

# Approved **BUDGET** and **FINANCIAL** **PLAN 2010-2013**

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In compliance with 2 NYCRR Part 203



## **Background and Mission of the Power Authority of the State of New York**

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

NYPA generates, transmits and sells electric power and energy, principally at wholesale. The Authority's primary customers are municipal and investor-owned utilities, rural electric cooperatives, high load factor industries and other businesses located throughout New York State, various public corporations located within the metropolitan area of New York City ("SENY governmental customers"), and certain out-of-state customers.

To provide electric service, the Authority owns and operates six major generating facilities, eleven small gas-fired electric generating facilities, and five small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. NYPA's six major generating facilities consist of two large hydroelectric facilities ("Niagara" and "St. Lawrence-FDR"), a large pumped-storage hydroelectric facility ("Blenheim-Gilboa"), the Charles Poletti Power Project which is a dual fuel steam-electric generating plant ("Poletti"), the combined cycle electric generating plant at the Poletti site (the "500-MW plant") and the Richard M. Flynn combined cycle plant located on Long Island ("Flynn"). The 500-MW plant went into commercial operation on December 31, 2005. In connection with the licensing of the 500-MW plant, the Authority has entered into an agreement which will require the closure of its existing Poletti Project in January 2010.

In addition to Authority-supplied electricity, further customer electric energy needs are met by purchases from in-state generating companies, municipal electric systems, and out-of-state generating companies; principally via participation in the New York Independent System Operator ("NYISO") market. Also, a small amount of such energy is received from customer-owned generation.

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 re-licensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York ("NYC governmental customers"); (c) the construction of the 500-MW plant; (d) the upgrade of the Blenheim Gilboa plant; (e) a significant reduction of outstanding debt; and (f) implementation of an energy and fuel risk management program.

To achieve its goal of promoting energy efficiency, NYPA implements two energy services programs, one for its SENY governmental customers and the other primarily for various other public entities throughout the State. Under these programs, the Authority finances the installation of energy saving measures and equipment, which are owned by the customers and public entities upon their installation, and which focus primarily on the reduction of the demand for electricity. These programs generally provide funding for, among other things, high efficiency lighting technology conversions, high efficiency heating, ventilating and air conditioning systems and controls, boiler conversions, replacement of inefficient refrigerators with energy efficient units in public housing projects, distributed generation technologies and clean energy technologies, and installation of non-electric energy saving measures.

Participants in these energy efficiency programs include departments, agencies or other instrumentalities of the State, the Authority's SENY governmental customers, the Authority's municipal electric system customers, public school districts or boards and community colleges located throughout New York State, county and municipal entities with facilities located throughout New York State, as well as various business/industrial customers of the Authority. Legislation enacted into law in September 2009 enhanced NYPA's authority to provide energy services to these entities.

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented, 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:

- (i) to pay all Operating Expenses of the Authority,
- (ii) to pay the debt service on all Senior Indebtedness and the debt service on all Subordinated Indebtedness then outstanding, and all Parity Debt and Subordinated Contract Obligations, all as the same respectively become due and payable, and

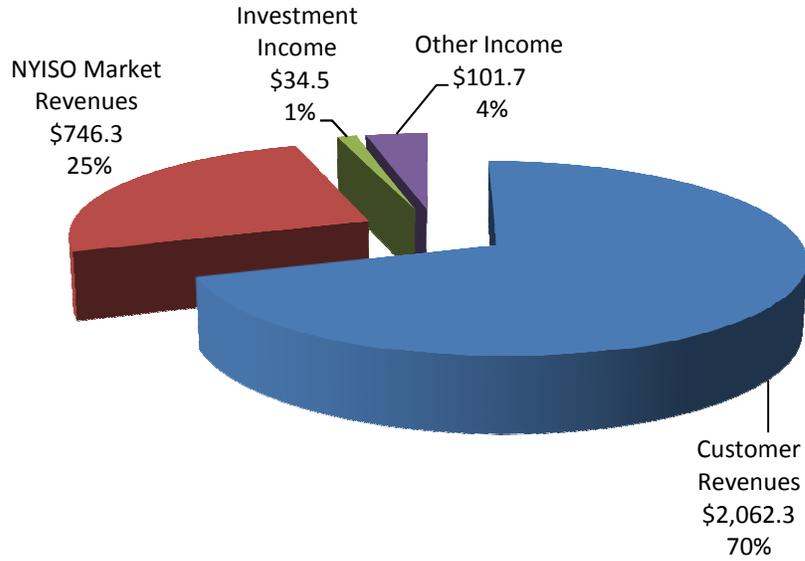
(iii) to maintain any reserve established by the Authority pursuant to the General Resolution, in such amount as may be determined from time to time by the Authority in its judgment.

**NYPA's Four-Year Projected Income Statements \***  
(in Millions)

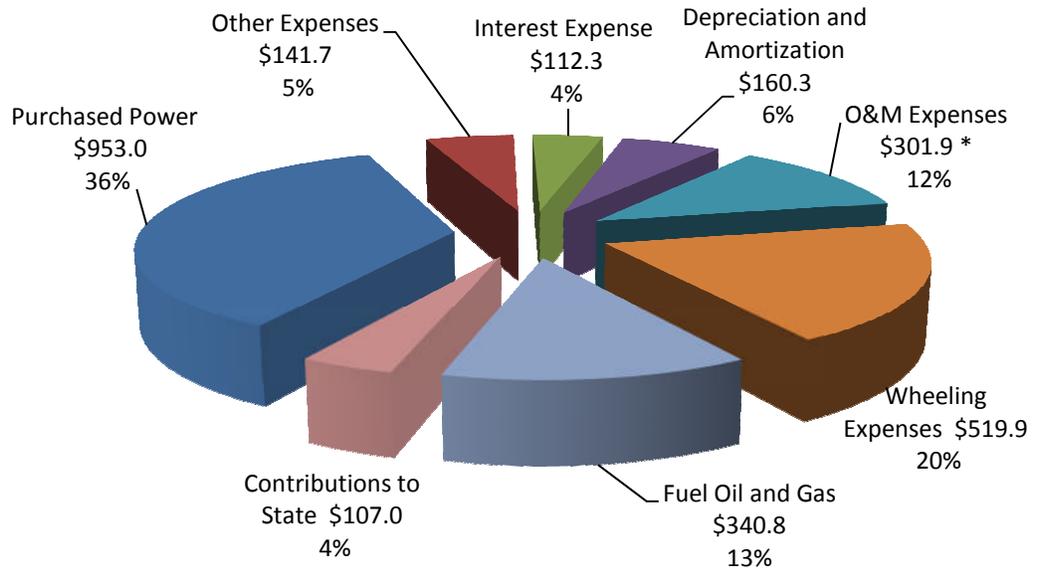
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>Operating Income:</u></b>				
Customer Revenues	\$2,062.3	\$2,213.4	\$2,438.8	\$2,513.6
NYISO Market Revenues	<u>\$ 746.3</u>	<u>\$857.4</u>	<u>\$891.9</u>	<u>\$877.1</u>
<b>Total Operating Income</b>	<b>\$2,808.5</b>	<b>\$3,070.8</b>	<b>\$3,330.7</b>	<b>\$3,390.8</b>
<b><u>Operating Expenses:</u></b>				
Purchased Power	(\$953.0)	(\$1,040.8)	(\$1,060.6)	(\$1,089.4)
Fuel oil and gas	(\$340.8)	(\$441.9)	(\$535.9)	(\$519.4)
Wheeling Expenses	(\$519.9)	(\$575.7)	(\$633.1)	(\$648.6)
O&M Expenses	(\$312.3)	(\$342.8)	(\$370.2)	(\$389.5)
Other Expenses	(\$141.7)	(\$117.2)	(\$112.9)	(\$115.5)
Depreciation and Amortization	(\$160.3)	(\$193.6)	(\$215.2)	(\$215.4)
Allocation to Capital	<u>\$10.4</u>	<u>\$12.3</u>	<u>\$13.5</u>	<u>\$14.4</u>
<b>Total Operating Expenses</b>	<b>(\$2,417.6)</b>	<b>(\$2,699.7)</b>	<b>(\$2,914.3)</b>	<b>(\$2,963.4)</b>
<b>NET OPERATING INCOME</b>	<b>\$390.9</b>	<b>\$371.1</b>	<b>\$416.3</b>	<b>\$427.4</b>
<b><u>Other Income:</u></b>				
Investment Income	\$34.5	\$46.0	\$58.0	\$71.2
Other Income	<u>\$101.7</u>	<u>\$100.5</u>	<u>\$99.1</u>	<u>\$88.0</u>
<b>Total Other Income</b>	<b>\$136.2</b>	<b>\$146.5</b>	<b>\$157.0</b>	<b>\$159.1</b>
<b><u>Non-Operating Expenses:</u></b>				
Interest Expense	(\$112.3)	(\$169.6)	(\$228.4)	(\$231.1)
Contributions to State	<u>(\$107.0)</u>	<u>(\$100.0)</u>	<u>(\$100.0)</u>	<u>(\$100.0)</u>
<b>Total Non-Operating Expenses</b>	<b>(\$219.3)</b>	<b>(\$269.6)</b>	<b>(\$328.4)</b>	<b>(\$331.1)</b>
<b>NET INCOME</b>	<b>\$307.8</b>	<b>\$248.0</b>	<b>\$245.0</b>	<b>\$255.4</b>

\* Includes Astoria Tolling Agreement

**2010 Budget – Sources**  
(in Millions)



**2010 Budget – Uses**  
(in Millions)



\* Includes Allocation to Capital \$10.4 million

**NYPA's Four-Year Projected Cash Budgets**  
(in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>Revenue Receipts:</u></b>				
Sale of Power, Use of Transmission Lines, Wheeling Charges and other receipts	\$2,808.6	\$3,045.9	\$3,274.8	\$3,337.8
Earnings on Investments and Time Deposits	<u>\$41.8</u>	<u>\$53.0</u>	<u>\$64.6</u>	<u>\$78.0</u>
<b>Total Revenues</b>	\$2,850.4	\$3,098.9	\$3,339.4	\$3,415.8
<b><u>Expenses:</u></b>				
Operation and Maintenance, including Transmission of Electricity by others, Purchased Power and Fuel Purchases	(\$2,425.7)	(\$2,658.0)	(\$2,892.1)	(\$2,943.8)
<b><u>Debt Service:</u></b>				
Interest on Bonds and Notes	(\$84.0)	(\$86.1)	(\$91.1)	(\$93.7)
General Purpose Bonds Retired	(\$121.9)	(\$112.9)	(\$73.2)	(\$86.3)
Notes Retired	<u>(\$7.0)</u>	<u>(\$7.6)</u>	<u>(\$8.2)</u>	<u>(\$8.8)</u>
<b>Total Debt Service</b>	(\$212.9)	(\$206.6)	(\$172.5)	(\$188.8)
<b>Total Requirements</b>	(\$2,638.6)	(\$2,864.6)	(\$3,064.6)	(\$3,132.6)
<b>NET OPERATIONS</b>	<b>\$211.8</b>	<b>\$234.3</b>	<b>\$274.8</b>	<b>\$283.2</b>
<b><u>Capital Receipts:</u></b>				
Sale of Bonds, Promissory Notes & Commercial Paper	\$117.5	\$135.5	\$184.5	\$192.5
Less : Repayments	(\$129.9)	(\$120.7)	(\$120.3)	(\$121.1)
Earnings on Construction Funds	\$3.4	\$2.1	\$1.3	\$1.0
DSM Recovery Receipts	\$48.7	\$45.2	\$39.9	\$37.8
Other	<u>\$102.0</u>	<u>\$102.0</u>	<u>\$102.0</u>	<u>\$92.0</u>
<b>Total Capital Receipts</b>	\$141.7	\$164.1	\$207.4	\$202.2
<b><u>Capital Additions &amp; Refunds:</u></b>				
Additions to Electric Plant in Service and Construction Work in Progress, and Other costs	(\$334.6)	(\$392.0)	(\$430.0)	(\$458.6)
Construction Escrow	<u>\$59.3</u>	<u>\$31.6</u>	<u>\$21.3</u>	<u>\$12.3</u>
<b>Total Capital Additions &amp; Refunds</b>	(\$275.3)	(\$360.4)	(\$408.7)	(\$446.3)
<b>NET CAPITAL</b>	<b>(\$133.6)</b>	<b>(\$196.3)</b>	<b>(\$201.3)</b>	<b>(\$244.1)</b>
<b>NET INCREASE / (DECREASE)</b>	<b>\$78.2</b>	<b>\$38.0</b>	<b>\$73.5</b>	<b>\$39.1</b>

## **(a) NYPA's Relationship with the New York State Government**

NYPA is a corporate municipal instrumentality and political subdivision of the State of New York created in 1931 and authorized by the Power Authority Act of the State of New York (the "Power Authority Act") to help provide a continuous and adequate supply of dependable electric power and energy to the people of New York State. The Authority's operations are overseen by a Board of Trustees. NYPA'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. NYPA generally finances construction of new projects through sales of bonds and notes to investors, periodically supplemented with equity, and pays related debt service with revenues from the generation and transmission of electricity. 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.

## **(b) Budget Process**

As an electric utility, NYPA operates in a capital intensive industry where operating revenues and expenses are significant and highly variable due to the volatility of electricity prices and fuel costs. NYPA's operations are not only subject to electric and fuel cost volatility, but changing water flows have a direct effect on hydroelectric generation levels. The proposed budget and financial plan relied on data developed during the May through August timeframe, while the approved budget and financial plan relies on data developed during the October through November timeframe, with a late October update of electric and fuel prices and an early November update for water levels on Lake Erie and Lake Ontario. The Authority's experiences with these markets and conditions have shown that they can significantly change over time and therefore, substantial differences in operating revenues and expenses between the proposed and approved budget and financial plans are often observed.

The following is a general outline of the schedule of actions for both the proposed and approved budget forecast for 2010 and the overall four-year financial plan for 2010-2013:

### **Proposed Budget and Financial Plan**

- During May – August 2009, developed preliminary forecasts of electric prices (both energy and capacity) and fuel expenses; NYPA customer power and energy use; NYPA customer rates; generation levels at NYPA power projects reflecting scheduled outages; and purchased energy & power requirements and sources.
- During June – August 2009, developed preliminary operations & maintenance and capital expense targets.
- During August – September 2009, integrated above data to produce the budget and financial valuations.
- September 29, 2009, approval by NYPA's Trustees to submit the proposed budget and financial plan for public inspection at five convenient locations and on NYPA's internet website.

### **Approved Budget and Financial Plan**

- During October – November 2009, update forecasts of electric prices (both energy and capacity) and fuel expenses; NYPA customer power and energy use; NYPA customer rates; generation levels at NYPA power projects reflecting scheduled outages; and purchased energy & power requirements and sources.
- During October – November 2009, finalize operations & maintenance expenses and capital costs estimates.
- In November – December 2009, integrate above data to produce updated budget and financial valuations as well as produce sensitivity (scenario) valuations.
- December 15, 2009, seek authorization of NYPA's Trustees to approve the updated budget and financial plan; submit the document to the State Comptroller's Office; and make the document available for public inspection and on NYPA's internet website.

## **(c) Budget Assumptions**

### **NYISO Revenue and Expenses**

The Authority schedules power to its customers and buys and sells energy in an electricity market operated by the NYISO. The majority of NYPA's operating expenses are due to various NYISO purchased power charges in combination with generation related fuel expenses. A significant amount of the Authority's revenues result from sales of the Authority's generation into the NYISO market.

In order to budget these expenses and revenues, the Authority utilizes a customized economic statistical software package that develops forward price curves. The software package develops forecasts of fuel costs, NYISO super-zone load projections, and wholesale electricity prices and simulates the economic dispatch of statewide generation resulting from these supply and demand factors. Employing a probabilistic approach to uncertainty through the use of multiple scenarios for loads, fuel prices, and other key inputs, this software package is particularly designed to provide not only price forecasting, but also the crucial underlying volatility data required for accurate valuation of power contracts, generating assets, and energy derivative products. For budget purposes, the prices of the multiple scenarios are averaged to produce an expected value. Key outputs of the software are:

- Forecasts of expected electric price and associated uncertainty for each NYISO super-zone.
- Monte Carlo like scenarios of NYISO super-zone loads and electric and fuel prices that efficiently span the range of reasonable possibilities.
- Transmission flows within the NYISO and between the NYISO and external entities.
- Operating margin for specific plants over a period of time.
- Conditional expectations of peak loads in future years.
- Capacity additions commensurate with the above conditional expectations.
- Supply curves (cost vs. load) for specific hours and scenarios.
- Power generated by specific plants over a period of time.

In addition to the economic software package, NYPA employs additional hydrologic, hydraulic and statistical modules and models to forecast the generation levels at its Niagara and St. Lawrence-FDR hydroelectric projects. The level of hydroelectric generation is one of the more important determinative factors to the Authority's financial position.

### **Customer and Project Revenue**

The customers projected to be served by the Authority for the financial plan period 2010-2013 and the rates paid by such customers vary with the NYPA facilities designated to serve such loads.

St. Lawrence-FDR and Niagara Customers. Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to investor-owned electric utilities, municipal electric systems, rural electric cooperatives, industrial customers, certain public bodies, and out-of-state public customers. The charges for firm power and associated energy sold by the Authority to the investor-owned utility companies for the benefit of rural and domestic customers, the municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, and seven out-of-state public customers have been established in the context of an agreement settling litigation respecting rates for hydroelectric power, judicial orders in that litigation, and contracts with certain of these customers. Essentially, the "settlement agreement" and relevant judicial orders preclude the inclusion of any expense not associated with the hydroelectric projects utilized for the benefit of rural and domestic customers, but specifically permit the inclusion of interest on indebtedness and continuing depreciation and related inflation adjustment charges with respect to the capital costs of Niagara and St. Lawrence-FDR. For the purposes of the 2010-2013 financial plan, rate changes were incorporated annually based on the ratemaking principles established in the settlement agreement.

The basic rates for Niagara expansion and replacement power industrial customers and St. Lawrence-FDR industrial customers are subject to annual adjustment based on contractually agreed upon economic indices. For purposes of the four-year financial plan, projections were made concerning the movements and magnitudes of these indices. In March 2009, the Authority's Trustees approved the deferral for recovery in the future of a proposed \$10 million hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state municipal customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009, and withdrew a proposed \$5.3 million hydropower rate increase for the Authority's Replacement Power, Expansion Power, and certain other industrial customers that was scheduled to go into effect on May 1, 2009.

In response to the economic downturn's effects on New York's manufacturing sector, the Authority's Trustees in March 2009 approved execution of an agreement with Alcoa, Inc. to provide temporary relief from certain power sales contract provisions relating to the firm's Massena, New York manufacturing operations, including allowing Alcoa to release back to the Authority certain hydropower allocated to it, temporary waivers of certain minimum bill and employment thresholds, and entry into arrangements with the Authority for inclusion of a portion of Alcoa's load in the NYISO's demand response programs. In addition, in May 2009, the Authority's Trustees authorized a temporary program whereby up to \$10 million would be utilized to provide electric bill discounts for up to a year to businesses located in Jefferson, St. Lawrence, and Franklin counties. The source of the \$10 million is the net margin resulting from the sale of a portion of Alcoa's temporarily unused Preservation Power allocation into the NYISO markets.

In May 2009, the Trustees approved an Economic Development Plan that made changes to the existing Industrial Incentive Award process. The existing process, as outlined in Section 1005 of the Power Authority Act, directs the

Authority to identify net revenues produced by the sale of Expansion Power (EP) and, further, to identify an amount of such net revenues to be used solely for Industrial Incentive Awards (“Awards”). These Awards are to be made in conformance with a Plan covering all such net revenues that is submitted by the Authority to the Economic Development Power Allocation Board (EDPAB) and is approved by EDPAB pursuant to Section 188 of the Economic Development Law. The Authority approved five-year programs in 1990, 1996 and 2001 and one-year programs in 2006 and 2007 under which EP net revenues were dedicated to helping maintain stable rates in NYPA’s existing economic development programs.

The revised process provides for the Authority to authorize Awards to individual manufacturing companies that provide explicit data demonstrating their risk of closure or relocation out of New York State. The form of the Award will be a ¢/kWh price discount on an agreed-to level of electricity consumption for one year. Awards would normally be for one year, with the ability to renew for one or two additional years provided the company continues to meet an agreed-to job commitment for New York. Additionally, participating companies could opt out should any new long-term economic development program be approved by the State that offers similar or greater value. Authority staff is presently working with several manufacturing companies that would qualify for such Awards. The Authority has submitted its Plan to EDPAB for a three-year period pertaining to the use of 2008, 2009 and 2010 EP net revenues.

SENY Governmental Customers. Power and energy purchased by the Authority in the NYISO capacity and energy markets, as supplemented by sales of power and energy by Authority resources at Poletti, the 500-MW plant, the small hydro projects and Blenheim-Gilboa, are sold to various municipalities, school districts and public agencies in the New York City and Westchester County area.

In 2005, the Authority and its major New York City governmental customers entered into long-term supplemental electricity supply agreements (“2005 LTA”). Under the 2005 LTA, the NYC governmental customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC governmental customers having the right to terminate service from the Authority at any time on three years’ notice and, under certain limited conditions, on one year’s notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC governmental customers.

Under the 2005 LTA, the Authority will modify rates annually through a formal rate proceeding if there is a change in fixed costs to serve the New York City governmental customers. Generally, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC governmental customers. The NYC governmental customers are committed to pay for any supply secured for them by the Authority which results from a collaborative effort.

Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County. Under this agreement, Westchester County will remain a full requirements customer of NYPA through at least December 31, 2010. The Authority may modify the rates charged the customer pursuant to a specified procedure; an energy charge adjustment mechanism is applicable; the customer is committed to pay for any supply resources secured for it by the Authority under a collaborative process; and NYPA will continue to make available financing for energy efficiency projects and initiatives, with costs thereof to be recovered from the customer. The remaining 103 Westchester governmental customers have also executed the new agreement.

For purposes of the four-year financial plan, it is assumed that the New York City and Westchester governmental customers will continue to be served and rates set to produce the projected net income position for each year.

Market Supply Power Customers. The Authority administers an array of power programs for economic development that supply power to businesses and not-for-profit institutions in New York State. Currently more than 300,000 jobs across the Empire State are linked to these power programs. For a number of these programs such as the Economic Development Power program, the High Load Factor Power program, the Municipal Development Agency Power program, and the Power for Jobs program, the Authority has no physical assets to supply power and energy to these customers and NYPA must buy these products in the NYISO market or negotiate bilateral arrangements with other power suppliers.

Many of the programs or the individual contracts of the business customers served under these programs are set to expire during the financial plan timeframe. However, the Authority assumes that the State Legislature will maintain a leading role for NYPA in fostering economic development over the 2010-2013 forecast period. Accordingly, the business customers and the not-for-profit institutions are modeled as continuing to be served.

Blenheim-Gilboa Customers. The Authority uses all but 50 MW of the Blenheim-Gilboa project output to meet the requirements of the Authority’s business and governmental customers and to provide services in the NYISO market. The Authority has a contract for the sale of 50 MW of firm capacity from the Blenheim-Gilboa plant to the Long Island

Power Authority (“LIPA”). Service under the contract with LIPA commenced on April 1, 1989 and will terminate April 30, 2015, unless terminated by LIPA upon not less than 6 months advance notice. For purposes of the four-year financial plan, it is assumed that the LIPA contract is not terminated and the current charges remain in effect throughout the forecast horizon.

Small Clean Power Plants (“SCPPs”). To meet capacity deficiencies and ongoing local requirements in the New York City metropolitan area, which could have also adversely affected 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. It is anticipated that as of 2011, two of these plants will be retired pursuant to an agreement with New York City.

For the 2010-2013 forecast period, the installed capacity of the remaining SCPPs is used by the Authority to meet its NYISO mandated installed capacity needs or, if not needed for that purpose, is subject to sale to other users via bilateral arrangements or by sale into the NYISO capacity auction. NYPA sells the energy produced by the SCPPs into the NYISO energy market.

Flynn. The Flynn Project is a combined-cycle facility with a nameplate rating of 164 MW. The Authority is supplying the full output of the Project to LIPA pursuant to a capacity supply agreement between the Authority and LIPA, which commenced in 1994 and had an initial term of 20 years. Amendment No. 7, effective as of January 1, 2009, sets forth pricing terms subject to expiration in 2014 should the customer elect to initiate the termination clause by 2012. Otherwise, this contract may extend to 2020.

For purposes of the four-year financial plan, it is assumed that the agreement between LIPA and NYPA remains in effect throughout the period.

Transmission Projects. The Authority owns approximately 1,400 circuit miles of high voltage transmission lines, more than any other utility in New York State, with the major lines being the 765-kV Massena-Marcy line, the 345-kV Marcy-South line, the 345-kV Niagara-to-Edic transmission line, and the 345-kV Long Island Sound Cable.

In an Order issued January 27, 1999, FERC approved the use of the Authority’s present transmission system revenue requirement in developing the rates for service under the NYISO tariff. FERC also approved, among other things, the imposition of the NYPA Transmission Adjustment Charge (“NTAC”) and the NYPA Transmission Service Charges (“TSC”) which are the tariff elements set aside to aid in the full recovery of the Authority’s annual transmission revenue requirement.

With the implementation of the NYISO arrangement in November 1999, all transmission service over the Authority’s facilities is either pursuant to the NYISO tariffs or pre-existing Authority contracts, with NYPA realizing its \$165 million annual revenue requirement via the NTAC, TSC or through existing customer contracts. For purposes of the four-year financial plan, it is assumed that these revenue producing vehicles remain in effect and the Authority earns its annual revenue requirement.

### **Investment and Other Income**

Investment Income. 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.

Other Income. On November 21, 2000 (“Closing Date”), the Authority sold its nuclear plants (Indian Point 3 and James A. FitzPatrick Projects) to two subsidiaries of the Entergy Corporation for cash and non-interest bearing notes totaling \$967 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 an accrual basis the Authority expects to recognize interest income of \$16.9 million in 2010, \$15.9 million in 2011, \$14.9 million in 2012 and \$3.8 million in 2013. On a cash basis the Authority projects to receive \$30 million payments in each year from 2008 through 2012 and \$20 million in 2013.

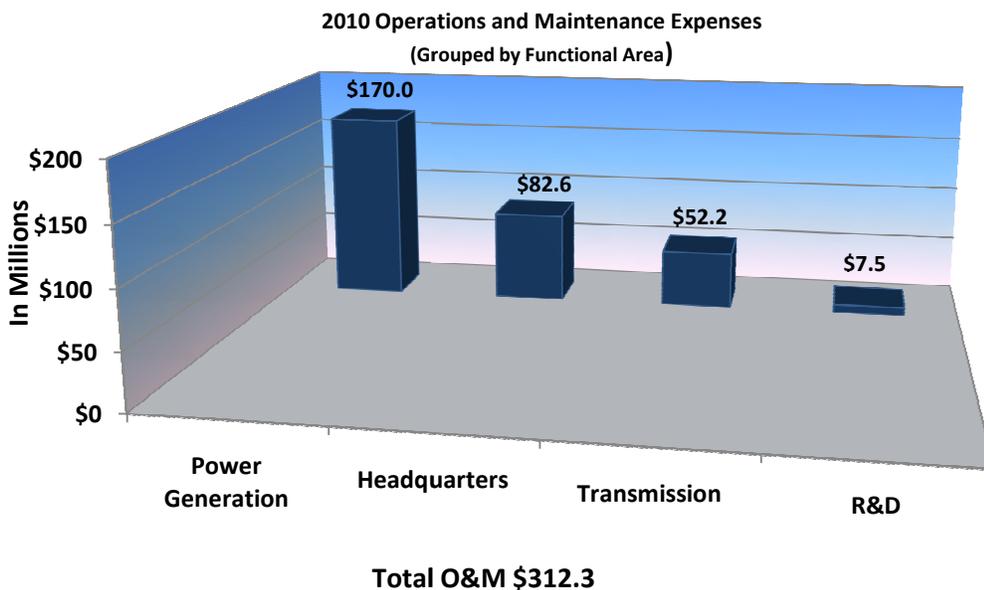
As part of the Authority's sale in 2000 of its two nuclear plants, the Authority entered into two "value sharing agreements" ("VSAs") with the Entergy subsidiaries. In essence, the agreements provide that Entergy subsidiaries will share with the Authority a certain percentage of all revenues they receive from power sales from the nuclear plants in excess of specific projected power prices for a 10 year period, covering 2005 – 2014. The Authority and the Entergy subsidiaries disputed the sharing amounts for 2005 and 2006 and the dispute was submitted to arbitration consistent with terms of the VSAs. During the arbitration period, NYPA and the Entergy subsidiaries also engaged in settlement discussions that ultimately resulted in a settlement of the dispute and the amendment of the VSAs. In essence, these amended VSAs provide for Entergy to pay the Authority a set price (\$6.59 per MWh for Indian Point 3 and \$3.91 per MWh for FitzPatrick) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of \$72 million. In all other material respects, the terms of the amended and original VSAs are substantially similar. In late 2007, Entergy announced a proposed spinoff of the subsidiaries. While Entergy initially indicated that it was of the view that the spinoff would cause the VSAs to be terminated, discussions between NYPA and Entergy produced a subsequent accord whereby the parties agreed that such spinoff would not constitute a terminating event for the VSAs. Consequently, for purposes of the 2010-2013 financial plan, it has been assumed that the maximum payment of \$72 million will be garnered in each year.

### Operations and Maintenance Expenses

NYPA's O&M plan for 2010 – 2013 assumes planned wage increases, stabilized benefit costs, planned maintenance outages and non-recurring spending. Exclusive of planned maintenance outage costs and non-recurring spending, the anticipated budget increases approximately at the rate of inflation.

**Operations and Maintenance Forecast by Cost Element**  
(in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>Payroll</u></b>				
Regular Pay	\$146.7	\$152.5	\$157.2	\$161.2
Overtime	\$7.6	\$7.9	\$8.2	\$8.5
Other Payroll	<u>\$2.3</u>	<u>\$2.4</u>	<u>\$2.5</u>	<u>\$2.6</u>
<b>Total Payroll</b>	\$156.6	\$162.8	\$167.8	\$172.2
<b><u>Benefits</u></b>				
Employee Benefits	\$33.0	\$34.9	\$36.2	\$37.0
Pension	\$15.4	\$21.1	\$27.0	\$27.0
FICA	<u>\$11.5</u>	<u>\$11.9</u>	<u>\$12.3</u>	<u>\$12.8</u>
<b>Total Benefits</b>	\$59.9	\$67.9	\$75.5	\$76.8
<b>Materials/Supplies</b>	\$17.5	\$17.7	\$18.2	\$18.5
<b>Fees</b>	\$8.1	\$8.3	\$8.4	\$8.6
<b>Office &amp; Station</b>	\$14.2	\$14.5	\$14.8	\$15.1
<b>Maintenance Repair &amp; Service Contracts</b>	\$80.3	\$80.6	\$83.0	\$94.6
<b>Consultants</b>	\$16.8	\$17.0	\$17.2	\$17.3
<b>Charges to:</b>				
Outside Agencies	(\$7.1)	(\$7.3)	(\$7.6)	(\$7.9)
Capital Programs	<u>(\$41.6)</u>	<u>(\$41.4)</u>	<u>(\$41.3)</u>	<u>(\$41.0)</u>
<b>Total Charges</b>	(\$48.7)	(\$48.7)	(\$48.9)	(\$48.8)
<b>Research &amp; Development</b>	\$7.6	\$7.9	\$8.2	\$8.5
<b>TOTAL NYPA O&amp;M</b>	<b>\$312.3</b>	<b>\$328.0</b>	<b>\$344.3</b>	<b>\$362.9</b>



## Modifications to Proposed Budget and Financial Plan

The following is a comparison of the estimated net income between the proposed and approved budget and financial plans:

<u>Year</u>	<u>Proposed Budget &amp; Financial Plan (in Millions)</u>	<u>Approved Budget &amp; Financial Plan (in Millions)</u>
2010	\$333.1	\$307.8
2011	\$262.4	\$248.0
2012	\$269.4	\$245.0
2013	\$288.1	\$255.4

For the 2010 – 2013 period, the major drivers in the variance between the two plans are changes in forecasts of electric and fuel prices and an update to the Power For Jobs rebate calculation that reflects increased electricity prices going forward.

### **(d) Self – Assessment of Budgetary Risks**

#### **Regulatory Risks**

On July 6, 2005, the U.S. Fish and Wildlife Service (“FWS”) initiated a status review under the Endangered Species Act (16 U.S.C. 1531 et seq.) to determine if listing the American eel as threatened or endangered is warranted. American eels are a fish species that migrate between freshwater and the ocean, and their wide range includes the Atlantic seaboard of the United States and Canada and the Great Lakes’ drainages. In findings issued February 2, 2007, the FWS determined that such a listing is not warranted. However, in the event the FWS were to determine in the future to list the American eel as threatened or endangered, such a determination could potentially result in significant additional costs and operational restrictions on hydroelectric generating facilities located within the range of the species, including the Authority’s St. Lawrence-FDR Project.

The Regional Greenhouse Gas Initiative (“RGGI”) is a cooperative effort by Northeastern and Mid-Atlantic states to reduce carbon dioxide emissions commencing in 2009. Central to this initiative is the proposed implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The proposed program will require electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority’s Poletti, Flynn, SCPPs, and 500-MW plant are subject to the RGGI requirements. The Astoria plant, from which NYPA has contracted to purchase power, is scheduled to become operational in mid-2011 and will also be subject to the RGGI requirements. The Authority has participated in each of the five auctions held between September 2008 and September 2009, purchasing approximately 93.8% of its estimated 2009 carbon allowances requirements at an average price of \$3.19 per ton. Such costs for the Poletti plant, the 500-MW plant, and the Astoria plant are being passed on to and recovered from the Authority’s NYC governmental customers; such costs for the Flynn plant are being passed on to and recovered from LIPA; and such costs for the SCPPs are expected to be recovered from the market-based sales of energy from those plants.

Comprehensive energy legislation passed in the U.S. House of Representatives on June 26, 2009 (Waxman-Markey) which would, among other things: (a) establish federal cap-and-trade requirements applicable to greenhouse gas emissions, including emissions from fossil fuel power plants, commencing in 2012 that are designed to gradually reduce such emissions through 2050 and (b) establish a combined efficiency and renewable electricity standard that would require retail electricity suppliers beginning in 2012 to acquire prescribed amounts of renewable energy certificates, which may be substituted for in part by quantified electricity savings, with such prescribed amounts gradually increasing over time and with the standard sunseting in 2040. Both of these programs would be applicable to the Authority. It is uncertain at this time whether Waxman-Markey or similar legislation will be enacted into law in the future and what the impact of such legislation would be on the Authority.

#### **Legislative and Political Risks**

A series of legislative enactments call for NYPA to subsidize business customers and the State’s general fund. Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, provides that the Authority “as deemed feasible and advisable by the trustees,” is authorized to make “voluntary contributions” into the State treasury in connection with the Power for Jobs Program and to make certain reimbursement payments to Power for Jobs customers. Beginning December 2002 through March 2008, the Authority made such voluntary contributions to the State in the aggregate amount of \$424 million. The Authority also approved certain PFJ Reimbursements payments of \$28 million for 2005, \$37 million for 2006, \$42 million for 2007, and \$54 million for 2008. Reimbursement payments for 2009 are not expected to exceed \$49 million. In April 2008, the Authority was

authorized to and paid a separate \$60 million voluntary contribution to the State for State Fiscal Year 2008-2009, unrelated to the Power for Jobs Program.

In light of the severe budget problems facing the State at this time, the Authority was authorized pursuant to Chapter 2 of the Laws of 2009, as deemed "feasible and advisable by its trustees", to make voluntary contribution payments of \$119 million during the remainder of State Fiscal Year 2008-2009 and \$107 million during State Fiscal Year 2009-2010. In January 2009, the Authority's Trustees approved a voluntary contribution in the amount of \$119 million and such payment was made by the Authority on January 30, 2009. For planning purposes, the 2010-2013 financial plan assumes that payments totaling \$107 million are made to New York State in 2010 and payments totaling \$100 million are made to New York State per year thereafter.

Approval of any such payments to subsidize the State's general fund and/or to subsidize customers requires legislation authorizing such payments and is conditional upon the Trustees' determination that such payments are "feasible and advisable". The Trustees' decision as to whether and to what extent such payments are feasible and advisable will be made based on the exercise of their fiduciary responsibilities and in light of the requirements of NYPA's Bond Resolution, other legal requirements, and all the facts and circumstances known to them at the time of the decision. Many of those circumstances are not known at the present time.

In addition to the authorization for the voluntary contributions, the Authority was authorized to make certain temporary asset transfers to the State of funds in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 ("MOU") between the State, acting by and through the Director of the Budget of the State, and the Authority, the Authority agreed to transfer \$215 million associated with its Spent Nuclear Fuel Reserves by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer during State Fiscal Year 2009-2010 approximately \$103 million of funds set aside for future construction projects, which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the monies contemplated to be transferred by the Authority to the State would be subject to annual appropriation by the State Legislature and would not constitute a debt of the State within the meaning of any constitutional or statutory provision, would be deemed executory only to the extent of monies available to the State, and no liability would be incurred by the State beyond monies available for such purpose. Further, the MOU provides that as a condition to any such appropriation for the return of the monies earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In February 2009, the Authority's Trustees authorized the execution of the MOU and approved the first temporary asset transfer in the amount of \$215 million to be made by March 27, 2009, which transfer has occurred. The Trustees also authorized the second temporary asset transfer of \$103 million to be made within 180 days of the enactment of the 2009-2010 State Budget and approved the payment of the additional voluntary contribution of \$107 million by March 31, 2010, with the condition that the payment of these latter two amounts will require Trustee reaffirmation prior to the actual transfer and contribution in order to consider if the release of such funds remains "feasible and advisable" and in conformance with the requirements of the Authority's Bond Resolution. The \$103 million amount was reaffirmed by the Trustees, and transferred to the State in September 2009.

For the 2010-2013 financial plan, the Authority is presuming that continuation of service to the Market Supply Power business customers will remain a New York State priority. Forecasted voluntary subsidies and payments to the Market Supply Power Customers and the State's general fund are subject to the strictures and caveats of the preceding paragraph. Also, the modeling of such contributions should not be read to mean that the Authority believes such continuing subsidies are an appropriate way of promoting economic development in New York State.

Pursuant to legislation enacted into law in April 2006, the Temporary Commission on the Future of New York State Programs for Economic Development ("Temporary Commission") was established. On December 1, 2006, the Temporary Commission reported their findings on how to best meet the energy cost needs of statewide businesses. Among the Temporary Commission's recommendations include the centralization of the administration of the State's power programs; that the proceeds of certain unallocated hydroelectric power of the Authority be dedicated to

economic development; that the duration of certain types of power allocation contracts be lengthened; that the Authority facilitate the expansion of the State’s power infrastructure by continuing to enter into long term contracts with power producers for the construction of new generation and/or transmission facilities; the creation of stable funding sources for the State’s power programs, potentially including the State Treasury and dedicated funding from the Authority subject to the Authority’s bond covenants and reserve requirements; the expansion of geographic restrictions of certain Authority hydroelectric industrial programs; and the redeployment of hydroelectric power provided by the Authority to the “rural and domestic” (i.e., residential) customers of National Grid, New York State Electric & Gas and Rochester Gas & Electric for statewide economic development purposes. It is unclear at this point which, if any, of the Temporary Commission’s recommendations will be enacted into law and how they would affect NYPA’s estimated net income for the financial plan period.

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 the Authority will be immune from the financial obligations imposed by any such provision.

Actions taken by the State Legislature or the Executive Branch to extract greater contributions and which attempt to constrain the discretion of or bypass the Authority’s Trustees could negatively affect net income and possibly harm NYPA’s bond rating.

**Hydroelectric Generation Risk**

For the 2010-2013 financial plan period, NYPA’s net income is highly dependent upon generation levels at its Niagara and St. Lawrence-FDR Projects. The generation levels themselves are a function of the hydrological conditions prevailing on the Great Lakes, primarily, Lake Erie (Niagara Project) and Lake Ontario (St. Lawrence-FDR). Long-term generation levels at the two hydroelectric projects are about 20.2 terawatt-hours (“TWH”) annually. The Authority’s hydroelectric generation forecast is 20.5 TWH in 2010 and 20.2 TWH (long-term average) in each of the years 2011 - 2013. However, these generation amounts are expected values and hydrological conditions can vary considerably from year to year. For instance, during a recent ten year period, 1999-2008, hydroelectric generation was in a number of the years below the long-term average and manifested considerable volatility.

Net Hydroelectric Generation

1999	18.7	TWH
2000	18.6	TWH
2001	17.6	TWH
2002	19.7	TWH
2003	18.3	TWH
2004	20.4	TWH
2005	20.7	TWH
2006	20.3	TWH
2007	19.8	TWH
2008	20.6	TWH

Poor hydrological conditions would adversely affect NYPA’s estimated net income for the Financial Plan horizon and would likely compel NYPA’s Trustees to lower or not approve any contributions to the discretionary subsidy policy described previously.

NYPA conducted high and low hydroelectric generation sensitivities for 2010-2013 that estimated the potential net income that could result over a reasonable range of hydroelectric generation occurrences. The effects on estimated net income, assuming all other factors remain unchanged, were as follows:

### Low Generation

### High Generation

	<u>Hydroelectric Generation</u>	<u>NYPA Net Income (in Millions)</u>	<u>Hydroelectric Generation</u>	<u>NYPA Net Income (in Millions)</u>
2010	18.2 TWH	\$204.6	22.2 TWH	\$381.1
2011	18.2 TWH	\$166.4	22.2 TWH	\$332.5
2012	18.2 TWH	\$172.2	22.2 TWH	\$328.7
2013	18.2 TWH	\$184.0	22.2 TWH	\$344.4

### **Electric Price and Fuel Risk**

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates markets for the sale of electricity and ancillary services within New York State. The NYISO collects charges associated with the use of the transmission facilities and the sale of energy, capacity, and services through the markets that it operates and 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 and applicable NYISO market procedures. Under the NYISO Open Access Transmission Tariff, certain charges for ancillary services (which include NYISO operating costs), congestion, losses, and a portion of the Authority's transmission costs are assessed against the Authority and other entities responsible for serving ultimate customers. Because of the Authority's active participation in the NYISO markets, such costs are significant and are currently being passed through to most Authority customers.

Under NYISO procedures, Load Serving Entities ("LSEs") represent electricity end-users in dealings with the NYISO. The Authority is an LSE for large segments of its load in New York State and must ensure it has sufficient installed capacity to meet its customers' needs and NYISO reliability rules, either through ownership of such capacity, bilateral installed capacity purchase contracts or auction purchases conducted by the NYISO. As an LSE, the Authority is also obligated to ensure that it has enough energy to meet its customers' energy needs. These needs can be met in the NYISO regime through the Authority's own generation, bilateral purchases from others, or purchases of energy in the NYISO "day-ahead" market ("DAM") (wherein bids are submitted for energy to be delivered the next day) or in the NYISO "real time" market. A bilateral purchase is a transaction where a generator or a power marketer that has access to power and an LSE agree upon a specified amount of energy being supplied to the LSE by the generator or power marketer at specified prices.

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 if the unit is selected. If a forced outage occurs at the Authority plant which 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 real time market and the Market Clearing Price in the DAM, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO real time market which is offset by the Contract Price. This real time market price may be subject to more volatility than the DAM price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the DAM and the Contract Price may be well below the price in the NYISO real time market, with the Authority having 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 and the 500-MW plant because of their size, nature, and location.

In addition to the risk associated with Authority generation bids into the DAM, the Authority could incur substantial costs in times of maximum energy usage in purchasing replacement energy for its customers in the DAM or through other supply arrangements to make up for lost energy due to an extended outage of its units and non-performance of counterparties to energy supply contracts.

In April 2002, the Authority created a vice president position for energy risk assessment and control. This position, currently held by the Vice President Energy Risk & Assessment, reports to the Executive Vice President and Chief Financial Officer and is responsible for establishing policies and procedures for identifying, reporting and controlling energy-price and fuel-price-related risk exposure and risk exposure connected with energy- and fuel-related hedging transactions. This type of assessment and control has assumed greater importance in light of the Authority's participation in the NYISO energy markets and the sale of its two nuclear plants, and the commercial operation of its 500-MW plant. In recent years, the Authority has increased its dependence on purchased power to meet its customers' needs. This has made the Authority more susceptible to risks posed by increases in purchased power costs and fuel costs. To deal with this greater risk, the Authority has obtained and is in the process of obtaining power purchase agreements (or their financial equivalents) to meet a significant portion of its customer load. Even with these planned

arrangements, the Authority will still have exposure to purchased power price risks to the extent it purchases power in the NYISO day-ahead and real-time markets. Also, with the addition of the Authority's 500-MW plant, the Authority will face increased fuel price risk to the extent it uses its own fossil-fuel generation to meet its customers' needs. The risk management program implemented is designed to mitigate such risks. The Authority is also pursuing an initiative to develop and implement a comprehensive enterprise-wide risk management program.

### **Litigation Risk**

In 1982 and again in 1989, several groups of St. Regis 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 and significant project facilities are located on Barnhart Island. 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 re-litigating 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.

Thereafter, settlement discussions produced a land claim settlement, which if implemented would include, among other things, the payment by the Authority of \$2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands, Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence-FDR project. Members of all tribal entities voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement required, among other things, Federal and State legislation to become effective which has not yet been enacted.

Litigation in the case had been stayed to permit time for passage of such legislation and to await decisions of appeals in two relevant New York land claims litigations, involving the Cayuga and Oneida Nations, to which the Authority was not a party. In May 2006, the U.S. Supreme Court declined to review the U.S. Court of Appeals' (Second Circuit) decision in Cayuga Indian Nation et al. v Pataki et al. (2005) that had reversed a verdict awarding the Cayugas \$248 million in damages and also dismissed the Cayuga land claim. The basis for the Second Circuit's dismissal of the land claim was that the Cayugas had waited too long to bring their land claim (laches). The Authority had raised the defense of laches in its answer in the St. Regis litigation and on November 26, 2006 the Authority and the State moved to dismiss the St. Regis Mohawks complaints as well as the United States' complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007, additional briefing by the parties occurred thereafter. Litigation has been stayed and resolution of the pending defense motions is awaiting a decision by the Court of Appeals for the Second Circuit in a related land claim litigation involving similar defense motions.

In February 2007, two customers in the Authority's Power for Jobs Program instituted suit in Albany County Supreme Court challenging the Authority's implementation of certain aspects of the August 2006 legislation (Chapter 645 of the Laws of 2006) amending the Program. The dispute primarily involves the Authority's determination of eligibility for certain customers to receive payments relating to Program electric prices that exceed the electric prices of the applicable local electric utility, as well as the methodology utilized by the Authority for calculating possible PFJ Reimbursements payments for certain customers. By decision in April 2007, the court dismissed the petition and ruled in favor of the Authority. The petitioners appealed to the Appellate Division, Third Department, and by decision issued April 17, 2008, the court modified the lower court's decision and held that the Authority's determinations on these two

issues were erroneous. Thereafter, the Authority moved for permission to appeal to the Court of Appeals and that motion was granted. By decision dated October 20, 2009, the Court of Appeals affirmed the decision of the Appellate Division. On November 19, 2009, the Authority filed a motion with the court for reargument and a decision on the Authority's motion is pending.

In May 2009, the County of Niagara, "on behalf of its residents", and several individuals commenced an Article 78 lawsuit in Niagara County Supreme Court against the Authority, its Trustees, the State of New York, and the State Comptroller. The lawsuit challenges on numerous grounds the legality of the two temporary asset transfers totaling \$318 million and the two voluntary contributions totaling \$226 million (except as such contributions relate to the Power for Jobs Program) that were approved by the Authority's Trustees in January and February 2009. Among other things, the lawsuit seeks judgment providing for the return to the Authority of any such monies that have been paid; prohibiting such asset transfers and voluntary contributions in the future; directing the Authority to utilize such returned monies only for "statutorily permissible purposes"; directing the Authority to "rebate" to certain customers receiving hydropower from it some portion, to be determined, of the monies returned to the Authority; and directing that the Authority submit to an audit by the State Comptroller. No temporary or preliminary injunctive relief is sought in the petition. By decision dated October 5, 2009, the court granted a motion to amend the petition and remove the State Comptroller from the case. Respondents have moved to dismiss the petition and petitioners have moved for permission to file a complaint and discovery demands. The motions were argued before the court on October 28, 2009 and a decision on the motions is pending.

**(e) Revised Forecast of 2009 Budget**  
(in Millions)

	Original Budget	Forecast	Variance
	<u>2009</u>	<u>2009</u>	Better/(Worse)
			<u>2009</u>
<b><u>Operating Revenues:</u></b>			
Customer Revenues	\$2,081.9	\$1,845.7	(\$236.2)
NYISO Market Revenues	<u>\$955.7</u>	<u>\$748.5</u>	<u>(\$207.2)</u>
<b>Total Operating Revenues</b>	<b>\$3,037.6</b>	<b>\$2,594.3</b>	<b>(\$443.3)</b>
<b><u>Operating Expenses:</u></b>			
Purchased Power	(\$1,156.1)	(\$898.3)	\$257.9
Fuel oil and gas	(\$516.5)	(\$372.3)	\$144.2
Wheeling Expenses	(\$441.6)	(\$436.1)	\$5.5
O&M Expenses	(\$294.1)	(\$291.9)	\$2.2
Other Expenses	(\$115.0)	(\$129.8)	(\$14.8)
Depreciation and Amortization	<u>(\$160.7)</u>	<u>(\$162.7)</u>	<u>(\$2.0)</u>
<b>Total Operating Expenses</b>	<b>(\$2,684.0)</b>	<b>(\$2,291.0)</b>	<b>\$393.0</b>
<b>NET OPERATING REVENUES</b>	<b>\$353.6</b>	<b>\$303.2</b>	<b>(\$50.4)</b>
<b><u>Other Income:</u></b>			
Investment Income	\$39.4	\$48.2	\$8.9
Other Income	<u>\$90.7</u>	<u>\$89.7</u>	<u>(\$1.0)</u>
<b>Total Other Income</b>	<b>\$130.1</b>	<b>\$137.9</b>	<b>\$7.9</b>
<b><u>Non-Operating Expenses</u></b>			
Interest & Other Expenses	(\$105.7)	(\$100.2)	\$5.5
Contributions to State	<u>(\$70.0)</u>	<u>(\$70.0)</u>	<u>\$0.0</u>
<b>Total Non-Operating Expense</b>	<b>(\$175.7)</b>	<b>(\$172.2)</b>	<b>\$5.5</b>
<b>NET INCOME</b>	<b>\$307.9*</b>	<b>\$270.9</b>	<b>(\$37.0)</b>

\* Due to significant economic and market changes occurring after the establishment of the Original 2009 Budget of \$173.1 million, in January 2009 the budget was updated to \$307.9 million

**(f) Reconciliation of 2009 Budget and 2009 Revised Forecast**

Net income estimates for 2009 have decreased from the originally established budget. This is primarily due to a year-to-date drop of over 38% in market prices, mainly affecting the Niagara and St. Lawrence-FDR projects, and to a lesser extent the Blenheim-Gilboa project and the Small Clean Power Plants. With the extension of the Power for Jobs program through May 15, 2010, the Authority has been authorized to provide an additional voluntary contribution to the State's General Fund in the amount of \$12.5 million, which is included in the revised forecast. In addition, the deferral and withdrawal of certain hydropower rate increases, in combination with several incentives recently undertaken by the Authority including the Industrial Incentive Awards and electric bill discounts to businesses located in Jefferson, St. Lawrence, and Franklin counties, serve to decrease net income.

These negative impacts are partially mitigated by increased hydro generation, with Niagara currently forecast at 3.6% above budget and St. Lawrence-FDR at 10.1% above budget. The excess hydro flow, approximately 1.1 TWH above budget in total, increases market sales and decreases purchased power costs of alternative market purchases for St. Lawrence-FDR project customers.

**(g) Statement of 2008 Financial Performance**  
(in Millions)

	Original Budget <u>2008</u>	Actual <u>2008</u>	Variance Better/(Worse) <u>2008</u>
<b><u>Operating Revenues:</u></b>			
Customer Revenues	\$2,001.3	\$2,031.6	\$30.3
NYISO Market Revenues	<u>\$876.6</u>	<u>\$1,153.4</u>	<u>\$276.8</u>
<b>Total Operating Revenues</b>	<b>\$2,877.9</b>	<b>\$3,185.0</b>	<b>\$307.1</b>
<b><u>Operating Expenses:</u></b>			
Purchased Power	(\$1,146.3)	(\$1,240.7)	(\$94.4)
Fuel Oil and Gas	(\$542.8)	(\$615.1)	(\$72.3)
Wheeling Expenses	(\$384.3)	(\$388.4)	(\$4.1)
O&M Expenses	(\$287.0)	(\$285.1)	\$1.9
Other Expenses	(\$140.9)	(\$174.1)	(\$33.2)
Depreciation and Amortization	<u>(\$175.4)</u>	<u>(\$173.1)</u>	<u>\$2.3</u>
<b>Total Operating Expenses</b>	<b>(\$2,676.7)</b>	<b>(\$2,876.5)</b>	<b>(\$199.8)</b>
<b>NET OPERATING REVENUES</b>	<b>\$201.2</b>	<b>\$308.5</b>	<b>\$107.3</b>
<b><u>Other Income:</u></b>			
Investment Income	\$62.7	\$73.6	\$10.9
Other Income	<u>\$93.7</u>	<u>\$90.7</u>	<u>(\$3.0)</u>
<b>Total Other Income</b>	<b>\$156.4</b>	<b>\$164.3</b>	<b>\$7.9</b>
<b><u>Non-Operating Expenses:</u></b>			
Interest Expenses	(\$128.9)	(\$114.3)	\$14.6
Contribution to State	<u>\$0.0</u>	<u>(\$60.0)</u>	<u>(\$60.0)</u>
<b>Total Non-Operating Expenses</b>	<b>(\$128.9)</b>	<b>(\$174.3)</b>	<b>(\$45.4)</b>
<b>NET INCOME</b>	<b>\$228.7</b>	<b>\$298.5</b>	<b>\$69.8</b>

**(h) Employee Data – number of employees, full-time, FTEs and functional classification**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Headquarters	643	643	643	643
Power Generation*	876	876	858	840
Transmission	<u>205</u>	<u>205</u>	<u>203</u>	<u>201</u>
<b>TOTAL</b>	<b>1724</b>	<b>1724</b>	<b>1704</b>	<b>1684</b>

\* Includes the anticipated retirement of the Poletti plant in 2010.

**(i) Gap-Closing Initiatives – revenue enhancement or cost-reduction initiatives**

As the Authority is projecting positive net income for the 2010-2013 financial plan period, there are no planned gap-closing programs.

**(j) Material Non-recurring Resources – source and amount**

See discussion in “Other Income” section.

**(k) Shift in Material Resources**

There are no anticipated shifts in material resources from one year to another.

**(l) Debt Service**

	<b>Projected Debt Outstanding (FYE)</b>			
	<i>(in Thousands)</i>			
	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
<b><u>Revenue Bonds</u></b>				
Series 2000A	77,215	77,215	77,215	77,215
Series 2002A	120,560	95,625	69,450	41,720
Series 2003A	200,310	195,645	190,770	185,665
Series 2006A	133,845	122,970	111,660	99,845
Series 2007A	82,025	82,025	82,025	82,025
Series 2007B	256,710	256,710	256,710	253,535
Series 2007C	<u>263,710</u>	<u>263,710</u>	<u>263,710</u>	<u>263,710</u>
<b>Total Revenue Bonds</b>	1,134,375	1,093,900	1,051,540	1,003,715
<b><u>Adjustable Rate Tender Notes</u></b>	130,500	122,935	114,765	105,940
<b><u>Commercial Paper Notes</u></b>				
Series 1	328,979	393,741	507,973	629,358
Series 2	127,390	81,815	65,475	40,205
Series 3	60,284	44,671	43,488	38,726
Extendible - Series 1	<u>141,300</u>	<u>133,250</u>	<u>124,950</u>	<u>116,550</u>
<b>Total Commercial Paper Notes</b>	657,953	653,477	741,886	824,839
<b>GRAND TOTAL</b>	<b>1,922,828</b>	<b>1,870,312</b>	<b>1,908,191</b>	<b>1,934,494</b>

**Planned Use of Debt Issuances**  
(in Thousands)

<u>TYPE</u>	<u>Amount</u>	<u>Assumed Interest Rate</u>	<u>Project / Description</u>
<b><u>Period January 1, 2010 - December 31, 2010</u></b>			
Tax Exempt Commercial Paper	\$37,602.0	1.80%	Energy Services Program
Taxable Commercial Paper	<u>\$2,000.0</u>	2.80%	Energy Services Program
<b>TOTAL ISSUED 2010</b>	<b>\$39,602.0</b>		
<b><u>Period January 1, 2011 - December 31, 2011</u></b>			
Tax Exempt Commercial Paper	\$64,762.0	2.80%	Energy Services Program
Taxable Commercial Paper	<u>\$3,000.0</u>	4.30%	Energy Services Program
<b>TOTAL ISSUED 2011</b>	<b>\$67,762.0</b>		
<b><u>Period January 1, 2012 - December 31, 2012</u></b>			
Tax Exempt Commercial Paper	\$114,232.0	3.80%	Energy Services Program
Taxable Commercial Paper	<u>\$5,000.0</u>	5.80%	Energy Services Program
<b>TOTAL ISSUED 2012</b>	<b>\$119,232.0</b>		
<b><u>Period January 1, 2013 - December 31, 2013</u></b>			
Tax Exempt Commercial Paper	\$121,385.0	4.10%	Energy Services Program
<b>TOTAL ISSUED 2013</b>	<b>\$121,385.0</b>		

**Note: The full faith and credit of the Authority are pledged for the payment of bonds and notes in accordance with their terms and provisions of their respective resolutions. The Authority has no taxing power and its obligations are not debts of the State or any political subdivision of the State other than the Authority. The Authority's debt does not constitute a pledge of the faith and credit of the State or of any political subdivision thereof, other than the Authority.**

**Debt Service as Percentage of Pledged Revenues (Accrual Based)**  
(in Thousands)

	2010		2011		2012		2013	
	<u>Debt Service</u>	<u>% of Rev.</u>						
<b><u>Revenue Bonds</u></b>								
Series 2000A	\$4,054	1.32%	\$4,054	1.63%	\$4,054	1.65%	\$4,054	1.59%
Series 2002A	\$30,939	10.05%	\$30,722	12.39%	\$30,767	12.56%	\$27,484	10.76%
Series 2003A	\$15,741	5.11%	\$15,741	6.35%	\$15,742	6.43%	\$15,743	6.16%
Series 2006A	\$17,232	5.60%	\$17,235	6.95%	\$17,229	7.03%	\$17,235	6.75%
Series 2007A	\$3,896	1.27%	\$3,896	1.57%	\$3,896	1.59%	\$3,896	1.53%
Series 2007B	\$15,152	4.92%	\$15,152	6.11%	\$15,557	6.35%	\$18,327	7.17%
Series 2007C	<u>\$12,836</u>	<u>4.17%</u>	<u>\$12,836</u>	<u>5.18%</u>	<u>\$12,836</u>	<u>5.24%</u>	<u>\$16,314</u>	<u>6.39%</u>
Total Revenue Bonds	\$99,850	32.44%	\$99,635	40.17%	\$100,081	40.86%	\$103,053	40.34%
<b><u>Adjustable Rate Tender Notes</u></b>	\$9,738	3.16%	\$11,491	4.63%	\$13,075	5.34%	\$13,854	5.42%
<b><u>Commercial Paper Notes</u></b>								
Series 1	\$6,204	2.02%	\$10,841	4.37%	\$18,034	7.36%	\$24,168	9.46%
Series 2	\$51,826	16.84%	\$23,542	9.49%	\$26,854	10.96%	\$25,065	9.81%
Series 3	\$5,435	1.77%	\$18,745	7.56%	\$7,523	3.07%	\$7,571	2.96%
Extendible - Series 1	<u>\$10,971</u>	<u>3.56%</u>	<u>\$12,347</u>	<u>4.98%</u>	<u>\$13,525</u>	<u>5.52%</u>	<u>\$13,741</u>	<u>5.38%</u>
Total Commercial Paper Notes	\$74,435	24.18%	\$65,475	26.40%	\$65,936	26.92%	\$70,545	27.62%
<b>Grand Total Debt Service</b>	<b><u>\$184,023</u></b>	<b><u>59.78%</u></b>	<b><u>\$176,601</u></b>	<b><u>71.21%</u></b>	<b><u>\$179,092</u></b>	<b><u>73.11%</u></b>	<b><u>\$187,452</u></b>	<b><u>73.39%</u></b>

Note: NYPA has no legal limit with regards to debt issuance.

**Scheduled Debt Service Payments (Accrual Based)**

**Outstanding (Issued) Debt**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	107,379,160	76,277,363	183,656,523
2011	93,981,268	80,510,089	174,491,357
2012	89,036,543	83,559,855	172,596,398
2013	93,984,684	81,478,697	175,463,381

**Proposed Debt**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	-	366,418	366,418
2011	-	2,110,024	2,110,024
2012	-	6,495,240	6,495,240
2013	-	11,988,829	11,988,829

**Total Debt**

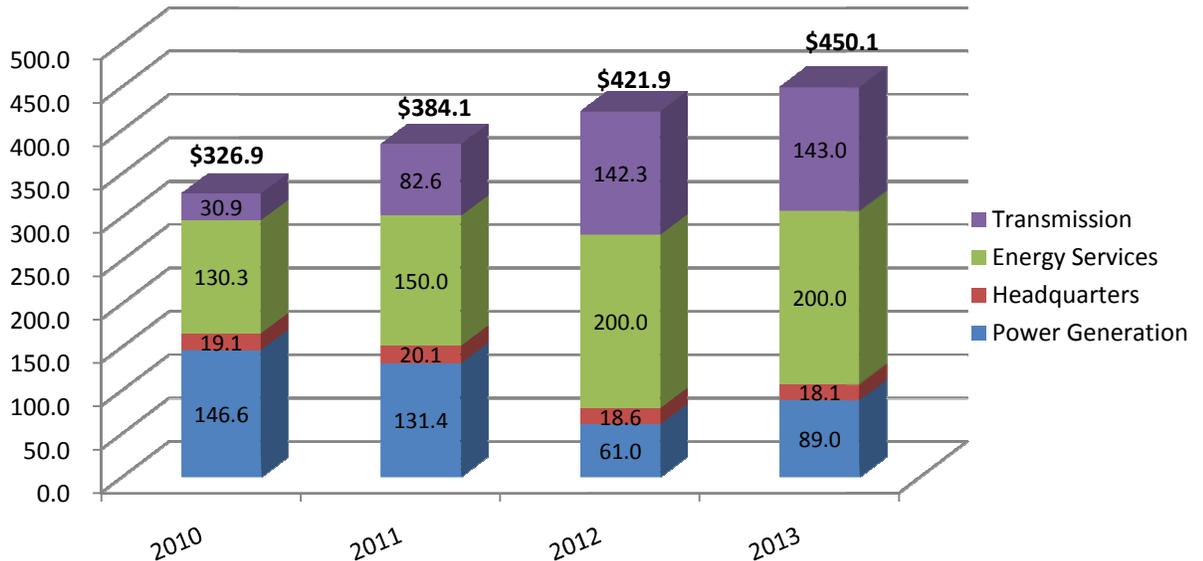
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	107,379,160	76,643,781	184,022,941
2011	93,981,268	82,620,113	176,601,381
2012	89,036,543	90,055,095	179,091,638
2013	93,984,684	93,467,526	187,452,210

**(m) Capital Investments and Sources of Funding**

The Authority currently estimates that it will expend approximately \$1.6 billion for various capital improvements over the financial plan period 2010-2013. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

(In Millions)	2010	2011	2012	2013
<b>Transmission Initiative: Reinforcement Proj.</b>	\$9.7	\$55.6	\$49.1	\$49.2
<b>New Niagara Warehouse</b>	\$13.7	\$12.0	\$0.0	\$0.0
<b>RM Stator Rewind &amp; Restack Project</b>	\$2.1	\$15.4	\$10.0	\$0.0
<b>Lewiston Pump Generating Plant LEM</b>	\$4.2	\$0.2	\$0.2	\$37.5
<b>Relocate Niagara Ice Boom Storage Site</b>	\$10.3	\$5.3	\$0.0	\$0.0
<b>Stator Rewind and Restack Proj. Phase II</b>	\$0.0	\$0.0	\$0.0	\$10.1
<b>STL LEM</b>	\$24.6	\$24.0	\$14.8	\$4.5
<b>STL Relic.– Compliance &amp; Implementation</b>	\$10.9	\$2.2	\$1.8	\$1.6
<b>BG LEM</b>	\$19.0	\$1.9	\$0.0	\$0.0
<b>MA1 and MA2 Transmission Line Upgrade</b>	\$0.0	\$1.8	\$68.0	\$68.0
<b>St. Lawrence Moses Switchyard LEM</b>	\$0.6	\$7.2	\$7.0	\$7.0
<b>Energy Services</b>	\$130.3	\$150.0	\$200.0	\$200.0
<b>Other</b>	\$101.5	\$108.5	\$71.0	\$72.2
<b>TOTAL</b>	<b>\$326.9</b>	<b>\$384.1</b>	<b>\$421.9</b>	<b>\$450.1</b>

**2010-2013 Capital Investments**



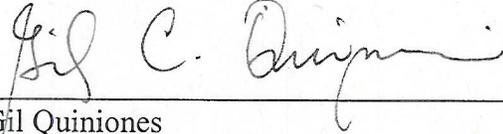
**Exhibit "B"**  
**December 15, 2009**

**Certification of Assumptions and Method of Estimation for  
Budget and Financial Plan 2010-2013 in accordance with the  
Comptroller's Regulation § 203.9 Certification**

December 15, 2009

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

To the best of my knowledge and belief after reasonable inquiry, I, the undersigned, certify that the "Authority's Method of Estimation for Budget and Financial Plan 2010-2013" is based on reasonable assumptions and methods of estimation and that the regulations enumerated in Part 203, "Budget and Financial Plan Format, Supporting Documentation and Monitoring - Public Authorities" have been satisfied.

  
\_\_\_\_\_  
Gil Quiniones  
Chief Operating Officer



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