FINANCIAL REPORT

THE NEW YORK POWER AUTHORITY 2007

Reports of Management and Independent Auditors	20
Management's Discussion and Analysis	22
Balance Sheets	28
Statements of Revenues, Expenses and Changes in Net Assets	29
Statements of Cash Flows	30
Notes to Financial Statements	31
Required Supplementary Information	50
About NYPA	52

Report of Management

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

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

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls as well as testing of all key controls to ensure that the system is functioning as intended. In addition, the Authority's Inspector General is responsible for investigating allegations of wrongdoing; monitoring compliance with the Authority's rules and regulations; and initiating reviews and investigations into areas of special concern or vulnerability. Additionally, as part of its audit of the Authority's financial statements, Ernst & Young LLP, independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of the internal auditors, the Office of the State Comptroller (OSC), and the independent auditors concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Based on its structure and related processes, management believes that, as of December 31, 2007 and 2006, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

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

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

Report of Independent Auditors

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

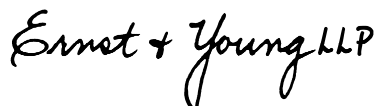
We have audited the accompanying balance sheets and related statements of revenues, expenses, and change in net assets and of cash flows of the Power Authority of the State of New York (the "Authority") as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2008 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 22 to 27 and page 50, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



5 Times Square
New York, NY 10036

February 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment

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

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

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

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500-MW plant); (d) a significant reduction of outstanding debt; and (e) implementation of an energy and fuel risk management program. Major accomplishments during 2007 supporting this program include reaching an agreement in principle with Alcoa for the continued supply of hydropower from the Authority's St. Lawrence-FDR Power Project, initial funding of the Authority's Other Postemployment Benefits (OPEB) and initiating the development of a program to assess enterprise-wide risk across the Authority.

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation has been addressed and mitigated by both the cost-sharing provisions in the new long-term supplemental electricity supply agreements and generation from the 500-MW plant. It should be noted that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority.

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

	2007	2006	2005	2007 vs. 2006 Favorable/ (Unfavorable)	2006 vs. 2005 Favorable/ (Unfavorable)
Operating Revenues	**$2,906**	$2,666	$2,506	9%	6%
Operating Expenses					
Purchased power	**1,182**	1,067	1,158	(11%)	8%
Fuel	**535**	523	378	(2%)	(38%)
Operations & Maintenance	**501**	432	448	(16%)	4%
Wheeling	**327**	296	299	(10%)	1%
Depreciation	**178**	173	147	(3%)	(18%)
Total Operating Expenses	**2,723**	2,491	2,430	(9%)	(3%)
Net Operating Revenues	**183**	175	76	5%	130%
Investment and other income	**166**	72	60	131%	20%
Interest expense, net	**114**	110	78	(4%)	(41%)
Net Revenues	**235**	137	58	72%	136%
Net Assets – Beginning	**2,033**	1,896	1,838	7%	3%
Net Assets – Ending	**$2,268**	$2,033	$1,896	12%	7%

The following summarizes the Authority's financial performance for the years 2007 and 2006:

The Authority had net revenues of $235 million in the year 2007, compared to $137 million in 2006. This $98 million increase in net revenues is attributable to higher revenues ($240 million) and non-operating income ($87 million) partially offset by higher operating expenses ($232 million). The increase in revenues was primarily due to the recovery of higher energy costs incurred in serving the

southeastern New York (SENY) Governmental Customers and higher market-based sales of power generated by the Authority's 500 MW plant and the Small Clean Power Plants. The increase in other income was primarily due to the recognition of an initial payment of $72 million from subsidiaries of Entergy Corporation resulting from negotiation of revised agreements regarding the sharing of revenues generated by the nuclear power plants previously owned by the Authority. Operating expenses were higher due to increased purchased power and fuel costs combined with a higher voluntary contribution to New York State associated with the Power for Jobs program.

During 2007, total debt increased by $124 million, or 6%, as a result of a debt issuance in October 2007 ($602 million) partially used to refinance debt ($370 million) as well as other reductions in debt ($108 million). Interest expense was level with 2006 primarily due to lower average total debt during 2007 offset by the recognition of interest expense related to relicensing cost obligations. During the period 1997 to 2007, the Authority reduced its total debt/equity ratio from 1.81 to 1.01, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

The Authority had net revenues of $137 million in the year 2006, compared to $58 million in 2005. This $79 million increase in net revenues is attributable to higher revenues ($160 million) partially offset by increases in operating expenses ($61 million) and net non-operating items ($20 million). The increase in revenues was primarily due to higher market-based sales to the New York State Independent System Operator (NYISO) combined with an increase in rates charged to its SENY Governmental Customers. The increase in operating expenses (primarily fuel and depreciation) was primarily attributable to costs associated with the Authority's 500-MW plant which went into commercial operation on December 31, 2005. Non-operating expenses were higher due to an increase in interest cost associated with the new plant partially offset by an increase in investment income.

Operating Revenues

Operating revenues of $2,906 million in 2007 were $240 million or 9% higher than the $2,666 million in 2006, primarily due to a rate increase and "Energy Charge Adjustment with Hedging" (ECA) cost recovery mechanism which resulted in the recovery of higher energy costs incurred in serving the SENY Governmental Customers and higher market-based sales of power generated by the Authority's 500-MW plant and the Small Clean Power Plants. See "Governmental Customers in the New York City Metropolitan Area" below for additional information.

Purchased Power and Fuel

Purchased power costs increased by 11% in 2007 to $1,182 million from $1,067 million in 2006, primarily due to the higher prices and increased volume related to purchased power for the NYC Governmental Customer market area. Fuel costs were $12 million (2%) higher during 2007, reflecting higher fossil-fuel production at the 500 MW plant and SCPPs and related higher sales to the NYISO.

Operations and Maintenance

O&M expenses increased by 16% in 2007 to $501 million due to higher accrued voluntary contributions to New York State (See Note M (8), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.) and the effect of fossil fuel plant maintenance outages at Flynn and Poletti.

Depreciation

Depreciation expense for the year 2007 increased by 3% to $178 million primarily due to the initial amortization of Niagara relicensing costs in 2007 when the Authority received a new license to operate the plant. See Note M (10), "Niagara Relicensing," for Niagara relicensing costs.

Cash Flows

During 2007, the Authority generated cash flows of $326 million from operations compared to $358 million in 2006. Cash flows from operating activities for 2007 were lower than 2006 primarily due to an increase in the Authority's voluntary contribution to the State and an increase in purchased power cost due to increases in price and volume; offset partially by higher receipts from customers for the sale of power.

Investment and Other Income

For 2007, Investment Income increased by $24 million or 44 % due to higher invested balances and an unrealized gain on the market value of the Authority's investment portfolio. Other Income includes income recognition of the initial $72 million payment resulting from the negotiation of a revised revenue sharing agreement relating to revenues generated at the nuclear power plants sold to subsidiaries of Entergy Corp in 2000. See Note L (1), "Nuclear Plant Divestiture," for additional information.

Net Generation

Net generation for 2007 was 26.3 million megawatt-hours (MWh) compared to the 26.9 million MWh generated in 2006. The 2% decrease was attributable to lower production at the Authority's hydroelectric facilities. Combined net generation from the Niagara and St. Lawrence facilities at 19.8 million MWh was 3% lower than 2006 (20.3 million MWh). During 2007, combined net generation of the fossil fuel plants was 6.8 million MWh, level with 2006 (6.7 million MWh), with increased output from the newer plants offsetting decreases at the older plants due to maintenance outages.

Beginning in 1999 and continuing through 2003, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR projects, thereby requiring the periodic curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions have improved such that hydroelectric generation levels have returned to near long-term average from 2004 through 2007.

Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its NYC Governmental Customers entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through

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

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

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

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

The Authority's other SENY Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County (County). Among other things, under the agreement, the County will remain a full requirements customer of the Authority through at least December 31, 2008 and an energy charge adjustment mechanism will be applicable. As of December 31, 2007, 100 out of 104 Westchester Governmental Customers had executed the new supplemental agreement and the Authority expects that all of the other Westchester Governmental Customers will execute this form of agreement with the Authority in the first quarter of 2008.

Energy Cost Savings Benefits

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amends the Act and the New York Economic Development Law (''EDL'') in regard to several of the Authority's economic development power programs and the creation of energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS Benefits"), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and for a limited period up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits are administered by New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially, and through December 31, 2006, the ECS Benefits were available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005.

In August 2006, legislation was enacted into law that extended the ECS Benefits through June 30, 2007 and also provides that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits. In June 2007, legislation was enacted into law that extends the ECS Benefits through June 30, 2008. From the inception of the ECS Benefits program through December 31, 2007, there have been no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of hydropower. It is estimated that the Authority will pay from internal funds, as opposed to funds derived from the sale of hydropower, approximately $17 million in ECS Benefits for the period January 1, 2008 through June 30, 2008.

The Governor's proposed budget for State Fiscal Year 2008-2009, among other things, provides for a new "Electricity Cost Discount" program to replace the Power for Jobs (PFJ) and ECS Benefits Programs that are proposed to expire after June 30, 2009. The new program would provide for electricity price discounts for up to 1,000 MW of eligible customer load, would be administered by the Authority with the assistance of the EDPAB, and would be funded by the Authority, as deemed feasible and advisable by its Trustees, in an amount up to $120 million annually for seven years. It is uncertain at this time whether and to what extent these proposals may be enacted into law in the future.

Summary Balance Sheet
(*in Millions*)

	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
Current Assets	**$1,370**	$1,300	$1,310	5%	(1%)
Capital Assets	**3,773**	3,427	3,444	10%	-
Other Noncurrent Assets	**1,865**	1,672	1,635	12%	2%
Total Assets	**$7,008**	$6,399	$6,389	10%	-
Current Liabilities	**$830**	$ 910	$ 754	(9%)	21%
Long-term Liabilities	**3,910**	3,456	3,739	13%	(8%)
Total Liabilities	**4,740**	4,366	4,493	9%	(3%)
Net Assets	**2,268**	2,033	1,896	12%	7%
Total Liabilities and Net Assets	**$7,008**	$6,399	$6,389	10%	-

The following summarizes the Authority's balance sheet variances for the years 2007 and 2006:

In 2007, current assets increased by $70 million (5%) to $1,370 million primarily due to an increase in investment in securities ($260 million) partially offset by decreases in cash and cash equivalents ($151 million), receivables ($30 million), and risk management assets ($9 million). Capital assets increased by $346 million (10%) to $3,773 million primarily due to the capitalization of the Niagara relicensing costs. Other noncurrent assets increased by $193 million (12%) to $1,865 million due to increases in capital funds ($157 million) and restricted funds ($84 million) partially offset by a decrease in other noncurrent assets ($48 million). Current liabilities decreased by $80 million (9%) to $830 million primarily due to decreases in accounts payable ($63 million) and current maturities of long-term debt ($13 million). Long-term liabilities increased by $454 million (13%) to $3,910 million primarily due to increases in deferred credits and other long-term liabilities ($312 million) and long-term debt ($141 million). The changes in net assets for 2007 and 2006 are discussed on page 22, Summary Statement of Revenues, Expenses and Changes in Net Assets.

In 2006, current liabilities increased by $156 million due to an increase in short-term debt ($54 million) with balance due to an increase in accounts payable. Long-term liabilities decreased by $283 million (8%) primarily due to a reduction in long-term debt ($189 million) and a decrease in deferred revenues and other ($176 million) partially offset by an increase the nuclear plant decommissioning liability to Entergy ($72 million).

Capital Asset and Long-term Debt Activity

The Authority currently estimates that it will expend approximately $1,196 million for various capital improvements over the five-year period 2008-2012. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

Projects	(*in Millions*)
Niagara Relicensing Compliance/Implementation	$ 25
St. Lawrence-FDR Modernization Program	105
St. Lawrence-FDR Relicensing Process/ Implementation	32
Blenheim-Gilboa Modernization Program	78
Energy Services and Technology Projects	539
Transmission	133
Other	284
Total	$1,196

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately $210 million of which approximately $148 million has already been spent or will be spent in near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the new license.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007. In November 2007, these entities filed a petition for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. It is expected that briefing of the appeal will occur during the first quarter of 2008. The Authority is unable to predict the outcome of this matter but the Authority believes that FERC has available meritorious defenses and positions with respect thereto.

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara Project, including the debt issued therefor, were incorporated into the cost-based rates of the Project beginning in 2007.
More detailed information about the Authority's capital assets is presented in Notes B and E to the financial statements.

Capital Structure
(*in Millions*)

	2007	2006	2005
Long-term debt			
Senior			
Revenue bonds	**$1,283**	$1,052	$1,167
Adjustable rate tender notes	**144**	150	156
Subordinated			
Subordinate revenue bonds	**72**	75	78
Commercial paper	**394**	474	540
Total long-term debt	**$1,893**	$1,752	$1,941
Net assets	**2,268**	2,033	1,896
Total Capitalization	**$4,161**	$3,785	$3,837

During 2007, long-term debt, net of current maturities, increased by $141 million, primarily due to debt issuance ($602 million) partially offset by its use to refinance debt ($370 million) and scheduled maturities ($116 million). During 2006, long-term debt, net of current maturities, decreased by $189 million, primarily due to scheduled maturities ($140 million), and early extinguishments of commercial paper debt ($49 million). Total Debt to Equity as of December 31, 2007, decreased to a 1.01 to 1 from 1.06 to 1 as of December 31, 2006. The Total Debt to Equity ratio as of December 31, 2007 is the lowest ratio since the Authority implemented proprietary accounting in 1982.

In October 2007, the Authority issued $82 million, $257 million and $264 million in principal amounts of Series A Revenue Bonds (A Bonds), Series B Revenue Bonds (B Bonds) and Series C Revenue Bonds (C Bonds) (collectively called "2007 Bonds"), respectively. The 2007 Bonds total $602 million. The Series B issue is federally taxable. The $633 million total for sources of funds in this transaction also includes a $17 million bond issuance premium (from A Bonds and C Bonds); an $8 million receipt from the termination of a hedge-related transaction; and $6 million of other Authority funds. The proceeds of the 2007 Bonds and other funds were used to redeem $102 million of Commercial Paper Notes, finance a portion of the costs of relicensing and modernization of the Authority's St. Lawrence-FDR Project ($120 million) and of the relicensing of the Niagara Project ($118 million), to refund a portion of the Authority's Series 2002 A Revenue Bonds ($268 million) for a net present value savings of $10 million, and to pay the costs of issuance of the 2007 Bonds. (See Note F, "Long-term Debt," for additional information.)

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

Debt Ratings

NYPA's Underlying Credit Ratings:	Moody's	Standard & Poor's	Fitch
Senior Debt:			
Long-term debt	Aa2	AA-	AA
Adjustable Rate Tender Notes	Aa2/VMIG1	AA-/A-1+	N/A
Subordinate Debt:			
Commercial Paper	P-1	A-1	F1+
Auction Rate Bonds	Aa3	A+	AA
Municipal Bond Insurance Support Ratings:			
Senior Debt:			
Series 2007 A, B & C Revenue Bonds due 2013 to 2047	Aaa	AAA	AAA
Series 2006 A Revenue Bonds due 2009 to 2020	Aa2*	AA	AA
Series 2003 A Revenue Bonds due 2008 to 2033	Aaa	AAA	AAA
Subordinate Debt:			
Auction Rate Bonds due 2025	Aaa	AAA	AAA

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

In late January 2008, S&P and Fitch downgraded the AAA rating of Financial Guaranty Insurance Co. (FGIC) to AA and consequently downgraded $144.3 million of the Authority's 2006 A Revenue Bonds that are due November 15, 2010 through 2020 to reflect the insurer's new rating. In addition, in mid February 2008, Moody's downgraded FGIC from Aaa to A3. The underlying ratings of the Authority's insured bonds are set forth in the table above. In cases where the insurer's rating is downgraded below the underlying rating (*), the bonds carry the Authority's underlying rating.

Risk Management

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

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

New York State Budget Matters

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make certain annual "voluntary contributions" into the "state treasury to the credit of the general fund," up to a maximum amount of $424 million in connection with the PFJ Program.

In recent years, annual extensions of the PFJ Program have been signed into law. The most recent in June 2007 (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2008; (2) authorizes the Authority to make an additional voluntary contribution of $30 million for the State Fiscal year 2007-2008 with the aggregate amount of such contributions increasing to $424 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

As of the December 31, 2007, the Authority had made voluntary contributions to the State totaling $394 million which includes $175 million transferred in December 2007, representing the voluntary contributions associated with State Fiscal Years 2005-06 and 2006-07. The Authority's Trustees have, as of the date hereof, authorized additional voluntary contributions of $30 million to be paid by March 31, 2008.

Prior to making any voluntary payment to the State, in accordance with the Authority's general bond resolution, the Authority must determine that the moneys applied to such voluntary payment are not needed for the payment of certain expenses, debt service payments or the funding of certain reserves specified in the general bond resolution.

In January 2008, the Governor introduced his proposed budget for the State Fiscal Year 2008-2009 in which it is proposed that the PFJ and ECSB Programs be extended for one more year, through June 30, 2009, and then be terminated at that time. The Governor's budget bill also proposes that the Authority be authorized to make an additional voluntary contribution, as deemed feasible and advisable by its Trustees, of up to $25 million with the maximum aggregate amount of such contributions increasing to $449 million.

The Governor's proposed budget for State Fiscal Year 2008-2009, among other things, also provides for a new "Electricity Cost Discount" program to replace the PFJ and ECSB Programs that are proposed to expire after June 30, 2009. The new program would provide for electricity price discounts for up to 1,000 MW of eligible customer load, would be administered by the Authority with the assistance of the EDPAB, and would be funded by the Authority, as deemed feasible and advisable by its Trustees, in an amount up to $120 million annually for seven years. It is uncertain at this time whether and to what extent these proposals may be enacted into law in the future.

Contacting the Authority

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

BALANCE SHEETS

December 31, 2007 and 2006 (*in Millions*)

Assets		**2007**	2006
Current Assets	Cash and cash equivalents	**$ 6**	$ 157
	Investment in securities	**854**	594
	Interest receivable on investments	**20**	15
	Accounts receivable	**192**	222
	Materials and supplies:		
	Plant and general	**76**	66
	Fuel (Notes H and M(4))	**34**	33
	Risk management assets (Note H)	**53**	62
	Miscellaneous receivables and other	**135**	151
	Total Current Assets	**1,370**	1,300
Noncurrent Assets			
Restricted Funds	Cash and cash equivalents	**7**	4
	Investment in securities (Notes D, J and L)	**1,066**	985
	Total restricted funds	**1,073**	989
Capital Funds	Cash and cash equivalents	**48**	45
	Investment in securities	**215**	61
	Total capital funds	**263**	106
Capital Assets	Capital assets not being depreciated	**271**	279
	Capital assets, net of accumulated depreciation	**3,502**	3,148
	Total capital assets	**3,773**	3,427
Other Noncurrent Assets	Unamortized debt expense	**20**	13
	Deferred charges, long-term receivables and other	**402**	446
	Notes receivable - nuclear plant sale (Note L)	**107**	118
	Total other noncurrent assets	**529**	577
	Total Noncurrent Assets	**5,638**	5,099
	Total Assets	**$7,008**	$6,399

Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	**$ 436**	$ 498
	Short-term debt (Note G)	**268**	272
	Long-term debt due within one year	**126**	140
	Total current liabilities	**830**	910
Noncurrent Liabilities			
Long-term Debt	Long-term debt (Notes C and F):		
	Senior		
	Revenue bonds	**1,283**	1,053
	Adjustable rate tender notes	**144**	150
	Subordinated		
	Subordinate revenue bonds	**72**	75
	Commercial paper	**394**	474
	Total long-term debt	**1,893**	1,752
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note L)	**979**	923
	Disposal of spent nuclear fuel (Note L)	**211**	202
	Deferred revenues and other	**827**	579
	Total other noncurrent liabilities	**2,017**	1,704
	Total Noncurrent Liabilities	**3,910**	3,456
	Total Liabilities	**4,740**	4,366
Net Assets	Invested in capital assets, net of related debt	**1,701**	1,677
	Restricted	**27**	28
	Unrestricted	**540**	328
	Total Net Assets	**2,268**	2,033
	Total Liabilities and Net Assets	**$7,008**	$6,399

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended December 31, 2007 and 2006 *(in Millions)*

		2007	2006
Operating Revenues	Power sales	**$2,430**	$2,223
	Transmission charges	**149**	147
	Wheeling charges	**327**	296
	Total Operating Revenues	**2,906**	2,666
Operating Expenses	Purchased power	**1,182**	1,067
	Operations	**420**	351
	Fuel oil and gas (Notes H and M(4))	**535**	523
	Maintenance	**81**	81
	Wheeling	**327**	296
	Depreciation	**178**	173
	Total Operating Expenses	**2,723**	2,491
	Net Operating Revenue	**183**	175
Other Income	Investment income (Note D)	**79**	55
	Other	**87**	17
	Total Other Income	**166**	72
Other Expenses	Interest on long-term debt	**103**	110
	Interest - other	**20**	10
	Interest capitalized	**(5)**	(5)
	Amortization of debt discount/(premium) and expense	**(4)**	(5)
	Total Other Deductions	**114**	110
	Net Revenues	**235**	137
	Net Assets at January 1	**2,033**	1,896
	Net Assets at December 31	**$2,268**	$2,033

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006 (*in Millions*)

		2007	2006
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$ 2,938**	$ 2,678
	Disbursements for:		
	Purchased power	**(1,184)**	(1,060)
	Operations and maintenance	**(577)**	(434)
	Fuel oil and gas	**(531)**	(534)
	Wheeling of power by other utilities	**(320)**	(292)
	Net Cash Provided by Operating Activities	**326**	358
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**5**	11
	Sale of commercial paper	**33**	110
	Issuance of bonds	**602**	173
	Repayment of notes	**(6)**	(5)
	Retirement of bonds	**(117)**	(311)
	Defeasance of Series 2002 A Bonds	**(268)**	
	Repayment of commercial paper	**(120)**	(177)
	Gross additions to capital assets	**(137)**	(106)
	Interest paid, net	**(87)**	(98)
	Net Cash Used in Capital and Related Financing Activities	**(95)**	(403)
Cash Flows From Noncapital -Related Financing Activities	Energy conservation program payments received from participants	**84**	63
	Energy conservation program costs	**(88)**	(62)
	Sale of commercial paper	**85**	104
	Repayment of commercial paper	**(89)**	(50)
	Interest paid on commercial paper	**(10)**	(8)
	OPEB funding	**(100)**	
	Entergy notes receivable	**94**	94
	Net Cash Provided by/(Used in) Noncapital-Related Financing Activities	**(24)**	141
Cash Flows From Investing Activities	Earnings received on investments	**48**	32
	Purchase of investment securities	**(13,887)**	(11,654)
	Sale of investment securities	**13,487**	11,565
	Net Cash Used in Investing Activities	**(352)**	(57)
	Net increase/(decrease) in cash	**(145)**	39
	Cash and cash equivalents, January 1	**206**	167
	Cash and Cash Equivalents, December 31	**$ 61**	$ 206

Reconciliation to Net Cash Provided by Operating Activities	Net Operating Revenues	**$ 183**	$ 175
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Provision for depreciation	**178**	173
	Change in assets and liabilities:		
	Net (increase)/decrease in prepayments and other	**15**	(17)
	Net (increase)/decrease in receivables and inventory	**18**	(3)
	Net (decrease)/increase in accounts payable and accrued liabilities	**(68)**	30
	Net Cash Provided by Operating Activities	**$ 326**	$ 358

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

NOTES TO FINANCIAL STATEMENTS

Note A - General

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

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

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

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

Note B - Accounting Policies

The Authority's accounting policies include the following:

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

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

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

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

(4) Capital assets, net of accumulated depreciation, at December 31, 2007 and 2006, and the related depreciation provisions expressed as a percentage of average depreciable capital assets on an annual basis were:

(*in Millions*)			Average Depreciation Rate	
Type of Plant	**2007**	2006	**2007**	2006
Production:				
Steam	**$ 13**	$ 35	**5.1%**	5.1%
Hydro	**1,057**	1,022	**1.8%**	1.8%
Gas Turbine\ Combined Cycle	**908**	951	**3.7%**	5.2%
Transmission	**941**	961	**2.8%**	2.8%
General	**729**	320	**3.8%**	4.2%
	3,648	3,289	**3.1%**	3.3%
Construction work in progress	**125**	138		
Total capital assets	**$3,773**	$3,427		

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

In addition to the FAS No. 143 asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers, and, under the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation," at December 31, 2007 and 2006 were approximately $199 million and $189 million, respectively, in Other Noncurrent Liabilities on the Balance Sheets.

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

(*in Millions*)	ARO Amounts	Regulatory Amounts
Balance – December 31, 2006	$19	$189
Depreciation expense	--	10
Balance – December 31, 2007	**$19**	**$199**

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

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

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

(8) The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. The Authority has adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities", as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," to the extent appropriate under Governmental Accounting Standards. These financial accounting standards establish accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The standard requires that the Authority recognize the fair value of all derivative instruments as either an asset or liability on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges.

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

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

(11) At December 31, 2007 and 2006, deferred charges included $124 million and $117 million, respectively, of energy services program costs. In addition, the deferred charges relating to the fair value of derivatives are included in this classification. See Note B (8) above and Note H for more detailed information. These deferred costs are being recovered from customers.

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

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

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

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

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

(15) Revenues are recorded when service is provided. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to three NYC Governmental Customers and three investor-owned utilities operating in the State accounted for approximately 44 and 45 percent of the Authority's operating revenues in 2007 and 2006, respectively. The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. The principal operating revenues are generated from the sale, transmission, and wheeling of power. The Authority's operating expenses include fuel, maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. All revenues and expenses not meeting this definition are reported as other income and expenses.

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

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

Note C - Bond Resolution

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

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

Note D - Cash and Investments

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

Credit Risk

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

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

Interest Rate Risk

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

Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2007, $376 million (17 percent), $214 million (10 percent), $178 million (8 percent), and $133 million (6 percent) of the Authority's investments were in securities of Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corp. (FHLMC or Freddie Mac), respectively.

Decommissioning Fund

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

Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2007 and 2006, the Authority had investments in repurchase agreements of $6.0 million and $50.0 million, respectively. The bank balances were $8.7 million and $3.5 million, respectively, of which $7.8 million and $2.5 million, respectively, were uninsured and collateralized by assets held by the bank in the name of the Authority.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2007 and 2006, is in the Investment Summary.

Investment Summary
(in Millions)
Estimated Fair Value
December 31, 2007

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

Summary of Maturities
Years

	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
0-1	$ 606	$ 106	$ 16	$74	$16	$ 87	$413
1-5	446	59	55		4	113	274
5-10	146	70	70			12	64
10+	651	491	491			51	109
Common Stock	347	347	347				
	$2,196	$1,073	$979	$74	$20	$263	$860

Estimated Fair Value
December 31, 2006

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
Cash and equivalents	$ 206	$ 4		$ 4		$ 45	$157
U.S. Government /Agencies							
Treasury Bills	76	42		42			34
Treasury Notes	38					12	26
GNMA	82						82
	196	42		42		12	142
Other debt securities							
FNMA	251	6			$ 6	12	233
FHLMC	73	13			13	25	35
FHLB	35					7	28
FFCB	82						82
All Other	75	1		1		5	69
	516	20		1	19	49	447
Repurchase Agreements	5						5
Portfolio Manager	923	923	$923				
Total Investments	1,640	985	923	43	19	61	594
	$1,846	$989	$923	$47	$19	$106	$751

Summary of Maturities
Years

	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
0-1	$ 581	$ 74	$ 24	$47	$ 3	$ 94	$413
1-5	336	136	120		16	8	192
5-10	114	59	59				55
10+	486	391	391			4	91
Common Stock	329	329	329				
	$1,846	$989	$923	$47	$19	$106	$751

Note E – Changes in Capital Assets
(in Millions)

The changes in Capital Assets are as follows:

	2007	2006
Gross Capital Assets, beginning balance	**$5,586**	$5,471
Add: Acquisitions	**530**	118
Less: Dispositions (including retirements)	**27**	3
Gross Capital Assets, ending balance	**6,089**	5,586
Less: Accumulated depreciation	**2,441**	2,297
Add: Construction work in progress	**125**	138
Capital Assets - net, ending balance	**$3,773**	$3,427

Note F - Long-term Debt

(*in Millions*)

Components

Long-term debt at December 31, 2007 and 2006 consists of:

	2007	2006
Senior Debt:		
Revenue Bonds	**$1,283**	$1,053
Adjustable Rate Tender Notes	**144**	150
Subordinated Debt:		
Subordinate Revenue Bonds	**72**	75
Commercial Paper	**394**	474
	$1,893	$1,752

Senior Debt	**2007 Amount**	2006 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds					
Series 1998 A Revenue Bonds	**$ 76**	$ 118	4.5% to 5.0%	2/15/2008 to 2016	Redeemed on 2/15/2008
Series 2000 A Revenue Bonds					
Term Bonds	**10**	10	5.25%	11/15/2030	11/15/2010
Term Bonds	**67**	67	5.25%	11/15/2040	11/15/2010
Series 2001 A Revenue Bonds					
Serial Bonds	**42**	85	4.00% to 5.00%	11/15/2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	**190**	479	2.75% to 5.25%	11/15/2008 to 2022	11/15/2012
Series 2003 A Revenue Bonds					
Serial Bonds	**27**	27	3.69% to 4.83%	11/15/2008 to 2013	Any date
Term Bonds	**186**	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
Series 2006 A Revenue Bonds					
Serial Bonds	**164**	173	3.3% to 5.0%	11/15/2008 to 2020	11/15/2015
Series 2007 A Revenue Bonds					
Term Bonds	**82**		4.5% to 5.0%	11/15/2047	11/15/2017
Series 2007 B Revenue Bonds					
Serial Bonds	**18**		5.253% to 5.603%	11/15/2013 to 2017	Any date
Term Bonds	**239**		5.905% to 5.985%	11/15/37 & 11/15/43	Any date
Series 2007 C Revenue Bonds					
Serial Bonds	**264**		4.0% to 5.0%	11/15/2014 to 2021	11/15/2017
	1,365	1,145			
Plus: Unamortized premium	**34**	37			
Less: Deferred refinancing costs	**9**	15			
	1,390	1,167			
Less: Due within one year	**107**	114			
	$1,283	$1,053			

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

In prior years, the Authority defeased certain Revenue Bonds and General Purpose Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2007 and 2006, $515 million and $300 million, respectively, of outstanding bonds were considered defeased.

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

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

Principal of and interest payments on the 2007 Bonds are insured by MBIA Insurance Corporation and are rated "AAA" by Standard & Poor's Rating Services and Fitch Ratings; and "Aaa" by Moody's Investors Service, Inc.

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

Senior Debt	**2007 Amount**	**2006 Amount**	Interest Rate	Maturity
2. Adjustable Rate Tender Notes (Notes)				
2007 Notes		$ 6		3/1/2007
2016 Notes	**$ 75**	75	At 12/31/07: 3.64 %	3/1/2016
2020 Notes	**75**	75	At 12/31/07: 3.64 %	3/1/2020
	150	156		
Less: Due within one year	**6**	6		
	$144	$150		

The Notes may be tendered to the Authority by the holders on any adjustment date. The rate adjustment dates are March 1 and September 1. The Authority has entered into a revolving credit agreement (Agreement) with The Bank of Nova Scotia to provide a supporting line of credit. Under the Agreement, which terminates on September 1, 2015, the Authority may borrow up to $150 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2007 or 2006 under the previous revolving credit agreement) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. The Authority is confident that it will be able to renew or replace this Agreement as necessary. In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million. See Note H for the Authority's risk management program relating to interest rates.

Subordinated Debt	**2007 Amount**	2006 Amount	Interest Rate At 12/31/07	Maturity
3. Subordinate Revenue Bonds				
Series 3	**$38**	$39	Auction Rate: 3.15%	02/15/2025
Series 4	**37**	39	Auction Rate: 3.30%	02/15/2025
	75	78		
Less: Due within one year	**3**	3		
	$72	$75		

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

At December 31, 2007 and 2006, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $1.50 billion and $1.26 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinated Debt	Availability	**2007**	2006	Interest Rate At 12/31/07	Maturity
4. Commercial Paper (Long-term portion)					
EMCP (Series 1)	$ 100	**$ 90**	$ 95	3.23%	2008 to 2025
CP (Series 2)	450	**243**	261	3.30%	2008 to 2015
CP (Series 3)	350	**71**	135	4.72%	2008 to 2017
CP (Series 4)	220				
	$1,120	**404**	491		
Less: Due within one year		**10**	17		
		$394	$474		

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

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. The proceeds of the EMCP Notes issued in 2007 were used to refund Series 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the Series 2 and 3 CP Notes and the EMCP Notes as they mature so that their ultimate maturity dates will range from 2008 to 2025, as indicated in the table above.

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

CP Notes and EMCP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

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

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

Year	Principal	Interest	Total
2008	$ 126	$ 92	$ 218
2009	115	86	201
2010	133	82	215
2011	113	77	190
2012	104	72	176
2013-2017	474	296	770
2018-2022	396	196	592
2023-2027	111	133	244
2028-2032	123	104	227
2033-2037	95	70	165
2038-2042	107	41	148
2043-2047	97	14	111
	1,994	1,263	3,257
Plus : Unamortized bond premium	34		34
Less: Deferred refinancing cost	9		9
	$2,019	$1,263	$3,282

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2007.
The table above does not reflect redemptions subsequent to December 31, 2007.

Terms by Which Interest Rates Change for Variable Rate Debt:

Adjustable Rate Tender Notes

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

Subordinate Revenue Bonds

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

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

CP Notes and EMCP Notes (Long-term portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the Notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be (1.35 X SIFMA) + E, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" is a fixed percentage rate expressed in basis points (each basis point being 1/100 of one percent) that is determined based on the Authority's debt ratings. As of December 31, 2007, the reset rate would have been 5.79%.

Changes in Long-term Liabilities

(*in Millions*)

Changes in Long-term Debt	**2007**	2006	Changes in Other Long-term Liabilities	**2007**	2006
Long-term debt, beginning balance	**$1,752**	$1,941	Other long-term liabilities, beginning balance	**$1,704**	$1,798
Increases	**800**	347	Increases	**380**	152
Decreases	**(533)**	(396)	Decreases	**(67)**	(246)
	2,019	1,892			
Due within one year	**126**	140			
Long-term debt, ending balance	**$1,893**	$1,752	Other long-term liabilities, ending balance	**$2,017**	$1,704

Note G - Short-term Debt

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

	December 31, 2007		December 31, 2006	
(in Millions)	Availability	Outstanding	Availability	Outstanding
CP Notes (Series 1)	**$400**	**$268**	$400	$272

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

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

Year	Beginning Balance	Increases	Decreases	Ending Balance
2007	**$272**	**$ 85**	**$89**	**$268**
2006	$218	$104	$50	$272

CP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A,B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

Note H - Risk Management and Hedging Activities

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

(1) Interest Rate Risk Management

(a) Series 1998 B Revenue Bonds

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

On November 15, 2002 the Authority completed the remaining mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 and Series 3 CP Notes. The 2002 SWAPS became active on November 15, 2002 and terminate on February 15, 2015. They are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes that were issued to make the mandatory payments. During 2007 and 2006, net settlement payments on the 2002 SWAPS resulted in increases in interest costs of $3.8 million and $4.4 million, respectively. On December 31, 2007 and 2006, the fair values of the 2002 SWAPS were unrealized losses of $16.1 million and $14.7 million, respectively. Since the Authority anticipates the recovery from customers of any future settlement costs of the 2002 SWAPS, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

(b) Adjustable Rate Tender Notes

On July 27, 2006 the Authority entered into a forward interest rate swap to continue with the objective of limiting exposure to rising interest rates on the Authority's Adjustable Rate Tender Notes (ART Notes) for the period September 1, 2006 to September 1, 2016 (ART Notes Swap). Based upon the terms of the forward interest rate swap, the Authority pays interest calculated at a fixed rate of 3.7585 percent on the initial notional amount of $156 million. In return, the counterparty pays interest to the Authority based upon 67 percent of the six-month LIBOR established on the reset dates that coincide with the ART Notes rate reset dates. During 2007 and 2006, the net settlement payments on the ART Notes Swaps resulted in increases in interest cost of $0.1 million and $0.4 million, respectively. On December 31, 2007 and 2006, the fair values of the 2006 ART Notes Swap were unrealized losses of $ 6.3 million and $2.7 million, respectively. Since the Authority anticipates the recovery of these losses from customers these unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

(c) 2007 Series B Revenue Bonds

On February 15, 2006, the Authority entered into a forward interest rate swap to effectively fix rates on long-term obligations anticipated to be issued in October of 2007 for the relicensing and modernization costs of the St. Lawrence/FDR and Niagara Power Projects. The forward interest swap had an initial notional amount of $290 million to coincide with the then anticipated 2007 Series B Revenue Bond issuance and a commencement date of October 16, 2007 and ending date of November 15, 2037. The terms of the swap provided for early optional termination as well as for a mandatory termination on October 16, 2007. On October 10, 2007, the Authority priced the 2007 B Revenue Bonds and terminated the swap resulting in a net termination payment

of $7.6 million from the counterparty. The termination calculation was based upon the Authority paying interest at a fixed rate of 5.1923 percent to the counterparty and the counterparty paying interest to the Authority based on three month USD-LIBOR. The termination proceeds are being amortized against interest cost over the life of the 2007 Series B Revenue Bond debt. On December 31, 2006 the fair value on the forward interest rate swap was an unrealized gain of $3.0 million. Since the Authority anticipates that the proceeds from termination of the interest rate swap to pass-through as a benefit to customers, this unrealized gain has been deferred in Other Noncurrent Liabilities on the Balance Sheet.

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

(2) Energy Market Risk Management

(a) Customer Load Requirements

In 2001, the Authority entered into a long-term forward energy swap agreement to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. During 2007 and 2006, net settlements on this forward energy swap resulted in Purchased Power cost decreases of $18.0 million and $22.3 million, respectively. This forward energy swap terminated on December 31, 2007. On December 31, 2006, the fair value of this forward energy swap was an unrealized gain of $16.7 million. Since the Authority anticipates the pass-through of any benefits to customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2003, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2005 and 2008. During 2007 and 2006, net settlements on this forward energy swap resulted in Purchased Power cost decreases of $13.2 million and $10.9 million, respectively. On December 31, 2007 and 2006, the fair values of this forward energy swap were unrealized gains of $18.5 million and $28.6 million, respectively. Since the Authority anticipates the pass-through of any benefits to customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2005, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2008 and 2010. On December 31, 2007 and 2006, the fair values of this forward energy swap were unrealized gains of $29.0 million and $13.1 million, respectively. Since the Authority anticipates the pass-through of any benefits to customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparty's wind farm power generating facilities between 2008 and 2017. The fixed prices ranging from $74 to $75 per megawatt include the purchase of the related environmental attributes. The intent of the swap and purchase agreements is to assist specific governmental customers in acquiring such environmental attributes. On December 31, 2007 and 2006, the fair values of these forward energy swaps were unrealized losses of $3.5 million and $12.5 million, respectively. Since the customers are contractually obligated to pay the Authority for any net settlement costs resulting from these forward energy swaps the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

In 2007 and 2006, the Authority entered into a number of short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the New York Independent System Operator (NYISO) electric market to meet short-term forecasted load requirements for the Authority's Power for Jobs program. During 2007 and 2006, the net settlements of these short-term energy swaps resulted in an Purchased Power cost increases of $0.4 million and $22.0 million, respectively. On December 31, 2007 and 2006, the fair values of these short-term energy swaps were unrealized losses of $0.3 million and $1.2 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheets.

Again in 2007 and 2006, the Authority entered into a number of additional short-term energy swaps. The objective of these short-term energy swaps was to either (a) fix the cost of energy purchases or (b) fix the margin between the prices of purchases and sales of energy in the NYISO electric market to the benefit of the Authority's NYC Governmental Customers. During 2007 and 2006, net settlements of these short-term energy purchases and sales swaps resulted in Purchased Power cost increases of $22.3 million and $37.4 million, respectively. On December 31, 2007 and 2006, the fair values of these short-term energy swaps were an unrealized gain of $5.0 million and an unrealized loss of $31.9 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers or the pass-through of any benefits to customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets on the Balance Sheets.

In 2005, the Authority purchased a number of short-term energy options. The objective of these short-term energy options is to cap the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's NYC Governmental Customers in 2006. During 2006 the Authority exercised a number of these short-term energy options that resulted in a decrease in Purchased Power costs of $1.5 million. The premiums of $7.2 million associated with the 2006 short-term energy options were amortized to Purchased Power costs during 2006.

(b) Generating Capacity

In 2006, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for operating the Authority's Lewiston Pump facility. During 2006, net settlements of these short-term energy swaps resulted in a Purchased Power increase of $5.4 million. On December 31, 2007 and 2006, there were no open positions relating to the Lewiston Pump facility.

(3) Fuel Market Risk Management

In 2007 and 2006, the Authority purchased a number of natural gas swaps and NYMEX gas and oil futures contracts with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Poletti facilities. During 2007 and 2006, net settlements and liquidation of these natural gas swaps and gas and oil NYMEX futures contracts resulted in fuel cost increases of $32.2 million and $36.9 million, respectively. On December 31, 2007 and 2006, the fair values of these natural gas swaps and NYMEX gas and oil futures contracts were unrealized losses of $5.1 million and $29.4 million, respectively. Since the Authority anticipates recovery of any net settlements and liquidations of these natural gas swaps and NYMEX gas and oil futures contracts from customers, these unrealized losses have been deferred in Other Noncurrent Assets in the Balance Sheets.

In 2007 and 2006, the Authority entered into a number of natural gas basis swaps with the objective of limiting exposure to the floating market natural gas pipeline transportation costs to the New York City Gate. During 2007 and 2006, the net settlements of these natural gas basis swaps resulted in fuel cost increases of $2.9 million and $12.5 million, respectively. On December 31, 2007 and 2006, the fair values of these natural gas basis swaps were an unrealized gain of $0.2 million and an unrealized loss of $4.2 million, respectively. Since the Authority anticipates recovery of any net settlement costs

from customers or the pass-through of any benefits to customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets in the Balance Sheets.

(4) Insurance

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

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

Pension Plans:

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

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

Current law requires, among other things, a minimum annual contribution by employers to the System. The objective of the law is to reduce the volatility of annual employer contributions by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible. Under this plan, the Authority's required contributions to the System were $12.3 million, $12.7 million, and $15.3 million for the years ended March 31, 2008, 2007, and 2006, respectively (paid on or about December 15, 2007, 2006, and 2005). For detailed information concerning the System, reference is made to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 2007. In addition, the System issues a publicly available financial report that includes financial statements, expanded disclosures, and required supplementary information for the System. The report may be obtained by writing to the New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York 12244-0001.

The Authority's net Pension obligation as of December 31, 2007, 2006, and 2005 are as follows:

(In Millions)	**2007**	2006	2005
Annual required contribution	**$ 12**	$ 13	$ 15
Contributions made to the System	**(12)**	(13)	(15)
Net pension obligation – end of year	**$ 0**	$ 0	$ 0

Other Postemployment Benefits (OPEB):

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working at the Authority. Approximately 1,900 participants were eligible to receive these benefits at December 31, 2007. The Authority applies GAS No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. In December 2006, the Authority's Trustees authorized staff to initiate the establishment of a trust for OPEB obligations, with the trust fund to be held by an independent custodian. During 2007, the Authority partially funded its prior service OPEB obligation by contributing $100 million to the trust fund. The Authority's intention is to make additional contributions during 2008 so as to fund approximately seventy-five percent of its prior service OPEB obligation; and then to evaluate the performance of the trust fund before making decisions on additional actions.

The most current actuarial valuation date is January 1, 2006. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented, as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(In Millions)	**2007**	2006	2005
Unfunded Actuarial Accrued Liability (UAAL):			
Beginning Balance	**$325**	$322	$300
Medicare adjustment		24	
Discount rate change (6% to 7%)		(45)	
Adjusted beginning balance	**325**	301	300
Accrual	**37**	35	32
Payments to retirees during year	**(12)**	(11)	(10)
Payments to Trust Fund	**(100)**		
Ending Balance	**$250**	$325	$322
Covered payroll	**$136**	$134	$131
Ratio of UAAL to covered payroll	**184%**	243%	246%

In June 2006, GASB issued GASB Technical Bulletin No. 2006-1, "Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D" (TB 2006-1). Under TB 2006-1, payments from the Federal Government are accounted for as other revenue and are not used to offset current or future OPEB expenditures. The present value of the Authority's prior service OPEB obligation, as of January 1, 2006, of $322 million, has been reduced by $21 million to $301 million. The $21 million reduction includes the impact of an increase in the discount rate from 6% to 7% to reflect a higher estimated investment return after the establishment of the trust, partially offset by an increase to reflect TB 2006-1. Additional changes result from a decrease in the assumed medical inflation rates and updated demographics and claims experience. The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The 2007, 2006 and 2005 OPEB provisions of $37 million, $35 million and $32 million, respectively, include the amortization of the prior service obligation, a provision for active employees as of the beginning of the year, and an interest charge on the unfunded balance at year end. The Authority's net OPEB obligation as of December 31, 2007, 2006, and 2005 are as follows:

(In Millions)	**2007**	2006	2005
Annual required contribution	**$ 37**	$ 35	$ 32
Contributions made (payment to retirees/trust fund)	**(112)**	(11)	(10)
Increase/(Decrease) in net OPEB obligation	**(75)**	24	22
Net OPEB obligation – beginning of year	**113**	89	67
Net OPEB obligation – end of year	**$ 38**	$ 113	$ 89

The Authority does not issue a publicly available financial report for the plan.

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

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees, with a minimum of one year of service, up to limits specified in the plan. Such matching annual contributions for 2007 and 2006 totaled $2.2 million and $ 2.1 million respectively.

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

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

Legislation enacted into State law from 1995 to 2002 authorizes the Authority to utilize $59.6 million in petroleum overcharge restitution (POCR) funds and $0.6 million in other State funds (Other State Funds), to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes, with certain funding limitations. The legislation also states that the Authority "shall transfer" equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling $60.2 million to date, took place annually from 1996 to 2003. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account until they are utilized. In April 2007, legislation was enacted into New York law authorizing the transfer of an additional $0.7 million in POCR funds to the Authority and the transfer by the Authority of a like amount of monies to the State. These transfers were completed in 2007.

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 scheduled to be completed in 2008. CAS Projects funds totaling $125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

Note K - NYISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), a subsidiary of the Long Island Power Authority (doing business as "LIPA" hereafter referred to as "LIPA") and the Authority, and certain other entities, established two not-for-profit organizations, the New York Independent System Operator (NYISO) and the New York State Reliability Council (Reliability Council). The mission of the NYISO is to assure the reliable, safe and efficient operation of the State's major transmission system, to provide open-access non-discriminatory transmission services and to administer an open, competitive and non-discriminatory wholesale market for electricity in the State. The mission of the Reliability Council is to promote and preserve the reliability of electric service on the NYISO's system by developing, maintaining, and from time to time, updating the reliability rules relating to the transmission system. The Authority, the current IOUs and LIPA are members of both the NYISO and the Reliability Council.

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

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

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

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

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

Note L - Nuclear Plant Divestiture and Related Matters

(1) Nuclear Plant Divestiture

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

As of December 31, 2007 and 2006, the present value of the notes receivable were:

(*in Millions*)	**2007**	2006
Notes receivable - nuclear plant sale	**$118**	$189
Less: Due within one year	**11**	71
	$107	$118

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

On September 6, 2001, a subsidiary of Entergy Corporation completed the purchase of Indian Point 1 and 2 (IP1 and IP2) nuclear power plants from Consolidated Edison Company of New York Inc. Under an agreement between the Authority and Entergy, which was entered into in connection with the sale of the Authority's nuclear plants to Entergy, the acquisition of the IP2 nuclear plant by a subsidiary of Entergy resulted in the Entergy subsidiary which now owns IP3 being obligated to pay the Authority $10 million per year for 10 years beginning September 6, 2003, subject to certain termination and payment reduction provisions upon the occurrence of certain events, including the sale of IP3 or IP2 to another entity and the permanent retirement of IP2 or IP3. The September 6, 2007 and 2006 payments were received and are included in Other Income.

As part of the Authority's sale of its nuclear projects to Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. In essence, these contracts provide that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005-2014). During 2006 and 2007, disputes arose concerning the calculation of the amounts due the Authority for 2005 and 2006, respectively. In October 2007, the parties reached an agreement resolving these disputes and amending the VSAs. In essence, these amended VSAs provide for the Entergy Subsidiaries to pay the Authority a set price ($6.59 per MWh for IP3 and $3.91 per MWh for JAF) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. In all other material respects, the terms of the amended and original VSAs are substantially similar. The payments, related to the calendar years ending after December 31, 2008, are subject to continued ownership of the facilities by the Entergy Subsidiaries or affiliates. Payments totaling $72 million have been accrued by the Authority and are reflected in Other Income in the Authority's Statements of Revenues, Expenses, and Changes in Net Assets.

(2) Nuclear Fuel Disposal
In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation and retains the funds collected from customers to cover such fee. As of December 31, 2007, the liability to Entergy totaled $211 million. The Authority retained its pre-closing claim against DOE under the DOE standard contract for failure to accept spent fuel on a timely basis.

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

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

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

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

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

Decommissioning Funds of $979 million and $923 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2007 and 2006, respectively.

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

Note M - Commitments and Contingencies

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

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including:

(a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects;
(b) long-term supplemental electricity supply agreements with its eleven NYC Governmental Customers;
(c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500-MW plant);
(d) a significant reduction of outstanding debt; and
(e) implementation of an energy and fuel risk management program.

The Authority's restructuring of its long-term debt through open-market purchases and refundings, begun prior to the adoption of the Bond Resolution, has resulted in, and is expected to continue to result in, cost savings and increased financial flexibility. Since December 31, 1997, the Authority has reduced its total debt by $0.6 billion, or 20%, resulting in the reduction of its debt/equity ratio from 1.81 to 1.01, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982. During 2007, long-term debt, net of current maturities, increased by $141 million, or 8%, primarily due to debt issuance ($602 million) partially offset by its use to refinance debt ($370 million) and scheduled maturities (i.e., reclassifications to long-term debt due within one year of $116 million). The Authority expects to continue debt retirements in the future to the extent funds are available and not needed for the Authority's expenses, reserves, or other purposes.

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

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

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

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

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

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

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

In November 2007, the Authority issued a non-binding request for proposals for up to 500 MW of In-City Unforced Capacity and Optional Energy to serve the needs of its NYC Governmental Customers as early as the summer of 2010. The schedule provides for bids to be filed by December 20, 2007 (a number of bids were filed), and a decision to be made by April 2008, subject to approval by the Authority's Trustees.

The Authority's other SENY Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County (County). Among other things, under the agreement, the County will remain a full requirements customer of the Authority through at least December 31, 2008 and an energy charge adjustment mechanism will be applicable. As of December 31, 2007, 100 out of 104 Westchester Governmental Customers had executed the new supplemental agreement and the Authority expects that all of the other Westchester Governmental Customers will execute this form of agreement with the Authority in the first quarter of 2008.

(3) Power for Jobs

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

In 2004, legislation was enacted into New York law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" (PFJ Rebates) from termination until December 31, 2005. Generally, the amount of such PFJ Reimbursements for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period. Annually from 2005 to 2007, provisions of the approved State budgets extended the PFJ Program, currently through June 30, 2008. As of December 31, 2007, 322 PFJ Program customers have opted to extend their contracts and 172 PFJ Program customers have opted to receive PFJ Rebates. The Authority approved PFJ Reimbursements payments of $42 million and $37 million for 2007 and 2006, respectively. (See Note M (8), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.)

Two Authority PFJ customers initiated an Article 78 proceeding challenging the Authority's implementation of Chapter 645 of the Laws of 2006, signed by the Governor on August 16, 2006. The Authority was served on February 8, 2007. The petition alleged three Authority misinterpretations of the new law: (a) the Authority limited the restitution benefits provided by the new law only to PFJ customers who chose to continue with the standard PFJ contracts; (b) the Authority refuses to pay those restitution benefits until late 2007; and (c) the Authority computes the rebates available to petitioners who now elect the PFJ Rebates option (in lieu of the standard contract) based on 2006 rates rather than 2003 and 2005 rates. The petition did not quantify the damages it sought but asked the court to order an inquest to determine the amount. In its responsive papers served on February 23, 2007, the Authority maintained that its implementation of the new legislation is lawful and appropriate in all respects. By decision dated April 26, 2007, the Court dismissed the petition and ruled in favor of the Authority. The petitioners appealed this decision to the Appellate Division, Third Department, briefing and oral argument have been completed, and a decision from that court is expected within several months after oral argument that was held on January 14, 2008. The Authority is unable to predict the outcome of this matter but the Authority believes it has meritorious defenses and positions with respect thereto.

(4) Legal and Related Matters

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

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

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

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

Thereafter, settlement discussions produced a land claim settlement, which if implemented would include, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence-FDR project. Members of all three tribal entities voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement would also require, among other things, Federal and State legislation to become effective. Litigation in the case had been stayed to permit time for passage of such legislation and thereafter to await decision of appeals in two relevant New York land claim litigations (Cayuga and Oneida) to which the Authority is not a party.

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

The Authority had previously accrued an estimated liability based upon the provisions of the settlement described above. This liability is reflected in the Balance Sheet as of December 31, 2007.

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

b. A customer of the Authority, the City of New York (City), recently reached a settlement with Consolidated Edison Company of New York, Inc. (Con Edison) for delivery overcharges and interest stemming from Con Edison's inaccurate register of the City's street lighting usage. The register failed to reflect certain energy efficient upgrades the City made beginning in the 1990s and ending in 2003. The City has taken the position that the Authority, due to Con Edison's inaccurate register, overcharged the City and estimates that such overcharges could approximate $6 to $7 million in increased delivery and production charges. The Authority has not yet performed an analysis of this claim or made an estimate of its maximum potential liability. In July 2007, the Authority entered into a tolling agreement with the City that allows the Authority time to review the City's claim.

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

(5) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $123 million at December 31, 2007.

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

(*in Millions*)	Total	2008	2009	2010	2011
Gross Operating Leases	$10.3	$7.1	$1.9	$1.2	$0.1
Less: Subleases/Assignments	8.5	6.5	1.5	0.5	-
Net Operating Leases	$ 1.8	$0.6	$0.4	$0.7	$0.1

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

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

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

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

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

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

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

In October 2006, the Authority filed a complaint, in the Supreme Court, Albany County, against General Electric (GE) and five of its subcontractors in connection with the construction of the Authority's 500-MW plant. This action sought to recover damages due to delays and cost overruns attributable to inadequate engineering and design services, and defective equipment provided by GE and its subcontractors. GE has asserted that it will seek recovery of damages it incurred due to delays in construction caused by the Authority. In December 2007, the Authority and GE resolved all current claims related to the 500-MW plant.

(7) Sound Cable Repair

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

Under the terms of the Authority's contract with LIPA, the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair were $17.8 million. The Authority relied on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and also sought compensation from Horizon and other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance coverage in the amount of $10 million, all of which was paid to the Authority to help cover the costs of repair.

In July 2007, a settlement satisfactory to the Authority was reached resolving all issues involving LIPA, the Authority, and its insurer. In accord with that agreement, the Authority was paid $7.3 million, which when added to the $10 million it had already received from its insurer, and other cost reimbursements, will approximate the costs incurred by the Authority to complete the repair of the damaged cable.

(8) New York State Budget Matters and Other Issues

a. Section 1011

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

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

b. Budget / Power for Jobs

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make certain annual "voluntary contributions" into the "state treasury to the credit of the general fund," up to a maximum amount of $424 million in connection with PFJ Program.

In recent years, annual extensions of the PFJ Program have been signed into law. The most recent in June 2007 (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2008; (2) authorizes the Authority to make an additional voluntary contribution of $30 million for the State Fiscal year 2007-2008 with the aggregate amount of such contributions increasing to $424 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

As of the December 31, 2007, the Authority had made voluntary contributions to the State totaling $394 million which includes $175 million transferred in December 2007, representing the voluntary contributions associated with State Fiscal Years 2005-06 and 2006-07. The Authority's Trustees have, as of the date hereof, authorized additional voluntary contributions of $30 million to be paid by March 31, 2008. The financial statements for the year ended December 31, 2007 reflect an accrued liability and charge against net revenues determined on that basis.

Prior to making any voluntary payment to the State, in accordance with the Authority's general bond resolution, the Authority must determine that the moneys applied to such voluntary payment are not needed for the payment of certain expenses, debt service payments or the funding of certain reserves specified in the general bond resolution.

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amends the Act and the New York Economic Development Law (''EDL'') in regard to several of the Authority's economic development power programs and the creation of new energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS Benefits"), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and for a limited period up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits are administered by New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially, and through December 31, 2006, the ECS Benefits were available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. In August 2006, legislation was enacted into law that extended the ECS Benefits through June 30, 2007 and also provided that the Authority make available for allocation to customers the 70 MW of hydropower that has been utilized as a source of funding the ECS Benefits. In June 2007, legislation was enacted into law that extends the ECS Benefits through June 30, 2008. From the inception of the ECS Benefits program through December 31, 2007, there have been no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of hydropower. It is estimated that the Authority will pay from internal funds, as opposed to funds derived from the sale of hydropower, approximately $17 million in ECS Benefits for the period January 1, 2008 through June 30, 2008.

In January 2008, the Governor introduced his proposed budget for the State Fiscal Year 2008-2009 in which it is proposed that the PFJ and ECSB Programs be extended for one more year, through June 30, 2009, and then be terminated at that time. The Governor's budget bill also proposes that the Authority be authorized to make an additional voluntary contribution, as deemed feasible and advisable by its Trustees, of up to $25 million with the maximum aggregate amount of such contributions increasing to $449 million.

The Governor's proposed budget for State Fiscal Year 2008-2009, among other things, provides for a new "Electricity Cost Discount" program to replace the PFJ and ECSB Programs that would expire after June 30, 2009. The new program would provide for electricity price discounts for up to 1,000 MW of eligible customer load, would be administered by the Authority with the assistance of the EDPAB, and would be funded by the Authority, as deemed feasible and advisable by its Trustees, in an amount up to $120 million annually for seven years. It is uncertain at this time whether and to what extent these proposals may be enacted into law in the future.

c. Accountability Act and Other Issues

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

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

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

(9) Relicensing of St. Lawrence and Niagara

On October 23, 2003, FERC issued to the Authority a new 50-year license (New St. Lawrence License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project, compliance with license conditions, and compliance with settlement agreements, for a period of 50 years will be approximately $210 million, of which approximately $148 million has already been spent or will be spent in the near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New St. Lawrence License.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license (New Niagara License) for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007. In November 2007, these entities filed a petition for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. It is expected that briefing of the appeal will occur during the first quarter of 2008. The Authority is unable to predict the outcome of this matter but the Authority believes that FERC has available meritorious defenses and positions with respect thereto.

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

(10) Advanced Clean Coal Power Plant Initiative

In September 2006, as part of New York State's Advanced Clean Coal Power Plant Initiative, the Authority issued a non-binding request for proposals that solicited up to 600 MW of electric capacity and energy from one or more clean coal facilities that may be developed in the State by one or more private sector entities and which would be subject to one or more purchased power agreements with the Authority. On December 19, 2006, the Authority's Trustees, in response to proposals from four bidders, determined that NRG Energy, Inc. (NRG) was the highest evaluated bidder but that the pricing terms

of NRG's bid (and the other highly evaluated bidders) were too high to be workably competitive for the Authority. The Trustees authorized the Authority to negotiate a strategic alliance with NRG, to explore approaches for bringing down the cost of the project and its output, including securing additional financial assistance, grants, or tax credits. The Trustees also conditionally awarded a power purchase agreement to NRG, contingent upon, among other things, the success of the strategic alliance and future Trustee approval. Depending on the success of the strategic alliance and other subsequent developments, Authority staff in the future may seek authorization from the Trustees to establish a clean coal initiative fund in the amount of $50 million, to be financed by deposits of $10 million per year for five years, which would be available to be awarded to NRG for the actual deployment of carbon sequestration technologies at the project.

(11) Natural Gas Contract

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

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

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

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

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

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

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

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

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

New York Power Authority
Required Supplementary Information

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

Actuarial Valuation Date	Actuarial Value of Assets (a)*	Actuarial Accrued Liability (AAL) --- Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
1/1/06	$0	$301	$301	0.0%	$130	232%
1/1/04	0	279	279	0.0%	116	240%
1/1/02	0	271	271	0.0%	107	254%

* During 2007, a trust for the Authority's OPEB obligations was funded with an initial amount of $100 million. This amount will be reflected in the table above as of the 1/1/08 Actuarial Valuation Date when such actuarial study is completed and will be included in the 2008 Annual Report table. See Note I, "Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans," for additional information.

about NYPA

The New York Power Authority is the nation's largest state-owned power organization and one of New York's leading electricity suppliers. NYPA provides lower-cost power to government agencies; to municipally owned and rural cooperative electric systems; to job-producing companies and non-profit groups; to private utilities for resale—without profit—to their customers; and to neighboring states, under federal requirements. The Power Authority is also a national leader in promoting energy efficiency and the development of clean energy technologies and electric vehicles. A non-profit, public benefit energy corporation, NYPA does not use tax revenue or state credit. It finances its projects through bond sales to private investors.

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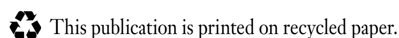
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