

**MINUTES OF THE REGULAR MEETING
OF THE
AUDIT COMMITTEE**

March 29, 2016

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March 29, 2016

Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York, at approximately 8:40 a.m.

The following Members of the Audit Committee were present:

Trustee Eugene Nicandri, Chairman
Trustee Terrance Flynn
Trustee Anthony Picente, Jr.

Also in attendance were:

Anne Kress	Trustee, NYPA
Tracy McKibben	Trustee, NYPA
Gill Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Soubhagya Parija	Chief Risk Officer
Justin Driscoll	Executive Vice President and General Counsel
Robert Lurie	Executive Vice President and Chief Financial Officer
Jennifer Faulkner	Senior Vice President – Internal Audit
Iannarelli, Rocco	Senior Vice President – Corporate Affairs
Kristine Pizzo	Senior Vice President – Human Resources & Enterprise Shared Services
Thomas Concadoro	Vice President and Controller
Karen Delince	Vice President and Corporate Secretary
Joseph Gryzlo	Vice President and Chief Ethics & Compliance Officer
Ethan Riegelhaupt	Vice President – Corporate Communications
Frank Deaton	Director – Internal Audit
Angela Gonzalez	Director – Internal Audit – Technology
James Anderson	Internal Audit Manager
Karolina Rafelson	Auditor – Internal Audit
Elaine Matthews	Audit Team Lead – Internal Audit
James Reynolds	Audit Team Lead – Internal Audit
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Baughman	Senior Assistant Corporate Secretary
Peter Prunty	Director – Infrastructure
Gottor, Jaiah	Manager – Network Services
Glen Martinez	Senior Network Analyst
Todd Fowler	Lead Engagement Audit Partner – KPMG
Nick DiVirgilio	Lead Engagement Audit Senior Manager – KPMG

Chairman Eugene Nicandri presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Chairman Nicandri welcomed committee members, Trustees Terrance Flynn and Anthony Picente, and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.

1. **Adoption of the Proposed Meeting Agenda**

Upon motion made by Trustee Picente and seconded by Trustee Flynn the agenda for the meeting was adopted.

2. **CONSENT AGENDA**

Upon motion made by Trustee Picente and seconded by Chairman Nicandri the Consent Agenda was approved.

a. **Approval of the Minutes of the Regular Meeting held on September 29, 2015**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on September 29, 2015 were approved.

b. Approval of the Minutes of the Special Meeting held on December 17, 2015

Upon motion made and seconded, the Minutes of the Committee's Special Meeting held on December 17, 2015 were approved.

c. Non-Audit Services Engagement – KPMG

The Vice President and Controller submitted the following report:

“SUMMARY

Staff requests the Audit Committee’s approval to engage KPMG to provide consultation services to the Authority relating the potential transfer of the New York State Canal Corporation (the Canal Corporation) to the Authority including financial due diligence and integration services. Financial due diligence and integration are specialized and complex fields and KPMG has the expertise and experience to provide advice to the Authority as to the provisions of the potential Canal transfer. KPMG’s services for this project will be supervised by a partner in their Deal Advisory & Financial Due Diligence practice and staff assigned will be different than the staff performing our financial statement audit. Compensation for these services will be paid to KPMG at discounted rates quoted within their letter of engagement.

BACKGROUND

On January 13, 2016, the Governor submitted, as part of his Executive Budget Proposal, legislation authorizing the transfer of the New York State Canal Corporation (the “Canal Corporation”) from the New York State Thruway Authority (the “Thruway Authority”) to the Authority. The proposed legislation authorizes the Authority to transfer moneys, property and personnel to the Canal Corporation and also authorizes the Authority to issue debt for the purposes of financing the construction, reconstruction, development and improvement of the New York State Canal system. The Authority has begun to assess the nature and scope of the Canal Corporation’s operations, financial condition, assets, liabilities and capital and operating needs and the potential impact of the proposed transfer on the Authority. The proposed legislation provides that the transfer will be effective on January 1, 2017. However, such legislation also authorizes the Authority to reimburse the Thruway Authority for Canal System expenses for the interim period of April 1, 2016 through January 1, 2017.

DISCUSSION

The Authority has contracted with KPMG LLC for independent accounting services including annual audits of the Authority’s financial statements and related reporting on internal controls and investments. The contract contains a provision for engaging KPMG to perform other non-audit services which may include, but are not limited to reviews and advice regarding taxes internal process and procedural matters. Prior to engaging KPMG for non-audit services, the contract requires that Authority’s audit committee approve the each non-audit service engagement. In addition, New York State Public Authorities Law Section 2802 (5) prohibits the independent accountant who audits an authority’s financial statement from performing non-audit services without prior written approval of the Authority’s audit committee. The Authority’s Audit Committee Charter includes within its Functions and Powers section the responsibility to “assure the independence of the independent accountants by approving any non-audit work for the Authority and examining the accountant’s relationship with the Authority.”

RECOMMENDATION

It is requested that the Audit Committee authorize the engagement of KPMG LLC to provide services associated with the potential transfer of the New York Canals Corporation to the Authority, under the existing contract with KPMG for independent accounting services.”

d. Approval of the 2016 Internal Audit Budget

The Senior Vice President of Internal Audit submitted the following report:

"SUMMARY"

The Audit Committee is requested to approve the 2016 Internal Audit Budget set forth in Exhibit "2d-A" of this item and to recommend its adoption to the Board of Trustees. The most significant amendments are discussed below.

BACKGROUND & DISCUSSION

The Audit Committee is required to approve Internal Audit Budget. The budget was approved as part of NYPA's overall budget at the December 17, 2015 Board of Trustees Meeting. The following are key highlights:

- The 2016 budget reflects an overall reduction of 30% in spending from 2015.
- Consulting Services have been reduced by 61% while payroll and benefits have risen by 39%. The increase was a result of increased staffing in order to reduce consulting related expenses.
- An increase of 153% in staff development relates to investments in the staff for improving in their business acumen. This will allow the Internal Audit Department to execute consulting and other activities as a business partner.

RECOMMENDATION

The Executive Vice President and General Counsel, the Senior Vice President – Internal Audits and I recommend that the Audit Committee approve the 2016 Internal Audit Budget.

The resolution below is recommended for adoption."

RESOLVED, That the Audit Committee's 2016 Internal Audit Budget, in the form proposed in Exhibit "2d-A," be and hereby is recommended for approval by the Authority's Board of Trustees.

e. **Approval of the 2016 Internal Audit Plan**

The Senior Vice President of Internal Audit, submitted the following report:

SUMMARY

The Audit Committee is requested to approve the 2016 Internal Audit Plan set forth in Exhibit “2e-A” of this item and to recommend its adoption to the Board of Trustees. The most significant amendments are discussed below.

BACKGROUND & DISCUSSION

The Audit Committee is required to approve 2016 Internal Audit Plan. The 2016 Internal Audit Plan was reviewed during the December 17, 2015 Audit Committee Meeting. The Internal Audit Department will commence executing this Audit Plan immediately based on feedback at that time. We will affirm your approval of this Audit Plan at the March 29, 2016 regularly scheduled meeting to the Audit Committee.

RECOMMENDATION

The Executive Vice President and General Counsel, the Senior Vice President – Internal Audit and I recommend that the Audit Committee approve the 2016 Plan.

The resolution below is recommended for adoption.”

RESOLVED, That the Audit Committee’s 2016 Internal Audit Plan, in the form proposed in Exhibit “2e-A,” be and hereby is recommended for approval by the Authority’s Board of Trustees.

DISCUSSION AGENDA:

3. Internal Audit Update

Ms. Jennifer Faulkner, Senior Vice President of Internal Audit, provided an update of the Internal Audit activities to the Committee (Exhibit "3-A").

Ms. Faulkner said Internal Audit expects to close out the 2015 Audit Plan over the next few weeks; one audit still outstanding. With regards to the 2016 Audit Plan, Ms. Faulkner stated that Internal Audit is currently working on 13 of the 51 audit engagements and is in the process of completing the first quarter fieldwork. The Committee will be provided with a progress report on the Audit Plan at its meeting in April. Ms. Faulkner then introduced Internal Audit's new Technology Director, Angela Gonzalez. She said Ms. Gonzalez joins the team from PSE&G, and will be responsible for executing the 2016 Technology Plan, along with evaluating the dynamics of how the Technology Group will function within the Internal Audit Department.

Ms. Faulkner continued that last year, Internal Audit staff concentrated on closing out all of the audits in the 2015 Audit Plan. They spent many weeks on target activities for department improvement, including orientation materials and standard tools they would need, going forward; fortifying their process manual, and assessing their audit methodology. In addition, as a result of nearly fourteen months of recruiting, the Internal Audit Department is almost fully staffed, with two more personnel starting in the weeks ahead, and two open positions, which will be reserved for the Technology Group.

Internal Audit will be hosting two separate internal trainings over the course of the next six weeks to develop the business acumen and skill-set of the Audit Department. The first will be a 3-day training by MIF on Auditing for Utilities; and the second is a 4-day Internal Audit communications training course with focus on negotiation skills. Other utilities will be participation in this four-day training course, including Con Ed, PSE&G, and Central Hudson, Iberdrola making this a valuable networking opportunity for the department.

In response to a question from Chairman Nicandri, Ms. Faulkner said Ernst & Young currently has one individual working in the Technology area two to three days per week. Internal Audit will be replacing Ernst & Young with the firm of Deloitte & Touché which presently has an interim agreement with the Authority. The Trustees will be requested to approve a contract with Deloitte & Touché at their meeting later today. In the meantime, Ms. Gonzalez is assisting with the orientation and onboarding process of Deloitte & Touché as it relates to NYPA's activities and structure in the technology environment. Ms. Gonzalez is also meeting with staff from different Business Units to construct a firm plan for the Technology audits.

4. Year-end 2015 Financial Report

The Vice President and Controller submitted the following report:

"Pursuant to Section 2800 of the Public Authorities Law, as amended by the Public Authorities Accountability Act of 2005 ('PAAA'), the Authority is required to file its financial report for the year ended December 31, 2015 and submit this report to the Governor, legislative leaders, the State Comptroller and the Authorities Budget Office. The PAAA reflects the State's commitment to maintaining public confidence in public authorities by ensuring that the essential governance principles of accountability, transparency and integrity are followed at all times.

This year-end 2015 financial report includes financial statements that present the financial position and result of operations of the Authority as of December 31, 2015 under generally accepted accounting principles. The report is prepared by staff and the financial statements are audited by independent accountants from KPMG LLP. As required by the PAAA, the financial report has been certified by the Authority's chief executive officer and chief financial officer. After audit committee review, the 2015 financial report is scheduled to be presented for approval by the Authority's Trustees at their meeting later today. Changes of particular significance have been highlighted in the attached draft to facilitate the Audit Committee's review.

REQUESTED ACTION

It is requested that the Audit Committee recommend that the Authority's Trustees approve the financial statements for the year ended December 31, 2015."

Mr. Thomas Concadoro provided highlights of staff's report to the Committee. In response to a question from Chairman Nicandri, Mr. Concadoro said there was a present value savings of about \$7-8 million on the debt refinancing.

In response to further questioning from Chairman Nicandri, Mr. Concadoro said the Authority is approximately 73% funded for health care benefits for NYPA retirees and that there is no requirement that the Authority be 100% funded. The unfunded portion is approximately \$150 million out of \$570 million actuarial liabilities which is very high compared to other agencies.

Upon motion made by Trustee Picente and seconded by Trustee Flynn, the Audit Committee unanimously approved the recommendation by the Vice President and Controller that the Authority's Trustees approve the financial statements for the year ended December 31, 2015.

5. Summary of 2015 Annual Audit of Financial Statements

Mr. Todd Fowler, KPMG's Lead Engagement Audit Partner, presented the results of KPMG'S annual audit of the Authority's financial statements as of December 31, 2015 (Exhibit "5-A").

Mr. Fowler said the audit was performed in accordance with the Audit Plan provided to the Committee and in accordance with US-GAAP and government accounting standards as well as the government auditing standards issued by the Comptroller General. Upon the approval of the financial statements, KPMG will issue an unqualified audit opinion on the Authority's financial statements; an unqualified opinion on the Authority's investment compliance, and an unqualified report of the Authority's internal controls over the financial reporting and compliance.

Mr. Fowler then outlined the areas on the financial statements that KPMG viewed as significant audit areas - GASB 68 and 71 Adoption; Revenue Recognition and Accounts Receivable; Long Term Debt; Capital Assets; and Investments - and said KPMG found no significant issues for the Authority in those areas.

KPMG also evaluated the areas within the financial statements where management includes significant judgments or estimates in preparing the financial statements. Those areas include Derivative Assets and Liabilities; Asset Retirement Obligations; and Regulatory Assets; Litigation and Environmental matters. KPMG had no findings in any of those areas.

Mr. Fowler said the Authority's significant accounting policies are appropriate. KPMG did not have any corrected or uncorrected audit misstatements. In reviewing the financial statements KPMG did not identify any errors in the disclosures in the financial statements. There were no material weaknesses or significant deficiencies in the Authority's financial reporting AS it relates to internal controls. KPMG identified certain deficiencies and although they do not feel they are significant enough to report to the Committee, a list of those deficiencies has been provided to the Authority's management.

Mr. Fowler ended by saying that per its agreement with NYPA, KPMG will perform advisory due diligence services in connection with the Canal Corporation Project.

6. Company Policy – Risk Management and Executive Risk Management Committee Charter

Mr. Soubhagya Parija, Senior Vice President and Chief Risk Officer, submitted the following report:

“SUMMARY

The Audit Committee of the Board of Trustees (the ‘Audit Committee’) is requested to review and recommend approval by the Trustees of the 2016 Company Policy – Risk Management (the ‘Policy’) and the 2016 Executive Risk Management Committee Charter (the ‘Charter’), which are attached hereto as Exhibits ‘6-A’ and ‘6-B.’

The proposed Policy and Charter, in accordance with leading industry practice, is intended as an affirmation of the philosophy, framework and delegation of authority for the Authority’s risk management activities, including the management of enterprise risks and energy commodity and credit risk.

The members of the Executive Risk Management Committee (‘ERMC’) reviewed the proposed Policy and Charter and recommend their approval.

BACKGROUND

At their meeting of May 22, 2014, the Trustees approved the 2014 Policy and Charter that are to be updated and submitted for annual Trustee approval.

DISCUSSION

The Policy and Charter establish the Authority’s governance related to risk management, including the management of enterprise risks and energy commodity and credit risk. As the enterprise risk management program matures, the Policy and Charter expands and improves the governance structure and controls and further establishes accountabilities for all Authority risk management activities.

Proposed changes include the conversion of the document into the Business Controls Group templates for consistency, update of definitions that better represent the Authority’s current risk management practice, the characterization of risk appetite as it pertains to the Authority’s mission, the development of a risk management framework and the authority to approve risk response activities. Also proposed is the clarification of the ERMC approval voting, the ability to provide for additional Committee members and the CRO office responsibility to provide administrative support for the conduct of the ERMC meetings. These changes are summarized in the ‘Revision’ section of Exhibits ‘6-A’ and ‘6-B.’

RECOMMENDATION

The Senior Vice President - Chief Risk Officer recommends that the Audit Committee review and recommend approval by the Trustees of the 2016 Company Policy – Risk Management and the 2016 Executive Risk Management Committee Charter as reflected in Exhibits ‘6-A’ and ‘6-B’ and discussed above.”

Mr. Soubhagya Parija provided highlights of staff’s recommendation to the Committee.

Upon motion made by Trustee Picente and seconded by Trustee Flynn, the Audit Committee unanimously approved the recommendation by the the Senior Vice President and Chief Risk Officer that the Authority’s Trustees approve the 2016 Company Policy – Risk Management and the 2016 Executive Risk Management Committee Charter.

7. **Motion to Conduct an Executive Session**

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §105 to discuss matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation. Upon motion made by Trustee Picente and seconded by Trustee Nicandri, an executive session was held.

8. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session. Upon motion made by Trustee Picente and seconded by Trustee Nicandri, the meeting resumed in Open Session.

9. Next Meeting

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on July 26, 2016 at the Clarence D. Rappleyea Building in White Plains, New York, at a time to be determined.

Closing

Upon motion made by Trustee Picente and seconded by Trustee Nicandri, the meeting was adjourned by the Chairman at approximately 9:25 a.m.

Karen Delince

Karen Delince
Corporate Secretary

March 29, 2016

EXHIBITS

For

Audit Committee

Minutes

March 29, 2016

2016 Budget

EXHIBIT A
MARCH 29, 2016

	2016 Budget	2015 Actual*	Variance	Explanation
Payroll & Benefits	\$2,384,000	\$1,716,647	39%	Includes a total headcount of 20. Six positions have been added since year end 2014.
Consulting Services	\$1,630,000	\$4,175,863	(61%)	Reduction to reflect fully staffed internal team. 2016 Budget reflects Audit Committee approved Outsourcing of Technology related activities and non-Technology Subject Matter Expertise activities.
Investments in Employees				<ul style="list-style-type: none"> - Training budget supports at least 60 CPE per year per staff member as well as three colleagues pursuing professional certifications. A minimum of 60 CPEs per year is best practice per the Institute of Internal Auditors (IIA). - Educational assistance reflects three colleagues pursuing advanced degrees or certificates - Fees & Dues reflect seven colleagues professional licenses
<ul style="list-style-type: none"> - Training/Seminars - Educational Assistance - Fees & Dues 	<ul style="list-style-type: none"> \$68,000 \$44,000 <u>\$15,200</u> 	<ul style="list-style-type: none"> \$35,881 \$10,899 <u>\$3,401</u> 		
Total Investment in Employees	\$77,019	\$50,181	153%	
Travel & Other Business Expenses	\$50,700	\$40,614	25%	Costs to complete 2016 Audit Plan including travel to NYPA facilities and office supplies amongst other miscellaneous expenses.
Total	\$4,191,900	\$5,983,305	(30%)	

2016 Audit Plan

Exhibit A
March 29, 2016

#	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
1	Customer Meter to Cash Audit	Audit	Economic Development & Energy Efficiency	Inaccurate or incomplete scheduling and/or settlement between NYISO, market participants, and NYPA's customers could lead to financial losses and/or incorrect customer bills.	Confirm that from the delivery of energy to NYPA's customer (at the meter), to the receipt of cash to satisfy accounts receivable, that NYPA is accurately allocating energy and other costs and billing/collecting those costs to/from its customers. Within this audit, we will consider both physical and financial transactions to the extent they exist. Processes and related handoffs between the following groups are in scope: Metering, Scheduling/Forecasting, Settlements, Energy Charge Adjustments and other rate related adjustments, Billing, Accounts Receivable/Collections, etc.	Financial	Q3
2	NERC CIPv5 Implementation Support (targeted assessments)	Consulting	Operations	Failure to comply with new NERC CIPv5 requirements may result in regulatory costs or increased regulatory scrutiny.	Targeted assessments during period 1/1/16 through 3/31/16 to ensure processes, procedures and controls are socialized and working as designed to support NYPA's CIPv5 compliance.	Legal and Regulatory	Q1
3	Ariba Post Implementation Review	Audit	Business Services	Delays in or an unexpected outcome when implementing Ariba could lead to inefficient or ineffective controls over the procurement process.	Conduct post implementation review activities of new Ariba modules as they are being planned for and released.	Operations	Q3 & Q4
4	End User Computing - Spreadsheets	Assessment	Entity-Wide	Overreliance on spreadsheets in decision making could lead to suboptimal decisions and decisions that are informed with inconsistent or inaccurate information.	Conduct an assessment of the current and potential future state for governing, monitoring and protecting critical spreadsheets for the organization.	Operations	Q1
5	Occupational Health & Safety Program Audit	Audit	Operations	Lack of safety culture could lead to injury or loss of life.	Evaluate program level governance and controls including monitoring provided by centralized EH&S Department on safety related matters for both management and bargaining unit employees. Ensure trends/themes from independent third party auditor are being identified by centralized EH&S and incorporated into NYPA's program.	Legal and Regulatory	Q2
6	BG SCADA - Pre/Post Implementation Review	Audit	Operations	Delays in or unexpected outcome of BG SCADA upgrade could result in negative impact to plant operations.	Conduct pre & post implementation review activities to ensure BG SCADA upgrade is completed on-time, within budget and without defects.	Operations	Q4
7	Vendor Management Governance Assessment	Assessment	Entity-Wide	Poor vendor, service provider, consultant or contractor performance could lead to inefficiencies within NYPA, confusion or conflict with our customers, performance delays or quality deficiencies, litigation against NYPA or impairment to NYPA's reputation.	Evaluate current vendor management (vendors, services providers, contractors and consultants) practices across NYPA including organizational governance and assess need/opportunity for entity-wide vendor management approach.	Operations	Q2
8	Program Change Management Review	Audit	Technology & Innovation	The lack of adequate change management processes and controls with proper segregation of duties may increase the risk of unauthorized changes implemented to production environment, inconsistency, and inefficiency from the operations and supporting personnel.	Evaluate the technology change management process and governance organization wide in IT and OT including the policies and procedures, ownership of the processes and controls, documentation requirements, and segregation of duties between development and production environment. Test select high risk controls based on the understanding of the design of the processes and controls.	Operations	Q4

2016 Audit Plan

Exhibit A
March 29, 2016

	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
9	Strategic Plan Governance - Follow-up	Audit	Business Services	Lack of organizational support and alignment could lead to NYPA not achieving its strategic objectives.	Conduct a follow-up audit to validate the implementation of previous audit recommendation and to test the effectiveness of controls designed to provide transparency into the identification and mitigation of strategic initiative implementation related risks.	Strategic	Q3
10	Cyber Security Rollup / Consolidation	Assessment	Entity-Wide	Duplicative and/or redundant efforts may be in progress due to multiple technology consultant engagements producing overlapping management recommendations.	NYPA Management has engaged many (over ten) third parties to provide assessments of the technology control environment (including Cyber Security) in the last few years. Each engagement has identified numerous issues and produced a variety of recommendations. Based on this work, management has developed multiple action plans which are in various stages of completion. Internal Audit will review the recommendations and actions plans and "level set" / prioritize them against each other in order to provide management with a single set of prioritized actions that management can consider implementing.	Operations	Ongoing
11	Transmission O&M Audit	Audit	Operations	Ineffective maintenance practices may impact operational performance.	O&M Audit - confirm the following: - cross-functional assessment of Transmission and Generation O&M activities - newly created Maximo utilization procedures are consistently followed - monitoring of work activities is conducted - maintenance completion consistent with work prioritization methodology - root cause assessment (TapRoot) of equipment or system failure is conducted and followed up on.	Operations	Q2
12	Targeted Network Review	Assessment	Technology & Innovation	Failure to establish and maintain a robust network security configuration and restrict high privileged accounts to appropriate individuals without conflicting roles may increase the risk of exposure to vulnerability.	Review the managed network (encryption, security, segmentation), authentication (TACACS), network logging, redundancy, firewall filtering policies, clear text service protocols, and change management processes.	Operations	Q2
13	Workforce Planning Strategic Initiative Support	Consulting	HR & Enterprise Shared Services	Unclear or ineffective governance over the Workforce Planning Strategic Initiative may result in the organization not achieving its strategic objectives	IA to be embedded in the workforce planning initiative to ensure controls related to the alignment of workforce to company needs is adequate.	Strategic	Ongoing
14	Technical Training Audit	Audit	Operations	Critical skills shortages could lead to an increasing number of errors or delays in completing normal business activities, project delays or deficiencies, increased outages, increased safety violations, etc.	Ensure adequacy and effectiveness of technical training activities (including the Apprenticeship Program) including design and delivery of training to meet key skills requirements at NYPA. Assess internal and external constraints which may negatively impact technical training.	Operations	Q4

2016 Audit Plan

Exhibit A
March 29, 2016

	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
15	Product and Service Marketing Assessment	Assessment	Economic Development & Energy Efficiency	Lack of customer awareness of NYPA products and services could lead to unrecoverable investments in new products/services and the inability for NYPA to achieve its strategic objectives.	Evaluate the following in support of the CES strategic initiative: - response/actions planned from the Strategic Initiative's marketing study - accuracy and completeness of marketing materials developed to inform existing and potential new customers of NYPA's product/service offerings - methods by which marketing information is made available to customers - methods by which management is monitoring/controlling the success of its marketing efforts - methods by which NYPA is monitoring changing customer preferences	Strategic	Q1
16	NERC Reliability Compliance Controls Audit(s)	Assessment	Operations	Non compliance with reliability compliance standards may result in significant fines and increased regulatory scrutiny.	Evaluate NYPA's Integrated Risk Assessment and Internal Control Evaluation activities and the role of IA in supporting the long-term objectives of these initiatives. Where appropriate, conduct targeted assessments to confirm the effectiveness of internal controls as identified by management in their Internal Controls Evaluation.	Legal and Regulatory	Q3
17	CES Technology Solution Support	Consulting	Economic Development & Energy Efficiency	Unclear requirements for potential new CES system may impact the achievement of business objectives.	Conduct pre/post implementation review activities for new CES systems being developed and/or implemented.	Strategic	Ongoing
18	Project Management Cycle Audit	Audit	Operations	Inefficient or ineffective project management activities could result in suboptimal use of resources and projects that do not meet objectives.	Ensure adequacy and effectiveness of controls throughout the project management life cycle including but not limited to project initiation and approval (including CEAR, new project evaluation metrics such as ROI and EVA, etc.), planning, controlling, execution, and closeout and the related handoffs between functional departments.	Operations	Q3
19	Cloud Governance	Assessment	Entity-Wide	Increasing reliance on cloud based technology solutions could result in changing O&M costs and the associated implications to the pass through of costs to customers, changing cyber security profile for NYPA, etc.	Assess the need for and options for NYPA to develop consistent governance of, contract requirements and other key controls when contemplating/deploying cloud based solutions.	Strategic	Q1
20	Strategic Asset Management Plan Support	Consulting	Operations	Unclear or ineffective governance over the Asset Management Strategic Initiative may result in the organization not achieving its strategic objectives	IA to be embedded into the strategic initiative as a key stakeholder to provide independent and objective support in the design of internal controls. In addition, work during this consulting project will include determining opportunities for IA to support NYPA in its pursuit of ISO 55000.	Strategic	Ongoing
21	Patch Management Review	Audit	Technology & Innovation	The lack of adequate patch management processes and controls may increase the risk of unauthorized changes implemented to production environment, inconsistency, and inefficiency from the operations and supporting personnel to manage the latest version or patch implementation.	Evaluate the patch management process and governance including how necessary patches are identified, authorized, tested, and approved for implementation. Select and test the current patch compliance levels within IT and OT on a sample basis.	Operations	Q2

2016 Audit Plan

Exhibit A
March 29, 2016

	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
22	Sustainability Assessment	Assessment	Entity-Wide	The mismanagement of "socially responsible" activities may result in an unfavorable corporate perception with stakeholders, customers, suppliers, business partners, employees and the regulatory community.	Evaluate the need/opportunity for enhanced/continued governance of sustainability related activities at NYPA. Perform an analysis of current processes in place to obtain and be informed of all sustainability regulations, and apply them throughout NYPA. Assess whether key regulations have not been considered and whether employees are complying with sustainability requirements.	Legal and Regulatory	Q3
23	User Access Recertification Review at OS, DB Network Layers	Audit	Technology & Innovation	Failure to periodically review and recertify high privileged user access at the infrastructure and network systems may result in unauthorized access to sensitive/ critical data and changes via user access that is not needed or not authorized.	Review the design of IT & OT periodic user access recertification process/ controls at network, application, database, and operating system focusing on high privileged accounts (HPA).	Operations	Q3
24	Succession Planning	Assessment	Entity-Wide	Significant workforce retirements or an increasing number of staff exiting NYPA could lead to knowledge loss and critical skills shortages.	Conduct an assessment of the organization, governance and tools related to succession planning activities across NYPA and provide recommendations for improving activities to meet NYPA strategic plan objectives.	Strategic	Q2
25	De-provisioning Review	Audit	Technology & Innovation	Failure to remove terminated or transferred users' access from systems and/ or network increase the risk of unauthorized access to the systems, records in those systems, and company network.	Perform a review of the design of the user access de-provisioning process and controls within the numerous IT/OT systems including network, applications, databases, and operating systems. The in-scope systems for this review will be based on how the user authentication (user ID and/ or password) are managed (i.e. single sign-on, using the same ID/password of active directory).	Operations	Q3
26	Lock-Out/Tag-Out Compliance Audit	Audit	Operations	Ineffective lock out/tag out of energized equipment could lead to an employee safety incident or an unplanned outage.	Ensure NYPA personnel continue to rigorously follow the requirements in CPP1 related to lock out and tag out. Ensure PTR system and related interfaces continue to enable the effective implementation of CPP1.	Operations	Q2
27	Generation Bidding Audit	Audit	Wholesale Commercial Operations	Lack of a clear operating strategy for generating assets could result in unexpected losses to NYPA or excessive cycling of the plant that leads to increased outages.	Ensure generation bid strategies exist and are being executed to optimize the value of NYPA's generation assets. NOTE: emphasis for the audit will be on Flynn (new merchant unit), SCPPs and BG	Operations	Q1
28	Fuel Purchasing & Hedging Audit	Audit	Wholesale Commercial Operations	Increasing or unexpected changes in natural gas commodity prices could result NYPA's fossil generating assets to be uneconomical.	Ensure controls over the purchase of fuel are adequate and working effectively to minimize the cost of fuel and ensure adequate supply to optimize the value of NYPA's generating assets.	Operations	Q2

2016 Audit Plan

Exhibit A
March 29, 2016

	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
29	Performance Management Audit (Level 1, Business Unit, Department and Individual)	Audit	Business Services	Lack of corporate objectives and performance metrics could result in conflicts as to how line and business unit management prioritize work activities.	Ensure the socialization of corporate performance measures and the alignment of the measures to business unit, department and individual employee performance goals/expectations as appropriate.	Strategic	Q4
30	Northern NY Power Proceeds Audit	Audit	Economic Development & Energy Efficiency	Noncompliance with the Northern NY Power Proceeds program could significantly impact designated communities and impair NYPA's reputation.	Ensure adequacy and effectiveness of controls in place to comply with the Northern NY Power Proceeds program/agreement.	Legal and Regulatory	Q4
31	Data Analytics Initiatives Support	Consulting	Entity-Wide	Lack of clear definition of and objectives for Data Analytics could lead to unnecessary investments and the inability for NYPA to achieve its strategic plan.	IA to be embedded in NYPA IT Strategic Plan - Data Analytics Initiative as well as other entity-wide initiatives such as the Asset Management Strategic Initiative focused on Data Analytical to provide internal control and other enterprise level support.	Strategic	Ongoing
32	Transmission LEM Project Audit	Audit	Operations	Inefficient or ineffective project management activities could result in suboptimal use of resources and projects that do not meet objectives.	Large Construction Project Audit - ensure project risks are being identified and mitigated, project is conducted consistent with CEAR/approval, that management is aware of the projects status and that significant vendors or contractors are performing in accordance with contract terms.	Operations	Q3
33	Contract Governance and Control Audit	Audit	Entity-Wide	New/Changing contracts for products and services may not adequately protect NYPA's interests that could lead to unanticipated litigation outcomes or NYPA's inability to meet customer expectations and operations.	Confirm NYPA has consistent governance and control over new and changing contracts (ad hoc or standardized). Processes to be considered include contract development, negotiation, review, approval and filing/retention. Additionally, we will confirm the clarity of roles and responsibilities within the individual processes and where handoffs between processes exist.	Legal and Regulatory	Q2
34	Affordable Care Act Compliance Assessment	Consulting	HR & Enterprise Shared Services	The new Affordable Care Act could result in significant benefits cost increases to NYPA (via Cadillac Tax) or NYPA's workforce.	IA to be embedded in management's evaluation process over the various compensation and benefits being offered that could affect NYPA being subject to the Affordable Care Act Cadillac tax. These activities include but are not limited to a review of current benefits providers and the associated contract bidding process planned for 2016 as well as a review and potential re-write of employees policies.	Legal and Regulatory	Q3
35	Western Region O&M Audit	Audit	Operations	Ineffective maintenance practices may impact operational performance.	O&M Audit - confirm the following: - newly created Maximo utilization procedures are consistently followed - monitoring of work activities is conducted - maintenance is completed consistent with work prioritization methodology - root cause assessment (TapRoot) of equipment or system failure is conducted and followed up on.	Operations	Q1

2016 Audit Plan

Exhibit A
March 29, 2016

	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
36	Contractor Tenure	Audit	Entity-Wide	Failure to identify and prevent legal risks posed by contractors and prevent non-compliance with state/local and country specific regulatory requirements; Failure to onboard workers appropriately to ensure adequate knowledge transfer.	Assess the current process, policies and procedures in place for utilizing contractors and for complying with Department of Labor requirements.	Legal and Regulatory	Q4
37	Muni/Coop Regulation Audit	Audit	Economic Development & Energy Efficiency	New/changing business requirements for municipal and cooperative customers could result in increased litigation, external stakeholder influence and impaired reputation to NYPA.	Ensure NYPA's regulation of full requirements and monitoring/oversight of partial requirements municipal and cooperative is adequate and effective.	Legal and Regulatory	Q3
38	Energy Efficiency Finance & Accounting	Audit	Economic Development & Energy Efficiency	Misaligned business activities could lead to inaccurate financial information informing business decisions	Evaluate the adequacy and effectiveness of controls within the Economic Development & Energy Efficiency Business Unit's finance and accounting function. Assess the consistency of activities to corporate finance and accounting governance expectations.	Financial	Q2
39	Past Due Receivables Audit	Audit	Business Services	Customer payment defaults could result in NYPA writing off uncollectable receivables.	Evaluate the adequacy and effectiveness of controls to ensure a consistent and measured response by NYPA to past due receivables to minimize default risk.	Financial	Q2
40	Payroll Cycle Audit	Audit	Business Services	Ineffective or inefficient payroll processing activities could result in incorrect, improper or unauthorized payments to employees.	Confirm the adequacy and effectiveness of controls over payroll processing including but not limited to timekeeping, master file updates, policy enforcement, exceptions, processing and approvals for various payroll related activities including Flex, overtime and other payroll related exceptions.	Financial	Q1
41	R&D Spend Audit	Audit	Technology & Innovation	Lack of clear R&D objectives or inability to achieve objectives could result in suboptimal R&D spending and/or negative external stakeholder perception of NYPA.	Ensure controls are adequate and working effectively to ensure R&D spend is consistent with R&D objectives.	Strategic	Q1
42	Vegetation Management Vendor Audit	Audit	Operations	Lack of oversight of vegetation management contractor could lead to excessive costs or poor performance.	Ensure adequacy and effectiveness of vendor management controls to ensure quality of vendor performance and management of costs.	Operations	Q1
43	St. Lawrence - Finance & Administration Audit	Audit	Operations	Misaligned administrative processes within the region could lead to inefficiencies or ineffective control over financial and human resources.	Ensure adequacy and effectiveness of finance and administration activities at the site including but not limited to recruiting and performance management, financial discipline (budgeting and expense management, financial acumen), T&E, etc.	Financial	Q2
44	Energy Commodity Risk Management GAP Analysis Support	Consulting	Risk Management	Failure to effectively understand the mitigate energy commodity risks could lead to unexpected impacts to NYPA's financial performance.	IA to be embedded in the project to evaluate energy commodity risk management at NYPA and resolve gaps between current and potential future state strategies. The project will lead to potential changes in processes and tools for managing energy commodity risks.	Strategic	Ongoing

2016 Audit Plan

Exhibit A
March 29, 2016

	Proposed Project	Activity Type	Business Unit	Risk(s)	Description/Preliminary Scope	Risk Category	Timing
45	Clark Energy Center - Finance & Administration Audit	Audit	Operations	Misaligned administrative processes within the region could lead to inefficiencies or ineffective control over financial and human resources.	Ensure adequacy and effectiveness of finance and administration activities at the site including but not limited to recruiting and performance management, financial discipline (budgeting and expense management, financial acumen), T&E, etc.	Financial	Q3
46	SENY - Purchasing & Warehousing Audit	Audit	Operations	Failure to procure and maintain necessary equipment necessary to operate equipment/systems due to inadequate asset management planning, incorrect or obsolete materials in stock, inventory stock-out, and/or delays in procurement.	Ensure consistent application of controls for the purchase of goods and materials at the site and the effective management of inventory to meet the plant's operational needs.	Financial	Q3
47	Concur (travel & entertainment expense) Pre/Post Implementation Review	Audit	Business Services	Delays in or an unexpected outcome when implementing Concur would result in a continuation of a recognized inefficient T&E process (links to Process Excellence strategic initiative) and employee dissatisfaction.	Conduct Pre/Post implementation review activities for new travel & entertainment (T&E) expense processing software.	Operations	Ongoing
48	Customer Job Audits (D&M)	Audit	Economic Development & Energy Efficiency	Noncompliance with Recharge NY and other power allocation program (EP, RP, etc.) legislation could lead to increased regulatory scrutiny and negative impact to NYPA's reputation.	Recurring audit support for NYPA Marketing Department to support compliance program.	Legal and Regulatory	Q2 and Q4
49	Third Party Contract Audits	Audit	Entity-Wide	Third party vendor nonperformance could lead to delays or failure to achieve business objectives, impairment of NYPA's reputation or increased litigation.	Identify high risk third party contracts (vendor, service provider, contractors or consultants) and exercise our audits rights to confirm performance in accordance with contract terms including accuracy of invoicing and contract deliverables.	Operations	Ongoing



Audit Committee Meeting Internal Audit Update

3/29/2016



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- Status of Audit Recommendations
- Appendix A – 2016 Audit Plan

Executive Summary

- 2015 Status: 29 of 30 audits have been issued. Resource Planning is in reporting and expected to be issued by March 31st.
- 2016 Status:
 - Thirteen (13) of 51 audit engagements (25%) are currently in progress. Status is as follows:
 - Reporting:
 - Review of Annual Procurement Report (Consulting)
 - Payroll Cycle Audit
 - R&D Spend Audit
 - Fieldwork:
 - NERC CIPv5 Implementation Support (Assessment)
 - Product and Service Marketing Assessment
 - Strategic Asset Management Plan Support (Consulting)
 - Generation Bidding Audit
 - Western Region O&M Audit
 - Vegetation Management Vendor Audit
 - Customer Job Audits (D&M)
 - Planning:
 - Data Analytics Initiative Support (Consulting)
 - Third Party Contract Audits
 - HTP FirstEnergy

Executive Summary

- Internal Audit Team has developed the following workstreams to improve Internal Audit processes and procedures:



- Internal Audit will be hosting two internal trainings:
 - April 5-7, 2016 – MIS Institute Auditing for Electric Utilities
 - May 2-5, 2016 – Institute of Internal Auditors Communication Skills for Auditors. Auditors from other utility companies will be in attendance
- Guest Auditor Program has been launched:
 - Lunch and Learns scheduled
 - Goal of five guest auditors in 2016

Status of 2015 Audit Recommendations

- Below is the status of the 2015 recommendations per rating of the individual findings.

2015 Remediation	Total	High	Medium	Low
Remediation In Progress (IP)	66	16	31	19
IP - Overdue	0	0	0	0
IP – Due within <30 days	28	2	15	11
IP – Due within <60 days	2	0	2	0
IP – Due within >90 days	36	14	14	8
Remediation not Started	0	0	0	0

- Internal Audit is comfortable with the progress timelines set forth by process owners for completion of identified issues and is closely monitoring remediation efforts for High risk issues.

Appendix A – 2016 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
Deliverable Issued: 0					
Fieldwork Complete – Report Pending Issuance: 3					
1	2016-50	Review of Annual Procurement Report	Strategic	Consulting	
2	2016-04	Payroll Cycle	Business Services	Audit	
3	2016-44	R&D Spend	Technology & Innovation	Audit	
Fieldwork In Progress: 7					
4	2016-13	NERC CIPv5 Implementation Support	Operations	Consulting	
5	2016-23	Product and Service Marketing Assessment	Economic Development & Energy Efficiency	Assessment	
6	2016-28	Strategic Asset Management Plan Support	Operations	Consulting	
7	2016-32	Generation Bidding	Wholesale Commercial Operations	Audit	
8	2016-41	Western Region O&M	Operations	Audit	
9	2016-45	Vegetation Management Vendor Audit	Operations	Audit	
10	2016-48	Customer Job Audits (D&M)	Economic Development & Energy Efficiency	Audit	
Audit Planning In Progress: 3					
11	2016-37	Data Analytics Initiatives Support	Entity-Wide	Consulting	
12	2016-49	Third Party Contract Audits	Entity-Wide	Audit	
13	2016-51	HTP FirstEnergy	Operations	Audit	
Planning Not Started: 38					
14	2016-16	Occupational Health & Safety Program	Operations	Audit	
15	2016-18	Vendor Management Governance Assessment	Entity-Wide	Assessment	
16	2016-20	Transmission O&M	Operations	Audit	
17	2016-09	Targeted Network Review	Technology & Innovation	Assessment	
18	2016-10	Patch Management Review	Technology & Innovation	Audit	
19	2016-30	Succession Planning	Entity-Wide	Assessment	
20	2016-31	Lock-out/Tag-Out Compliance	Operations	Audit	
21	2016-33	Fuel Purchasing & Hedging	Wholesale Commercial Operations	Audit	
22	2016-39	Contract Governance and Control	Entity-Wide	Audit	
23	2016-02	Energy Efficiency Finance & Accounting	Economic Development & Energy Efficiency	Audit	
24	2016-03	Past Due Receivables	Business Services	Audit	

Appendix A – 2016 IA Plan

Planning Not Started: 38					
25	2016-05	St. Lawrence – Finance & Administration	Operations	Audit	
26	2016-01	Customer Meter to Cash	Economic Development & Energy Efficiency	Audit	
27	2016-14	Ariba Post Implementation Review	Business Services	Audit	
28	2016-15	End User Computing – Spreadsheets	Entity-Wide	Assessment	
29	2016-17	BG SCADA – Pre/Post Implementation Review	Operations	Audit	
30	2016-08	Program Change Management Review	Technology & Innovation	Audit	
31	2016-19	Strategic Plan Governance – Follow-up	Business Services	Audit	
32	2016	Workforce Planning Strategic Initiative Support	Human Resources & Enterprise Shared Services	Consulting	
33	2016-22	Technical Training	Operations	Audit	
34	2016-24	NERC Reliability Compliance Control	Operations	Assessment	
35	2016-25	CES Technology Solution Support	Economic Development & Energy Efficiency	Consulting	
36	2016-26	Project Management Cycle	Operations	Audit	
37	2016-27	Cloud Governance	Entity-Wide	Assessment	
38	2016-29	Sustainability Assessment	Entity-Wide	Assessment	
39	2016-11	User Access Recertification Review at OS, DB Network, Layers	Technology & Innovation	Audit	
40	2016-12	De-provisioning Review	Technology & Innovation	Audit	
41	2016-34	Performance Management Audit	Business Services	Audit	
42	2016-35	Northern NY Power Proceeds	Economic Development & Energy Efficiency	Audit	
43	2016-36	Cyber Security Rollup/Consolidation	Entity-Wide	Assessment	
44	2016-38	Transmission LEM Project	Operations	Audit	
45	2016-40	Affordable Care Act Compliance Assessment	Human Resources & Enterprise Shared Services	Consulting	
46	2016-42	Contract Tenure	Entity-Wide	Audit	
47	2016-43	Muni/Coop Regulation	Economic Development & Energy Efficiency	Audit	
48	2016-46	Energy Commodity Risk Management GAP Analysis Support	Risk Management	Consulting	
49	2016-06	Clark Energy Center – Finance & Administration	Operations	Audit	
50	2016-07	SENY Purchasing & Warehousing	Operations	Audit	
51	2016-47	Concur (travel & entertainment expense) Pre/Post Implementation Review	Business Services	Audit	

NEW YORK POWER AUTHORITY

Financial Statements

December 31, 2015 and 2014

NEW YORK POWER AUTHORITY

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Management Report

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 U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls as well as testing of all key controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's financial statements, KPMG LLP, the Authority's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of its 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, 2015, 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 Sr. Vice President of Internal Audit and its independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, the scope and results of the audit by the independent auditors and the periodic audits by the OSC, and the audit programs of the Authority's internal auditing department. The independent auditors, the Sr. Vice President of Internal Audit and the Vice President & Chief Ethics and Compliance Officer have direct access to the Audit Committee.



Robert F. Lurie
Executive Vice President and Chief Financial Officer

March 29, 2016

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2015 and 2014

(Unaudited)

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis, the basic financial statements, and the notes to the financial statements.

The financial statements provide summary information about the New York Power Authority's (the Authority) overall financial condition. The notes provide explanation and more details about the contents of the financial statements.

The Authority is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standard (GAS) No. 39, *Determining Whether Certain Organizations Are Component Units* and GAS No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*, the Authority considers its relationship to the State to be that of a related organization.

Forward Looking Statements

The statements in this management's discussion and analysis (MD&A) that are not purely historical facts are forward-looking statements based on current expectations of future events. Such forward-looking statements are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes to or development in various important factors. Accordingly, actual results may vary from those we presently expect and such variations may be material. We therefore caution against placing undue reliance on the forward-looking statements contained in this MD&A. All forward-looking statements included in this MD&A are made only as of the date of this MD&A and we assume no obligation to update any such forward-looking statements as a result of new information, future events or other factors.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2015 and 2014

(Unaudited)

Summary of Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's financial information for 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 vs. 2014 favorable (unfavorable)</u>	<u>2014 vs. 2013 favorable (unfavorable)</u>
	(In millions, except percentages)				
Operating revenues	\$ 2,625	\$ 3,175	\$ 3,030	(17)%	5%
Operating expenses:					
Purchased power	689	996	934	31	(7)
Fuel oil & gas	236	361	324	35	(11)
Wheeling	599	614	603	2	(2)
Operations and maintenance	569	562	566	(1)	1
Depreciation	237	232	228	(2)	(2)
Total operating expenses	<u>2,330</u>	<u>2,765</u>	<u>2,655</u>	16	(4)
Operating income	<u>295</u>	<u>410</u>	<u>375</u>	(28)	9
Nonoperating revenues	25	115	90	(78)	28
Nonoperating expenses	<u>246</u>	<u>253</u>	<u>237</u>	(3)	7
Net income	74	272	228	(73)	19
Contributed capital	<u>—</u>	<u>—</u>	<u>21</u>		
Net income and change in net position	74	272	249		
Net position – beginning	3,991	3,719	3,470		
Cumulative effect of change in accounting principle	(6)	—	—		
Net position – beginning, as restated	<u>3,985</u>	<u>3,719</u>	<u>3,470</u>		
Net position – ending	<u>\$ 4,059</u>	<u>\$ 3,991</u>	<u>\$ 3,719</u>		

The following summarizes the Authority's financial performance for the years 2015 and 2014:

The Authority had net income of \$74 million for the year ended December 31, 2015 compared to \$272 million in 2014. The current year decrease of \$198 million included lower operating income of \$115 million and lower nonoperating revenues of \$90 million, partially offset by lower nonoperating expenses of \$7 million. Operating income declined compared to last year due to lower energy revenues resulting from lower prices on market-based sales of energy into the NYISO market. Market energy prices were lower due to a significant drop in natural gas prices toward the end of 2014 and continuing into 2015 as well as mild summer weather in 2015. Purchased power and fuel expenses decreased \$432 million for the year ended December 31, 2015, compared to the prior year. The large decrease was a result of lower prices substantially offset by the pass-through of such savings to customers through operating revenues. Non-operating revenues were \$90 million lower compared to last year, mainly due to the expiration of the Value Sharing Agreements, which were part of the Authority's

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2015 and 2014

(Unaudited)

sales of its nuclear projects in 2000. Lower non-operating expenses in 2015 compared to 2014 included a lower interest expense due to the 2015 bond refinancing and scheduled debt retirements.

The change in net position was attributable to the positive 2015 net income of \$74 million and a \$(6) million adjustment to the beginning net position due to a cumulative change in accounting principle as a result of the Authority's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The Authority had net income of \$272 million for the year ended December 31, 2014 compared to \$228 million in 2013. The 2014 increase of \$44 million included higher operating income of \$35 million and higher nonoperating revenues of \$25 million; partially offset by higher nonoperating expenses of \$16 million. Operating income was higher primarily due to higher production at Niagara and higher prices on market-based sales of energy into the NYISO market. Severe winter weather conditions caused a significant spike in market energy prices in early 2014. Large increases in purchased power and fuel expenses from year to year were substantially offset by the recovery of such costs through operating revenues. Nonoperating revenue was higher primarily due to insurance reimbursements received in the current year and a lower unrealized loss on fixed income securities in the Authority's investment portfolio. Nonoperating expenses were higher in 2014 due to higher voluntary contributions to New York State (\$25 million) partially offset by a lower interest expense.

Net position increased in 2014 due to positive net income of \$272 million.

Operating Revenues

Operating revenues of \$2,625 million in 2015 were \$550 million or 17% lower than the \$3,175 million in 2014, primarily due to lower energy revenues resulting from lower prices on market-based sales of energy into the NYISO market. Market energy prices were lower due to a significant drop in natural gas prices toward the end of 2014 and continuing into 2015 as well as mild summer weather in 2015.

Purchased Power and Fuel

Purchased power costs decreased by 31% in 2015 to \$689 million from \$996 million in 2014, primarily due to lower prices (\$242 million) and volumes (\$22 million) of energy purchases. Fuel costs were \$125 million (35%) lower during 2015, primarily due to lower prices (\$106 million) and lower volume (\$19 million). The average price of fuel consumed was lower in 2015 compared to 2014 due to the favorable market prices experienced during the year.

Operations and Maintenance (O&M)

O&M expenses increased by \$7 million, or 1%, in 2015 to \$569 million, primarily due to equipment repairs and plant outage.

Nonoperating Revenues

For 2015, nonoperating revenues decreased by \$90 million, or 78%, due to the expiration of the Value Sharing Agreements (\$71 million) relating to the Authority's sales in 2000 of its nuclear projects. See note 10(a) "Nuclear Plant Divestiture," of notes to the financial statements, for additional information. Also, due to lower investment earnings of \$7 million in the Authority's investment portfolio as result of a mark-to-market loss and continuing lower market interest rates on fixed income securities.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2015 and 2014

(Unaudited)

Nonoperating Expenses

For 2015, nonoperating expenses decreased by \$7 million, or 3%, this was attributable to a decrease in interest expense, related to a decrease in both the average balance and average interest rate on outstanding debt.

Cash Flows

Net cash flows provided by operating activities decreased by \$78 million in 2015 compared to 2014. The decrease was due to lower operating income of \$115 million, and the timing of payments and receipts.

Net Generation

Net generation was 28.8 million megawatt-hours (MWh) in 2015, relatively unchanged compared to 2014. Net generation from the Niagara and St. Lawrence hydroelectric plants in 2015 (21.2 million MWh) was 3% higher than 2014 (20.7 million MWh) due to higher water flows. The higher water flows were related to the 2014 winter melting snow pack continuing into the first few of months of 2015. For 2015, net hydro generation was approximately 105% of long-term average and above 2014, which was 103%. Combined net generation of the fossil fuel plants for 2015 was 7.60 million MWh, or 6% lower than 2014 (8.05 million MWh), with a 0.4 million MWh decrease attributable to the Small Clean Power Plants (SCPP).

Summary of Statements of Net Position

The following is a summary of the Authority's statements of net position for 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 vs.</u> <u>2014</u>	<u>2014 vs.</u> <u>2013</u>
	(In millions, except percentages)				
Current assets	\$ 1,754	\$ 1,925	\$ 1,824	(9) %	6 %
Capital assets	4,778	4,731	4,771	1	(1)
Other noncurrent assets	3,003	2,851	2,694	5	6
Deferred outflows	<u>40</u>	<u>17</u>	<u>42</u>	135	(60)
Total assets and deferred outflows	<u>\$ 9,575</u>	<u>\$ 9,524</u>	<u>\$ 9,331</u>	1	2
Current liabilities	\$ 1,096	\$ 927	\$ 1,012	18	(8)
Noncurrent liabilities	<u>4,110</u>	<u>4,320</u>	<u>4,320</u>	(5)	—
Total liabilities	<u>5,206</u>	<u>5,247</u>	<u>5,332</u>	(1)	(2)
Deferred inflows	<u>310</u>	<u>286</u>	<u>280</u>	8	2
Net position	<u>4,059</u>	<u>3,991</u>	<u>3,719</u>	2	7
Total liabilities, deferred inflows and net position	<u>\$ 9,575</u>	<u>\$ 9,524</u>	<u>\$ 9,331</u>	1	2

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2015 and 2014

(Unaudited)

The following summarizes the Authority's statements of net position variances for the years 2015 and 2014:

In 2015, current assets decreased by \$171 million (9%) to \$1,754 million due to timing of customer cash receipts and a decrease in miscellaneous receivables due to the cash received in 2015 from the final installment of the Entergy Value Sharing Agreements/notes receivable.

Capital assets increased by \$47 million (1%) to \$4,778 million, compared to last year, as a result of continuing investments in generating assets at existing facilities and transmission upgrades, necessary to maintain reliability. Other noncurrent assets increased by \$152 million (5%) primarily due to an increase in energy efficiency program work in progress and transmission line interconnection costs associated with Hudson Transmission Partners, LLC (HTP). Deferred outflows increased by \$23 million primarily due to the deferral of pension contributions (\$25 million) made in the current year subsequent to the pension plans measurement date, in accordance with the requirements of GASB Statement No.68, adopted in 2015. Current liabilities increased by \$169 million (18%), to \$1,096 million compared to last year. This increase is attributable to the increase in long-term debt due within one year resulting from scheduled maturities, and the Authority's intent to repay on an accelerated basis the Adjustable Rate Tender Notes (ART Notes) in 2016 and a portion of the Extendible Municipal Commercial Paper (EMCP). Noncurrent liabilities were lower by \$210 million (5%), primarily due to the decrease in long-term debt resulting from the scheduled maturities, and payments on capital lease obligations. Deferred inflows increased by \$24 million (8%) compared to last year, primarily due to changes in fair value and settlements of derivative instruments and a \$13 million increase in the costs of removal obligation. The changes in net position for 2015 and 2014 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

In 2014, current assets increased by \$101 million (6%) to \$1,925 million primarily due to an increases in cash resulting from the timing of payments and receipts. Capital assets decreased by \$40 million (1%) to \$4,731 million, primarily due to the excess of depreciation over additions to plant and construction in progress. Other noncurrent assets increased by \$157 million (6%) primarily due to an increase in the nuclear decommissioning fund, transmission line interconnection costs associated with HTP and recoverable costs related to the Astoria capital lease. Deferred outflows decreased by \$25 million (60%) primarily due to changes in fair value and settlements of derivative instruments. Current liabilities decreased by \$85 million (8%), to \$927 million, primarily due to decreases in accounts payable and accrued liabilities (\$76 million). Noncurrent liabilities, which were unchanged, included a \$115 million increase in the nuclear plant decommissioning obligation reflecting investment earnings of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund), partially offset by decreases in long-term debt (\$93 million) due to scheduled maturities and payments on capital lease obligations. Deferred inflows reflect a reclassification of \$286 million from other noncurrent liabilities to deferred inflows based on a current year review of deferred inflows of resources financial reporting requirements related to costs of removal obligations. The changes in net position for 2014 and 2013 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately \$2 billion for various capital improvements over the five-year period 2016-2020. 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 commercial paper notes and/or the issuance of long-term fixed rate debt.

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Projected capital requirements during this period include (in millions):

Smart G&T Initiative Future Planning	\$	371
MA1 & MA2 - 230kV Replacement		259
Lewiston Pump Generating Plant (LPGP)-Life Extension & Modernization (LEM)		243
RMNPP Life Extension & Modernization Program		124
Switchyard LEM - (Niagara, St. Lawrence, Blenheim-Gilboa, Clark Energy Center,)		152
St. Lawrence Breaker & Relay Replacement Program		59
Fiber Optic Installation, Microwave Communication Upgrade		53
Substation LEM (Adk, Plattsburgh, Saranac & Willis, Massena)		56
IT Initiatives		80
Marcy South Series Compensation		25
RMPD Hatch Cover Deck Roof		22
R-22 Inlet Chilling System		21
Install Advanced Hot Gas Path (HGP) Components		20
PV-20 Submarine Cable Replacement		20
New Security and Warehouse Facility (St. Lawrence)		20
Generator Step-Up (GSU) Transformer Replacement (St. Lawrence)		15
MA & MWP Structure Replacements Phase II		15
Protective Relay Replacement Project (Niagara)		14
Relicensing (Blenheim-Gilboa, St. Lawrence, Niagara)		19
Rotor Modification for Stress Redistribution (St. Lawrence)		12
Other (projects less than \$9 million)		406
	\$	<u>2,006</u>

In addition, the Authority's capital plan includes the provision of approximately \$1.2 billion in financing for Energy Services and Technology projects to be undertaken by the Authority's governmental customers and other public entities in the State. There may be increases in the capital expenditures indicated in the table above due to projects under review. Such additional capital expenditures would be subject to evaluation and Trustee approval.

In 2012, the Authority's Trustees approved a \$726 million Transmission Life Extension and Modernization Program (Transmission LEM Program) on the Authority's Transmission system through 2025. The Transmission LEM Program encompasses transmission assets in the Central, Northern and Western regions of New York and will include work to be done such as upgrades, refurbishments and replacements associated with switchyards and substations, transmission line structures or towers and associated hardware and replacement of the submarine cable on the PV-20 line. Reinvestment in this strategic component of the Authority's overall mission supports the repair, upgrade and/or expansion of the transmission infrastructure. The Authority intends to finance the Transmission LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The work on the Transmission LEM Program is underway and is expected to continue through 2025.

The Authority's Trustees approved a \$460 million Life Extension and Modernization Program at the Niagara project's Lewiston Pump-Generating Plant, (Lewiston LEM Program) of which \$300 million of expenditures have been authorized and approximately \$167 million spent as of December 31, 2015. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The Lewiston LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara project. The Authority filed an application with the Federal Energy Regulatory Commission (FERC) for a non-

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capacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Authority intends to finance this LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The unit work began in late 2012 and is on-going, with the final unit expected to be completed in 2020.

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. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately \$495 million. This estimate 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. As of December 31, 2015, the balance in the recorded liability associated with the relicensing on the statement of net position is \$297 million (\$27 million in current and \$270 million in other noncurrent liabilities).

In 2003, FERC approved a Comprehensive Relicensing Settlement Agreement ("Relicensing Agreement") reached by the Authority and numerous parties and issued the Authority a new 50-year license for the St. Lawrence-FDR Project ("St. Lawrence-FDR License"). The Relicensing Agreement between the Authority and the Local Government Task Force ("LGTF") provided for a review of the Relicensing Agreement every ten years to address issues not contemplated at the time of relicensing in 2003. Following the review that began in 2013, the Authority and the LGTF entered into an agreement effective May 4, 2015 (the "LGTF Ten-Year Review Agreement") in which the Authority agreed to certain actions, including to: (1) fund an economic development strategic marketing study; (2) temporarily reduce electricity costs for certain farms and businesses; (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities. On March 26, 2015, the Authority's Trustees authorized expenditures of up to \$45.1 million for the purpose of implementing the commitments in the LGTF 10-Year Review Agreement.

The Authority has embarked on several initiatives, which are in varying stages of development. These initiatives will enhance the Authority's current operations and expand energy services and include, but are not limited to Smart Generation and Transmission (deployment of advanced technologies that ensure that grid operations become increasingly intelligent), Customer Energy Solutions (development of innovative, cost-effective and resilient energy systems to provide our customers with choices enabling them to achieve their energy goals in new ways) and Asset Management (strengthening investment planning through enhanced use of technology, data, people and processes).

More detailed information about the Authority's capital assets is presented in notes 2 and 5 of the notes to the financial statements.

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Capital Structure

	2015	2014	2013
		(In millions)	
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	\$ 845	\$ 902	\$ 958
Adjustable rate tender notes	—	86	96
Subordinated:			
Subordinated Notes, Series 2012 (1)	21	23	24
Commercial paper	5	44	70
Total long-term debt, net of current maturities	871	1,055	1,148
Net position	4,059	3,991	3,719
Total capitalization	\$ 4,930	\$ 5,046	\$ 4,867

(1) The Subordinated Notes, Series 2012, which were issued on November 2012, are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, the Series 2015 A Revenue Bonds and the Adjustable Rate Tender Notes.

During 2015, long-term debt, net of current maturities, decreased by \$184 million, primarily due to scheduled maturities, cash funding of capital expenditures and the reclassification of debt that the Authority has decided to redeem on an accelerated basis in the first quarter of 2016. In 2015, the Authority's Trustees approved the redemption of the outstanding ART Notes, on an accelerated basis in the first quarter of 2016, which were scheduled to reset at the March 1, 2016.

In September 2015, the Authority's Trustees authorized the issuance of up to \$80 million of additional revenue bonds for the purpose of refunding certain revenue bonds. In November 2015, the Authority issued \$69 million of Series 2015 A Revenue Bonds (2015 Bonds). The proceeds from the issuance of the 2015 Bonds and cash-on-hand were used to: (i) refund \$74.59 million of the Authority's Series 2006 A Revenue Bonds; and (ii) pay the cost of issuance of the Series 2015 Bonds.

Total debt to equity ratio as of December 31, 2015, was at .39-to-1 when compared to as of December 31, 2014. Total debt as of December 31, 2015 is at its lowest level since December 31, 1975.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
Adjustable rate tender notes	Aa1/VMIG1	AA/A-1+	N/A
Subordinate debt:			
Subordinate Note, Series 2012	N/A	N/A	AA
Commercial paper	P-1	A-1+	F1+

(a) Long term debt includes certain bonds - Series 2007 A, B and C Revenue Bonds and Series 2003 A Revenue Bonds – the principal and interest when due is guaranteed under insurance policies issued by

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MBIA Insurance Corporation and Assured Guaranty Municipal Corporation, respectively. The credit ratings of MBIA Insurance Corporation and Assured Guaranty Municipal Corporation are currently at or below the Authority's underlying credit ratings.

In August 2015, Moody's Investors Service affirmed the Authority's senior and subordinate debt ratings and in October 2015, Standard & Poor's Ratings Service also affirmed the Authority's senior and subordinate debt ratings, but raised the short-term component of the rating of the Authority's Adjustable Rate Tender Notes to A-1+ from A-1. In October 2015, Fitch Ratings affirmed the Authority's senior and subordinate debt ratings and revised their outlook to stable from positive.

The Authority has a line of credit under a 2015 revolving credit agreement (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to \$600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1-3 CP Notes. The 2015 RCA terminates January 15, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded another revolving credit agreement (the 2011 RCA) in January 2015. No borrowings have been made under the 2015 RCA or the 2011 RCA.

Economic Conditions

Competitive Environment

The Authority's mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. 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) a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a 550-MW power plant in Astoria, Queens, ("AEII") which entered into service on July 1, 2011; (d) contracting for 75% of a 660 MW capacity, seven mile, underground and underwater transmission line connecting New York City into the PJM ISO, which went operational in June 2013; (e) a significant reduction of outstanding debt; and (f) implementation of an enterprise-wide and energy/fuel risk management program. As a component of NYPA's strategic plan, efforts to modernize NYPA's generation and transmission infrastructure are being developed and implemented to increase flexibility and resiliency, and to serve customers' needs in an increasingly changing electric utility marketplace.

The Authority operates in a competitive and sometimes volatile market environment. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate downside effects, many of the Authority's customer contracts, including the NYC Governmental Customers, provide for the complete or partial pass-through of these costs. The NYC Governmental Customer market cost situation is further mitigated by their receiving the benefits of the generation output from the Authority's 500-MW Plant and the contracted output from the AEII plant.

To moderate cost impacts to the Authority and its customers, NYPA hedges market risks through the use of financial instruments and physical contracts. Hedges are transacted by the Authority to mitigate volatility in the

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cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity. Any such actions are taken pursuant to policies and procedures approved by the Authority's Trustees and under the oversight of an Executive Risk Management Committee chaired by the Chief Financial Officer.

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.

Rate Actions

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to municipal electric systems, rural electric cooperatives, industrial and other business customers, certain public bodies, investor-owned utilities, and out-of-state customers, as provided for under state and federal laws. The charges for firm and/or firm peaking power and associated energy sold by the Authority, as applicable, to the fifty-one municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, three investor-owned utilities for the benefit of rural and domestic customers, and seven out-of-state public customers have been established on the basis of the cost to serve these loads. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for certain phased-in increases to these rates which result in effective hydro rate increases of 5.5% on December 1, 2011 and annual increases of approximately 5.5% from May 1, 2012 to May 1, 2014. The rates put into effect with the last increase in 2014 continue to be sufficient to recover the estimated costs to run the facilities for 2016, and will therefore remain in effect at current levels until further notice.

Expansion and replacement power industrial customers supplied from the Niagara facility and preservation power industrial customers supplied from the St. Lawrence-FDR facility are allocated over 30% of the combined firm contract demand of the plants. Their rates are subject to annual adjustment based on the average of three contractually agreed-upon economic indices reflecting changes in industrial energy prices.

In an order issued January 27, 1999, FERC approved the use of a \$165.4 million transmission system revenue requirement in developing rates for use of NYPA's transmission facilities in the NYISO market. FERC also approved, among other things, the imposition of a NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements established to achieve full recovery of the Authority's annual transmission revenue requirement. In July 2012, the Authority filed for its first requested increase in the revenue requirement with FERC since the implementation of the NYISO. This filing resulted in FERC's October 4, 2013 order accepting an uncontested settlement agreement establishing a new \$175.5 million revenue requirement. In January 2016, the Authority filed to convert from a Stated Rate to a Formula Rate to recover its revenue requirement based upon projected future capital spending under the Life Extension and Modernization program. That filing also contained a request to increase the current \$175.5 million revenue requirement to \$189.9 million. The January 2016 request is pending with FERC.

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455

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MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to \$9 million for the year July 1, 2012 – June 30, 2013. On February 26, 2015, the Authority's Trustees approved an additional \$8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015. As of December 31, 2015, approximately \$8 million of such discounts have been paid with approximately an additional \$5 million in payments remaining to be made.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of \$100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, \$70 million for the fourth year, \$50 million for the fifth year, and \$30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total \$400.9 million through January 2015 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2015, totaling cumulatively \$111 million. Operations and maintenance expenses included \$63 million and \$88 million of residential consumer discounts in the years ended December 31, 2014 and 2013, respectively. On January 27, 2016, the Authority's Trustees approved up to an additional \$43 million to fund anticipated payments for its 2016 fiscal year.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

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The Authority's Trustees have approved the release of up to \$58 million in net earnings, calculated for the period August 30, 2010 through December 31, 2015 as provided in the legislation, for deposit into the Fund. As of December 31, 2015, \$41 million has been deposited into the Fund. As of December 31, 2015, the Authority has approved awards of Fund money totaling approximately \$30 million to businesses that have proposed eligible projects and has made payments totaling \$12 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to \$3 million, into the NNY Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015. On January 26, 2016, the Authority's Trustees approved up to an additional \$5 million in funds for the period January 1, 2016 through December 31, 2016. As of December 31, 2015, \$1 million has been deposited into the Fund with and no awards have been made.

New York State Budget and Other Matters

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

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In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in note 11(a) "Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling \$475 million in connection with the ended PFJ Program.

In 2015 and 2014, the Authority made contributions of \$90 million to the State in each year that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2015 and 2014 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2015 contributions included \$23 million that was paid to the State's General Fund and \$67 million that was paid to Empire State Development Corporation (ESD). The 2014 contributions of \$90 million were made in furtherance of ESD's statewide economic development initiatives. Cumulatively, between January 2008 and December 31, 2015, the Authority has made voluntary contributions to the State totaling \$672 million unrelated to the PFJ program.

In addition, as part of the State's Enacted Budget for State fiscal year 2015-16, the Authority, as deemed feasible and advisable by its Trustees, is authorized and directed to consider for payment by March 31, 2016, the remaining contribution of \$65 million to the State treasury to the credit of the General Fund, or as otherwise directed in writing by the Director of the Budget.

In addition to the voluntary contributions described above, Section 3 of Subpart H of Part C of Chapter 20 of the Laws of 2015 (Chapter 20), which became effective upon enactment on June 26, 2015, authorizes and directs the Authority, as deemed feasible and advisable by its trustees, to provide up to \$6 million in additional contributions to the State's general fund, or as otherwise directed in writing by the State's director of the budget for the state fiscal year commencing April 1, 2015.

The 2016-17 Executive Budget Proposal contains a provision authorizing the Authority as deemed "feasible and advisable by its trustees" to transfer to the State treasury to the credit of the general fund \$20 million for the State fiscal year commencing April 1, 2016, the proceeds of which will be utilized to support energy-related State activities.

On January 13, 2016, the Governor submitted, as part of his Executive Budget Proposal, legislation authorizing the transfer of the New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Authority. If such legislation were enacted into law in its current form, the Canal Corporation would cease to be a subsidiary of the Thruway Authority and would become a subsidiary of the Authority. The proposed legislation authorizes the Authority to transfer moneys, property and personnel to the Canal Corporation and also authorizes the Authority to issue subordinated debt for the purposes of financing the construction, reconstruction, development and improvement of the New York State Canal system. The proposed legislation provides that the transfer will be effective on January 1, 2017. However, such legislation also authorizes the Authority to reimburse the Thruway Authority for Canal System expenses for the interim

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period of April 1, 2016 through January 1, 2017. The Authority has not determined what the interim or long term level of the Authority's financial support to the Canal Corporation would be if the legislation were enacted in its current form. For fiscal year 2014, the Canal Corporation's operating expenses were \$65.9 million and operating revenues were \$2.3 million with the difference provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation's capital program was budgeted at \$52 million with funding expected from various sources. Certain information relating to the Canal Corporation's capital and operating expenses and budgets and the level of financial assistance provided to the Canal Corporation by the Thruway Authority is included in the Thruway Authority's audited financial statements, monthly financial reports and budgets, copies of which are available at the Thruway Authority's website: thruway.ny.gov. Such information is not incorporated in this report and the Authority assumes no responsibility for the accuracy thereof.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately \$215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage (see note 10(b) "Nuclear Fuel Disposal"). The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget \$103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B (\$215 million) and Asset A (\$103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately \$5 million per year based on current estimates but the waiver is limited to a maximum of \$45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately \$8 million per year but the waiver would be limited to a maximum of \$43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

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On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the \$103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) \$18 million for State Fiscal Year 2014-2015; (2) \$21 million for State Fiscal Year 2015-2016; (3) \$21 million for State Fiscal Year 2016-2017; (4) \$21 million for State Fiscal Year 2017-2018; and (5) \$22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority has received installment payments of \$39 million as of December 31, 2015. The Assets A and B transfers are reported in miscellaneous receivable and other (\$21 million as of both December 31, 2015 and 2014) and in other noncurrent assets (\$258 million and \$279 million at December 31, 2015 and December 31, 2014, respectively) in the statements of net position.

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about \$5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2015 legislative session, which ended in June 2015, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission

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assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. Though the Authority and other interested parties contested the proposed cost allocation methodology, the parties engaged in a settlement process and on November 5, 2015, the Four-Party Transco filed an uncontested settlement to resolve the cost allocation methodology for the three TOTS projects, which is pending final approval before FERC. The Authority, which is co-developing one of the TOTS projects with NYSEG, has filed its own proposal at FERC to recover the costs of its portion of that TOTS project. The Authority proposed the same cost allocation methodology that the parties agreed upon in the Four-Party Transco settlement filed at FERC.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide \$450 million in low-cost financing for this initiative for state owned buildings and an additional \$350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. The Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. The team conducts routine outreach and meetings with affected state agencies and has commenced the implementation phase of the Build Smart NY program. As of December 31, 2015, the Authority has in aggregate provided approximately \$204 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to \$30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of December 31, 2015, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately \$26 million.

Reforming the Energy Vision

In April 2014, the PSC commenced a proceeding to reform the State's energy industry and regulatory practices. According to the PSC, this initiative, called Reforming the Energy Vision ("REV"), will lead to regulatory changes that promote more efficient use of energy; deeper penetration of renewable energy resources such as wind and solar; and wider deployment of smaller power sources located closer to the customer load, including micro grids capable of meeting the regular demands of a community of consumers, on-site power supplies, and energy storage. REV also aims to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. The PSC order instituting the proceeding designated two tracks for the REV with track one focused on developing distributed resource markets and track two focused on reforming utility ratemaking practices.

The PSC has identified six core policy objectives for REV relating to enhanced customer knowledge and tools to support effective management of total energy bills, market animation and leverage of customer contributions, system-wide efficiency, fuels and resource diversity, system reliability and resiliency, and reduction of carbon emissions. A PSC "Staff Report and Proposal" released in April 2014 set forth a vision for how to accomplish

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the PSC's objectives. This report and additional information on REV, including the Order Adopting Regulatory Policy Framework and Implementation Plan issued and effective February 26, 2015 (Track 1) and the Staff White Paper on Ratemaking and Utility Business Models issued on July 28, 2015, are available at <http://www.dps.ny.gov/>. No statement on that website is incorporated by reference herein. The PSC has several ongoing proceedings related to Track 1 and Track 2 of REV that the Authority is following.

While the PSC does not have jurisdiction over rates for power generated or transmitted by the Authority, the reforms and innovations contemplated in the REV initiative are expected by the PSC to be done in conjunction with certain independent but related actions of the Authority, and will impact electricity rates for energy efficiency project customers. As a result, the Authority monitors the REV initiative closely and expects to evaluate any regulatory reforms that are ultimately implemented and their impact on project implementation and suitability for adoption by the Authority and its customers.

Retirement of Generation Resources

Recently announced and future retirement of generation resources may impact the Authority's resources, both positively and negatively. The reduction in the amount of generation capacity available to the system that results from generator retirement will, all other things being equal, increase the unit price paid for capacity from the Authority's resources. Retirement of resources also can affect power flows and the ability to fully access the energy available from the Authority's assets. For example, the retirements of coal-fired generation stations at Dunkirk and Huntley, New York could limit the amount of energy that the transmission system in the vicinity of the Authority's Niagara Project can accommodate, thus preventing the full use of this asset.

Recognizing the potential for such retirements and the impact they could have on the operation of the Niagara Project and the ability to access renewable power from Ontario, Canada, on July 20, 2015 the PSC issued an order that granted requests from the Authority and National Grid to establish a Public Policy Requirement driving the need for transmission additions to, among other things, enable the Authority to fully operate 2700 MW of generation from the Authority's Niagara and Lewiston Pump-Generating Plant and ensure that, under emergency conditions, no less than 1000 MW of import capacity will be available from Ontario. This order is the first step in a competitive solicitation process that will procure, pursuant to procedures established in FERC's Order 1000, transmission enhancements sufficient to meet the need identified by the PSC. The Authority has been developing a proposal for meeting this need, which it will submit in the competitive process required under FERC Order 1000. On December 31, 2015, the Authority and New York State Electric & Gas Corp. (NYSEG) submitted a joint proposal to the New York Independent System Operator (NYISO) for consideration of a potential transmission solution. The NYISO will review and provide comment on potential solutions - in accordance with the NYISO tariff and requirements of FERC Order 1000.

Contacting the Authority

This financial report is designed to provide our customers and other interested 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.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Power Authority of the State of New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the Power Authority of the State of New York (the Authority), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 of America and the standards applicable to financial 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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, 2015 and 2014, and its changes in net position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,
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("KPMG International"), a Swiss entity.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016 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* in considering the Authority's internal control over financial reporting and compliance.

(signed) KPMG LLP

New York, NY
March 29, 2016

NEW YORK POWER AUTHORITY

Statements of Net Position

(In millions)

	December 31,	
	2015	2014
Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	\$ 67	\$ 78
Investment in securities	1,270	1,258
Receivables - customers	153	188
Materials and supplies, at average cost:		
Plant and general	82	91
Fuel	36	49
Miscellaneous receivables and other	146	261
Total current assets	1,754	1,925
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	19	18
Investment in securities	1,495	1,486
Total restricted assets	1,514	1,504
Capital funds:		
Cash and cash equivalents	6	1
Investment in securities	29	36
Total capital funds	35	37
Capital Assets:		
Capital assets not being depreciated	588	421
Capital assets, net of accumulated depreciation	4,190	4,310
Total capital assets	4,778	4,731
Other Noncurrent Assets:		
Receivable - New York State	258	279
Other long-term assets	1,196	1,031
Total other noncurrent assets	1,454	1,310
Total noncurrent assets	7,781	7,582
Total assets	9,535	9,507
Deferred outflows:		
Accumulated decrease in fair value of hedging derivatives	10	17
Pensions (Note 9)	30	—
Total assets and deferred outflows	\$ 9,575	\$ 9,524

(Continued)

NEW YORK POWER AUTHORITY

Statements of Net Position

(In millions)

	December 31,	
	2015	2014
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 363	\$ 334
Short-term debt	528	466
Long-term debt due within one year	181	90
Capital lease obligation due within one year	20	16
Risk management activities - derivatives	4	21
Total current liabilities	1,096	927
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	845	902
Adjustable rate tender notes		86
Subordinated:		
Subordinated Notes, Series 2012	21	23
Commercial paper	5	44
Total long-term debt	871	1,055
Other noncurrent liabilities:		
Capital lease obligation	1,169	1,189
Liability to decommission divested nuclear facilities	1,430	1,415
Disposal of spent nuclear fuel	217	217
Relicensing	270	279
Risk management activities - derivatives	15	16
Other long-term liabilities	138	149
Total other noncurrent liabilities	3,239	3,265
Total noncurrent liabilities	4,110	4,320
Total liabilities	5,206	5,247
Deferred inflows:		
Cost of removal obligation	299	286
Accumulated increase in fair value of hedging	10	—
Pensions (Note 9)	1	—
Net position:		
Net investment in capital assets	2,070	1,992
Restricted	23	25
Unrestricted	1,966	1,974
Total net position	4,059	3,991
Total liabilities, deferred inflows and net position	\$ 9,575	\$ 9,524

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	Year Ended December 31,	
	2015	2014
Operating revenues:		
Power sales	\$ 1,866	\$ 2,396
Transmission charges	160	165
Wheeling charges	599	614
Total operating revenues	2,625	3,175
Operating Expenses:		
Purchased power	689	996
Fuel oil and gas	236	361
Wheeling	599	614
Operations	415	442
Maintenance	154	120
Depreciation	237	232
Total operating expenses	2,330	2,765
Operating income	295	410
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	14	21
Other	11	94
Total nonoperating revenues	25	115
Nonoperating expenses		
Contribution to New York State	90	90
Interest on long-term debt	55	59
Interest - other	116	116
Interest capitalized	(12)	(9)
Amortization of debt premium	(3)	(3)
Total nonoperating expenses	246	253
Net income and change in net position	74	272
Net position, January 1	3,991	3,719
Cumulative effect of change in accounting principle (Note 9)	(6)	—
Net position, January 1, as restated	3,985	3,719
Net position, December 31	\$ 4,059	\$ 3,991

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Statements of Cash Flows

(In millions)

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 2,600	\$ 3,143
Disbursements for:		
Purchased power	(705)	(981)
Fuel, oil and gas	(234)	(419)
Wheeling of power by other utilities	(602)	(616)
Operations and maintenance	(625)	(615)
Net cash provided by operating activities	434	512
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(238)	(186)
Issuance of 2015 Series Bonds	69	—
Redemption of Series 2006 A Revenue Bonds	(88)	—
Repayment of bonds	(40)	(51)
Repayment of notes	(10)	(10)
Repayment of commercial paper	(26)	(32)
Interest paid, net	(54)	(58)
Net cash used in capital and related financing activities	(387)	(337)
Cash flows from noncapital-related financing activities:		
Energy conservation program payments received from participants	91	109
Energy conservation program costs	(166)	(185)
Issuance of commercial paper	142	139
Repayment of commercial paper	(80)	(124)
Interest paid on commercial paper	(4)	(3)
Transmission line interconnection costs	(69)	(73)
Contributions to OPEB trust fund	(14)	(17)
Contributions to New York State	(90)	(90)
Payment received from New York State	21	18
Payments received from value sharing agreement	71	72
Payments received from notes receivable	20	20
Payment for fuel reserve – NYS initiative	—	(10)
NYISO collateral	14	(14)
Payments received from nuclear relicensing	3	—
Net cash used in noncapital-related financing activities	(61)	(158)
Cash flows from investing activities:		
Earnings received on investments	20	21
Purchase of investment securities	(5,878)	(5,297)
Sale of investment securities	5,867	5,323
Net cash provided by investing activities	9	47
Net increase (decrease) in cash	(5)	64
Cash and cash equivalents, January 1	97	33
Cash and cash equivalents, December 31	\$ 92	\$ 97
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 295	\$ 410
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	237	232
Net increase in prepayments and other	(50)	(20)
Net decrease (increase) in receivables and inventory	48	(57)
Net decrease in accounts payable and accrued liabilities	(96)	(53)
Net cash provided by operating activities	\$ 434	\$ 512

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2015 and 2014

(1) General

The Power Authority of the State of New York (the Authority), doing business as The New York Power 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's mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. 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.

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 investor-owned utilities, rural electric cooperatives, high load factor industries and other businesses located throughout New York State, various public corporations located in Southeastern New York within the metropolitan area of New York City (SENY Governmental Customers), and certain out-of-state customers.

To provide electric service, the Authority owns and operates five major generating facilities, eleven small gas-fired electric generating facilities, and four small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The Authority's five major generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), the combined cycle electric generating plant located in Queens, New York (500-MW Plant) and the Richard M. Flynn combined cycle plant located on Long Island (Flynn). To provide additional electric generation capacity to the Authority's NYC Governmental Customers, the Authority entered into a long-term electricity supply agreement with Astoria Energy II LLC in 2008 for the purchase of the output of an Astoria, Queens based natural-gas fueled 550-MW generating plant, which entered service in the summer of 2011.

The Authority acts through a Board of Trustees. The Authority's Trustees are appointed by the Governor of the State of New York, 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 a combination of internally generated funds and 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. Under the criteria set forth in Governmental Accounting Standards Board (GASB) 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 the Act 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.

The "Public Authorities Accountability Act of 2005" ("PAAA") was signed into law in January 2006 and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. Additional public authority reforms were made by Chapter 506 of the Laws of 2009 (Chapter 506) which took effect on March 1, 2010. For example, Chapter 506 provided for (i) the creation of an "Authorities Budget Office" to provide oversight and other functions regarding public authorities, including the Authority; (ii) enhanced reporting requirements for public authorities, including the Authority; (iii) additional governance responsibilities for the boards of public authorities, including the Authority; (iv) New York State

NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2015 and 2014

Comptroller review and approval of certain contracts of public authorities, including the Authority; (v) restrictions on property disposal by public authorities, including the Authority; and (vi) State Senate approval of certain authorities' chief executive officers, including the Authority.

(2) Summary of Significant Accounting Policies

The Authority's significant accounting policies include the following:

(a) ***Basis of Reporting***

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority applies all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements. The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Accordingly, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) ***Regulatory Accounting***

The Authority's Board of Trustees has broad rate setting authority for its power sales agreements with customers. The sale of transmission service over the Authority's facilities is provided pursuant to New York Independent System Operator (NYISO) tariffs and under contracts that pre-dated existence of the NYISO. The Authority files its transmission system revenue requirement with the Federal Energy Regulatory Commission (FERC) for inclusion in the NYISO's open access tariff.

The Authority accounts for the financial effects of the rate regulated portion of its operations in accordance with the provisions of ASC Topic 980, *Regulated Operations*. These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent amounts that are collected from customers through the ratemaking process associated with costs to be incurred in future periods. Based on the action of the Board of Trustees, the Authority believes the future collection of the costs held over through regulatory assets is probable. For regulatory assets and liabilities see note 2(l) "Other Long-Term Assets" of the notes to the financial statements.

(c) ***Estimates***

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.

(d) ***Capital Assets***

Capital assets are recorded 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

NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2015 and 2014

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. Depreciation of capital assets is generally provided on a straight-line basis over the estimated lives of the various classes of capital assets.

The related depreciation provisions at December 31, 2015 and 2014 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2015	2014
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	3.1	3.2
Transmission	2.5	2.4
General	3.5	3.5
	2.8%	2.8%

(e) **Asset Retirement and Cost of Removal Obligations**

The Authority applies the applicable provisions of ASC Topic 410, *Asset Retirement and Environmental 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 Small Clean Power Plants (SCPPs) in New York City and, accordingly, has recorded a liability for the retirement of these assets. 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.

ASC Topic 410 does not apply to asset retirement obligations involving pollution remediation obligations that are within the scope of GAS No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Authority applies GAS No. 49 which, upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Authority had no liabilities recorded related to GAS No. 49 at December 31, 2015 or 2014.

In addition to asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers and accounted for under the provisions of ASC Topic 980. These cost of removal obligations are reflected in deferred inflows of resources in the statements of net position.

Asset retirement obligations (ARO) amounts included in other noncurrent liabilities and cost of removal obligation amounts included in deferred inflows are as follows:

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December 31, 2015 and 2014

	ARO amounts	Cost of removal obligation
	(In millions)	
Balance – December 31, 2014	\$ 52	\$ 286
Depreciation Expense	–	11
Other expense	1	2
Balance – December 31, 2015	\$ 53	\$ 299

(f) **Long Lived Assets**

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

GAS No. 42 states that asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairments. The Authority did not incur any impairments in either 2015 or 2014.

(g) **Cash, Cash Equivalents and Investments**

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. 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*.

(h) **Derivative Instruments**

The Authority uses financial derivative instruments to manage the impact of interest rate, energy and capacity price and fuel cost changes on its earnings and cash flows. The Authority recognizes the fair value of all financial derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or deferred charges. The Authority applies GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and reporting requirements for derivative instruments (see note 8 “Risk Management and Hedging Activities” of the notes to the financial statements).

(i) **Accounts Receivable**

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

(j) **Materials and Supply Inventory**

Material and supplies are valued at weighted average cost and are charged to expense during the period in which the material or supplies are used.

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(k) **Debt Refinancing Charges**

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*.

(l) **Other Long-Term Assets**

Other long-term assets at December 31, 2015 and 2014 consist of the following:

	December 31,	
	2015	2014
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	\$ 232	\$ 183
Risk management activities	19	20
Other regulatory assets	29	32
Total regulatory assets	280	235
Energy efficiency program costs (b)	302	215
Other long-term receivables	234	245
Transmission line interconnection costs	288	233
Other	92	103
Total other long-term assets	<u>\$ 1,196</u>	<u>\$ 1,031</u>

(a) Regulatory assets reflect previously incurred costs that are expected to be recovered from customers through the ratemaking process.

(b) Energy efficiency program costs will be recovered from certain customers through the terms of contracts.

(m) **Compensated Absences**

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The Authority has accrued \$32 million and \$33 million at December 31, 2015 and 2014 in other non-current liabilities on the statements of net position. The current year's cost is accounted for as a current operating expense in the statements of revenues, expenses, and changes in net position.

(n) **Net Position**

Net Position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows and is classified into three components:

- Net investment in capital assets – This consists of capital assets, net of depreciation reduced by related outstanding debt and accounts. This indicates that these assets are not accessible for other purposes.
- Restricted – This represents restricted assets reduced by related liabilities and deferred inflows of resources that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

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- c. Unrestricted – This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the components noted above and that are available for general use.

(o) *New York Independent System Operator (NYISO)*

The Authority is a member and a customer of the New York Independent System Operator (NYISO). The NYISO schedules the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and collects ancillary services, losses and congestion fees from customers. In addition, 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.

Based upon the Authority's scheduled customer power needs and available electricity generated by the Authority's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. A significant amount of the Authority's energy and capacity revenues result from sales of the Authority's generation into the NYISO market. A significant amount of the Authority's operating expenses consist of various NYISO purchased power charges in combination with generation related fuel expenses.

(p) *Operating Revenues*

The customers served by the Authority and the rates paid by such customers vary with the NYPA facilities designated to serve such loads. These customers are served under contracts and tariffs approved by the Trustees.

The principal operating revenues are generated from the sale, transmission, and wheeling of power. Revenues are recorded when power is delivered or service is provided. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs the Authority incurred for the transmission and/or delivery of power and energy to customers over transmission lines owned by other utilities. Sales to the Authority's five (5) largest customers operating in the State accounted for approximately 47% and 48% of the Authority's operating revenues in 2015 and 2014, respectively.

In addition to contractual sales to customers, the Authority also sells power into an electricity market operated by the NYISO. These sales are affected by market prices and are not subject to rate regulation by the Authority's Board of Trustees or other regulatory bodies. Accordingly, the Authority does not apply the provisions of ASC Topic 980 to these transactions.

(q) *Operating Expenses*

The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. Energy costs are charged to expense as incurred.

Purchased power costs include capacity, energy and ancillary service purchases made in the wholesale market on behalf of its customers (except for those made through previously approved purchased power agreements). Wheeling expenses are based on contractual and/or tariff rates of the service provider and are recovered through pass-through provisions in customer contracts.

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(r) Pension Plans

Effective January 1, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires governments that provide defined benefit pension plans, to recognize their long term obligation for pension benefits as a liability. Statement No.68 also establishes new note disclosures and required supplementary information. Also effective January 1, 2015, the Authority adopted, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which addresses the transition provisions of Statement No. 68.

The Authority is a cost-sharing employer that participates in the New York State and Local Employees' Retirement System (NYSLERS), which is a cost-sharing multiple-employer plan in which the participating government employers pool their assets and their obligations to provide defined benefit pensions. The plan assets of this type of plan can be used to pay the pensions of the retirees of any participating employer. The amounts reported by the Authority for its proportionate share of the net pension liability, pension expense and deferred outflows and deferred inflows have been provided by the New York State and Local Employees' Retirement System to employers participating in the NYSLERS in accordance with Statement No. 68, and have been determined on the same basis as reported by the NYSLERS.

See Note 9 "Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings" of the notes to the financial statements.

(s) New Accounting Pronouncements

In February 2015, the GASB issued Statement of Governmental Accounting Standards No. 72 (Statement No. 72), *Fair Value Measurement and Application*, which primarily clarifies and expands on GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 72 is effective for fiscal years beginning after June 15, 2015. Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. Statement No. 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements and the standard establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. This statement requires governments that provide other postemployment benefits (OPEB) to their employees to recognize their unfunded accrued other postemployment benefits (OPEB) obligation on the face of their financial statements.

The Authority is evaluating the impact on its financial statements of Statement No. 72, and Statement No. 75.

(3) 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

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December 31, 2015 and 2014

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.

(4) 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.

(a) Credit Risk

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

(b) Interest Rate Risk

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

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Notes to the Financial Statements

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(c) Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2015, the Authority's total investment portfolio of \$2,886 million included investments of \$463 million (16%), \$330 million (11%), \$308 million (11%) and \$90 million (3%) and \$67 million (2%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

At December 31, 2014, the Authority's total investment portfolio of \$2,877 million included investments of \$515 million (18%), \$352 million (12%), \$233 million (8%) and \$69 million (2%) and \$87 million (3%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

(d) Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see note 10(c) "Nuclear Plant Decommissioning" of notes to the financial statements), 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 held within the Trust Estate of the Bond Resolution and therefore is administered under separate investment guidelines from those of the Authority or New York State.

(e) Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2015 and 2014, the Authority had \$50 million and \$70 million of investments in repurchase agreements, respectively. The bank balances at December 31, 2015 and 2014 were \$50 million and \$34 million, respectively, of which \$49 million and \$33 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

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Notes to the Financial Statements

December 31, 2015 and 2014

Cash and Investments of the Authority at December 31, 2015 and 2014 are as follows:

December 31, 2015	Total	Total restricted	Decommiss- ioning Trust Fund	Restricted		Capital fund	Unrestricted
				WNYEDF, POCR, projects and other (In millions)	ART note debt reserve		
Cash and investments:							
Cash and cash equivalents	\$ 92	19	—	19	—	6	67
U.S. government:							
Treasury Notes	105	—	—	—	—	—	105
GNMA	1	—	—	—	—	—	1
	106	—	—	—	—	—	106
Other debt securities:							
FNMA	463	17	—	2	15	—	446
FHLMC	330	5	—	—	5	—	325
FHLB	308	43	—	43	—	28	237
FFCB	90	—	—	—	—	—	90
All other	67	—	—	—	—	1	66
	1,258	65	—	45	20	29	1,164
Portfolio Manager	1,430	1,430	1,430	—	—	—	—
Total investments	2,794	1,495	1,430	45	20	29	1,270
Total cash and investments	\$ 2,886	1,514	1,430	64	20	35	1,337
Summary of maturities (years):							
0 – 1	\$ 495	70	—	64	6	34	391
1 – 5	959	14	—	—	14	—	945
5 – 10	—	—	—	—	—	—	—
10+	2	—	—	—	—	1	1
Portfolio manager	1,430	1,430	1,430	—	—	—	—
	\$ 2,886	1,514	1,430	64	20	35	1,337

Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds – Legislation enacted into State law from 1995 to 2002, 2007 and 2008 authorized the Authority to utilize petroleum overcharge restitution (POCR) funds and other State funds (Other State Funds), to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes, with certain funding limitations. The legislation also states that the Authority “shall transfer” equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

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The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling \$60.9 million, took place from 1996 to 2009. The POCR funds are included in restricted funds in the statements of net position. The funds are held in a separate escrow account until they are utilized.

The New York State Clean Water/Clean Air Bond Act of 1996 made available \$125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. As of December 31, 2015, the Authority has completed the CAS Projects program.

As of December 31, 2015, restricted funds include the POCR fund (\$10 million), the Lower Manhattan Energy Independence Initiative fund (\$6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs (\$13 million), the Western New York Economic Development Fund (\$29 million) – see note 11(a) “Recharge New York Power Program” – and other (\$6 million).

December 31, 2014	Total	Total restricted	Decommissioning Trust Fund	Restricted			Capital fund	Unrestricted
				WNYEDF, POCR, CAS projects and other	ART note debt reserve	(In millions)		
Cash and investments:								
Cash and cash equivalents	\$ 97	18	—	18	—		1	78
U.S. government:								
Treasury Notes	105	—	—	—	—		—	105
GNMA	4	—	—	—	—		—	4
	109	—	—	—	—		—	109
Other debt securities:								
FNMA	515	34	—	19	15		12	469
FHLMC	352	—	—	—	—		16	336
FHLB	233	33	—	33	—		5	195
FFCB	69	—	—	—	—		—	69
All other	87	4	—	—	4		3	80
	1,256	71	—	52	19		36	1,149
Portfolio Manager	1,415	1,415	1,415	—	—		—	—
Total investments	2,780	1,486	1,415	52	19		36	1,258
Total cash and investments	\$ 2,877	1,504	1,415	70	19		37	1,336
Summary of maturities (years):								
0 – 1	\$ 409	74	—	70	4		34	301
1 – 5	1,030	15	—	—	15		—	1,015
5 – 10	15	—	—	—	—		—	15
10+	8	—	—	—	—		3	5
Portfolio manager	1,415	1,415	1,415	—	—		—	—
	\$ 2,877	1,504	1,415	70	19		37	1,336

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As of December 31, 2014, restricted funds include the POCR fund (\$11 million), the CAS Projects fund (\$2 million), the Lower Manhattan Energy Independence Initiative fund (\$6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs (\$14 million), the Western New York Economic Development Fund (\$33 million) – see note 11(a) “Recharge New York Power Program” – and other (\$4 million).

(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2015.

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 160	—	—	160
Construction in progress	261	275	(108)	428
Total capital assets not being depreciated	421	275	(108)	588
Capital assets, being depreciated:				
Production – Hydro	1,963	40	(3)	2,000
Production – Gas turbine/combined cycle	2,420	7	—	2,427
Transmission	1,985	17	—	2,002
General	1,204	42	(1)	1,245
Total capital assets being depreciated	7,572	106	(4)	7,674
Less accumulated depreciation for:				
Production – Hydro	740	33	(3)	770
Production – Gas turbine/combined cycle	881	103	—	984
Transmission	1,139	47	—	1,186
General	502	43	(1)	544
Total accumulated depreciation	3,262	226	(4)	3,484
Net value of capital assets, being depreciated	4,310	(120)	—	4,190
Net value of all capital assets	\$ 4,731	155	(108)	4,778

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December 31, 2015 and 2014

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2014:

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 160	—	—	160
Construction in progress	219	158	(116)	261
Total capital assets not being depreciated	379	158	(116)	421
Capital assets, being depreciated:				
Production – Hydro	1,898	68	(3)	1,963
Production – Gas turbine/combined cycle	2,419	1	—	2,420
Transmission	1,962	23	—	1,985
General	1,156	52	(4)	1,204
Total capital assets being depreciated	7,435	144	(7)	7,572
Less accumulated				
depreciation for:				
Production – Hydro	710	33	(3)	740
Production – Gas turbine/combined cycle	778	103	—	881
Transmission	1,089	50	—	1,139
General	466	40	(4)	502
Total accumulated depreciation	3,043	226	(7)	3,262
Net value of capital assets, being depreciated	4,392	(82)	—	4,310
Net value of all capital assets	\$ 4,771	76	(116)	4,731

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(6) Long-Term Debt

(a) Components

	Amount		Interest rate	Maturity	Earliest redemption date prior to maturity	
	2015	2014				
	(In millions)					
Senior debt:						
Revenue Bonds (Tax-Exempt):						
Series 2006 A Revenue Bonds:						
Serial Bonds	\$ —	\$ 88	N/A	N/A		N/A
Series 2007 A Revenue Bonds:						
Term Bonds	82	82	4.5% to 5.0%	11/15/2047	**	11/15/2017
Series 2007 C Revenue Bonds:						
Serial Bonds	208	237	4.0% to 5.0%	11/15/2016 to 2021		11/15/2017
Series 2011 A Revenue Bonds:						
Serial Bonds	63	65	3.0% to 5.0%	11/15/2016 to 2031	*	11/15/2021
Term Bonds	39	39	4.0% to 5.0%	11/15/2038	**	11/15/2021
Series 2015 A Revenue Bonds:						
Serial Bonds	69	—	2.0% to 5.0%	11/15/2016 to 2020		N/A
Revenue Bonds (Taxable):						
Series 2003 A Revenue Bonds:						
Term Bonds	174	180	5.230% to 5.749%	11/15/2018 to 2033	**	Any date
Series 2007 B Revenue Bonds:						
Serial Bonds	8	11	5.553% to 5.603%	11/15/2016 to 2017		Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	**	Any date
	882	941				
Plus unamortized premium and discount	24	22				
Less deferred refinancing costs	6	8				
	900	955				
Less due in one year	55	53				
	\$ 845	\$ 902				

* \$26.4 million due 2022 is non-callable.

** Bonds are subject to sinking fund provisions.

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December 31, 2015 and 2014

	Amount		Interest rate	Maturity	Earliest redemption date prior to maturity
	2015	2014			
	(In millions)				
Adjustable Rate Tender Notes:					
2016 Notes	\$ 11	\$ 21	0.14%	3/1/2016	** Any adjustment date
2020 Notes	75	75	0.14%	3/1/2020	Same as above
	86	96			
Less due in one year	86	10			
	—	86			
Subordinate debt:					
Subordinated Notes, Series 2012	22	24	1.11% to 4.05%	2016 to 2037	N/A
Commercial Paper:					
EMCP (Series 1)	44	53	0.08%	2021	
CP (Series 2)	—	17			
	66	94			
Less due within one year	40	27			
	26	67			
Total Long-term debt	1,052	1,145			
Less due within one year	181	90			
Long-term debt, net of due in one year	\$ 871	\$ 1,055			

** Notes are subject to sinking fund provisions.

Interest on Series 2003 A and 2007 B Revenue Bonds and Subordinated Notes, Series 2012 is not excluded from gross income for bondholders' Federal income tax purposes.

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Senior Debt

In September 2015, the Authority's Trustees authorized the issuance of up to \$80 million of additional revenue bonds for the purpose of refunding certain revenue bonds. In November 2015, the Authority issued \$69 million of Series 2015 A Revenue Bonds (2015 Bonds). The proceeds from the issuance of the 2015 Bonds and cash-on-hand were used to: (i) refund \$74.59 million of the Authority's Series 2006 A Revenue Bonds; and (ii) pay the cost of issuance of the Series 2015 Bonds.

As indicated in note 3 of notes to the financial statements, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. The total principal and interest remaining to be paid on the Senior Debt is \$1.570 billion as of December 31, 2015. Principal and interest paid for 2015 and operating income plus depreciation were \$185 million and \$532 million, respectively. Principal and interest paid for 2014 and operating income plus depreciation were \$113 million and \$642 million, respectively.

Senior revenue bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated in the table above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

The Adjustable Rate Tender Notes (ART 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 had a revolving credit agreement (Agreement) with The Bank of Nova Scotia, to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the ART Notes, which terminated on September 1, 2015. In 2015, the Authority's Trustees approved the redemption of the outstanding ART Notes, on an accelerated basis in the first quarter of 2016, which were scheduled to reset at March 1, 2016. In accordance with the ART Note Resolution, a Note Debt Service Reserve account has been established in the amount of \$20 million. See note 8 of notes to the financial statements for the Authority's risk management program relating to interest rates.

At December 31, 2015 and 2014, the current market value of the senior debt was approximately \$1.088 billion and \$1.187 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

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Subordinate Debt:

Subordinate Notes – In November 2012, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes), in a principal amount not to exceed \$30 million for the purpose of accelerating the funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation. The Authority issued the Subordinated Notes on December 18, 2012 in the amount of \$25 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, the Series 2015 A Revenue Bonds and the Adjustable Rate Tender Notes.

Commercial Paper – 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 \$200 million (EMCP Notes). It is the Authority's intent to remarket the EMCP Notes as they mature with their ultimate retirement in 2021. 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.

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, 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), \$450 million (Series 2 CP Notes), \$350 million (Series 3 CP Notes) and \$220 million (Series 4 CP Notes). See note 7 of the notes to the financial statements for Series 1, and certain Series 2 and Series 3 CP Notes designated as short-term debt. There were no Series 4 CP Notes outstanding at December 31, 2015.

The proceeds of certain Series 2 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and the proceeds of the EMCP Notes were used to refund Series 2 and 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the EMCP Notes as they mature.

The Authority has a line of credit under a 2015 revolving credit agreement, (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to \$600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1-3 CP Notes. The 2015 RCA terminates January 15, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded the 2011 revolving credit agreement (2011 RCA) which expired January 20, 2015. There are no outstanding borrowings under the 2015 RCA or the 2011 RCA.

CP Notes and EMCP Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, the Series 2015 A Revenue Bonds and the Adjustable Rate Tender Notes.

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

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2015.

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Maturities and Interest Expense:	Long-Term Debt			Capitalized Lease Obligations		
	(In millions)			(In millions)		
	Principal	Interest	Total	Principal	Interest	Total
Year:						
2016	\$ 181	47	228	\$ 20	94	114
2017	58	45	103	25	93	118
2018	61	42	103	31	90	121
2019	64	39	103	37	88	125
2020	67	36	103	293	380	673
2021 – 2025	150	142	292	550	216	766
2026 – 2030	115	113	228	233	15	248
2031 – 2035	127	76	203	—	—	—
2036 – 2040	83	47	130	—	—	—
2044 – 2045	87	24	111	—	—	—
2046 – 2050	41	3	44	—	—	—
	1,034	614	1,648	1,189	976	2,165
Plus unamortized bond premium	24	—	24	—	—	—
Less deferred refinancing cost	6	—	6	—	—	—
	<u>\$ 1,052</u>	<u>614</u>	<u>1,666</u>	<u>\$ 1,189</u>	<u>976</u>	<u>2,165</u>

(b) Terms by Which Interest Rates Change for Variable Rate Debt

Adjustable Rate Tender Notes

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

CP Notes and EMCP Notes (Long-Term Portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be the higher of (SIFMA + E) or F, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" and "F" are fixed percentage rates expressed in basis points (each basis point being 1/100 of one percent) and yields, respectively, that are determined based on the Authority's debt ratings subject to a cap rate of 12%. As of December 31, 2015, the reset rate would have been 7.0%.

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(c) *Changes in Noncurrent Liabilities*

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2015 are comprised of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities/ refundings and other</u> (In millions)	<u>Ending balance</u>	<u>Due within one year</u>
Senior debt:					
Revenue bonds	\$ 941	69	128	882	55
Adjustable rate tender notes	96	—	10	86	86
Subtotal	1,037	69	138	968	141
Subordinate debt:					
Subordinated Notes, Series 2012	24	—	2	22	1
Commercial paper	70	—	26	44	39
Subtotal	94	—	28	66	40
Net unamortized discounts/ premiums and deferred losses	14	7	3	18	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	\$ 1,145	76	169	1,052	181
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,189	—	20	1,169	20
Nuclear decommissioning	1,415	15	—	1,430	—
Disposal of nuclear fuel	217	—	—	217	—
Relicensing	279	20	29	270	—
Other	165	30	42	153	—
Total other noncurrent liabilities	\$ 3,265	65	91	3,239	20

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Changes in the Authority's long-term liabilities for the year ended December 31, 2014 are comprised of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities/ refundings and other</u> (In millions)	<u>Ending balance</u>	<u>Due within one year</u>
Senior debt:					
Revenue bonds	\$ 992	—	51	941	53
Adjustable rate tender notes	106	—	10	96	10
Subtotal	1,098	—	61	1,037	63
Subordinate debt:					
Subordinated Notes, Series 2012	24	—	—	24	1
Commercial paper	102	—	32	70	26
Subtotal	126	—	32	94	27
Net unamortized discounts/ premiums and deferred losses	17	—	3	14	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	\$ 1,241	—	96	1,145	90
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,205	—	16	1,189	16
Nuclear decommissioning	1,300	115	—	1,415	—
Disposal of nuclear fuel	216	1	—	217	—
Relicensing	277	45	43	279	—
Other	174	37	46	165	—
Total other noncurrent liabilities	\$ 3,172	198	105	3,265	16

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(7) Short-Term Debt

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

	2015		2014	
	Availability	Outstanding	Availability	Outstanding
	(In millions)			
CP Notes (Series 1)	\$ 60	\$ 340	\$ 92	\$ 308
CP Notes (Series 2) (a)	276	174	290	143
CP Notes (Series 3)	336	14	335	15

- (a) Availability includes long-term CP Notes (Series 2) of \$17 million outstanding at December 31, 2014 (see note 6 of notes to the financial statements).

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, 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), \$450 million (Series 2 CP Notes), \$350 million (Series 3 CP Notes) and \$220 million (Series 4 CP Notes). See note 6 “Long-term Debt – Subordinated Debt–Commercial Paper” of notes to the financial statements for Series 2 CP Notes designated as long-term debt. It had been and shall be the intent of the Authority to use the proceeds of the Series 1 CP Notes and certain Series 2 and Series 3 CP Notes to finance the Authority’s current and future energy efficiency programs and for other corporate purposes.

The changes in short-term debt are as follows:

Year:	Beginning balance	Increases	Decreases	Ending balance
	(In millions)			
2015	\$ 466	142	80	528
2014	\$ 452	138	124	466

(8) Risk Management and Hedging Activities

Overview

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance 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 protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. Insured losses by the Authority did not exceed coverage for any of the four preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. The Authority is also self-insured for portions of its medical, dental and workers’ compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

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Another aspect of the Authority's risk management program is to manage risk and related volatility on its earnings and cash flows associated with electric energy prices, fuel prices, electric capacity prices and interest rates. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate potential adverse effects and to moderate cost impacts to its customers (many of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks through the use of financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity.

To achieve the Authority's risk management program objectives, the Authority's Trustees have authorized the use of various interest rate, energy, and fuel derivative instruments for hedging purposes that are considered derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the statements of net position as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred outflows or deferred inflows on the statements of net position. For renewable energy derivative instruments, designated as investment derivative instruments, changes in fair value are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value of interest rate swaps take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. The fair values were estimated using the zero-coupon discounting method. The fair value for over-the-counter and exchange-traded energy, renewable energy natural gas, natural gas transportation and capacity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using the prices published by Platts or internal pricing models or derived from pricing models for option and/or option-based derivative instruments using the underlying price, time to expiry and observed volatilities based upon Platts published prices and other variables.

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Derivative Instruments

The following table shows the fair value of outstanding derivative instruments for 2015 and 2014:

Derivative instrument description	Fair value balance December 31, 2014	Net change in fair value	Fair value balance December 31, 2015	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2015	Volume
(\$ in millions)							
Interest rate swaps	\$ (5)	\$ 2	\$ (3)	Investment	Regulatory Asset	86.0	USD
Energy/Electric:							
Swaps	2	8	10	Cash Flow	Deferred inflow	(3,849,855)	MWh
Swaps	(10)	1	(9)	Cash Flow	Deferred outflow	505,425	MWh
Renewable energy swaps	(20)	4	(16)	Investment	Regulatory Asset	363,762	MWh
Energy capacity futures	5	(6)	(1)	Cash Flow	Deferred outflow	(17,070,000)	KWm
Fuel futures/swaps	(9)	9	—	Cash Flow	Deferred outflow	—	MMBtu
Totals	<u>\$ (37)</u>	<u>\$ 18</u>	<u>\$ (19)</u>				

Interest rate swaps – The Authority had outstanding forward interest rate swaps intended to fix rates on long-term obligations initially issued to refinance revenue bonds that were required to be tendered in the year 2002 (the 2002 Swaps). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at a fixed rate of 5.123% to the counterparties through February 15, 2015. In return, the counterparties would paid interest to the Authority based upon the Securities Industry and Financial Markets Association municipal swap index (SIFMA Index) on the established reset dates. The 2002 swaps terminated on February 15, 2015. Net settlement payments were \$0.1 million and \$1.0 million in 2015 and 2014, respectively.

In addition, the Authority had a forward interest rate swap intended to fix the interest rates on the Authority's Adjustable Rate Tender Notes (ART Notes) for the period September 1, 2006 to September 1, 2016. Based upon the terms of the forward interest rate swap, the Authority would pay interest calculated at a fixed rate of 3.7585% on the outstanding notional amount. In return, the counterparty would pay interest to the Authority based upon 67% of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. Net settlement payments were \$2.3 and \$3.5 million in 2015 and 2014, respectively. In 2015, the Authority's Trustees approved the redemption of the outstanding ART Notes, on an accelerated basis in the first quarter of 2016, which were scheduled to reset at the March 1, 2016. This action by the Authority resulted in the related forward interest rate swap becoming ineffective as of December 31, 2015. At December 31, 2015, the fair value of the forward interest rate swap was recorded as a regulatory asset since recoverability through future revenues is probable. These swaps were terminated on March 1, 2016 with a settlement payment of \$2.6 million, which included a scheduled payment due March 1 of \$1.4 million.

Energy/Electric swaps – The Authority has outstanding short-term forward energy swaps to manage the cost of forecasted purchased power requirements and transmission congestion for certain business customers in through 2017. Net settlement payments were \$7.6 million in 2015 and receipts were \$3.9 million in 2014. In 2014, the Authority had outstanding a medium-term forward energy swap intended to fix its exposure for the cost of energy purchases in the NYISO electric market in meeting certain governmental customer load requirements through 2014. Net settlement payments were \$19.4 million on 2014.

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Renewable energy swaps – The Authority has outstanding long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities through 2017. The fixed price ranges from \$74 to \$75 per MWh and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist certain customers in acquiring and investing in wind power and related environmental attributes to satisfy certain New York State mandates to support renewable energy. Net settlement payments were \$8.1 million and \$4.7 million in 2015 and 2014, respectively. The Authority anticipates the recovery of any net settlements through specific contractual agreements with customers.

Energy capacity futures – The Authority has outstanding forward installed capacity futures intended to mitigate the volatility of market prices for transaction in the NYISO markets through 2017. Net settlement receipts were \$4.8 million in 2015 and payments were \$0.5 million in 2014.

Fuel futures/swaps – The Authority has outstanding forward natural gas futures, which had a de minimis fair value at December 31, 2015, intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2015 and 2014 for the benefit of certain of the Authority's customers. Net settlement receipts were \$3.4 million and \$15.0 million in 2015 and 2014, respectively. In connection with the fuel futures and for the benefit of the Authority's customers, the Authority has outstanding natural gas transportation basis swaps to mitigate the volatility of market prices for pipeline transportation to New York City in 2015 and 2014. Net settlements payments were \$6.1 million in 2015.

Other – The Authority from time to time enters into certain derivative instruments that may become ineffective as hedging instruments due to changes in the hedged item. The change in fair value of such derivative instruments is recognized as other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. The fair value of these derivative instruments was insignificant to the Authority's 2015 and 2014 financial statements.

Counterparty Credit Risk

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative instruments is defined in the Bond Resolution. The policy requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers at the time the derivative instrument is executed or have a guarantee from another appropriate entity or an opinion from the rating agencies that the underlying bonds or notes will not be downgraded on the derivative instrument alone. The Authority's Board of Trustees has adopted a Policy for the Use of Interest Rate Exchange Agreements which provides the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification as well as reporting standards.

The Authority also imposes thresholds, based upon agency-published credit ratings, for unsecured credit that can be extended to counterparties to the Authority's commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of mark-to-market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty's market-implied credit ratings and financial ratios and the Authority can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of December 31, 2015, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

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Other Considerations

The Authority from time to time may be exposed to any of the following risks:

Basis risk – The Authority is exposed to basis risk on its pay-fixed interest rate swaps since it receives variable-rate payments on these hedging derivative instruments based upon indexes which differ from the actual interest rates the Authority pays on its variable-rate debt. The Authority remarkets its Notes at rates that approximate SIFMA and LIBOR after considering other factors such as the Authority's creditworthiness.

The Authority is exposed to other basis risk in a portion of its electrical commodity-based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the delivery price of the related energy.

Rollover risk – Certain electrical commodity-based derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments (varying from one month to 48 months) the Authority is subject to the corresponding market volatilities.

Termination risk – The Authority or its counterparties may terminate a derivative instrument agreement if the either party fails to perform under the terms of the agreement. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right to terminate only as a result of certain events, which includes a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; bankruptcy or insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination the Authority has a liability position, related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market access risk – The Authority remarkets its CP Notes on a continuous basis. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support the CP Note programs. See note 6 of the notes to the financial statements.

Dodd Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) which addresses, among other things, interest rate and energy related commodity swap transactions of the type in which the Authority engages. The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). Pursuant to CFTC rules thus far, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, will be exempted from posting collateral beyond that of any existing credit support annexes in support of its open over-the-counter hedge positions. These CFTC rules are not anticipated to have significant impact on the Authority's liquidity and/or future risk mitigation activities. CFTC DF Act rules are still being promulgated, and the Authority will continue to monitor their potential impact on the Authority's liquidity and/or future risk mitigation activities.

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(9) Pension Plans

General Information

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (NYSLERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing multiple-employer defined benefit retirement plans.

The NYSLERS uses a tier concept to distinguish membership classes (i.e. tiers 1 through 6) with tier membership based on the date an employee joins the System. The ERS is non-contributory for tiers 1 and 2 employees who joined the NYSLERS on or prior to July 27, 1976. Tiers 3 and 4 employees, who joined between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Tier 5 employees who joined the NYSLERS on or after January 1, 2010 contribute 3 % of their salary during their entire length of service. Tier 6 employees who joined the NYSLERS on or after April 1, 2013 contribute 3% of their salary through March 31, 2013 and up to 6% thereafter, based on their annual salary, during their entire length of service. Members become vested in the plan after ten years of service and generally are eligible to receive benefits at age 55. The benefit is generally 1.67 percent of final average salary (FAS) times the number of years of service, for members who retire with less than 20 years of service, and 2 percent of FAS for members who retire with 20 or more years of service. The NYSLERS provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

The NYSLERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the NYSLERS and the Plan, and for the custody and control of their funds. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

The Authority is required to contribute at an actuarially determined rate. The average contribution rate relative to payroll for the fiscal year ended March 31, 2015 was 19%. The average contribution rates relative to payroll for the fiscal years ending March 31, 2016 and 2017 have been set at approximately 17% and 15%, respectively. The required contributions for 2015, 2014 and 2013 were \$25 million, \$28 million and \$29 million, respectively. The Authority's contributions to the NYSLERS were equal to 100% of the required contributions for each year.

The NYSLERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244 or may be found on the internet at www.osc.state.ny.us/retire/publications/index.php.

Adoption of GASB Statement No. 68 and No. 71

The Authority, effective January 1, 2015, adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments, that provide defined benefit pension plans to their employees, to recognize their long term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplemental information. As a result of the implementation of Statement No. 68, net position as of January 1, 2014 was decreased by \$6 million and is reflected as a cumulative effect of

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change in accounting principle in the statements of revenues, expenses and changes in net position. In addition, the Authority recognized approximately \$5 million, as deferred outflows and \$1 million as deferred inflows in the statement of net position at December 31, 2015, related to this implementation (see section “Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions”, herein).

Also, effective January 1, 2015, the Authority adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is applied simultaneously with Statement No. 68. Statement No. 71 addresses the transition provisions of Statement No. 68, relating to amounts contributed by state or local government employers to a defined benefit pension plan after the measurement date of the government employer’s beginning net pension liability. As a result of the implementation of Statement No. 71, the Authority recognized, as deferred outflows in the statement of net position at December 31, 2015, \$25 million of contributions made subsequent to the March 31, 2015 measurement date.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Authority reported a liability of \$20 million for its proportionate share of the net pension liability. The NYSLERS total pension liability, which was used to calculate the NYSLERS net pension liability, was determined by the NYSLERS actuarial valuation as of March 31, 2015 (measurement date). The Authority’s proportion of the net pension liability was based on a projection of the Authority’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At March 31, 2015, the Authority’s proportion percentage (0.592%) of the net pension liability was unchanged from its proportion measured as of March 31, 2014.

For the year ended December 31, 2015, the Authority recognized pension expense of \$18 million. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
	(In millions)	
Difference between expected and actual experience	\$ 1	\$ –
Net difference between projected and actual earnings on investments	4	–
Net difference between employer contributions and proportionate share of contributions	–	1
Employer contributions subsequent to the measurement date	25	–
Total	<u>\$ 30</u>	<u>\$ 1</u>

The \$25 million reported as deferred outflows of resources related to pensions resulting from the Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense, \$0.86 million annually over the next four fiscal years 2016-2019.

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Actuarial Assumptions

The NYSLERS total pension liability at March 31, 2015 was determined by using the NYSLERS actuarial valuation as of April 1, 2014 with updated procedures to roll forward the NYSLERS total pension liability to March 31, 2015. The following actuarial assumptions were used for the April 1, 2014 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.7%
Salary increases:	4.9% annually
Investment rate of return, including inflation:	7.5% compounded annually, net of investment expenses
Cost of living adjustments:	1.4 % annually

The NYSLERS Annuitant mortality rates are based on April 1, 2005 – March 31, 2011 NYSLERS experience with adjustments for mortality improvements based on MP-2014. The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

The NYSLERS long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below.

Long Term Expected Rate of Return

Asset Type	Target Allocation	Long-term Expected Real Rate
Domestic Equity	38%	7.30%
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return	3	6.75
Opportunistic Portfolio	3	8.60
Real Asset	3	8.65
Bonds and Mortgages	18	4.00
Cash	2	2.25
Inflation Indexed Bonds	2	4.00
	100%	

Discount Rate

The NYSLERS discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the NYSLERS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

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Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	<u>1% Decrease</u> 6.5%	<u>Current Assumption</u> 7.5%	<u>1% Increase</u> 8.5%
The Authority's proportionate share of the net pension liability (asset)	\$ 133 million	\$ 20 million	\$ (76) million

The actuary for the NYSLERS has recommended decreases in assumptions (inflation rate, salary increases, investment rate of return, cost of living adjustments) as well as the discount rate (from 7.5 % to 7.0%, reflecting the change in the investment rate of return) to be used beginning with the April 1, 2015 valuation. The April 1, 2015 valuation is used to generate employer contribution rates for fiscal year 2017 and does not impact the April 1, 2014 valuation.

(10) Other Postemployment Benefits, Deferred Compensation and Savings

(a) 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 noncontributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or dies while working at the Authority. Approximately 4,500 participants, including 1,700 current employees and 2,800 retired employees and/or spouses and dependents of retired employees, were eligible to receive these benefits at December 31, 2015. The Authority's post-retirement health care trust does not issue a stand-alone financial report.

The Authority has an established trust for OPEB obligations (OPEB Trust), with the trust to be held by an independent custodian. Plan members are not required to contribute to the OPEB Trust. The Authority makes ongoing annual funding to the OPEB Trust based on the annual OPEB cost in order to maintain higher funding levels. Contributions of \$14 million and \$17 million were made to the OPEB Trust in 2015 and 2014, respectively.

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The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation.

	<u>2015</u>	<u>2014</u>
	(In millions)	
Annual OPEB cost:		
Annual required contribution (ARC):		
Normal cost	\$ 13	\$ 13
Amortization payment	<u>25</u>	<u>20</u>
Total	38	33
ARC adjustment	5	10
Interest on net OPEB obligation	<u>(5)</u>	<u>(5)</u>
Annual OPEB cost	<u>\$ 38</u>	<u>\$ 38</u>
Net OPEB obligation:		
Net OPEB (asset) obligation at beginning of fiscal year	\$ (73)	\$ (72)
Annual OPEB cost	38	38
Employer contribution:		
Benefit payments for retirees during the year	(24)	(22)
Trust fund contributions	<u>(14)</u>	<u>(17)</u>
Total employer contribution	<u>(38)</u>	<u>(39)</u>
Net OPEB (asset) obligation at end of fiscal year	<u>\$ (73)</u>	<u>\$ (73)</u>

The net OPEB asset of \$73 million, which consists of \$15 million current assets and \$58 million noncurrent assets, is reported in miscellaneous receivables and other and other long-term assets, respectively, in the statements of net position at December 31, 2015.

The Authority's annual OPEB cost for 2015 was \$38 million, which is reflected as an expense in the statements of revenues, expenses, and changes in net position. The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As indicated herein, the Authority uses a 20-year amortization period.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Authority's most recent actuarial valuation was performed as of January 1, 2014 and resulted in an actuarial accrued liability of \$575 million which was funded with assets totaling \$422 million indicating that the Authority's retiree health plan was 73% funded as of the valuation date. As of

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December 31, 2015 and 2014, the balance in the OPEB Trust was \$483 million and \$467 million, respectively, and the actuarial accrued liability was \$637 million and \$606 million, respectively, resulting in the retirees' health plan being 76% funded in 2015 and 77% funded in 2014.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the 2014 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed to full eligibility. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of approximately 8% (net of administrative expenses), including inflation, declining approximately 1/4% each year to an ultimate trend rate of approximately 5%. Both the cost trend rate and the ultimate trend rate include a 3% inflation assumption. The Authority amortizes actuarial gains and losses over an open 20-year period while continuing to amortize its initial unfunded accrued liability over a closed 20-year period.

(b) *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 up to limits specified in the plan. Such matching annual contributions were approximately \$2.8 million and \$2.6 million for 2015 and 2014, respectively.

Both the deferred compensation plan and the savings plan have a loan feature.

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 nonunion employees and a committee of nonunion 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.

(11) Nuclear Plant Divestiture and Related Matters

(a) *Nuclear Plant Divestiture*

In November 2000, 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 noninterest-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.

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As of December 31, 2015 and 2014, the present value of the notes receivable were:

	<u>2015</u>		<u>2014</u>
		(In millions)	
Notes receivable – nuclear plant sale	\$ —	\$	19
Less due within one year	—		19
	<u>\$ —</u>	<u>\$</u>	<u>—</u>

At December 31, 2014, the current portion due within one year of this notes receivable is reported in miscellaneous receivables and other in the statements of net position.

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. These VSAs, as amended, 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. Nonoperating income, in the statements of revenues, expenses, and changes in net position, for the year ended December 31, 2014 included \$71 million, relating to these agreements. The payments were subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. The final payment under the VSA was received on January 15, 2015 in the amount of \$71 million.

If the license for IP3 or JAF is extended, an amount equal to \$2.5 million (per plant) per year for a maximum of 20 years would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension during which the plant operates. The original licenses for JAF and IP3 expire in 2014 and 2015, respectively. In April 2007, the Nuclear Regulatory Commission (NRC) received a license renewal application (for an additional 20 years) for IP3. On September 9, 2008, the NRC renewed the operating license of JAF for 20 years to October 17, 2034. In November 2016, Entergy announced that it will permanently shut down JAF in 2017.

(b) Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note 11(e)) "New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2015 and 2014, the liability to Entergy totaled \$217 million in both years.

(c) Nuclear Plant Decommissioning

In connection with the Authority's sale of the nuclear plants, the Authority entered into a Decommissioning Agreement with each of the Entergy Subsidiaries relating to the responsibility for decommissioning the nuclear plants acquired (Decommissioning Agreements). The Decommissioning Agreements deal with the decommissioning funds (Decommissioning Funds), which are currently maintained by the Authority under a master decommissioning trust agreement. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority retains contractual decommissioning liability for IP3 and JAF until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority

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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, if any. 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 NRC minimum cost estimate amounts applicable to the plant. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Decommissioning Fund.

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 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 Decommissioning Fund amount.

Decommissioning Funds of \$1,430 million and \$1,415 million are included in restricted funds and other noncurrent liabilities in the statements of net position at December 31, 2015 and 2014, respectively.

(12) Commitments and Contingencies

(a) Power Programs

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to \$9 million for the year July 1, 2012 – June 30, 2013. On February 26, 2015, the Authority's Trustees approved an additional \$8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015. As of December 31, 2015, approximately \$8 million of such discounts have been paid with approximately an additional \$5 million in payments remaining to be made.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of \$100 million for the first three years following withdrawal of the

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hydropower from the residential and farm customers, \$70 million for the fourth year, \$50 million for the fifth year, and \$30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total \$400.9 million through January 2015 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2015, totaling cumulatively \$111 million. Operations and maintenance expenses included \$63 million and \$88 million of residential consumer discounts in the years ended December 31, 2015 and 2014, respectively. On January 27, 2016, the Authority's Trustees approved up to an additional \$43 million to fund anticipated payments for its 2016 fiscal year.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to \$58 million in net earnings, calculated for the period August 30, 2010 through December 31, 2015 as provided in the legislation, for deposit into the Fund. As of December 31, 2015, \$41 million has been deposited into the Fund. As of December 31, 2015, the Authority has approved awards of Fund money totaling approximately \$30 million to businesses that have proposed eligible projects and has made payments totaling \$12 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such

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energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to \$3 million, into the NNY Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015. On January 26, 2016, the Authority's Trustees approved up to an additional \$5 million in funds for the period January 1, 2016 through December 31, 2016. As of December 31, 2015, \$1 million has been deposited into the Fund and no awards have been made.

(b) *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.

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. The Authority provides the customers with indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Such market-risk hedging options include a full cost energy charge adjustment ("ECA") pass-through arrangement relating to fuel, purchased power, and NYISO-related costs (including such an arrangement with some cost hedging) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements. For 2015 and 2014, the NYC Governmental Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above. Under the Agreements, the Authority committed to finance up to \$100 million annually over the term of the Agreements for energy efficiency projects and initiatives at such governmental customers' facilities. Amounts financed may exceed \$100 million if mutually agreed to by the customers and the Authority. The costs of such projects are recovered from such customers.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). The Authority has entered a supplemental electricity supply agreement with all 103 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months' notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

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In anticipation of the closure of the Authority's Poletti plant in 2010, the Authority, in 2007, issued a nonbinding 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. This process, which included approval of the NYC Governmental Customers, resulted in a long-term electricity supply contract in 2008 between the Authority and Astoria Energy II LLC for the purchase of the output of Astoria Energy II, a new 550-MW plant, which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens. The costs associated with the contract will be borne by these customers for the life of the Astoria Energy II contract. The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of \$1.189 billion as of December 31, 2015, which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly. Fuel for the plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

HTP Transmission Line

In 2011, the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (HTP) for the purchase of capacity to meet the long-term requirements of the Authority's NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the transmission rights associated with HTP's transmission line (the Line) extending from Bergen County, New Jersey in the PJM Interconnection, LLC (PJM) transmission system, to Consolidated Edison Company of New York, Inc.'s (Con Edison) West 49th Street substation in the NYISO. Specifically, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP which would provide the Authority with 75% of the Line's 660 MW capacity, or 495 MW, for 20 years. The Authority's capacity payment obligations under the FTCPA began upon the Line's commencement of commercial operation, which occurred on June 3, 2013. Also upon commercial operation, the FTCPA obligates the Authority to reimburse HTP for the cost of interconnection and transmission upgrades in New York and New Jersey associated with the Line and to pay for all remaining upgrade costs as they are incurred. Under the FTCPA, the Authority is obligated to pay the costs of certain interconnection and transmission upgrades associated with the Line, which are estimated to total up to approximately \$343 million. As of December 31, 2015, the Authority paid approximately \$315 million of such costs related to the interconnection and transmission upgrades.

It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the initial 20-year term of the FTCPA. Depending on a number of variables, it is estimated that the Authority's under-recovery of costs under the FTCPA could be in the range of approximately \$90 million to \$110 million per year over the next five years of commercial operation. The Authority has a contract with Consolidated Edison Energy, Inc., an affiliate of Con Edison, to manage the Authority's transmission capacity on the Line and make economical energy transactions.

The Authority's estimated costs relating to HTP do not include Regional Transmission Enhancement Plan (RTEP) cost allocations that are being challenged at FERC, including the RTEP costs that may be allocated to HTP if other parties terminate their PJM transmission rights. The Authority's obligations under the FTCPA include payment of the RTEP charges allocated to HTP in accordance with the PJM transmission tariff. PJM's RTEP cost allocation methodology for certain upgrades, such as the Bergen-Linden Corridor and Edison Rebuild projects, is being challenged at FERC by Con Edison, the Authority and other parties. Under PJM's current methodology, HTP could be allocated approximately \$121 million in future RTEP charges. Depending on a variety of other factors, including the outcome of FERC's review and whether Con Edison or other parties decide to terminate their PJM transmission rights, HTP could be allocated substantially more or less RTEP costs. Any RTEP costs relating to the Bergen-Linden Corridor

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and Edison Rebuild projects would be paid over a number of years once construction of the improvements commences, which is expected in 2017.

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

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area that could also adversely affect the statewide electric pool, the Authority has in operation, 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, under certain conditions and if the Mayor of New York City directs such cessation. No such cessation has occurred.

(d) *Legal and Related Matters*

St. Regis Litigation

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 plaintiffs.

The parties agreed to a land claim settlement, dated February 1, 2005, 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.

The legislation required to effectuate the settlement was never enacted and the litigation was reactivated. In November 2006, all defendants moved to dismiss the three Mohawk complaints as well as the United States' complaint based on the lengthy delay in asserting the land claims (i.e., the laches defense).

On September 28, 2012, the U.S. Magistrate recommended dismissal of all land claims brought against the Authority by three St. Regis tribal factions as well as the Federal government. The Magistrate upheld the Authority's laches defense and also recommended dismissal on the same grounds of all claims by the same plaintiffs against the other defendants relating to all but one of the other challenged mainland parcels.

In orders dated July 2013, the Judge assigned to the case accepted the Magistrate's recommendation and granted the Authority judgment on the pleadings. The Judge accepted all but one of the Magistrate's other recommendations, which results in dismissal of all land claims against the other defendants except those relating to two mainland parcels. Barring an appeal by the plaintiffs, all claims against the Authority have been dismissed and the lawsuit against the Authority is concluded.

The State and the St. Regis Mohawk Tribe (Tribe) have been discussing a settlement of the land claims, as well as other issues between the State and the Tribe. On May 28, 2014, the State of New York, the Tribe, St. Lawrence County and the Authority executed a Memorandum of Understanding (St. Regis MOU) that

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outlined a framework for the possible settlement of all the St. Regis land claims. In the St. Regis MOU, the Authority endorses a negotiated settlement that, among other terms and conditions, would require the Authority to pay the Tribe \$2 million a year for 35 years and provide up to 9 MW of its hydropower at preference power rates to serve the needs of the Tribe's Reservation. The St. Regis MOU would require an Act of Congress to forever extinguish all Mohawk land claims prior to such a settlement becoming effective.

Any settlement agreement, including the terms endorsed in the St. Regis MOU, would in the first instance need to be negotiated and agreed upon by all parties to the St. Regis litigation. In addition, on or before a final settlement of the litigation, all parties to the St. Regis litigation would have to agree to a settlement of all outstanding claims, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. Before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, however, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims.

Tropical Storm Irene

In August 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") initiated a lawsuit in Schoharie County Supreme Court against the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in August 2011. The Municipalities essentially alleged that they sustained property damage and lost tax revenues resulting from lowered assessed valuation of taxable real property due to the Authority's negligence in its operations at the Blenheim-Gilboa pumped-storage hydroelectric facility located on the Schoharie Creek in Schoharie County, New York. The Municipalities complaint seeks judgment "in an amount to be determined at trial with respect to each [of the ten plaintiffs] in the sum of at least \$5,000,000, plus punitive damages in the sum of at least \$5,000,000" as well as attorney fees. As of October 31, 2014, all of the Municipalities have discontinued their lawsuits against the Authority.

In February 2012, a private landowner filed a similar lawsuit in such court on behalf of a park campground and makes nearly the same allegations with the plaintiff seeking at least \$5 million in damages, at least \$5 million in punitive damages, as well as attorney's fees. In December 2012, the Authority was served with a third lawsuit by five plaintiffs arising out of Tropical Storm Irene and the Authority's operation of its Blenheim-Gilboa Pumped Storage Project. Plaintiffs previously filed timely notices of claim. The five plaintiffs include three individual landowners and two corporations. The three individual landowners own properties located in Schoharie, NY and Central Bridge, NY and are claiming damages in the aggregate amount of \$1.55 million. The two corporations also own properties in Schoharie, NY and are claiming damages in the aggregate amount of \$1.05 million. On October 27, 2014, the Court granted NYPA's motion to change the place of trial. The Court directed the Clerk of Court to transfer the proceedings to Albany County. Discovery is ongoing in these two remaining actions, which are joined for discovery.

While the Authority cannot presently predict the outcome of this or any related litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues. While the Authority is unable to predict whether and to what extent any lawsuits will be initiated based on notices of claim or similar claims that may be filed in the future, or the outcome of any litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. Conversely, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

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Other Actions or Claims

In January 2014, one of the Sound Cable Project underwater cables was severely impacted by an anchor and /or anchor chain dropped by one or more vessels, causing the entire electrical circuit to fail and the circuit to trip. As a result of the impact to the cable, dielectric fluid was released into Long Island Sound. The Authority incurred approximately \$33 million in costs arising from this incident. At December 31, 2015, the statement of net position includes approximately \$15 million in other long-term assets, reflecting the cost of damages net of insurance recoveries. The Authority believes that it will be able to recover the full amount of its damages through legal proceedings, insurance coverage and contractual obligations.

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.

(e) *New York State Budget and Other Matters*

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. Bills are periodically introduced into the State Legislature, which propose to limit or restrict the powers, rights and exemption from regulation that 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 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 that 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. Examples of such legislation affecting only the Authority include legislation, discussed below and elsewhere herein, relating to the Authority's voluntary contributions to the State, the Authority's temporary transfer of funds to the State, and contributions and transfers to fund temporary and permanent programs administered by the Authority and other State entities.

Budget

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or

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accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in note 11(a) "Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling \$475 million in connection with the ended PFJ Program.

In 2015 and 2014, the Authority made contributions of \$90 million to the State in each year that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2015 and 2014 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2015 contributions included \$23 million that was paid to the State's General Fund and \$67 million that was paid to Empire State Development Corporation (ESD). The 2014 contributions of \$90 million were made in furtherance of ESD's statewide economic development initiatives. Cumulatively, between January 2008 and December 31, 2015, the Authority has made voluntary contributions to the State totaling \$672 million unrelated to the PFJ program.

In addition, as part of the State's Enacted Budget for State fiscal year 2015-16, the Authority, as deemed feasible and advisable by its Trustees, is authorized and directed to consider for payment by March 31, 2016, the remaining contribution of \$65 million to the State treasury to the credit of the General Fund, or as otherwise directed in writing by the Director of the Budget.

In addition to the voluntary contributions described above, Section 3 of Subpart H of Part C of Chapter 20 of the Laws of 2015 (Chapter 20), which became effective upon enactment on June 26, 2015, authorizes and directs the Authority, as deemed feasible and advisable by its trustees, to provide up to \$6 million in additional contributions to the State's general fund, or as otherwise directed in writing by the State's director of the budget for the state fiscal year commencing April 1, 2015.

The 2016-17 Executive Budget contains a provision authorizing the Authority as deemed "feasible and advisable by its trustees" to transfer to the State treasury to the credit of the general fund \$20 million for the State fiscal year commencing April 1, 2016, the proceeds of which will be utilized to support energy-related State activities. The Authority cannot predict what additional contributions to the State may be authorized in the future.

On January 13, 2016, the Governor submitted, as part of his Executive Budget Proposal, legislation authorizing the transfer of the New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Authority. If such legislation were enacted into law in its current form, the Canal Corporation would cease to be a subsidiary of the Thruway Authority and would become a subsidiary of the Authority. The proposed legislation authorizes the Authority to transfer moneys, property and personnel to the Canal Corporation and also authorizes the Authority to issue

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subordinated debt for the purposes of financing the construction, reconstruction, development and improvement of the New York State Canal system. The proposed legislation provides that the transfer will be effective on January 1, 2017. However, such legislation also authorizes the Authority to reimburse the Thruway Authority for Canal System expenses for the interim period of April 1, 2016 through January 1, 2017. The Authority has not determined what the interim or long term level of the Authority's financial support to the Canal Corporation would be if the legislation were enacted in its current form. For fiscal year 2014, the Canal Corporation's operating expenses were \$65.9 million and operating revenues were \$2.3 million with the difference provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation's capital program was budgeted at \$52 million with funding expected from various sources. Certain information relating to the Canal Corporation's capital and operating expenses and budgets and the level of financial assistance provided to the Canal Corporation by the Thruway Authority is included in the Thruway Authority's audited financial statements, monthly financial reports and budgets, copies of which are available at the Thruway Authority's website: thruway.ny.gov. Such information is not incorporated in this report and the Authority assumes no responsibility for the accuracy thereof.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately \$215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage (see note 10(b) "Nuclear Fuel Disposal"). The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget \$103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B (\$215 million) and Asset A (\$103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately \$5 million per year based on current estimates but the waiver is limited to a maximum of \$45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of

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December 31, 2015 and 2014

State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately \$8 million per year but the waiver would be limited to a maximum of \$43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the \$103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) \$18 million for State Fiscal Year 2014-2015; (2) \$21 million for State Fiscal Year 2015-2016; (3) \$21 million for State Fiscal Year 2016-2017; (4) \$21 million for State Fiscal Year 2017-2018; and (5) \$22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority has received installment payments of \$39 million as of December 31, 2015. The Assets A and B transfers are reported in miscellaneous receivable and other (\$21 million as of both December 31, 2015 and 2014) and in other noncurrent assets (\$258 million and \$279 million at December 31, 2015 and December 31, 2014, respectively) in the statements of net position.

New York State-Upstate Fuel Reserve Initiative

In response to significant storm events that damaged fuel terminals and shut down gasoline suppliers and stations, creating gaps in the supply of gasoline for use by first responders and utility repair crews, and hampered rescue and recovery efforts, the State, in 2013, commenced a strategic fuel reserve initiative, consisting of a Downstate Strategic Gasoline Reserve and an Upstate Strategic Fuel Reserve (USFR), which are being administered by the New York State Research and Development Authority (NYSERDA). The Authority supplies power to hundreds of public and private entities throughout Upstate NY, and has an interest in seeing that safe and reliable electric service is restored and maintained in the event of a storm or other emergency, and that first responders and utility crews, including personnel who would perform repair work on Authority and other utility assets that are necessary for the transmission of power to Authority customers, can access fuels needed for rescue, recovery and restoration of utility restoration efforts. Accordingly, in October 2014, the Authority transferred \$10 million to NYSERDA to support the USFR initiative.

(f) Relicensing of Niagara

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. By decision dated March 13, 2009, the U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately \$495 million. This estimate 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. As of December 31, 2015, the balance in the recorded liability associated with the relicensing on the statement of net position is \$297 million (\$27 million in current and \$270 million in other noncurrent liabilities). As of December 31, 2014, the balance in the recorded liability associated with the relicensing on the statement of net position is \$301 million (\$22 million in current and \$279 million in other noncurrent liabilities).

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 therefore, were incorporated into the cost-based rates of the project beginning in 2007.

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(g) St. Lawrence-FDR Relicensing – Local Task Force Agreement

In 2003, FERC approved a Comprehensive Relicensing Settlement Agreement (“CRSA”) reached by the Authority and numerous parties and issued the Authority a new 50-year license for the St. Lawrence-FDR Project (“St. Lawrence-FDR License”). The CRSA incorporated a Relicensing Agreement between the Authority and the Local Government Task Force (“LGTF”) which provided for a review of said agreement every ten years to address issues not contemplated at the time of relicensing in 2003. Following the review that began in 2013, the Authority and the LGTF entered into an agreement effective May 4, 2015 (the “LGTF Ten-Year Review Agreement”) in which the Authority agreed to certain actions, including to: (1) fund an economic development strategic marketing study; (2) temporarily reduce electricity costs for certain farms and businesses; (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities. On March 26, 2015, the Authority’s Trustees authorized expenditures of up to \$45.1 million for the purpose of implementing the commitments in the LGTF 10-Year Review Agreement.

(h) Regional Greenhouse Gas Initiative and Air Pollution Rule

The Regional Greenhouse Gas Initiative (the “RGGI”) is a cooperative effort by Northeastern and Mid-Atlantic states, including New York, to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority’s Flynn plant, the SCPPs, and 500-MW Plant are subject to the RGGI requirements as is the Astoria Energy II plant. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. Beginning 2014, the number of allowances offered in the auction by RGGI cap and trade program was reduced (from allowances covering 165 million tons of carbon dioxide emissions in 2013 to 91 million tons in 2014), and will decline by 2.5% each year from 2015 through 2020. This reduction has increased the price for carbon dioxide allowances, which the Authority acquires to cover operation of its fossil-fueled power plants and the Astoria Energy II plant. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

In 2013, President Obama sent a memorandum to the Environmental Protection Agency (the “EPA”) on “Power Sector Carbon Pollution Standards” (the “Presidential Memorandum”) as part of the President’s Climate Action Plan. The Presidential Memorandum requires the EPA to propose carbon pollution standards for power plants. On August 3, 2015, the EPA met a milestone by releasing its final Clean Power Plan Rule for existing power plants [Clean Air Act 111(d)]. The objective is to reduce by 2030 carbon pollution (carbon dioxide emissions) nationwide from the power sector (plants in operation before December 31, 2012) by 32% from 2005 levels. Under the EPA’s regulations for existing sources, the State will have one year to submit its implementation plan to the EPA. The State will need to be compliant with carbon dioxide reduction starting in 2022, with the state’s final goal to be met in 2030. The Authority continues to monitor developments in this area, including challenges to the EPA’s implementation of the Clean Power Plan Rule.

During 2011, the EPA issued a series of rulings to establish the Cross-State Air Pollution Rule (“CSAPR”). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. Certain trading of allowances is authorized under the CSAPR. Following decisions by the D.C. Circuit and the U.S. Supreme Court, the EPA issued an interim final rule on November 21, 2014 to amend the compliance deadline from 2012 and 2013 to 2015 and 2016 for CSAPR’s Phase 1 emissions budgets, and from 2014 to 2017 for Phase 2 emissions budgets and assurance provisions. On July 28, 2015, the

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D.C. Circuit remanded part of CSAPR to the EPA for reconsideration, finding that the EPA erred in 2014 sulfur dioxide and ozone budgets for 13 states by imposing uniform emission reductions instead of assessing each upwind state's contribution (the D.C. Circuit found the result is over-control of emissions in those states based on emissions budgets). While the emissions budgets were not vacated, the DC Circuit remanded the matter for EPA to develop compliant regulations. On December 3, 2015, the EPA published Cross-State Air Pollution Rule Update for the 2008 Ozone National Ambient Air Quality Standards and requested comments by February 1, 2016. The proposal requires further reduction in summertime (ozone season) NOx emissions from power plants in 23 states, including New York. The Authority is following the development of this CSAPR update. The Authority continues to operate its fossil-fueled plants within the allocated allowances and anticipates that operation of its fossil fueled power plants will not be impacted by CSAPR in 2015 and 2016.

(i) **Wind and Solar Initiatives**

The Long-Island-New York City Offshore Wind Collaborative (Collaborative), which consists of the Authority, Consolidated Edison of New York, and the Long Island Power Authority (LIPA), is evaluating the potential development of between 350 MW and 700 MW of offshore wind. The Collaborative is currently planning the next steps in project evaluation. On September 15, 2011, the Authority, on behalf of the Collaborative, submitted an application to the BOEM for a commercial lease on the Outer Continental Shelf approximately 13 nautical miles off the south shore of Long Island. Pursuant to federal regulations, the federal Bureau of Ocean Energy Management (BOEM) issued a request in January 2013 to determine whether there is competitive interest in wind power development in federal waters off the coast of the Rockaway Peninsula and Long Island. Two potential competitors indicated interest in obtaining a commercial lease for possible offshore wind projects situated in the Collaborative's proposed lease site. **BOEM may administer an auction to determine an award of the commercial lease site.**

In March 2012, the Authority's Trustees authorized up to \$30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects. As of December 31, 2015, the Authority has approved the award of contracts with cumulative value of up to approximately \$15 million.

(j) **Construction Contracts and Net Operating Leases**

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately \$492 million at December 31, 2015.

Noncancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Rental expense for years ended December 31, 2015 and 2014 was \$2.2 million and \$1.6 million, respectively. Commitments under noncancelable operating leases are as follows:

	<u>Total</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>
	(In millions)						
Operating leases	\$ <u>3.8</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.6</u>	<u>0.4</u>	<u>0.7</u>

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(k) *Other Developments*

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about \$5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2015 legislative session, which ended in June 2015, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. Though the Authority and other interested parties contested the proposed cost allocation methodology, the parties engaged in a settlement process and on November 5, 2015, the Four-Party Transco filed an uncontested settlement to resolve the cost allocation methodology for the three TOTS projects, which is pending final approval before FERC. The Authority, which is co-developing one of the TOTS projects with NYSEG, has filed its own proposal at FERC to recover the costs of its portion of that TOTS project. The Authority proposed the same cost allocation methodology that the parties agreed upon in the Four-Party Transco settlement filed at FERC.

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December 31, 2015 and 2014

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide \$450 million in low-cost financing for this initiative for state owned buildings and an additional \$350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. The Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. The team conducts routine outreach and meetings with affected state agencies and has commenced the implementation phase of the Build Smart NY program. As of December 31, 2015, the Authority has in aggregate provided approximately \$204 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to \$30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of December 31, 2015, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately \$26 million.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the Power Authority of the State of New York, (the Authority), which comprise the statements of net position as of December 31, 2105, and 2014, and the related statements of revenues, expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2015, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those



provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

(signed) KPMG LLP

New York, NY
March 29, 2016

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

New York Power Authority

Required Supplementary Information

(Unaudited)

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)
January 1, 2014	\$ 422	\$ 575	\$ 153	73%	\$ 145	105%
January 1, 2012	283	517	234	55	143	163
January 1, 2010	218	400	182	55	141	129

In 2007, a trust for the Authority's OPEB obligations was funded with an initial amount of \$100 million. This amount was reflected as of the 1/1/08 Actuarial Valuation Date.

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedules Relating to the Employees' Retirement System Pension Plan

(\$ in millions)

Schedule of Proportionate Share of the Net Pension Liability

<u>As of March 31,</u>	<u>Proportion of the Net Pension Liability (Asset) Percentage</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</u>
2015	0.59%	\$20	\$150	13.3%	97.9%
2014	0.60	27	148	18.2	97.2

Schedule of Contributions

<u>Year Ending December 31,</u>	<u>Actuarially Required Contribution</u>	<u>Actual Contribution</u>	<u>Contribution (Excess) Deficiency</u>	<u>Covered Employee Payroll</u>	<u>Contribution as a Percentage of Covered Payroll</u>
2015	\$ 25	\$ 25	\$ —	\$ 150	17%
2014	28	28	—	148	19
2013	29	29	—	146	20
2012	27	27	—	146	19
2011	21	21	—	141	15
2010	17	17	—	145	12
2009	10	10	—	139	7
2008	12	12	—	139	9
2007	12	12	—	133	9
2006	13	13	—	131	10



cutting through complexity

New York Power Authority Audit Results December 31, 2015

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

March 29, 2016

Agenda

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**Required Communication to the Finance and Audit Committee*

Summary of Audit Results

2015 Audit Results as of March 15, 2016

Audit and other results

- KPMG will issue an unqualified opinion on the Authority's financial statements as of and for the year ended December 31, 2015.
- KPMG will issue an unqualified opinion on the Authority's compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York for the year ended December 31, 2015.
- KPMG will issue a report on the Authority's Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Other deliverables in 2015

- Consents and comfort letters in connection with the Authority's Series 2015A Revenue Bonds offering

KPMG complied with the following while performing our audit

- The auditing standards generally accepted in the United States of America
- The standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States
- Independence requirements

KPMG supports Management by:

- Bringing to management's attention suggestions for improving the Authority's internal controls and financial reporting policies and procedures and other performance improvement observations identified
- Advise the Authority on the interpretation and implementation of new accounting or reporting requirements
- Maintained proactive working relationships with senior management and the Audit Committee

Audit Focus Areas

Audit Area	Audit Focus
GASB 68 & 71 Adoption	<ul style="list-style-type: none"> ■ We reviewed the Authority's adoption of GASB 68 & 71 during 2015. We reviewed: <ul style="list-style-type: none"> ■ The cumulative effect to opening net position as of January 1, 2015 ■ The impact the adoption had on current year net position ■ Disclosures within the financial statements
Revenue recognition and accounts receivable	<ul style="list-style-type: none"> ■ Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2015 ■ Detail tested SENY/Wholesale revenue by agreeing recorded amounts to invoices and cash receipts ■ Agreed SENY/Wholesale billed rates to the approved tariffs ■ Confirmed and detail tested revenue with the NYISO throughout the year ■ Detail tested wheeling charges ■ Tested and relied upon IT controls over the Authority's revenue and invoicing process
Long term debt	<ul style="list-style-type: none"> ■ Confirmed outstanding long term debt, including commercial paper with third parties ■ Recalculated interest expense throughout the year ■ Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2015 ■ Reviewed offering documents of debt issuances and provided consents and comfort letters ■ We assessed the accounting treatment of the 2015 debt issuance and related costs.

Audit Focus Areas (continued)

Audit Area	Audit Focus
Capital assets	<ul style="list-style-type: none">■ Tested additions and disposals from capital assets to ensure amounts are appropriately capitalized■ Tested depreciation expense recorded for the year■ Reviewed the impairment policy to ensure there were no triggering events in 2015
Investments (including the Nuclear Decommissioning Trust)	<ul style="list-style-type: none">■ Tested the fair market value of a selection of investments, utilizing the KPMG National Pricing Desk■ Reviewed a sample of investments for compliance with Board approved policies■ Confirmed the investment balance with the bank as of December 31, 2015■ Review of financial statements for completeness and accuracy of trust assets and obligations

Significant Estimates and Management Judgments

We evaluated the key factors, assumptions and other judgments used by management to develop the following significant estimates. We noted that such estimates are reasonable in relation to the financial statements taken as a whole.

Significant Estimates/Judgments	Audit Focus
Derivative assets and liabilities	<ul style="list-style-type: none">■ Ensured consistency of fair value with available market data; reliability of broker quotes and forward price curves■ Reviewed counterparty credit risk-assumptions of likelihood of default and calculation of credit valuation allowance■ Mark to model calculations for fair value■ Effectiveness – correlation of hedging instrument with underlying hedged item■ Tested the appropriateness of the classification in the statement of net position and disclosures in the financial statements
Asset Retirement Obligations and Cost of Removal	<ul style="list-style-type: none">■ Tested key management estimates and assumptions utilized in the determination of the future cost■ Ensured the inflation and discount rates utilized by the Authority are reasonable■ Tested the appropriateness of the presentation on the statement of net position (deferred inflow or regulatory liability)

Significant Estimates and Management Judgments (continued)

Significant Estimates/Judgments	Audit Focus
Regulatory Assets	<ul style="list-style-type: none">■ Tested changes in regulatory assets related to electricity supply market costs■ Tested the recoverability of regulatory assets■ Ensure the amounts are properly presented on the statement of net position
Litigation, environmental, and other contingencies	<ul style="list-style-type: none">■ Tested the completeness of accruals through the circulation of legal letter inquiries■ Assessed the estimates of amounts and probability of exposure for outstanding legal matters.■ Assessed the adequacy of disclosures.

Significant Accounting Policies

- Significant accounting policies are disclosed in note 2 to the financial statements.
- We have reviewed the accounting policies utilized by management in preparation of the financial statements and found such policies to be appropriate.
 - Basis of Reporting – GAS 62
 - Impairment of Capital Assets – GAS 42
 - Investment Accounting – GAS 31
 - Derivative Accounting – GAS 53
 - Refunding of Debt – GAS 23
 - Regulated Operations – ASC 980
 - Asset Retirement Obligations – ASC 410
 - Pensions – GAS 68 & GAS 71
 - Deferred Inflows/Outflows – GASB 65

Audit Misstatements as of March 15, 2016

Current Year Uncorrected Audit Misstatements:

- There were no current year uncorrected audit misstatements identified during the audit.

Current Year Corrected Audit Misstatements:

- There were no current year corrected audit misstatements identified during the audit.

Rollover misstatements from prior periods:

- There were no uncorrected audit misstatements from prior periods that had a rollover effect on the current year statement of revenues, expenses and changes in net position.

Omissions or Other Errors in Disclosure:

- Throughout the normal course of our audit of the financial statements we provided management with comments on the financial statements, however during this process no significant omissions or other errors were identified.

Non-GAAP Accounting Policies:

- Unbilled revenue – The Authority does not accrue for unbilled revenue at year-end as the amount is immaterial (approximately \$2 million as of December 31, 2015).
- Deferred refinancing costs – The Authority records deferred refinancing costs as an offset to long-term debt as opposed to a deferred inflow/outflow on the statement of net position as the amount is immaterial (\$6 million as of December 31, 2015).
- Capitalization threshold – The Authority immediately expenses capital equipment purchases under \$2K rather than capitalize and depreciate them over their useful lives. The Authority purchased and expensed a total of approximately \$650K of equipment under \$2K during the year ended December 31, 2015.

Internal control findings

Material weaknesses and Significant deficiencies

- There were no material weaknesses or significant deficiencies in internal controls over financial reporting (ICFR) identified at the Authority as of and for the year ended December 31, 2015.
- All deficiencies in ICFR noted during our audit have been communicated to management.

Other Required Communications

Related-party transactions	All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements as of December 31, 2015.
Litigations, claims, and assessments	The disclosures within the financial statements as December 31, 2015 are appropriate.
Illegal acts or fraud	No matters to report.
Noncompliance with laws and regulations	No matters to report.
Significant difficulties encountered during the audit	No matters to report.
Disagreements with management	No matters to report.
Management's consultation with other accountants	None noted.
Significant issues discussed, or subject to correspondence, with management	Other than items previously discussed in this presentation, none noted
Scope limitation	None noted.
Other findings or issues relevant to the oversight of the financial reporting process	None noted.
Independence	In our professional judgment, KPMG is independent with respect to the Authority
Significant Written Communications with Management	Engagement Letter Management Representation Letter Letter Communicating to Those Charged with Governance

KPMG's Audit Committee Institute (ACI)

In depth insights. In time to matter.

ACI Programs

- Audit Committee Roundtable Series
 - approximately 25 cities each Spring/Fall
- Quarterly Audit Committee Webcast
 - A quarterly Webcast providing updates and insights into issues affecting Audit Committee/board oversight—from key accounting and regulatory changes to developments in risk oversight.
- 13th Annual Audit Committee Issues Conference
 - January 9-10, 2017, Boca Raton, FL

Suggested Publications (available for download at www.kpmg.com/aci)

- Directors Quarterly
- Global Boardroom Insights
- On the 2016 Audit Committee and Board Agendas
- Global Audit Committee Survey

Resources

- ACI Web site: www.kpmg-institutes.com/institutes/aci.html
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)
- *Audit Committee Insights – U.S. and International editions (biweekly electronic publications):* www.kpmginsights.com

KPMG's Global Energy Institute

Recent publications

- [The Race for the Customer- Winning in a dynamic marketplace](#)
- [Times of Change](#)
- [Don't Stop Thinking About Tomorrow](#)

2016 KPMG Global Energy Conference

- May 25-26, 2016; Royal Sonesta Hotel, Houston TX
- Keynote speakers: Alan Mulally, George Will, and Paul Begala

Webcasts on Demand

- [2016 Economic Outlook and Year-End Considerations](#)
- [Quarterly Outlook for Accounting and Financial Reporting – December 2015](#)

Resources

- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)
- Audit Committee Insights – U.S. and International editions (biweekly electronic publications): www.kpmginsights.com
- ACI Web site: www.auditcommitteeinstitute.com
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: [1-877-KPMG-ACI](tel:1-877-KPMG-ACI)

Appendix

Responsibilities

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- Establishing and maintaining effective internal control over financial reporting (ICFR), including internal controls to prevent, deter, and detect fraud
- Identifying and ensuring that the Authority complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence
- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud; and
 - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

Responsibilities (continued)

The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance of programs and internal controls designed to prevent and detect fraud

Management and the Audit Committee are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with GAAP. Our audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR
- Communicating to management and the Audit Committee all required information, including significant matters
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.

Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, except for required supplementary information which is covered by the auditors' report.
- We are required to:
 - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
 - Make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date.
- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.
- We have performed the following procedures with respect to other information:
 - We read Management's Discussion and Analysis (MD&A).
 - We compared information in MD&A to the audited financial statements to identify material inconsistencies.
 - No material inconsistencies were noted.

Peer Review Report and Acceptance Letter



System Review Report

To the Partners of KPMG LLP
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 5, 2014

December 11, 2014

John B Veihmeyer, CPA
KPMG LLP
345 Park Ave
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 11, 2014 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2017. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



Larry Gray
Chair, National Peer Review Committee
nprc@aicpa.org 919 402.4502

cc: Keith Robert Rowden; Thomas W Whittle

Firm Number: 10054128

Review Number 359579

Letter ID: 945097



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Risk Management

Note: Revision # should be listed in descending order starting with most recent version at the top.

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
[Revision Date]	2	Annual Review process and conversion to new template format. This consisted of performing an annual review as well as re-aligning and combining sections to meet the new standard format.		Thomas Araneo (Senior Credit Analyst)
		Section 4 "Objectives" from the previous version (V1) has been converted and is now Section 1 Purpose and Scope of this policy.	1	
		Section 3 "Implementation" from the (V1) has been converted and is now Section 2 "Applicability" of this policy.	2	
		Risk Appetite has been added as an additional responsibility to Section 4 Responsibilities 4.2 Audit Committee of the Board of Trustees.	4.2	
		Risk Management Framework has been added as a function under section 5 Policy Implementation	5	
		Risk Event has been added to section 5 Policy Implementation as an additional Risk Management Framework function	5.2	

Printed copies are not controlled.

For the latest revision of this document, refer to the Policy and Procedure PowerNet Site.

Records will be retained in accordance with NYPA's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to NYPA.

1 PURPOSE AND SCOPE

The New York Power Authority (The Authority) considers the management of risk to be an integral part of its business practice. The purpose of this policy is to ensure Risk Management is embedded into existing business practices and processes.

2 APPLICABILITY

This Policy shall be adhered to by all Authority employees. Implementing procedures shall be prepared by individual business units to define the necessary management controls. All Risk Management activities shall be conducted in accordance with this Policy.

3 INITIALISMS (ACRONYMS) AND DEFINITIONS

CEO – Chief Executive Officer

CRO – Chief Risk Officer

ERMC – Executive Risk Management Committee

Risk – Any triggering event, action or inaction which is likely to prevent the Authority from, directly or indirectly, achieving its goals and objectives.

Risk Appetite – The amount of risk the Authority is willing to accept in pursuit of our mission. Strategic risk-taking can help achieve business objectives while maintaining adherence to organizational values and purpose.

Risk Event – Any negative triggering event through action, inaction or both, which is likely to prevent the Authority from achieving its goals and objectives. A risk event could be turned into a positive opportunity.

Risk Management – An integrated approach to identifying, assessing and addressing areas of uncertainty that could materially impair or enhance the achievement of the Authority's mission and objectives.

Risk Management Framework – A structured process that provides the foundation and organizational resources for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk Profile – The portfolio of risks across the enterprise.

Risk Response – Action or measure taken in advance of, or after, a risk occurs aimed at achieving the Authority's mission and objectives.

The Authority – New York Power Authority

4 RESPONSIBILITY

4.1 Board of Trustees - In accordance with leading industry practice, the Board of Trustees shall affirm the philosophy, framework and delegation of authority for the Authority's Risk Management activities.

Printed copies are not controlled.

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- 4.2** Audit Committee of the Board of Trustees - The Audit Committee seeks to enhance the Authority's Risk Management infrastructure and ensure timely and effective identification and mitigation of critical business risks. The Audit Committee shall provide guidance to the Authority's Chief Risk Officer on Risk Management philosophy; mission and vision assumptions; and critical business objectives including risk appetite and risk response prioritization in accordance with CP 5.1 Internal Audit Charter.
- 4.3** President and CEO - This Company Policy is established under the authority of the President and CEO.
- 4.4** CRO - The CRO is responsible for providing overall leadership, vision, and direction for Risk Management. The CRO shall work with the ERM Council to ensure this Policy and related implementing procedures are maintained to direct Risk Management processes. The CRO will present updates to the President & CEO, Board of Trustees and the Audit Committee.
- 4.5** ERM Council - The ERM Council is a committee established by the Board of Trustees in accordance with the requirements of this Policy and shall act as management's controlling authority with respect to Risk Management activities. The ERM Council shall be governed by the provisions outlined in the ERM Council Charter.
- 4.6** Risk Management Business Unit - Under the CRO's direction, the Risk Management Business Unit facilitates the activities of Enterprise Risk Management, Energy Commodity and Credit Risk and Insurance Risk Management.
- 4.7** All Authority personnel, contractors, business units and departments are responsible for the management of relevant risk. Authority personnel, contractors, business units and departments shall make and support risk-informed decisions and remain vigilant in identifying and communicating emerging risk issues that could impact the Authority's success.
- 4.8** Internal Audit - In accordance with its independent role (CP 5.1 Internal Audit Charter), Internal Audit shall conduct periodic independent evaluations of the adequacy and effectiveness of the Authority's Risk Management processes.

5 POLICY IMPLEMENTATION

This Policy establishes the following Risk Management Framework:

- 5.1** A structured process for consolidating the inventory of risk assessments around risk categories.
- 5.2** Informs executive management and stakeholders of the causes and consequences of potential Risk Events.
- 5.3** Establishes a Risk Profile to enable the Authority to fulfill its mission with an informed forward-looking risk view to optimally allocate resources.
- 5.4** Includes business processes, procedures, evaluation tools and methodologies for risk and control identification, assessment and communication.

Printed copies are not controlled.

For the latest revision of this document, refer to the Policy and Procedure PowerNet Site.

Records will be retained in accordance with NYPA's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to NYPA.

- 5.5** Evaluates the appropriateness and effectiveness of Risk Response plans. The primary mandate of Risk Response shall be the containment of exposures within the established Risk Appetite.

6 VIOLATIONS

Any willful act leading to the violation of this Policy and related policies and procedures by employees may result in disciplinary action up to and including termination. Violations of this Policy by contractors and other authorized third parties may result in the revocation of such party's access to the Authority's premises and/or electronic access to its systems and the termination of such party's contract for services. In addition, where the conduct engaged in is illegal, violators may be subject to prosecution under applicable federal, state or local laws.

7 REFERENCES

- 7.1** CP 1-1 Company Policy Program Administration
7.2 Executive Risk Management Committee Charter
7.3 CP 5-1 Internal Audit Committee Charter

8 POLICY REVIEW AND EXPIRATION

This document will be reviewed and updated as business needs require. However, a mandatory review will be required on the anniversary date of the approved document.

Revision cycle: Every Year

9 ATTACHMENTS

N/A

Executive Risk Management Committee
Charter

Note: Revision # should be listed in descending order starting with most recent version at the top.

Revision Date(For BCG Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
[Revision Date]	1	Annual Review process and conversion to new format; annual review as well as realigning and combine sections to be consistent with new format.		Thomas Araneo (Senior Credit Analyst)
		Risk Appetite has been added to sections 4 and 5	4.2, 4.6 and 5.2	
		Risk Management Framework has been added	5.3	
		CFO general responsibilities have been added	5.2 & 5.3	

1 PURPOSE

The Executive Risk Management Committee (ERMC) is hereby established by the Board of Trustees to provide Risk Management oversight in accordance with the requirements of the New York Power Authority (the Authority) Company Policy 2-15 – Risk Management.

The Board of Trustees herein delegates to the ERMC the authority to pursue risk mitigation strategies, which could include entering into Hedge Transactions, to remain within the Authority's established Risk Appetite.

2 INITIALISMS (ACRONYMS) AND DEFINITIONS

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CME – Chicago Mercantile Exchange

Counterparty - An entity that has an executed, active master agreement with the Authority and is approved to participate in commodity related hedging activities.

CRO – Chief Risk Officer

EMC – Executive Management Committee

ERMC – Executive Risk Management Committee

Hedge Transaction – A transaction between NYPA and a Counterparty or a transaction cleared using CME or ICE which will therefore define the price of commodities for future delivery of a specified quantity.

ICE – Intercontinental Exchange

Risk – Any triggering event, action or inaction which is likely to prevent the Authority from achieving its goals and objectives (directly or indirectly).

Risk Appetite – The amount of risk the Authority is willing to accept in pursuit of our mission. Strategic risk-taking can help achieve business objectives while maintaining adherence to organizational values and purpose.

Risk Management – An integrated approach to identifying, assessing and addressing areas of uncertainty that could materially impair or enhance the achievement of the Authority's mission and objectives.

Risk Management Framework – A structured process that provides the foundation and organizational resources for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

Risk Profile – The portfolio of risks across the enterprise.

Risk Response – Action or measure taken in advance of, or after, a risk occurs aimed at achieving the Authority's mission and objectives.

3 COMMITTEE COMPOSITION

- 3.1 The ERMCM shall consist of a minimum of five (5) voting members, with the CFO as its chair and a minimum of four (4) additional members as appointed by the President and CEO.
- 3.2 The CRO is a de facto, non-voting, member of the ERMCM.
- 3.3 The business unit leads of Internal Audit, the Controller's Office and Wholesale Commercial Operations each have a standing invitation to attend ERMCM meetings but such attendance does not constitute ERMCM membership or voting rights.

4 AUTHORITY

The ERMCM is authorized to:

- 4.1 Provide oversight and guidance to management on all the Authority's Risk Management in accordance with the requirements of Company Policy 2-15 – Risk Management.
- 4.2 Establish and assess the Authority's Risk Profile and Risk Appetite.
- 4.3 Ensure that assigned risk owners have ERMCM approval which gives them the authority to support Risk Response plans.
- 4.4 Authorize a program for energy commodity and credit risk management which may include the use of commodity hedge transactions utilizing both physical and financial instruments.
- 4.5 Delegate to approved personnel the necessary permission to commit the Authority to the terms of physical and financial derivative transactions necessary for the conduct of its business within its established Risk Appetite.

5 GENERAL RESPONSIBILITIES

- 5.1 The ERMCM's general responsibilities are as follows:
 - a. May request any other officer, employee, or consultant to the Authority to meet with any members of, or consultant to, the committee
 - b. May request Authority personnel to prepare Risk Response strategies such as Hedge Transactions to be presented to the committee for review, approval and execution as outlined in related procedures or as otherwise requested by members of the committee.
 - c. Approve Risk Appetite
- 5.2 The CFO's general responsibilities, as they pertain to the ERMCM, are as follows:
 - a. Chair all ERMCM meetings or delegate that responsibility to another member
 - b. Provide guidance as it pertains to the Risk Appetite
- 5.3 The CRO's general responsibilities, as they pertain to the ERMCM, are as follows:

- a. Provide all necessary administrative support for the conduct of the ERMCM meetings
- b. Advise the CEO, Board and other members of the committee as well as business units within NYPA on potential risks
- c. Develop and communicate the Authority's Risk Management Framework
- d. Consult on strategic management process
- e. Develop Risk Management procedures
- f. Work with business units and ERMCM to monitor and manage risks
- g. Provide updates to the ERMCM, EMC and NYPA's Board of Trustees

6 APPROVAL PROCESS

- 6.1 ERMCM business shall only be conducted during an ERMCM meeting.
- 6.2 An ERMCM meeting quorum shall consist of any three (3) members including the chair; participation may be in-person, by video link or by telephone when reasonable assurance is provided of the identity and ability of such members to participate in the meeting discussion.
- 6.3 Voting on ERMCM matters shall be on a one member-one vote basis. When a quorum is present, the vote of a majority of the ERMCM members shall constitute the action or decision of the ERMCM.

7 RECORDS

The minutes for all ERMCM meetings shall be recorded and motioned for approval at the next regularly scheduled meeting. All approved ERMCM minutes are retained in the Records Management System, available to all NYPA employees and available to the public pursuant to a formal request process.

8 COMMUNICATIONS

- 8.1 All ERMCM meeting schedules shall be coordinated with the Chairperson.
- 8.2 At the direction of the CFO and/or CRO, members of the Risk Management Department shall coordinate the meeting of the ERMCM, including maintaining the schedule, agenda and minutes.
- 8.3 The ERMCM shall meet monthly and/or as determined necessary by the CFO and/or CRO.
- 8.4 Except in the case of an emergency, the notice period for a meeting in person shall be at least ten business days prior to the date of such meeting.



9 MEETING SCHEDULE

- 9.1** This document must be reviewed and approved annually or as business needs require.
- 9.2** The ERMC shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Audit Committee for their approval as well as approval by the Board of Trustees.
- 9.3** Records will be retained in accordance with the Authority's approved records retention schedules and/or in compliance with all applicable legal requirements pertaining to the Authority.

10 CHARTER REVIEW

- 10.1** Company Policy 2-15 – Risk Management
- 10.2** Procedure for Energy Commodity & Credit Risk Management