**	$350	$217

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 $350 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
2004	**$216.7**	**$47.0**	**$65.8**	**$ 197.9**
2003	199.1	90.5	72.9	216.7

CP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A 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 this objective 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 (14)). The fair values of all Authority derivative instruments 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 these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7 percent to 5.1 percent) to the counterparties. In return, the counterparties would pay interest to the Authority based upon the Bond Market Association (BMA) municipal bond index (BMA 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. 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 are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes that were issued to make the payments. The Authority intends to refinance the Series 2 and Series 3 CP Notes with fixed rate debt when it is advantageous to do so in the future.

On December 31, 2004 and 2003, the unrealized losses on the 2002 SWAPS were $26.8 million and $31.0 million, respectively. During 2004 and 2003, net settlement payments on the 2002 SWAPS resulted in increases of $10.8 million and $11.6 million, respectively, in debt interest costs. Since the Authority anticipates the recovery from customers of the remaining unamortized $5.4 million termination cost and the future settlement costs of the 2002 SWAPS, these amounts have been deferred in Other Noncurrent Assets on the Balance Sheet. The cost of terminating the 2001 SWAPS is being 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.

(b) Series 2000 A Revenue Bonds

In 2000, the Authority entered into fixed-to-floating interest rate swaps related to the issuance of the fixed rate Series 2000 A Revenue Bonds. The Authority's objective was to create a synthetic floating rate issue to reduce the cost of the debt issue over its life. The swaps require the counterparties to pay the Authority a rate of 5.03 percent on the notional amount ($296 million) of the swap and for the Authority to pay a rate based upon the BMA Index. In 2004 and 2003 the net settlement payments and receipts of these fixed-to-floating interest rate swaps resulted in reductions of $10.3 million and $11.0 million, respectively, to the hedged debt's interest cost. On July 19, 2001 and January 9, 2002, the Authority entered into floating-to-fixed interest rate swaps designed to mirror the Series 2000 A Revenue Bond interest rate swaps notional amounts. The objective was to lock-in the lower interest costs on the Series 2000 A Revenue Bond interest rate swaps resulting from lower interest rate trends since their execution through July of 2001. The swaps require the Authority to pay the counterparties rates ranging between 3.149 percent and 3.50 percent on the total notional amount ($296 million) of the swaps and for the counterparties to pay a rate based upon the BMA Index. In 2004 and 2003, the net settlement payments and receipts of these floating-to-fixed interest rate swaps resulted in charges of $3.4 million and $6.8 million, respectively, to interest cost. As of December 31, 2004 the unrealized gain on all these interest rate swaps was $0.1 million, and as of December 31, 2003, the unrealized loss on all these interest rate swaps was $1.2 million. Since the Authority anticipates recovery of any net settlement costs on these interest rate swaps from customers, these unrealized gains and losses on the 2001 and 2000 interest rate swaps have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets, respectively, on the Balance Sheet.

(c) Adjustable Rate Tender Notes
On June 13, 2002 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 (Notes) for the period September 2, 2003 to September 1, 2006. Based upon the forward interest rate swap, the Authority is paying interest calculated at a fixed rate of 3.48 percent. In return the counterparty would pay interest to the Authority based upon 66 percent of the six-month LIBOR established on the reset dates that coincide with the Notes rate reset dates. In 2004 and 2003, the net settlement payments and receipts on this forward interest rate swap resulted in a charge $4.2 million and $1.5 million, respectively. On December 31, 2004 and 2003, the unrealized losses on the forward interest rate swap were $4.6 million and $9.2 million, respectively. These unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet as recoverable from customers. If any of the underlying hedged debt were 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.

(d) Series 1 CP Notes and Certain Subordinate Revenue Bonds
During 2004, certain interest rate caps that were purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes and certain Subordinate Revenue Bonds expired. During 2004 and 2003, interest rate market conditions did not exceed any of the contractual caps. On June 17, 2004, the Authority purchased an interest rate cap 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 is capped at 5.9 percent based upon the BMA Index for a notional amount ($250 million) through July 1, 2007. The fair values of the interest rate caps as of December 31, 2004 were not significant. Interest costs for 2004 include $0.2 million resulting from a decrease in the fair value of these caps. Interest costs for 2003 were not impacted.

(2) Energy Market Risk Management
(a) Customer Load Requirements
In 2001, the Authority entered into a long-term forward energy-related swap agreement (energy swap) to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. During 2004, net settlements on this forward energy swap resulted in a decrease of $10.8 million in Purchased Power costs. On December 31, 2004 and 2003, the fair values of this forward energy swap were unrealized gains of $73.1 million and $21.0 million, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

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. On December 31, 2004 and 2003, the fair values of this forward energy swap were a $32.4 million unrealized gains and a $2.0 million unrealized loss, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, these unrealized gains and losses have been deferred in Other Non-current Liabilities or Other Non-current Assets on the Balance Sheets.

In 2003, the Authority entered into a long-term forward energy swap to fix the yearly cost to effectively purchase a maximum 26.5 megawatts of wind power energy between 2005 and 2014, the effectiveness of the swap being conditioned upon certain events occurring. The intent of this wind- power-related energy swap is, among other things, to promote the development of renewable power consistent with the New York State Energy Plan and to assist the Authority's governmental customers in meeting the requirements of the Governor's Executive Order 111. As a result of uncertainties in the occurrence of events required for this forward energy swap to be activated, it is not valued on the Balance Sheets.

During 2004 and 2003, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is 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. On December 31, 2004 and 2003, the fair values of these short-term energy swaps were an unrealized loss of $1.8 million and an unrealized gain of $2.5 million, respectively. During 2004 and 2003, the net settlements of these short-term energy swaps resulted in Purchased Power cost reductions of $3.7 million and $1.9 million, respectively. Since the Authority anticipates recovery of future purchased power costs (including settlements of the short-term energy swaps) from customers, the unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets on the Balance Sheets.

During 2004, the Authority entered into a number of short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's SENY and Governmental customers. On December 31, 2004, the fair value of these short-term energy swaps was an unrealized loss of $1.4 million. During 2004, there was no impact from net settlements of these short-term energy swaps to Purchased Power costs. Since the Authority anticipates recovery of future purchased power costs (including settlements of these short-term energy swaps) from customers, these unrealized losses have been deferred in Other Non-current Assets on the Balance Sheets.

(b) Generating Capacity
During 2004 and 2003, the Authority entered into a number of energy covered call options and fixed-to-floating energy swaps relating to a portion of the SCPPs' generation, with the objectives of hedging prices in a rising market and mitigating the effect of

falling market prices on revenue. In 2004 and 2003 the premiums received and net settlements with counterparties on these energy call options and fixed-to-floating energy swaps resulted in increases of $3.2 million and $2.1 million, respectively, in Operating Revenues.

During 2004, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for operating the Authority's Lewiston Pump facility. On December 31, 2004 the fair value of these short-term energy swaps was an unrealized loss of $ 1.8 million resulting in an increase in Purchase Power costs.

(3) Fuel Market Risk Management

During 2004 and 2003, the Authority purchased a number of natural gas call options with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Flynn facility. On December 31, 2004 and 2003, the Authority did not hold any open natural gas call option positions. None of these call options were exercised by the Authority in 2003. In 2004 and 2003, the premiums paid for these natural gas call options did not have a significant impact on fuel costs.

In 2004, the Authority purchased a number of natural gas swaps with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Poletti facility. On December 31, 2004 the fair value of these natural gas swaps were an unrealized gain of $0.8 million. During 2004, there was no impact from net settlements of these natural gas swaps to fuel costs. Since the Authority anticipates recovery of natural gas swaps costs from customers, these unrealized gains has been deferred in Other Non-current Liabilities on the Balance Sheets. In addition, in 2004, the Authority purchased a number of NYMEX natural gas futures contracts with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Poletti facility. On December 31, 2004 the fair value of these NYMEX natural gas futures contracts was an unrealized loss of $0.3 million. During 2004 there was no impact from liquidation of these NYMEX natural gas futures contracts to fuel costs. Since the Authority anticipates recovery of NYMEX natural gas futures costs from customers, these unrealized losses has been deferred in Other Non-current Assets on the Balance Sheets. The Authority also entered into a number of gas collars (a combination of buying and selling a put option and a call option simultaneously) relating to a portion of the gas generated power at its Poletti facility. The objective of these collars is to protect the value of contractually-deliverable-physical gas used for minimum generation in a volatile market. As of December 31, 2004 the Authority did not hold any open gas collar positions. In 2004 the premiums received, premiums paid and net settlements with counterparties on these gas collars resulted in increases of $1.4 million in fuel cost.

(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.

In May, 2003, legislation was passed by the New York State legislature, and signed into law by the governor, that established, among other things, a minimum annual contribution by employers commencing with the System's fiscal year ending March 31, 2004. The new law will reduce the volatility of employer contributions, in future years, 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 $15.9 million, $11.2 million, and $0.9 million for the years ended March 31, 2005, 2004 and 2003, respectively (paid on or about December 15, 2004, 2003 and 2002). The $11.2 million contribution paid in 2003 included $5.5 million for the cost of participating in the System's early retirement incentive program in 2002.

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, 2004.

Other Postemployment Benefits (OPEB):

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents. 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. Prior to January 1, 2002, the cost of these benefits was charged to expense as paid and totaled $6.4 million for the year ended December 31, 2001. Effective January 1, 2002, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GAS No. 27, "Accounting for Pensions by State and Local Government Employers." Based upon increased costs, the present value of the Authority's prior service OPEB obligation was $308 million as of January 1, 2004, utilizing the projected unit credit method and a discount rate of 6%. However, in December 2003, President George W. Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (2003 Medicare Act). To reflect the effect of the 2003 Medicare Act, the present value of the Authority's prior service OPEB obligation was reduced by $29 million to $279 million as of January 1, 2004 resulting in a net decrease of $9 million from prior year. As of January 1, 2004, this prior service obligation is unfunded. In 2004, the Authority continued recognizing this prior service obligation over a remaining 18-year period (based on a 20-year period begun in 2002) using level dollar amortization of $24.3 million annually. The 2004, 2003 and 2002 OPEB provisions of $30.9 million, $31.2 million and $29.9 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 2004, 2003 and 2002 OPEB provisions were financed on a pay-as-you-go basis, and amounts paid to retirees were $9.5 million, $8.0 million and $6.8 million, respectively. Approximately 1,100 participants were eligible to receive these benefits at December 31, 2004.

(In Millions)	**2004**	2003	2002
Unfunded Actuarial Accrued Liability (UAAL):			
Beginning Balance	**$288**	$272	$271
Actuarial adjustment – net	**(9)**		
Adjusted beginning balance	**279**	272	271
Accrual	**31**	24	8
Payments to retirees during year	**(10)**	(8)	(7)
Ending Balance	**$300**	$288	$272
Covered payroll	**$129**	$123	$122
Ratio of UAAL to covered payroll	**233%**	234%	224%

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 contributions totaled $1.9 million annually for 2004 and 2003.

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 - Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds

Legislation enacted into State law from 1995 to 2002 authorizes the Authority to utilize $59.6 million in petroleum overcharge restitution (POCR) funds and $0.6 million in 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 $60.2 million to date, took place annually from 1996 to 2003. 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. CAS Projects funds totaling $125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

Note K - NYISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), LIPA and the Authority, and certain other entities established two not-for-profit organizations, the 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 for 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 market 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 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 unit because of its size, nature and location, and in connection with the Authority's purchase of power and energy from the Indian Point 3 and 2 nuclear plants (see Note (L) - Nuclear Plant Divestiture and Related Matters).

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 L - 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 Corp. (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.

On July 1, 2003, Entergy prepaid the remaining balance of its Fuel Payment Note to the Authority by paying the Authority $105.4 million. In November 2004 and 2003, the Authority received a scheduled payment of $83.7 million for each year from Entergy. As of December 31, 2004 and 2003, the present value of the notes receivable were:

(*in Millions*)	**2004**	2003
Notes receivable - nuclear plant sale	**$315**	$371
Less: Due within one year	**61**	56
	$254	$315

The Authority entered into a power purchase agreement (PPA) to purchase energy and capacity from Entergy at rates that approximated future market prices as of the Closing Date. Under the PPA, the Authority purchased 100% of IP3's output through December 2004, and fixed amounts of JAF's output for the same period (303 MW, year 2002; 255 MW, year 2003; and 255 MW, year 2004).

The Authority also purchased the remaining output of JAF through the year 2003 on a unit contingent basis under an additional power purchase agreement. This output was purchased at a lower price than the fixed amounts purchased under the PPA.

As a result of competitive bidding, the Authority has agreed to purchase energy and capacity 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 Corp. 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 Corp. 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, 2004 and 2003 payments were received and are included in Other Income.

(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 and retains the funds collected from customers to cover such fee. As of December 31, 2004, the liability to Entergy totaled $186.7 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. The Authority will bear the cost of the remaining DOE charges for the decontamination and decommissioning of DOE nuclear enrichment facilities related to IP3 and JAF, amounting to approximately $8.7 million as of December 31, 2004, to be paid from 2005 to 2006.

(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.

Some 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 Corp. 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.

Decommissioning Funds of $821.8 million and $770.9 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2004 and 2003, 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 M - 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 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) the completion of negotiations with its major SENY governmental customers resulting in new long-term agreements;
(c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site;
(d) a significant reduction of outstanding debt and
(e) implementation of an energy and fuel risk management program.

In addition, to meet capacity deficiencies in the New York City metropolitan area during the summer of 2001, the Authority completed the installation of the SCPPs at various sites in New York City and in the service territory of LIPA. The SCPPs were used to meet capacity deficiencies during the summer of 2001, and are meeting ongoing local reliability requirements in the New York City metropolitan area.

The adoption and implementation of the Bond Resolution (see Note C) in 1998 is also part of this program. The Bond Resolution provides the Authority with greater flexibility to manage its business with fewer restrictions. The less restrictive provisions of the Bond Resolution have increased the ability of the Authority to retain its existing customer base and to more efficiently manage its cash flows and investments. The Authority is also now free to determine whether to sell or retain certain of its assets on the basis of its judgment regarding the effect of such sale or retention on its overall business and apply the proceeds in a way which best meets the current needs of the Authority.

The Authority has continued to prudently manage its capital structure. 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, 1994, the Authority has reduced its total debt by $1.2 billion, or 35%, resulting in the reduction of its debt/equity ratio from 2.52 to 1.25, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982. During 2004, long-term debt decreased by $288 million, or 13%, primarily due to early extinguishments of debt ($161 million) and scheduled maturities (i.e., reclassifications to long-term debt due within one year of $127 million). The Authority expects to continue debt retirement 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 output, 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)SENY-Customer Long-term Contracts

The Authority and its four major SENY governmental customers (SENY Customers), including the Metropolitan Transportation Authority, The City of New York, the Port Authority of New York and New Jersey (Port Authority), and the New York City Housing Authority, have finalized a new long-term agreement (Agreement). These Agreements have been executed by the Authority and three of the SENY Customers, with the fourth, the Port Authority, expected to execute the Agreement in early April, 2005. The Agreement will replace the long-term agreements with these SENY Customers that are in place but are slated to terminate at the end of 2006. Under the Agreement, the SENY Customers will purchase their electricity from the Authority through December 31, 2017, with the SENY 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 SENY Customers. A fixed rate will apply in 2005. Beginning in 2005, the Authority will implement a new price setting process under which the SENY Customers will request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by the SENY Customers. In addition, beginning in 2006, under the Agreement, the SENY Customers can also elect to have a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging. Except for any such amounts borne by the Authority under a sharing plan, the SENY Customers will pay all of the costs incurred to serve them, including hedging costs. Beginning in 2008, NYPA will also offer the SENY Customers a minimum volatility pricing option.

Under the Agreement, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the SENY 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 will be reconciled and either charged or credited to the SENY Customers. Beginning in 2006, if the SENY Customers choose a market-risk hedging price option, designated a "sharing option", the SENY Customers and the Authority would share equally in actual cost variations (up to $60 million) above a projected amount for the year. Cost variations in excess of $60 million would be borne by the Authority. In addition, if actual costs are below the projected amount, the SENY Customers and the Authority would share equally in such savings after the SENY Customers receive the first $10 million in savings, in aggregate over the term of the Agreement. The SENY Customers would be committed to pay for any supply secured for them by the Authority which resulted from a collaborative effort. With the SENY Customers' guidance and approval, the Authority would continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at the SENY Customers' facilities, with the costs of such projects to be recovered from the SENY Customers.

The revenues from the four major SENY customers indicated above were approximately 31% and 29% of the Authority's 2004 and 2003 Operating Revenues (including wheeling charges), respectively.

(3) Power for Jobs

In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized the Power for Jobs program (the Program) to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the 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. In the first three phases of the Program, 450 MW of power were made available, phased in over three years which ended in July 2000. In the fourth phase of the Program, 300 MW of power were made available beginning September 2000. Allocation of this 300 MW of power was completed in 2001. In the fifth phase of the Program, 183 MW of power were made available, beginning September 17, 2002.

The Phase Five power was made available for allocation to phase two and phase three Program recipients. Any remaining power after these allocations was made available for new allocations. 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 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 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 Program in regard to contracts of Phase Four and Phase Five Program customers. Under the amendment, Phase Four and Phase Five customers, whose contracts terminate prior to December 31, 2004, may receive "Power for Jobs electricity savings reimbursements" (PFJ Reimbursements) in the period from termination to November 30, 2004. Under the amendment, those Phase Four and Phase Five customer contracts terminating in 2004 and 2005 could be extended by the affected customer, with the extensions commencing no earlier than December 1, 2004 and terminating December 31, 2005. Alternatively, the customers may opt for PFJ Reimbursements from termination until December 31, 2005, instead of contract extensions. Under the amendment, PFJ Reimbursements "shall mean payment made by the Authority or the New York State Energy Research and Development Authority if the attorney general determines the Authority cannot legally make such payments." Generally, the amount of such PFJ Reimbursements for a particular Phase Four or Phase Five customer will be 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. The Authority expects the Program, with its contract extensions and PFJ Reimbursements aspects, will be extended until December 31, 2006, as part of the New York State budget approval for New York Fiscal Year 2005-2006. (See Note M(11), "New York State Budget Matters and Other Issues" for information on voluntary contributions to the State.)

(4) 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), under which it was obligated to purchase approximately 11.10 billion cubic feet of natural gas annually until April 30, 2014, or pay a penalty on the unused volumes.

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.

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.

(5) Legal and Related Matters

a. In 1982 and again in 1989, several groups of Mohawk Indians 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. These islands are within the boundary of the Authority's St. Lawrence-FDR project. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal Government intervened on behalf of the 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 (the Tribe) 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. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims.

Settlement discussions have produced a land claim settlement, which 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 have voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement will also require, among other things, Federal and State legislation to become effective. The Court-appointed magistrate, at the request of all parties, has agreed to stay the litigation and postpone discovery until March 31, 2005, when all parties will report on the progress of the settlement process. The Authority has accrued an estimated liability based upon the provisions of the settlement.

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. 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.

(6) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $264.1 million at December 31, 2004.

Net Operating Leases (Amounts due under non-cancelable operating leases) (*in Millions*)

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:

	Total	2005	2006	2007	2008	2009	2010 to 2014
Gross Operating Leases	$34.1	$8.9	$7.3	$6.7	$6.6	$2.0	$2.6
Less: Subleases/Assignments (1)	28.5	7.6	6.4	6.0	6.5	1.5	.5
Net Operating Leases	$5.6	$1.3	$0.9	$0.7	$0.1	$0.5	$2.1

(1) Subleases/assignments resulted primarily from consolidation of Authority headquarters' offices and assignment of a certain office lease to an Entergy subsidiary.

(7) Small, Clean Power Plants

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, eleven 44-MW natural-gas-fueled SCPPs at various sites in New York City and one site in the service territory of LIPA.

In December 2001, litigation relating to the SCPPs located at the Vernon Boulevard, Long Island City, site in Queens was settled, with the Authority agreeing under the settlement agreement to cease operations at the Vernon Boulevard site, which houses two units, as early as September 25, 2004, if certain conditions are met, and if the Mayor of New York City directs such cessation. No such cessation has occurred.

The Authority believes that cessation of operations and removal of the Vernon Boulevard units, if that should occur, will not have a material adverse impact on the Authority's financial condition or operations.

The Authority has applied to the New York State Department of Environmental Conservation (DEC) for new 5-year operating air permits for the SCPPs to succeed the existing construction and operating air permits for the projects issued in January and February, 2001. Public hearings on the Authority's application for the Clean Air Act Title V air permits were held in September 2003, and the comment period relating to the application closed at the end of October 2003. Although the comments and public hearing statements included requests for the denial of the permits, the thrust of most of the comments and statements was to request the DEC to examine closely the effects of the operation of the units on the air quality of the area in which the units are located and impose conditions on the operation of the units to mitigate adverse effects. The Authority is continuing its negotiations with the DEC to address the issues derived from the public hearings and comments.

(8) 500-MW Project

As a result of the State electric utility industry restructuring, including the Authority's agreement to comply with an in-City capacity requirement in the New York City area, the Authority is currently constructing a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW project) as the most cost-effective means of effectuating such compliance. The major components of the 500-MW project consist of two gas turbines, a heat recovery steam generator, a steam turbine, a dry cooling system, and a condenser. Because of issues relating to claims made by the Authority's general contractor under the

Authority's contract for the construction of the 500-MW Project, the completion of the Project has been delayed, and the estimated cost of the Project has increased. With respect to these claims, the Authority and the general contractor have entered into a settlement agreement which will result in an estimated commercial operation date of the Project in the first quarter of 2006 and the estimated direct construction and overhead costs of the Project increasing to approximately $740 million, with additional increases possible as a result of finalization of work on the Project.

In connection with the licensing of the 500-MW Project, the Authority has entered into an agreement which will require the closure of its existing Poletti Project by no later than 2010 and possibly as early as 2008. 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.

The Authority believes that the restrictions on fuel use and capacity factor relating to the existing Poletti Project set forth in the Stipulation Agreement and the closure of the existing Poletti Project under the terms of the Stipulation Agreement will not have a material adverse effect on the Authority's financial condition or operations.

When the existing Poletti Project ceases operation, the Authority will utilize other Authority resources, including the 500-MW project, to meet the energy and capacity needs of its customers in the metropolitan New York City area.

The Authority expects that by February 15, 2008, all debt associated with the Poletti project will have been retired.

(9) NYISO System Upgrade Cost

In regard to the NYISO System Upgrade Cost Proceeding at FERC, the NYISO Open Access Transmission Tariff provides rules for the allocation of responsibility for the cost of interconnection facilities required for new generation projects and merchant transmission projects. Basically, the process allocates to transmission owners the costs of facilities they would have to build in the normal course of their operations and allocates the remaining costs to project developers.

In 2003, the NYISO applied its cost allocation method for the first time to a group of project developers, including the Authority, known as the "Class of 2001". The projected costs of System Upgrade Facilities for Class 2001 were $72.7 million, with $59.7 million allocated to project developers and $13 million to Consolidated Edison Company of New York, Inc. (Con Edison). In 2002, the Authority, and other parties, filed a complaint with FERC arguing that the NYISO shifted costs that should be borne by the transmission owners to project developers. During 2004, this issue was resolved with the Authority agreeing to pay approximately one third of the costs allocated to the project developers.

(10) Sound Cable Repair

The Iroquois Gas Transmission System, L.P. (Iroquois) contracted with Horizon Offshore Contractors, Inc. (Horizon) for the construction of a 24-inch diameter gas pipeline between Northport, Long Island, and Hunts Point, New York. It appears that on February 27, 2003, while working on the project, a barge owned by Horizon damaged one of the four underwater lines of the Authority's Sound Cable (the Cable) by dragging an anchor of the barge over the Cable line. The damaged portion of the Cable was located about two miles from New Rochelle, New York, in about 90 feet of water. The Cable was out of service from February 28 to March 8, 2003. The power flow to Long Island has been operating at normal levels since March 8, 2003.

Under the terms of the Authority's contract with LIPA, the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair were $17.6 million. The Authority will rely on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and may also seek compensation from Horizon and from other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance in the amount of $10 million, all of which it has been paid to the Authority to help cover the repairs.

(11) New York State Budget Matters and Other Issues

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.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003, and 2004, provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund," in connection with Power for Jobs Program. The Authority has made voluntary contributions totaling $169 million (including $50 million and $52 million in December 2004 and 2003, respectively). Under existing law, the Authority may make such voluntary contributions up to an aggregate total of $275 million. The Authority's staff expects to recommend to the Authority's Trustees that voluntary contributions be made to the State during 2005 in the amount of $50 million under the above aggregate cap, in addition to the reimbursement payments to Power for Jobs customers (expected not to exceed $35 million for the current Program) in connection with the Power for Jobs legislation, (see Note M(3), "Power for Jobs"), if such monies are not needed for other Authority purposes.

The Executive Budget for State Fiscal Year 2005-2006 proposes to extend the Power for Jobs Program to December 31, 2006 and to increase the cap on Authority contributions from $275 million to $394 million. If the Power for Jobs Program is extended to December 31, 2006, the Authority expects to be authorized to make additional voluntary contributions to the State, and upon such authorization, the Authority's staff expects to recommend to the Authority's Trustees that voluntary contributions be made to the State in the first quarter of 2006 in the amount of $75 million. Such amount would be in addition to reimbursement payments to Power for Jobs customers in connection with the current Program and any additional reimbursements which may be made as a result of the extension of the Program. The Authority's Trustees would only provide such additional financial assistance if and to the extent that monies are available to the Authority for such purpose and are not needed for Authority purposes.

On February 3, 2005, the Governor issued an Executive Order to establish the New York State Commission on Public Authority Reform. The 13-member commission will review operations at State and local authorities across New York, including the Authority, and develop reforms and recommendations designed to improve the effectiveness and accountability of all public authorities. The members will include members appointed upon the recommendations of legislative leaders, the State Comptroller, and the State Attorney General. The Commission will focus on a comprehensive array of matters pertaining to public authorities and will be empowered to undertake a broad list of tasks, including:

- Reviewing and evaluating the operations and practices of public authorities and assisting authority boards in developing and adopting model governance principles to strengthen external oversight, management accountability, internal operations and public disclosure practices;
- Reviewing the potential elimination, dissolution, consolidation, reorganization or merger of authorities; and
- Recommending policies governing the public disclosure practices, financial reporting practices, and financial auditing procedures and practices of State authorities.

The commission will issue a final report to the Governor and the Legislature on its findings and recommendations and may issue interim or supplemental reports in its discretion. In issuing its reports, the Commission will consider, and may recommend, legislation to effectuate its findings or recommendations.

A bill has been passed by the New York State Assembly, entitled "Public Authority Reform Act" ("PARA"), which is intended to reform more than 700 State and local public authorities, including the Authority, public corporations, and affiliates operating in New York State. Among other things, PARA would: (1) prohibit the issuance of new debt by such entities, including the Authority's Notes, without specific legislation and place restrictions on the refunding or refinancing of existing debt; (2) establish a temporary commission on public authority reform to make recommendations concerning the elimination or dissolution of any public authority or discontinuance of any program, operation or any other activity of any authority with or without discontinuing the existence of such public authority; and (3) provide for review and, in certain cases, prior approval by the State Comptroller of a broad range of public authority contracts valued in excess of $15,000.

A bill has also been introduced in the New York Senate, entitled "Public Authorities Accountability Act of 2005" ("PAAA"), which addresses public authority reform. The PAAA, which would cover the Authority, would, among other things, require: all public authorities to submit with their annual report a debt issuance report; all public authorities which have a budget with accumulated debt in excess of $50 million to submit a 5-year capital plan with their annual budget; all public authorities to have an independent financial audit and an audit committee and to hire a certified public accounting firm to perform such independent audit; the New York State Comptroller to examine the books and records of public authorities at least every three years, or more often in cases of the financial misconduct; and public authorities and their employees to provide for procurement reform, including establishing additional public authority procurement contract guidelines.

It is uncertain whether PARA or PAAA will advance any further in the legislative process, especially in light of the work to be done by the New York State Commission on Public Authority Reform, described above.

(12) St. Lawrence Relicensing

On October 23, 2003, the FERC issued to the Authority a new 50-year license (New 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 $117 million has already been spent or will be spent in the near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

(13) Niagara Relicensing

In connection with the Authority's preparation of an application for a renewal of its FERC license for its Niagara Project, the Authority has reached a tentative settlement agreement with Niagara County and certain other municipal entities (collectively, the "Host Communities") in the vicinity of the Niagara Project. Under the settlement agreement, the Host Communities would, among other things, support the Authority's application for a license renewal for a 50-year term, and the Authority would, among other things, (1) provide 25 MW of power to the Host Communities or their designees for the term of the new license, (2) establish a Host Community Fund, which would be funded by annual Authority payments of at least $5 million per year (with the possibility of increased payments dependent upon electric market conditions) for the term of the new license, including a one-time payment of $8 million from such Fund upon the signing of the settlement agreement, and (3) pay $3 million annually for the term of the new license to a Recreation/Tourism Fund in Niagara County. In addition, the Authority is negotiating settlement packages with various other entities involving the Niagara "Greenway" project, ecological projects, recreational projects, groundwater infiltration abatement projects, and benefits for the Tuscarora Indian Nation. Although the final cost of all such packages will be dependent upon their final form, if they became effective, these settlement packages, based on current estimates, would result in significant additional financial obligations on the Authority and those customers receiving Niagara Project power, commencing in 2007.

KEY TO ABBREVIATIONS

A-C

AAL - *Actuarial Accrued Liability*
Act - *Power Authority Act*
ARO - *Asset Retirement Obligation*
ART Notes - *Adjustable Rate Tender Notes*
Authority - *Power Authority of the State of New York or New York Power Authority*
B-G -*Blenheim-Gilboa Pumped Storage Power Project*
CAS Projects Funds - *Clean Air for Schools Projects Funds*
Con Ed - *Consolidated Edison Company of New York, Inc.*
CP - *Commercial Paper*

D-H

DOE - *U.S. Department of Energy*
EDPAB - *New York State Economic Development Power Allocation Board*
EMCP - *Extendible Municipal Commercial Paper*
Energy Act - *Energy Policy Act of 1992*
Entergy - *as used herein refers to Entergy Nuclear FitzPatrick, LLC and Entergy Nuclear Indian Point 3, LLC, which are subsidiaries of Entergy Nuclear Inc.*
FAS - *Financial Accounting Standards*
FASB - *Financial Accounting Standards Board*
FERC - *Federal Energy Regulatory Commission*
FFCB - *Federal Farm Credit Bank*
FHLB - *Federal Home Loan Bank System*
Flynn - *Richard M. Flynn Power Plant*
GAAP - *Generally Accepted Accounting Principles*
GAS - *Governmental Accounting Standards*
GASB - *Governmental Accounting Standards Board*
GNMA - *Government National Mortgage Association, also known as Ginnie Mae*

I-L

IP3 - *Indian Point 3 Nuclear Power Plant*
ISO - *Independent System Operator*
JAF - *James A. FitzPatrick Nuclear Power Plant*
KW - *Kilowatt: 1,000 watts*
KWh - *Kilowatt-hour: a unit of electrical energy equal to one kilowatt of power supplied or taken from an electric circuit steadily for one hour. A kilowatt-hour is the amount of electrical energy necessary to light ten 100-watt light bulbs for one hour.*
LIBOR - *London Interbank Offered Rate*
LILCO - *Long Island Lighting Company*
LIPA - *Subsidiary of Long Island Power Authority used to acquire the transmission and distribution system of LILCO.*
LISC - *Long Island Sound Cable transmission facility*

M-O

MD&A - *Management's Discussion & Analysis*
MDC - *Maximum Dependable Capability*
NERC - *Northeast Electric Reliability Council*
NRC - *U.S. Nuclear Regulatory Commission*
NYISO - *New York Independent System Operator*
NYPA - *New York Power Authority*
O&M - *Operations and Maintenance*
OPEB - *Other Postemployment Benefits*

P-Z

P&SA - *Purchase and Sale Agreement*
P4J - *Power for Jobs*
POCR Funds - *Petroleum Overcharge Restitution Funds*
Poletti - *Charles Poletti Power Project*
PPA - *Power Purchase Agreement*
PSC - *New York State Public Service Commission*
RTO - *Regional Transmission Operator*
SCPPs - *Small, Clean Power Plants*
SENY - *Southeastern New York*