

2008 Annual Report on
Investment of Authority Funds

Table of Contents

Section I	Guidelines for the Investment of Funds
Section II	Explanation of the Investment Guidelines
Section III	A. Investment Income Record B. Fees Paid for Other Post-Employment Trust Fund C. Fees Paid for Nuclear Decommissioning Trust Fund D. Results of the Annual Independent Audit
Section IV	Inventory of Investments Held on December 31, 2008
Section V	Summary of Dealers and Banks from Which Securities Were Purchased

Section I

New York Power Authority Guidelines for the Investment of Funds

I. General

These Guidelines for the Investment of Funds (the "Guidelines") are intended to effectuate the applicable provisions of the General Resolution Authorizing Revenue Obligations, adopted February 24, 1998 (the "Resolution"), the lien and pledge of which covers all accounts and funds of the Authority and that governs the Authority's existing policies and procedures concerning the investment of funds as contained in these Guidelines. In a conflict between the Guidelines and the Resolution, the latter shall prevail. In addition, these Guidelines are intended to effectuate the provisions of Section 2925 of the New York State Public Authorities Law.

II. Responsibility for Investments

The Treasurer and Deputy Treasurer have the responsibility for the investment of Authority funds under the general supervision of the Executive Vice President and Chief Financial Officer. The Treasurer shall ensure that an operating manual is maintained that provides a detailed description of procedures for maintaining records of investment transactions and related information.

III. Investment Goals

The Treasurer and Deputy Treasurer are responsible for maximizing the yield on investments consistent with requirements for safety, liquidity and minimization of risk. Monies will not be invested for terms in excess of the projected use of funds.

IV. Authorized Investments

- A. Monies in funds established pursuant to the Resolution shall be invested in Authorized Investments or Authorized Certificates of Deposit, defined as follows:

"Authorized Investments" shall mean:

1. Direct obligations of or obligations guaranteed by the United States of America or the State of New York;

2. Bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Financing Bank, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, Federal Housing Administration, Federal Farm Credit Banks Funding Corporation, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks or any other agency controlled or supervised by and acting as an instrumentality of the United States government;
3. Obligations of any state of the United States of America or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision that shall be rated at the time of the investment in any of the three highest long-term Rating Categories, as such term is defined in the Resolution, or the highest short-term Rating Category by a Rating Agency, as such term is defined in the Resolution.
4. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America; or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided that such Bonds or Notes are guaranteed by the United States of America.

“Authorized Certificate of Deposit” shall mean a certificate of deposit authorized by the Resolution as an “Authorized Investment.”

B. The Authority, as an issuer of tax-exempt obligations, must not engage in any arbitrage practice prohibited by the arbitrage regulations promulgated under the Internal Revenue Code. In no event shall Authority funds be invested in a manner that would violate the provisions of such arbitrage regulations.

V. Provisions Relating to Qualifications of Dealers and Banks

- A.1. The purchase and/or sale of Authorized Investments shall be transacted only through banks, trust companies or national banking associations (herein collectively termed “Banks”) that are members of the Federal Reserve System and government security dealers (herein termed “Dealers”), which are Banks and Dealers reporting to, trading with and recognized as primary dealers by the Federal Reserve Bank of New York. A list of authorized Banks and Dealers shall be maintained. Banks and Dealers shall have demonstrated an ability to:

- a) offer superior rates or prices on the types and amounts of securities required;
 - b) provide a high degree of attention to the Authority's investment objectives; and
 - c) execute trades in a timely and accurate manner.
- A.2. Authorized Investments may also be purchased or sold through minority- and women-owned firms authorized to transact business in the U.S. government and municipal securities markets. Such qualified firms shall demonstrate the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- A.3.A. Municipal securities qualifying as Authorized Investments may also be purchased or sold through any municipal bond dealer registered in the State of New York that demonstrates the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- B. Authorized Certificates of Deposit and time deposits ("Time Deposits") shall be purchased directly from Banks that:
 - (1) are members of the Federal Reserve System transacting business in the State of New York;
 - (2) have capital and surplus aggregating at least \$50 million; and
 - (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- C. Authorized Investments purchased by the Authority or collateral securing its investments shall be deposited only with custodians designated by the Authority. Such custodians shall be Banks that are members of the Federal Reserve System transacting business in the State of New York.
- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business and (3) delivery instructions for the safekeeping of investments.
- E. The Authority shall enter into a written contract with any (1) Dealer from which Authorized Investments are purchased subject to a repurchase agreement and (2) Bank from which Authorized Certificates of Deposit are purchased.

VI. General Policies Governing Investment Transactions

- A. Competitive quotations or negotiated prices shall be obtained except in the purchase of government securities at their initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and/ or Banks, except as indicated above, and the most favorable quote accepted. The Treasurer or Deputy Treasurer may waive this requirement on a

single-transaction basis only if warranted by market conditions and documented in writing.

- B. Authorized Investments purchased shall be either delivered to the Authority's designated custodian or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, recorded in the Authority's name or in the name of a nominee agent or custodian designated by the Authority on the books of the Federal Reserve Bank of New York or the Depository Trust Company. Payment shall be made to the Dealer or Bank only upon receipt by the Authority's custodian of (1) the securities or (2) in the case of securities held in a book-entry account, written advice or wire confirmation from the Federal Reserve Bank of New York or the Depository Trust Company that the necessary book entry has been made.
- C. Each purchase or sale of Authorized Investments or Authorized Certificates of Deposit shall be authorized by the Treasurer or Deputy Treasurer. Investment orders may be placed by Authority employees as designated by the Treasurer. The custodian shall have standing instructions to send a transaction advice to the Authority's Controller for purposes of comparison with internal records. The Controller shall advise the Treasurer of any variances, and the Treasurer shall ensure appropriate corrections are provided.

VII. Policies Concerning Certain Types of Investment Diversification Standards Required

A. Authorized Certificates of Deposit and Time Deposits

- 1. Authorized Certificates of Deposit and Time Deposits shall be purchased directly from a Bank in the primary market.
- 2. Authorized Certificates of Deposit and Time Deposits shall be continuously secured/collateralized by Authorized Investments defined in subsection (1) or (2) of Section IV.A., having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such Certificates of Deposit or Time Deposits. Such Authorized Investments shall be segregated in a separate custodian account on behalf of the Authority. Collateral pledged for Certificates of Deposit or Time Deposits held as investments shall be market valued (marked to market) not less than once per week.
- 3. Investments in Authorized Certificates of Deposit or Time Deposits shall not exceed 25% of the Authority's invested funds. The par value of Authorized Certificates of Deposit purchased from any one Bank shall not exceed \$25 million.

B. Repurchase Agreements

The Authority may from time to time elect to enter into arrangements for the purchase and resale of Authorized Investments (known as “Repurchase Agreements”). This type of investment transaction shall be used only when there is no other viable, short-term investment alternative.

1. A Repurchase Agreement shall be transacted only with a Dealer or Bank qualified to sell Authorized Investments to the Authority that is recognized by the Federal Reserve Bank as a primary dealer.
2. Authorized Investments purchased subject to a Repurchase Agreement shall be marked to market daily to ensure their value equals or exceeds the purchase price.
3. A Repurchase Agreement shall be limited to a maximum fixed term of five business days. Payment for the purchased securities shall be made against delivery to the Authority's designated custodian (which shall not be a party to the transaction as seller or seller's agent) or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, written advice that the securities are recorded in the Authority's name or in the name of a nominee, agent or custodian designated by the Authority on the books of the Federal Reserve Bank or the Depository Trust Company.
4. No more than \$50 million of Authorized Investments shall be purchased under a Repurchase Agreement with any one Dealer or Bank. This requirement may be waived by the Senior Vice President – Corporate Planning and Finance on a single- transaction basis only if warranted by special circumstances and documented in writing.
5. The aggregate amount invested in Repurchase Agreements may not exceed the greater of 5% of the investment portfolio or \$100 million. The Executive Vice President and Chief Financial Officer may waive this requirement on a single-transaction basis only if warranted by cash-flow requirements and documented in writing.
6. The Authority may not enter into arrangements (known as Reverse Repurchase Agreements) for the purpose of borrowing monies by pledging Authorized Investments owned by the Authority.

VIII. Review

These Guidelines and any proposed amendments shall be submitted for Trustee review and approval at least once a year.

In addition to the Authority's periodic review, the Authority's independent auditors, in connection with their examination of the Authority, shall perform an annual audit of the investment portfolio, review investment procedures and prepare a report, the results of which will be made available to the Trustees.

IX. Reports

- A. The Treasurer shall submit an investment report to the Trustees, at least quarterly. Such report shall contain a (1) detailed description of each investment;
(2) summary of the dealers and banks from which such securities were purchased and (3) a list of fees, commissions or other charges, if any, paid to advisors or other entities rendering investment services.
- B. The Treasurer shall submit an annual report for approval by the Trustees. In addition to the information provided quarterly, the Annual Report shall include (i) a copy of the Guidelines; (ii) an explanation of the Guidelines and any amendments thereto since the last annual report; (iii) the results of an annual independent audit of investment inventory and procedures and (iv) a record of income earned on invested funds. The approved report shall be submitted to the State Division of the Budget with copies distributed to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. Copies shall be made available to the public upon written reasonable request.
- C. Any waivers that occurred during the prior month shall be reported to the Executive Vice President and Chief Financial Officer.

X. Miscellaneous

- A. These Guidelines are intended for guidance of officers and employees of the Authority only, and nothing contained herein is intended or shall be construed to confer upon any person, firm or corporation any right, remedy, claim or benefit under, or by reason of, any requirement or provision thereof.
- B. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.
- C. No provisions in these Guidelines shall be the basis of any claim against any Trustee, officer or employee of the Authority in his or her individual or official capacity or against the Authority itself.

Section II

EXPLANATION OF INVESTMENT GUIDELINES

Section II Responsibility for Investments

Establishes responsibility for the Investment of Authority Funds and limits the number of individuals authorized to place investment orders.

Section III Investment Goal

Establishes the policy that earning a reasonable return on investments must be consistent with standards set for minimization of risk and availability of funds when needed.

Section IV Authorized Investments

Details the types of investments the Authority can undertake as prescribed in Section 101 of the Resolution.

This section also requires that investments made in each of the Funds established under the Resolution be invested for a term commensurate with cash-flow expectations and that such investments not violate the arbitrage regulations of the Internal Revenue Code.

Section V Provisions Relating to Qualifications of Dealers and Banks

Establishes criteria for the selection of banks and dealers from which the Authority may buy or sell investments. Business is transacted with firms that have demonstrated financial strength and a high degree of reliability with respect to servicing the Authority's needs. This section also directs that custody of Authority investments be maintained by banks that are members of the Federal Reserve System transacting business in the State of New York.

This section also addresses the subject of contracts with banks and dealers for the purchase or sale of Authorized Investments. The Authority has written Letters of Agreement with authorized dealers that specify the types of securities in which the Authority may invest and identify those Authority individuals authorized to give instructions related to the purchase and sale of securities. In addition, the Authority shall have a written form of agreement for use in repurchase transactions with any authorized dealer with which the Authority may transact this type of investment.

Section VI General Policies Governing Investment Transactions

Requires that the Authority solicit no less than three bids for the purchase or sale of securities in order to ensure the most favorable rate except when securities are purchased at their initial auction, upon new issue or through negotiated prices.

Requires that the Authority or its custodian, prior to payment, take possession of such securities, or in the case of book-entry securities, obtain written advice or wire confirmation that transfer or ownership has been recorded.

Establishes authorized employees to approve the purchase or sale of securities.

Establishes control procedures whereby the Controller shall compare the custodian's confirmation to Authority records.

Section VII Policy Concerning Certain Types of Investment Diversification Standards Required

Establishes a policy concerning the purchase of Authorized Certificates of Deposit and Time Deposits intended to minimize the risk associated with such transactions. Authorized Certificates of Deposit or Time Deposits may be purchased directly from a bank that is a member of the Federal Reserve System transacting business in the State of New York. Such deposits shall be continuously secured by Authorized Investments as outlined in subsection (1) or (2) of Section IV.A. This collateral shall be regularly priced to current market to assure the Authority's security interest is continuously protected. Aggregate holdings of Authorized Certificates of Deposit shall not exceed 25% of the Authority's total investment. Authorized Certificates of Deposit purchased from any one bank shall not exceed \$25 million.

Establishes a policy intended to minimize the risk associated with arrangements for the purchase and resale of Authorized Investments known as Repurchase Agreements ("Repos"). Repos purchased from any one qualified dealer or bank shall not exceed \$50 million and shall be limited to a maximum fixed term of five business days. Aggregate investments in Repos shall not exceed the greater of 5% of the Authority's total investments or \$100 million. All securities purchased under the terms of a Repo shall be held in safekeeping by a designated custodian for the Authority. Such securities shall be priced to market on a daily basis to assure the Authority's security interest. Reverse Repurchase Agreements are not authorized transactions.

Section VIII Review

Establishes policy requiring review of the Guidelines at least once a year. Requires an annual audit by the Authority's independent auditors of the Authority's investment portfolio and compliance with the guidelines established by the Authority and the State Comptroller.

Section IX Reports

Establishes policy requiring submission of reports to the Authority's Trustees concerning the management and performance of the Authority's portfolio.

This Section also requires that an annual report be submitted for approval by the Authority's Trustees. Copies of the approved report shall be sent to the State Division of the Budget, Office of the State Comptroller, Senate Finance Committee and Assembly Way and Means Committee.

Section III

A. Investment Income Record

During 2008, the Authority's investment portfolio averaged approximately \$1.10 billion and earned approximately \$48 million.

The earnings, by fund, were as follows (dollars in millions):

Operating Fund	\$38
Capital/Construction Funds	9
Other (Energy Con./Note Res.)	<u>1</u>
Total	<u>\$ 48</u>

The 2008 investment income is \$4 million less than in 2007. The decrease in investment earnings is due to the investing of additional cash provided by operating activities and the re-investing of maturities in a declining interest rate environment.

B. Fees Paid for Other Post Employment Benefit Trust Fund Investment Services

\$ 35,866	Baring Asset Management
\$ 36,040	Brandywine Global Investment Management
\$ 24,708	C.S. McKee
\$ 3,860	Evergreen Investment Management Company
\$ 40,108	Global Currents Investment Management
\$ 747	State Street Global Advisors
\$ 34,192	Urdang Securities Management, Inc.
<u>\$175,521</u>	Total

Investment management fees were paid by the OPEB Trust Fund.

C. Fees Paid for Nuclear Decommissioning Trust Fund Investment Services

\$359,266	Blackrock Financial Management, Inc.
\$357,640	Tattersall Advisory Group, Inc.
<u>\$ 36,118</u>	The Bank of New York Mellon
\$753,024	Total

Investment management fees were paid by the Nuclear Decommissioning Trust Fund.

D. Results of the Annual Independent Audit

In connection with its examination of the Authority's financial statements, Ernst & Young, LLP, performed tests of the Authority's compliance with certain provisions of the Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Ernst & Young LLP's report, a copy of which is attached as Exhibit "B," states that the results of its examination disclosed no instances of noncompliance by the Authority. Consequently, staff believes the Authority is in compliance with the Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law.

NEW YORK POWER AUTHORITY
INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MATY	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
PORTFOLIO: FUEL CELL								
Municipal								
542690RT1	LIPA NY ELEC 1/14	200,000.00	5/1/2033	0.70	0.70	200,000.00		200,000.00
Subtotal:	Municipal	200,000.00			0.70	200,000.00		200,000.00
Subtotal:	PORTFOLIO: FUEL CELL	200,000.00			0.70	200,000.00		200,000.00
PORTFOLIO: ENERGY CONSERV								
FHLN								
313385CA2	FHLB DISCOUNT NOTE	3,300,000.00	2/18/2009		1.10	3,290,496.00		3,290,496.00
313385DE3	FHLB DISCOUNT NOTE	7,000,000.00	3/18/2009		0.18	6,996,850.00		6,996,850.00
Subtotal:	FHLN	10,300,000.00			0.48	10,287,346.00		10,287,346.00
Subtotal:	PORTFOLIO: ENERGY CONSERV	10,300,000.00			0.48	10,287,346.00		10,287,346.00
PORTFOLIO: ESP CUST REPAY								
FHLN								
313385BF2	FHLB DISCOUNT NOTE	2,503,000.00	1/30/2009		0.01	2,502,989.22		2,502,989.22
Subtotal:	FHLN	2,503,000.00			0.01	2,502,989.22		2,502,989.22
FNMA								
3136F9K36	FNMA CAL01/21/09	4,867,000.00	10/21/2013	5.00	4.94	4,879,362.18	47,318.06	4,926,680.24
Subtotal:	FNMA	4,867,000.00			4.94	4,879,362.18	47,318.06	4,926,680.24
Subtotal:	PORTFOLIO: ESP CUST REPAY	7,370,000.00			3.26	7,382,351.40	47,318.06	7,429,669.46
PORTFOLIO: NIAGARA T/E								
Municipal								

NEW YORK POWER AUTHORITY
 INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
 HOLDINGS AS OF: 12/31/08

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60636WGB5	MO ST HWY 2/18	7,100,000.00	5/1/2015	0.35	0.35	7,100,000.00		7,100,000.00
606900RL4	MO ST HLTH 2/18	6,300,000.00	12/1/2015	0.78	0.78	6,300,000.00		6,300,000.00
57585KNL8	MASMEDO 2/19	20,300,000.00	2/1/2034	0.75	0.75	20,300,000.00		20,300,000.00
57583RFZ3	MASS DEV AGY 1/22	8,100,000.00	7/15/2036	0.50	0.50	8,100,000.00		8,100,000.00
Subtotal:	Municipal	41,800,000.00			0.64	41,800,000.00		41,800,000.00
Subtotal:	PORTFOLIO: NIAGARA T/E	41,800,000.00			0.64	41,800,000.00		41,800,000.00
PORTFOLIO: NIAGARA TAX								
FHLN								
3133XFEQ5	FHLB	10,000,000.00	3/13/2009	5.25	3.82	10,175,500.00		10,175,500.00
313385ET9	FHLB DISCOUNT NOTE	3,400,000.00	4/24/2009		2.46	3,360,333.33		3,360,333.33
Subtotal:	FHLN	13,400,000.00			3.14	13,535,833.33		13,535,833.33
FHLMC								
3137EABG3	FHLMC	10,000,000.00	4/30/2010	2.88	2.42	10,093,630.70		10,093,630.70
Subtotal:	FHLMC	10,000,000.00			2.42	10,093,630.70		10,093,630.70
Subtotal:	PORTFOLIO: NIAGARA TAX	23,400,000.00			3.03	23,629,464.03		23,629,464.03
PORTFOLIO: NOTE DEBT RES.								
Municipal								
20281PBK7	PA Common Wealth	6,130,000.00	6/1/2013	4.41	4.19	6,191,054.80		6,191,054.80
Subtotal:	Municipal	6,130,000.00			4.19	6,191,054.80		6,191,054.80
FHLN								
3133XRMW7	FHLB CAL 6/24/10	3,895,000.00	6/24/2011	4.20	4.22	3,893,052.50		3,893,052.50
3133XHXW7	FHLB	4,695,000.00	11/27/2013	4.88	4.05	4,884,584.10		4,884,584.10
Subtotal:	FHLN	8,590,000.00			4.13	8,777,636.60		8,777,636.60

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FHLMC								
3128X63X2	FHLMC CALL 3/4/09	5,030,000.00	3/4/2011	3.63	3.63	5,030,000.00		5,030,000.00
Subtotal:	FHLMC	5,030,000.00			3.63	5,030,000.00		5,030,000.00
Subtotal:	PORTFOLIO: NOTE DEBT RES.	19,750,000.00			4.02	19,998,691.40		19,998,691.40
	PORTFOLIO: OPER-SPENT FUEL							
	Municipal							
387892UX8	GRANT CITY WASH PUB UTIL	4,740,000.00	1/1/2017	5.15	4.74	4,818,210.00	48,143.92	4,866,353.92
Subtotal:	Municipal	4,740,000.00			4.74	4,818,210.00	48,143.92	4,866,353.92
	FHLMC (Mortgage)							
31393VUG4	FHR 2639 JE	10,000,000.00	1/15/2032	5.00	5.13	9,890,751.30		9,890,751.30
31394TNO4	FHR 2762 LG	22,094,762.00	9/15/2032	5.00	5.24	21,521,679.11		21,521,679.11
31393C4K6	FHR 2003-66 KA	6,621,493.73	1/25/2033	3.50	3.47	6,654,601.20		6,654,601.20
31396E3Q7	FHR 3044 AJ	4,861,102.84	10/15/2035	5.50	5.60	4,834,898.43		4,834,898.43
Subtotal:	FHLMC (Mortgage)	43,577,358.57			4.86	42,901,930.04		42,901,930.04
	FFCB							
31331YSW1	FFCB CAL 02/11/11	10,000,000.00	2/11/2015	4.20	4.21	9,992,500.00		9,992,500.00
31331X3J9	FFCB	17,000,000.00	9/13/2016	5.13	4.31	17,987,510.00		17,987,510.00
31331YSH4	FFCB	22,625,000.00	1/5/2017	4.25	4.20	22,712,490.00		22,712,490.00
31331YE97	FFCB	5,000,000.00	4/17/2017	4.25	4.67	4,848,150.00		4,848,150.00
Subtotal:	FFCB	54,625,000.00			4.35	55,540,650.00		55,540,650.00
	FHLMC							
3128X7AE4	FHLMC CLL 3/19/10	15,000,000.00	3/19/2013	3.80	3.81	14,994,750.00		14,994,750.00
Subtotal:	FHLMC	15,000,000.00			3.81	14,994,750.00		14,994,750.00

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GNMA (Mortgage)								
36204LKH3	GNMA POOL #372896	3,198.73	4/1/2009	6.50	6.76	3,161.75		3,161.75
36204YT37	GNMA POOL #384070	692.41	4/15/2009	6.50	6.76	684.41		684.41
36203VER7	GNMA POOL #360244	1,397.83	5/15/2009	6.50	6.75	1,381.66		1,381.66
36204XND3	GNMA POOL #382988	4,753.96	5/15/2009	6.50	6.75	4,698.99		4,698.99
36206XKC6	GNMA POOL #G424291	23,818.53	2/20/2011	6.00	6.81	22,716.93		22,716.93
36202CNG4	GNMA POOL #G22191	7,794.93	3/20/2011	6.00	6.89	7,397.87		7,397.87
36202CN25	GNMA POOL #G22209	24,464.25	4/20/2011	6.00	6.96	23,113.76		23,113.76
36202CPF4	GNMA POOL #G22222	48,506.07	4/20/2011	5.50	6.70	45,110.65		45,110.65
36202CPG2	GNMA POOL #G22223	34,656.11	5/20/2011	6.00	6.91	32,842.52		32,842.52
Subtotal:	GNMA (Mortgage)	149,282.82			6.81	141,108.54		141,108.54
Municipal								
649902NL3	NYS DORM PIT	5,000,000.00	12/15/2011	3.84	3.84	5,000,000.00		5,000,000.00
977100AT3	WISCONSIN STATE	4,130,000.00	5/1/2014	4.32	4.46	4,099,768.40		4,099,768.40
163103RJ5	CHELAN CNTY WASH PUB DIST	2,500,000.00	7/1/2014	4.98	4.42	2,577,050.00		2,577,050.00
6055803G2	MISSISSIPPI BOND	3,465,000.00	10/1/2014	5.25	4.51	3,598,402.50	505.31	3,598,907.81
649902NP4	NYS DORM PIT	3,000,000.00	12/15/2014	4.81	4.81	3,000,000.00		3,000,000.00
73358TR78	PORT AUTH NY AND NJ	5,000,000.00	9/15/2015	4.50	4.72	4,932,750.00		4,932,750.00
6055803H0	MISSISSIPPI BOND	4,535,000.00	10/1/2015	5.25	4.66	4,693,180.80	661.35	4,693,842.15
20772GE20	CON ST GEN OBLIG	10,000,000.00	3/15/2016	4.55	4.55	10,000,000.00		10,000,000.00
73358TR86	PORT AUTH NY/ NJ	2,900,000.00	9/15/2016	4.75	5.14	2,824,165.00		2,824,165.00
Subtotal:	Municipal	40,530,000.00			4.57	40,725,316.70	1,166.66	40,726,483.36
Project Loan (Mortgage)								
159996VD6	PROJ LN-REILLY #46	21,302.58	7/1/2012	6.86	6.95	21,222.70		21,222.70
158995MV9	PROJ LN-USGI 2028	459,790.23	5/1/2015	6.93	6.59	474,158.67		474,158.67
31342E99	PL HS 10806 MORISANIA	2,270,351.83	4/1/2020	8.95	9.07	2,270,351.83		2,270,351.83
699999XW3	PROJ LN-REILLY #19	1,536,006.92	12/1/2020	7.43	6.68	1,666,567.51		1,666,567.51
30299WML7	PL CAMERON 1F	1,068,965.95	11/1/2021	7.35	9.07	914,133.99		914,133.99
149994WR2	PROJ LN-USGI 2083	177,393.32	7/1/2023	7.25	8.49	158,046.65		158,046.65
38374C5X5	GNMA POOL 2003-85 BK	1,793,605.71	2/20/2024	4.50	4.38	1,815,325.15		1,815,325.15
36225BM21	GNMA POOL #781277	868,311.17	12/15/2028	7.00	6.76	894,089.15		894,089.15
38373TSA4	GNMA POOL #2002-62	1,081,410.90	1/20/2031	6.00	6.17	1,068,780.36		1,068,780.36
31393YTA3	FANNIE MAE 2004-43 BH	3,637,087.41	6/25/2034	5.50	5.53	3,637,087.41		3,637,087.41

NEW YORK POWER AUTHORITY
INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MATY	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
38375KQM7	GNMA POOL 2007-35	15,000,000.00	8/20/2036	6.00	6.08	14,953,125.00		14,953,125.00
36208GX78	GNMA POOL #GN450802	18,022,733.35	9/15/2040	6.63	6.57	18,313,720.14		18,313,720.14
Subtotal:	Project Loan (Mortgage)	45,936,959.37			6.86	46,186,608.56		46,186,608.56
Subtotal:	PORTFOLIO: OPER-SPENT FUEL	204,558,600.76			4.94	205,308,573.84	49,310.58	205,357,884.42
PORTFOLIO: OPERATING-LDP								
Certificates of Deposit								
	FIRST NIAGARA BANK	49,327.00	1/8/2009	0.25	0.25	49,327.00		49,327.00
	M & T TRUST CO	59,000.00	1/16/2009	1.85	1.88	59,000.00		59,000.00
	M & T TRUST CO	56,000.00	1/16/2009	1.85	1.88	56,000.00		56,000.00
	M & T TRUST CO	69,000.00	1/22/2009	2.88	2.92	69,000.00		69,000.00
	M & T TRUST CO	19,000.00	1/23/2009	1.86	1.89	19,000.00		19,000.00
	M & T TRUST CO	73,000.00	2/6/2009	2.18	2.21	73,000.00		73,000.00
	M & T TRUST CO	49,000.00	2/6/2009	3.15	3.19	49,000.00		49,000.00
	M & T TRUST CO	39,000.00	2/6/2009	3.07	3.11	39,000.00		39,000.00
	M & T BANK	27,000.00	3/13/2009	2.93	2.97	27,000.00		27,000.00
	FIRST NIAGARA BANK	30,757.00	3/20/2009	2.64	2.68	30,757.00		30,757.00
	NBT BANK	53,739.00	3/27/2009	2.25	2.28	53,739.00		53,739.00
	TD BankNorth	26,733.00	4/3/2009	-	-	26,733.00		26,733.00
	FIVE STAR BANK	41,625.00	4/10/2009	2.06	2.09	41,625.00		41,625.00
	NBT BANK, NA	74,867.00	5/1/2009	1.59	1.61	74,867.00		74,867.00
	M & T Trust	334,000.00	5/8/2009	1.18	1.20	334,000.00		334,000.00
	HSBC BANK	36,000.00	5/8/2009	0.57	0.58	36,000.00		36,000.00
	M & T Trust	35,000.00	5/15/2009	3.18	3.22	35,000.00		35,000.00
	M & T Trust	37,000.00	5/22/2009	3.16	3.20	37,000.00		37,000.00
	CITIZEN'S BANK	411,519.00	5/29/2009	1.50	1.52	411,519.00		411,519.00
	M & T Trust	35,000.00	6/17/2009	1.60	1.62	35,000.00		35,000.00
	HSBC	54,000.00	7/1/2009	1.04	1.05	54,000.00		54,000.00
	HSBC	61,000.00	7/3/2009	0.25	0.25	61,000.00		61,000.00
	HSBC	100,000.00	7/7/2009	0.55	0.56	100,000.00		100,000.00
	HSBC	40,000.00	7/7/2009	0.93	0.94	40,000.00		40,000.00
	M & T Trust	275,000.00	7/9/2009	2.36	2.39	275,000.00		275,000.00
	FIRST NIAGARA BANK	200,000.00	7/9/2009	0.30	0.30	200,000.00		200,000.00
	M & T BANK	10,000.00	7/10/2009	1.88	1.91	10,000.00		10,000.00
	Glen Falls National Bank & Trust	70,000.00	7/16/2009	0.68	0.69	70,000.00		70,000.00
	Five Star Bank	75,000.00	8/6/2009	0.71	0.72	75,000.00		75,000.00

NEW YORK POWER AUTHORITY
 INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
 HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MATY	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
	M & T BANK	58,000.00	8/7/2009	1.43	1.45	58,000.00		58,000.00
	M & T TRUST CO	37,000.00	8/28/2009	2.34	2.37	37,000.00		37,000.00
	M & T TRUST CO	68,000.00	8/28/2009	2.94	2.98	68,000.00		68,000.00
	KEY BANK	258,952.00	9/4/2009	2.80	2.84	258,952.00		258,952.00
	M & T TRUST CO	12,000.00	9/4/2009	2.22	2.25	12,000.00		12,000.00
	M & T TRUST CO	14,000.00	9/4/2009	2.30	2.33	14,000.00		14,000.00
	M & T TRUST CO	30,000.00	9/4/2009	2.15	2.18	30,000.00		30,000.00
	M & T BANK	24,000.00	9/18/2009	3.49	3.54	24,000.00		24,000.00
	M & T BANK	40,000.00	9/24/2009	3.08	3.12	40,000.00		40,000.00
	HSBC	45,000.00	9/25/2009	3.00	3.04	45,000.00		45,000.00
	M & T TRUST CO.	27,000.00	10/2/2009	2.32	2.35	27,000.00		27,000.00
	Northwest Savings Bank	59,560.00	10/2/2009	2.23	2.26	59,560.00		59,560.00
	Glens Falls National Bank & Trust	162,375.00	10/2/2009	1.16	1.18	162,375.00		162,375.00
	Glens Falls National Bank & Trust	47,386.00	10/2/2009	1.16	1.18	47,386.00		47,386.00
	ALLIANCE BANK	45,871.00	10/16/2009	1.65	1.67	45,871.00		45,871.00
	HSBC	42,000.00	10/16/2009	3.00	3.04	42,000.00		42,000.00
	M & T BANK	68,000.00	10/20/2009	0.75	0.76	68,000.00		68,000.00
	M & T BANK	78,500.00	10/20/2009	1.56	1.58	78,500.00		78,500.00
	M & T BANK	38,000.00	10/23/2009	2.69	2.73	38,000.00		38,000.00
	HSBC BANK	162,000.00	10/23/2009	1.81	1.84	162,000.00		162,000.00
	Bank of Akron	37,717.00	11/19/2009	1.99	2.02	37,717.00		37,717.00
	Genesee Regional Bank	130,247.00	11/19/2009	2.75	2.79	130,247.00		130,247.00
	Alliance Bank	32,072.00	11/25/2009	1.35	1.37	32,072.00		32,072.00
	FIRST NIAGARA BANK	25,318.00	12/4/2009	2.94	2.98	25,318.00		25,318.00
	M & T BANK	30,000.00	12/11/2009	2.73	2.77	30,000.00		30,000.00
	TIOGA BANK	3,491.00	12/18/2009	2.33	2.36	3,491.00		3,491.00
Subtotal:	Certificates of Deposit	4,018,056.00			1.79	4,018,056.00		4,018,056.00
Subtotal:	PORTFOLIO: OPERATING - LDP	4,018,056.00			1.79	4,018,056.00		4,018,056.00

PORTFOLIO: OPERATING FUND

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MATY	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
31331XBQ4	FFCB	26,000,000.00	10/23/2009	5.00	4.29	26,347,100.00		26,347,100.00
31331YDG2	FFCB	9,665,000.00	11/8/2010	4.30	4.26	9,676,018.10		9,676,018.10
31331X5W8	FFCB	10,000,000.00	10/3/2011	4.70	4.01	10,243,900.00		10,243,900.00
31331Y3P3	FFCB	20,000,000.00	10/3/2011	3.50	3.51	19,993,540.00	54,444.44	20,047,984.44
31331YU40	FFCB	5,000,000.00	6/4/2012	3.88	4.22	4,936,850.00		4,936,850.00

NEW YORK POWER AUTHORITY
INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MATY	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
31331YGE4	FFCB	38,950,000.00	12/4/2012	4.25	4.20	39,042,311.50		39,042,311.50
31331YTS9	FFCB CAL 02/11/10	11,975,000.00	2/11/2013	3.75	4.52	11,609,762.50	53,638.02	11,663,400.52
31331YVX5	FFCB CAL 3/4/10	15,419,000.00	3/4/2013	3.95	3.89	15,460,939.68		15,460,939.68
Subtotal:	FFCB	137,009,000.00			4.11	137,310,421.78	108,082.46	137,418,504.24
FHLN								
313385AM8	FHLB DISCOUNT NOTE	18,000,000.00	1/12/2009		3.07	17,844,000.00		17,844,000.00
3133XJQP6	FHLB	15,000,000.00	2/4/2009	5.00	4.75	15,050,525.40		15,050,525.40
313386DS2	FHLB DISCOUNT NOTE	25,000,000.00	3/30/2009		3.30	24,597,777.78		24,597,777.78
3133MTRK6	FHLB	10,920,000.00	11/13/2009	4.00	4.24	10,869,331.20		10,869,331.20
3133XRXT2	FHLB	5,000,000.00	2/4/2010	3.10	3.04	5,004,450.00		5,004,450.00
3133XPY57	FHLB	20,000,000.00	3/12/2010	2.75	3.38	19,831,600.00	73,333.33	19,904,933.33
3133XRT83	FHLB	33,500,000.00	9/10/2010	3.38	3.35	33,514,345.00	264,562.50	33,778,907.50
3133XRM49	FHLB	5,000,000.00	12/10/2010	3.88	3.51	5,042,000.00		5,042,000.00
3133XPBC7	FHLB	15,000,000.00	3/11/2011	2.63	3.09	14,799,750.00		14,799,750.00
3133XPYV0	FHLB Call 3/17/09	10,000,000.00	3/17/2011	3.40	3.40	9,999,218.70		9,999,218.70
3133XR4U1	FHLB	10,000,000.00	6/10/2011	3.13	3.51	9,888,400.00		9,888,400.00
3133XRC65	FHLB	6,600,000.00	6/10/2011	3.38	3.74	6,533,472.00		6,533,472.00
3133XRKT6	FHLB CAL 6/30/10	10,000,000.00	6/30/2011	4.02	4.04	9,995,000.00		9,995,000.00
3133MKGH4	FHLB	10,000,000.00	11/15/2011	5.63	3.45	10,707,700.00		10,707,700.00
3133XBT39	FHLB	9,950,000.00	6/8/2012	4.38	4.25	9,996,558.00		9,996,558.00
3133XQZD3	FHLB	10,000,000.00	3/8/2013	3.88	3.56	10,145,400.00		10,145,400.00
Subtotal:	FHLN	213,970,000.00			3.60	213,819,528.08	337,895.83	214,157,423.91
FNMA								
3136F5EB3	FNMA	4,700,000.00	3/3/2009	3.60	4.03	4,610,512.00		4,610,512.00
31359MVE0	FNMA	32,000,000.00	5/15/2009	4.25	4.23	32,008,320.00		32,008,320.00
31398AKX9	FNMA	5,000,000.00	2/10/2010	3.25	3.04	5,015,800.00		5,015,800.00
31359MB28	FNMA	20,000,000.00	4/19/2010	4.75	4.29	20,214,200.00		20,214,200.00
31359MGJ6	FNMA	10,000,000.00	11/15/2010	6.63	3.03	10,854,000.00		10,854,000.00
31359MHK2	FNMA	19,267,000.00	3/15/2011	5.50	3.32	20,215,707.08	135,404.19	20,351,111.27
31398APG1	FNMA	12,000,000.00	4/11/2011	2.75	2.84	11,969,760.00		11,969,760.00
31398AQS4	FNMA CAL 4/28/09	9,735,000.00	4/28/2011	3.50	3.81	9,662,748.00		9,662,748.00
31398ARU8	FNMA CLL 06/10/09	10,000,000.00	6/10/2011	3.75	4.04	9,920,312.50		9,920,312.50
31359MZ30	FNMA	4,400,000.00	10/15/2011	5.00	3.71	4,573,404.00		4,573,404.00
3136F9LN1	FNMA CAL04/24/09	20,000,000.00	4/24/2013	4.25	4.00	20,193,100.00	155,833.33	20,348,933.33

NEW YORK POWER AUTHORITY
INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MAT'Y	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
3136F9F32	FNMA CAL03/23/09	8,830,000.00	9/23/2013	4.25	4.07	8,897,840.89	101,115.76	8,998,956.65
Subtotal:	FNMA	155,932,000.00			3.70	158,135,704.47	392,353.28	158,528,057.75
FHLMC								
3128X1A56	FHLMC	9,435,000.00	5/12/2010	4.13	4.29	9,398,580.90		9,398,580.90
3137EABH1	FHLMC	3,000,000.00	5/28/2010	2.38	2.54	2,989,830.00		2,989,830.00
3137EAAAX7	FHLMC	20,000,000.00	8/23/2010	5.13	3.16	20,684,000.00	193,611.11	20,877,611.11
3128X7V68	FHLMC CLL 2/25/09	20,000,000.00	8/25/2010	3.75	3.79	19,983,380.00	70,833.33	20,054,213.33
3137EABK4	FHLMC	5,265,000.00	4/11/2011	2.75	2.79	5,258,945.25		5,258,945.25
3128X7U93	FHLMC CLL 2/15/09	15,000,000.00	8/15/2011	4.13	4.13	15,000,000.00		15,000,000.00
3128X6A89	FHLMC CLL 1/22/09	23,200,000.00	1/22/2013	4.13	4.06	23,255,796.00	409,383.33	23,665,179.33
3128X6L20	FHLMC CAL 1/29/09	50,000,000.00	1/29/2013	4.15	4.07	50,139,950.00	864,583.33	51,004,533.33
3128X7NA8	FHLMC CLL 2/13/09	8,000,000.00	5/13/2013	4.50	4.40	8,032,120.00	48,000.00	8,080,120.00
3128X7J70	FHLMC CLL 7/1/09	15,000,000.00	7/1/2013	5.00	4.85	15,091,800.00	256,250.00	15,348,050.00
3128X7GX6	FHLMC CALL 4/9/10	15,000,000.00	4/9/2015	4.20	4.21	14,990,000.00		14,990,000.00
Subtotal:	FHLMC	183,900,000.00			3.84	184,824,402.15	1,842,661.10	186,667,063.25
Municipal								
29270CKW4	ENERGY NORTHWEST WASHELEC	11,475,000.00	7/1/2009	4.34	4.34	11,475,000.00		11,475,000.00
649870HR6	NYS FIN AGY	2,880,000.00	9/15/2009	5.02	4.99	2,881,814.40		2,881,814.40
649870HS4	NYS FIN AGY	2,110,000.00	9/15/2010	4.96	4.93	2,111,856.80		2,111,856.80
649870JM5	NYS FIN AGY	1,000,000.00	9/15/2011	4.39	4.39	1,000,000.00		1,000,000.00
649870HU9	NYS FIN AGY	3,400,000.00	9/15/2012	5.02	4.25	3,503,224.00		3,503,224.00
649870JN3	NYS FIN AGY	1,000,000.00	9/15/2012	4.59	4.59	1,000,000.00		1,000,000.00
649870JP8	NYS FIN AGY	1,000,000.00	9/15/2013	4.81	4.81	1,000,000.00		1,000,000.00
649870JQ6	NYS FIN AGY	2,000,000.00	9/15/2014	4.97	4.97	2,000,000.00		2,000,000.00
Subtotal:	Municipal	24,865,000.00			4.66	24,971,895.20		24,971,895.20
Subtotal:	PORTFOLIO: OPERATING FUND	715,676,000.00			3.86	719,061,951.68	2,680,992.67	721,742,944.35
PORTFOLIO: ST. LAW SPEC								
FNMA								
313589FA6	FNDN	3,800,000.00	5/1/2009		2.41	3,715,032.00		3,715,032.00

NEW YORK POWER AUTHORITY
INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MAT'Y	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
Subtotal:	FNMA	3,800,000.00			2.41	3,715,032.00		3,715,032.00
FHLMC								
313397EB3	FMCDN	3,200,000.00	4/8/2009		1.27	3,183,666.67		3,183,666.67
Subtotal:	FHLMC	3,200,000.00			1.27	3,183,666.67		3,183,666.67
Municipal								
57586PDJ2	MASS ST 2/19	250,000.00	4/1/2036	1.80	1.80	250,000.00		250,000.00
Subtotal:	Municipal	250,000.00			1.80	250,000.00		250,000.00
Subtotal:	PORTFOLIO: ST. LAW SPEC	7,250,000.00			1.89	7,148,698.67		7,148,698.67

PORTFOLIO: STL CONSTRUCTION

FFCB								
31331SNF6	FFCB	4,700,000.00	1/15/2009	3.75	2.47	4,754,473.00		4,754,473.00
31331X4T6	FFCB	10,000,000.00	3/27/2009	4.55	4.03	10,067,600.00		10,067,600.00
31331XWUJ2	FFCB	6,000,000.00	4/25/2011	4.80	4.01	6,147,180.00		6,147,180.00
31331X5W8	FFCB	9,000,000.00	10/3/2011	4.70	4.00	9,219,420.00		9,219,420.00
31331X3S9	FFCB	20,000,000.00	10/17/2012	4.50	3.99	20,448,000.00		20,448,000.00
31331YHR4	FFCB CALL 12/14/09	4,000,000.00	12/14/2012	4.40	4.43	3,995,600.00		3,995,600.00
31331YJB7	FFCB CALL 12/17/09	5,420,000.00	12/17/2012	4.60	4.60	5,420,000.00		5,420,000.00
31331X3G5	FFCB	5,500,000.00	9/13/2013	4.95	4.65	5,581,950.00		5,581,950.00
31331YHL7	FFCB	6,500,000.00	12/16/2013	4.15	4.14	6,504,095.00		6,504,095.00
Subtotal:	FFCB	71,120,000.00			4.04	72,138,318.00		72,138,318.00
FHLN								
313385JL1	FHLB DISCOUNT NOTE	1,200,000.00	7/22/2009		3.04	1,172,958.33		1,172,958.33
3133XMYX3	FHLB CALL 11/20/09	4,500,000.00	5/20/2011	4.50	4.16	4,547,812.50		4,547,812.50
3133XNND7	FHLB CL 12/9/09	5,000,000.00	12/9/2011	4.13	4.14	4,997,500.00		4,997,500.00
3133XML66	FHLB	5,500,000.00	10/10/2012	4.63	4.50	5,529,201.98		5,529,201.98
3133XNMB2	FHLB CALL 12/17/09	6,970,000.00	12/17/2012	4.25	4.28	6,961,287.50		6,961,287.50

NEW YORK POWER AUTHORITY
 INVENTORY REPORT BY PORTFOLIO AND SECURITY TYPE
 HOLDINGS AS OF: 12/31/08

CUSIP	SECURITY DESCRIPTION	PAR AMOUNT	MATURITY DATE	COUPON RATE	B/E YLD TO MATY	SETTLEMENT PRINCIPAL	SETTLEMENT INTEREST PURCHASED	TOTAL SETTLEMENT AMOUNT
Subtotal:	FHLN	23,170,000.00			4.03	23,208,760.31		23,208,760.31
FNMA								
31359MXH1	FNMA	5,500,000.00	2/15/2010	3.88	4.07	5,476,845.00		5,476,845.00
3136F3J80	FNMA	7,100,000.00	7/14/2010	3.32	4.25	6,934,712.00		6,934,712.00
31398AGU0	FNMA	5,500,000.00	9/13/2010	4.38	4.14	5,534,595.00		5,534,595.00
3136F7B48	FNMA CAL 5/19/09	1,000,000.00	5/19/2011	5.63	4.84	1,018,439.00		1,018,439.00
31398ASR4	FNMA CLL 04/15/09	3,400,000.00	7/15/2013	5.00	5.06	3,391,024.00	43,444.44	3,434,468.44
Subtotal:	FNMA	22,500,000.00			4.47	22,355,615.00	43,444.44	22,399,059.44
FHLMC								
3137EAARO	FHLMC	5,500,000.00	3/5/2012	4.75	4.41	5,571,667.42		5,571,667.42
Subtotal:	FHLMC	5,500,000.00			4.41	5,571,667.42		5,571,667.42
Municipal								
650035JF6	NYSDev Con't Call	3,450,000.00	12/15/2013	4.36	4.36	3,450,000.00		3,450,000.00
57586PDJ2	MASS ST 2/19	1,320,000.00	4/1/2036	1.80	1.80	1,320,000.00		1,320,000.00
Subtotal:	Municipal	4,770,000.00			3.08	4,770,000.00		4,770,000.00
Subtotal: PORTFOLIO: STL CONSTRUCTION								
		127,060,000.00			4.12	128,044,360.73	43,444.44	128,087,805.17
GRAND TOTAL								
		1,161,382,656.76			3.89	1,166,879,493.75	2,821,065.75	1,169,700,559.50

POWER AUTHORITY OF THE STATE OF NEW YORK
Summary of Bids Solicited for the Purchase or Sale
of Securities and Transactions Consummated with Dealers
For the Year Ended December 31, 2008

<u>Dealers</u>	<u>Bids Accepted</u>	<u>Bids Solicited</u>	<u>Total Principal Purchased/Sold</u>	<u>CDs and Repurchase Agreements</u>	<u>Total Transactions</u>
Citigroup	16	42	106,244,845	0	106,244,845
Deutsche Bank	40	257	258,901,931	132,000,000	390,901,931
Goldman Sachs	2	2	11,100,000	0	11,100,000
JP Morgan Chase	16	16	45,920,000	0	45,920,000
Key Bank	57	57	255,791	4,058,056	4,313,847
Lehman Brothers	27	207	75,919,307	285,000,000	360,919,307
Merrill Lynch	68	128	470,820,938	0	470,820,938
Mizuho Securities	261	340	819,303,265	5,372,355,000	6,191,658,265
SUB-TOTAL	487	1,049	1,788,466,076	5,793,413,056	7,581,879,132
Minority Firms					
CastleOak Securities	12	16	148,088,172	0	148,088,172
Loop Capital	2	2	7,642,375	0	7,642,375
Magna Securities	52	53	635,712,821	0	635,712,821
MR Beal	2	2	8,000,000	0	8,000,000
Sandgrain	30	41	321,512,738	0	321,512,738
SUB-TOTAL	98	114	1,120,956,105	0	1,120,956,105
Grand Total	585	1,163	2,909,422,181	5,793,413,056	8,702,835,237

SCHEDULE OF INVESTMENTS

Power Authority of the State of New York
Year Ended December 31, 2008
With Report of Independent Auditors

 ERNST & YOUNG

Power Authority of the State of New York

Schedule of Investments

Year Ended December 31, 2008

Contents

Report of Independent Auditors.....	1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Schedule of Investments	4
Notes to Schedule of Investments.....	5

Report of Independent Auditors

Power Authority of the State of New York
White Plains, New York

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Power Authority of the State of New York (the Authority) for the year ended December 31, 2008, and have issued our report thereon dated February 26, 2009. We also have audited the accompanying Schedule of Investments of the Authority as of December 31, 2008. This schedule is the responsibility of the Authority's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Investments is 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 schedule, assessing the accounting principles used and significant estimates made by management, and evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the Schedule of Investments of the Authority at December 31, 2008, in conformity with U.S. generally accepted accounting principles.

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

Ernst & Young LLP

February 26, 2009

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards

Power Authority of the State of New York
White Plains, New York

We have audited the financial statements of the Power Authority of the State of New York (the Authority), as of and for the year ended December 31, 2008, and have issued our report thereon dated February 26, 2009. We have also audited the Statement of Investments as of and for the year ended December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the *Investment Guidelines for Public Authorities*, issued by the Office of the State Comptroller of the State of New York as required by the provisions of section 2925(3)(f) of the Public Authorities Law; and the investment guidelines established by the Authority.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, the provisions of section 2925(3)(f) of the New York State Public Authorities Law and the Authority's investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters regarding internal control that we will report to management of the Authority in a separate letter.

This report is intended solely for the information and use of the Board of Trustees, management and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

February 26, 2009

Power Authority of the State of New York

Schedule of Investments

December 31, 2008

(In millions of dollars)

Operating fund		\$ 955
Capital fund		214
Restricted funds:		
Decommissioning trust fund	\$ 812	
Petroleum Overcharge Restitution, Clean Air for Schools Project and Lower Manhattan Energy Independence Initiative Funds	60	
ART Note debt service reserve fund	20	
Total restricted funds	<u>892</u>	
		<u>\$2,061</u>

See accompanying notes.

Power Authority of the State of New York

Notes to Schedule of Investments

December 31, 2008

1. Organization and Functions of the Authority

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

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

The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996 (Bond Act), the Authority administers a Clean Air for Schools Projects program, for which \$125 million in Bond Act monies have been allocated for effectuation of such program. Also, in accordance with legislation enacted in 2006, the Authority was appropriated \$25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures.

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.

2. Summary of Significant Accounting Policies for Investments

- a. 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.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

2. Summary of Significant Accounting Policies for Investments (continued)

- b. 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*.

3. Investment Criteria

Investment of the Authority's funds is administered in accordance with the applicable provisions of its Bond Resolution entitled "General Resolution Authorizing Revenue Obligations" adopted February 24, 1998, as amended and supplemented up to the present time, 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.

Investment Summary
(in Millions)

Estimated Fair Value
December 31, 2008

	Total	Total Restricted Funds	Decommissioning Trust Fund	Restricted Funds POCR & CAS Projects Funds* & Other	ART Note Debt Reserve	Capital Fund	Current Assets
U.S. Government /Agencies:							
Treasury Bills	\$ 60	\$ 60		\$ 60			
Treasury Notes							
GNMA	43						\$ 43
	103	60		60			43
Other debt securities>							
FNMA	380					\$ 28	352
FHLMC	85	5			\$ 5	19	61
FHLB	275	9			9	45	221
FPCB	278					75	203
All Other	124	6			6	47	71
	1,142	20			20	214	908
Repurchase Agreements	4						4
Portfolio Manager	812	812	\$ 812				
Total Investments	\$ 2,061	\$ 892	\$ 812	\$ 60	\$ 20	\$ 214	\$ 955
Summary of Maturities Years							
0-1	\$ 251	\$ 60	\$ 24	\$ 60		\$ 39	\$ 152
1-5	747	20	72		\$ 20	131	596
5-10	131		103			14	117
10+	120		380			30	90
Common Stock	812	812	233				
	\$ 2,061	\$ 892	\$ 812	\$ 60	\$ 20	\$ 214	\$ 955

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

3. Investment Criteria (continued)

a. Credit Risk

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

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

b. Interest Rate Risk

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

c. Concentration of Credit Risk

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

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

4. Capital Funds

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.

5. Restricted Funds

Decommissioning Fund

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

Petroleum Overcharge Restitution (POCR), Clean Air for Schools (CAS) Project and Lower Manhattan Energy Independence Initiative Funds

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

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling \$60.8 million to date, took place from 1996 to 2007. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account until they are utilized.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

5. Restricted Funds (continued)

The New York State Clean Water/Clean Air Bond Act of 1996 made available \$125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. The Authority anticipates that the funding for the projects will allow the conversion of 80 schools, of which 76 have been completed. The conversion program is currently scheduled to be completed in 2009. CAS Projects funds totaling \$125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

In accordance with legislation enacted in 2006, the Authority was appropriated \$25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures.

As of December 31, 2008, POCR, CAS Project, and Lower Manhattan Energy Independence Initiative funds are \$24 million, \$11 million and \$25 million, respectively.

ART Notes Debt Service Reserve Fund

In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of \$20 million.

6. Other

All investments are held by designated custodians in the name of the Authority.

The accompanying Schedule of Investments does not include cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less.

7. Income From Investments

During the year ended December 31, 2008, the Authority had income from investments of \$80 million.

Power Authority of the State of New York

Notes to Schedule of Investments (continued)

8. Other Postemployment Benefits Trust Fund (OPEB Trust)

In December 2006, the Authority's Trustees authorized staff to initiate the establishment of a trust for OPEB obligations (OPEB Trust). During 2008, the Authority partially funded its prior service OPEB obligation by contributing \$125 million to the OPEB Trust Fund in addition to the \$100 million funded in the prior year. The Authority has funded approximately sixty-five percent of its prior service OPEB obligation. The Authority will evaluate the performance of the OPEB Trust before making decisions on additional actions. As of December 31, 2008, the OPEB Trust Fund amounted to \$225 million. The fair value of the Trust Fund investments at December 31, 2008 was \$191 million. The OPEB Trust Fund is not required to be administered in accordance with the Authority's or New York State investment guidelines. The OPEB Trust is held by an independent custodian for the benefit of the Authority's retired employees. Therefore, the OPEB Trust Fund is not included as an asset in the Authority's balance sheet and accordingly is not included in the Schedule of Investments herein.