

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

**March 21, 2017**

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**March 21, 2017**

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 8:45 a.m.

**The following Members of the Audit Committee were present:**

Trustee Eugene Nicandri, Chairman  
Trustee Anthony Picente, Jr.  
Trustee Anne M. Kress  
Trustee Tracy McKibben

Trustee John R. Koelmel - Excused

**Also in attendance were:**

Gill Quiniones	President and Chief Executive Officer
Justin Driscoll	Executive Vice President and General Counsel
Joseph Kessler	Executive Vice President and Chief Operating Officer
Jill Anderson	Executive Vice President and Chief Commercial Officer
Kimberly Harriman	Senior Vice President - Public and Regulatory Affairs
Jennifer Sutton	Senior Vice President - Internal Audit
Soubhagya Parija	Senior Vice President and Chief Risk Officer
Ken Lee	Senior Vice President and Chief Information Officer
Kristine Pizzo	Senior Vice President and Enterprise Shared Services
Thomas Concadoro	Vice President and Controller
Karen Delince	Vice President and Corporate Secretary
Joseph Gryzlo	Vice President and Chief Ethics and Compliance Officer
Ethan Riegelhaupt	Vice President - Corporate Communications
Mary Cahill	Manager - Executive Office
Frank Deaton	Senior Director - Internal Audit
Angela Gonzalez	Director - Internal Audit
Tara Major	Manager - Internal Audit
Elaine Matthews	Audit Team Lead - Internal Audit
James Reynolds	Audit Team Lead - Internal Audit
Viviana Manzanares	Auditor - Internal Audit
Syed Raza	Auditor - Internal Audit
Cristina Bermudez	Junior Auditor - Internal Audit
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Baughman	Senior Assistant Corporate Secretary
Gottor, Jaiah	Manager - Network Services
Joseph Rivera	Network Architect
Glen Martinez	Senior Network Analyst
Todd Fowler	Lead Engagement Audit Partner – KPMG
Grace Kachigian	Manager – KPMG

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

**Introduction**

*Chairman Nicandri welcomed committee members 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 McKibben and seconded by Trustee Kress, the agenda for the meeting was adopted.

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

***Mr. Chairman, I move that the Authority conduct an executive session to discuss the financial history of a particular corporation (pursuant to section 105f of New York Public Officers Law).*** Upon motion made by Trustee Kress and seconded by Trustee McKibben an Executive Session was held.

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

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

4. **CONSENT AGENDA**

Upon motion made by Trustee McKibben and seconded by Trustee Kress, the Consent Agenda was approved.

a. **Approval of the Minutes of the Regular Meeting held on December 15, 2016**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on December 15, 2016 were approved.



5. **DISCUSSION AGENDA:**

a. **Authority Internal Audit Update**

Ms. Jennifer Sutton, Senior Vice President of Internal Audit, provided an update of the Internal Audit ("IA") activities to the Committee (Exhibit "5a-A").

2016 Audit Plan Status

The Authority's 2016 Audit Plan has been officially closed as of January 2017. All of the open audits in the 2016 Audit Plan have been issued.

2017 Audit Plan Status

- IA staff is now working on the 2017 Audit Plan.
- Of the 60 Audits in the Plan, 18 are in the reporting or field work stage and several are in the planning stages.

Ms. Sutton said that she is comfortable with the progress the team has made, to date. The team has started the year off strong and will be in a good place to complete the Plan by year-end, 2017.

Internal Audit is also engaged in 32 consulting activities. As part of its mission, the Internal Audit department is working as a trusted partner and advisor in consulting activities. IA is currently working on 17 activities related to Process Improvement and 15 activities related to Strategic Initiatives. The consulting activities include, but are not limited to, working groups meetings, reviewing road maps, strategy plans, looking at processes and system build-outs.

**Open Issue Remediation**

NYPA Remediation

- In February, with the help of IT, IA launched a SharePoint site to automate its tracking of remediation items. This has allowed IA to have better visibility and timelier reporting to management so that they can assist in moving some of the remediation items to closure.
- IA is still in the process of monitoring issues and closure of items that were open earlier than 2015.
- IA is comfortable with the status of all of the remediation items and also the timelines by process owners to complete those items.

Canal Corporation Remediation

IA is considering the best way to track Canal Corporation's ("Canal") remediation items. At the present time, only the IT-related portion of Canal's Audit Plan are being tracked and managed by IA staff. The SharePoint site IA is using for NYPA's Plan will not work for Canals; therefore, as IA build-out the Canal Audit Plan, it will need to figure out what is the best way to track and report on those items.

**Changes to 2017 Audit Plan**

IA made four changes to the Audit Plan, to date, with the addition of two audits for NYPA and two for Canal. The rationale for those changes has been reported in IA's monthly status updates to the Board.

**b. Year-End 2016 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, 2016 (Exhibit '5a-A') 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 and followed at all times.

This year-end 2016 financial report includes financial statements that present the financial position and result of operations of the Authority as of December 31, 2016 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 2016 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.

**REQUIRED ACTION**

It is requested that the Audit Committee recommend that the Authority's Trustees approve the financial statements for the year ended December 31, 2016.”

*Mr. Thomas Concadoro provided highlights of the Year-end 2016 Financial Report to the Committee.*

Upon motion made by Trustee Kress and seconded by Trustee McKibben, 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, 2016.

**c. Summary of 2016 Annual Audit of Financial Statements**

Mr. Todd Fowler, KPMG's Lead Engagement Audit Partner, introduced Ms. Grace Kachigian, Manager, who will be replacing Nick DiVirgilio on the engagement. He then presented a summary of the 2016 Annual Audit of the Authority's Financial Statements as of December 31, 2016 to the Committee. (Exhibit "5c-A").

Audit Results

Mr. Fowler said there were no changes in KPMG's audit plan that was presented to the Committee on December 15, 2016 and the audits were executed in accordance with that plan. He said that upon the Board approval of the financial statements, KPMG will issue an unmodified audit opinion on the Authority's financial statements and an unmodified opinion on the Authority's investment compliance. They will also 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 with no exceptions noted.

Accounting Policies, Practices and Estimates

Mr. Fowler said that KPMG reviewed significant accounting policies, as well as the significant estimates that were used by management in preparing the financial statements and had no findings in these areas.

In applying the procedures over investments, KPMG looked at how the Authority had adopted GASB's 72 as it relates to the fair value disclosures included in the financial statements. KPMG has no findings with how the Authority adopted GASB 72 in those disclosures.

Non-GAAP Accounting Policies

The three non-GAAP accounting policies identified where the Authority does not apply GAAP accounting policies are consistent with prior years and are insignificant and immaterial to the financial statements.

Significant Deficiencies and Material Weaknesses

KPMG did not identify any material weaknesses or significant deficiencies in internal controls over financial reporting during its audit. KPMG identified minor internal control deficiencies and the Authority's management has a plan in place to remediate those control deficiencies.

Mr. Fowler said KPMG no illegal acts, fraud or noncompliance with laws and regulations came to their attention during the audit and they did not have any significant difficulties or disagreements with management. All related party transactions have been appropriately identified, accounted for and disclosed in the Financial Statements as of December 31, 2016.

6. **Motion for Executive Session**

Upon motion made by Trustee Kress and seconded by Trustee McKibben, an executive session was held to discuss the financial condition of a particular corporation (pursuant to section 105f of New York Public Officers Law).

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

Upon motion made by Trustee Kress and seconded by Trustee McKibben, the meeting resumed in Open Session.

**8. Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee would be held on July 25, 2017 at the Clarence D. Rappleyea Building in White Plains, New York at a time to be determined.

**Closing**

Upon motion made by Trustee Kress and seconded by Trustee McKibben, the meeting was adjourned by the Chairman at approximately 9:32 a.m.

*Karen Delince*

Karen Delince  
Corporate Secretary



# ***Audit Committee Internal Audit Update***

***3/14/2017***



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- 2017 Audit Plan Status - NYPA
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- Changes to 2017 IA Plan

## Canal Corp

- 2017 Audit Plan Status - Canals
- Canal Activities
- Changes to 2017 IA Plan

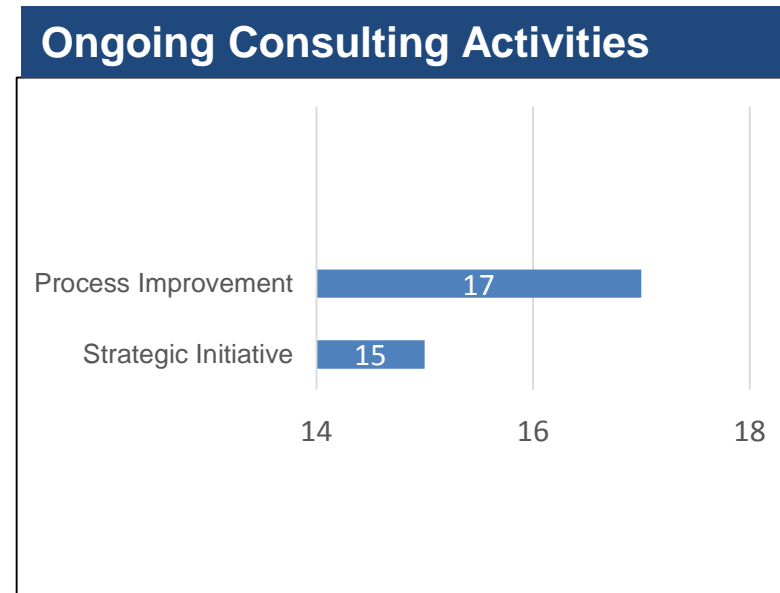
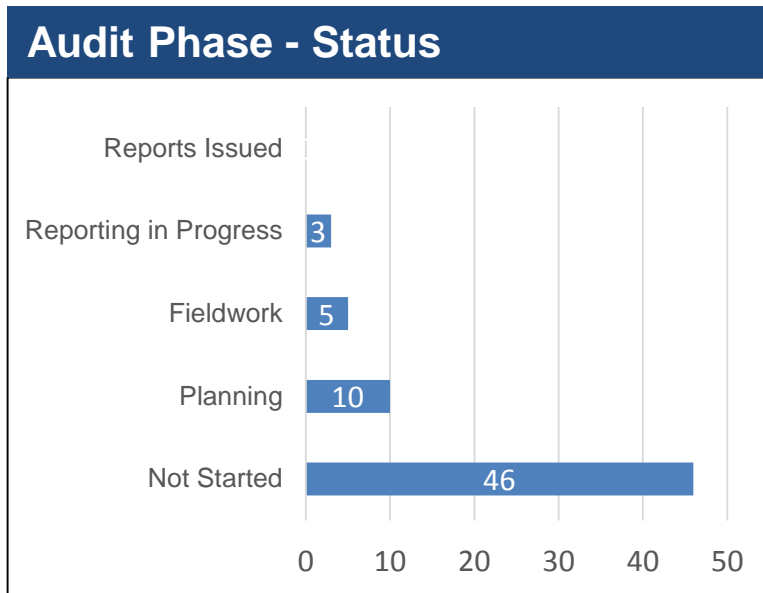
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- Appendix B – Changes to 2017 IA Plan
- Appendix C – 2017 IA Reports Issued/Ratings

# Executive Summary

## Executive Summary

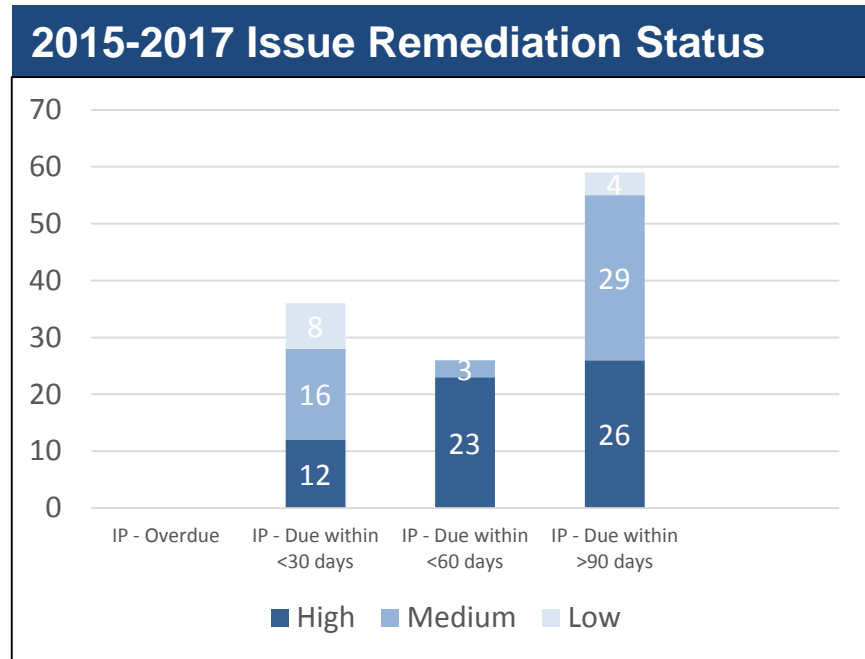
- 2016 Plan Status: Closed. All open audits from the 2016 plan have been closed.
- 2017 Plan Status:
  - Eighteen audits are in reporting, fieldwork or planning stage.
  - No significant risks have been identified on unissued reports at this time.
- IA staff is engaged in 32 consulting and partnering arrangements that will result in documented or real time verbal feedback. Engagements are categorized as Process Improvement or Strategic Initiative.



\*NOTE: Information includes both NYPA and Canal related IA activities

# Status of Open Remediation

- In February, IA launched a SharePoint site to automate tracking of open remediation items and provide enhanced reporting to Sr. Leadership.
- Open recommendations prior to 2015 are continuously monitored for close-out. As of 3/2/17, five recommendations were still in progress.
- IA is evaluating the best method to track Canal remediation status.
- IA is comfortable with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



\*NOTE: Information includes both NYPA and Canal related IA activities

## Changes to 2017 IA Plan

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2017 IA Plan:

2017 Audit Status	3/2/17
Open 2017 IA Plan	60
<b>Audit Added to 2017 IA Plan</b> <b>NYPA:</b> HTP First Energy, BG SCADA – Pre-/Post Implementation Review <b>Canals:</b> Canals Invoice Review, Canals Crisis Management	+4
<b>Audits Removed from 2017 IA Plan</b>	0
<b>Total 2017 Audits</b>	64

- Details explaining rationale for changes can be found in Appendix B.

# Canal Activities

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## Risk Assessment

- Completed independent risk assessment and validation of Canals 2017 plan.
- No significant risks were identified that had not already previously been considered.
- Recommendation to add Crisis Management to Audit Plan was accepted.

## Methodology & Staffing

- Identified audit methodology changes necessary that will be specific to Canals such as audit report distribution and recommendation management.
- Management and oversight of audit activities will be at the direction of NYPA IA staff. Execution of audits will be conducted by Deloitte, IA's third party co-source provider.
- Canal IT plan is already in progress and business/operational portion of the plan will begin execution in March.

## Canal Integration

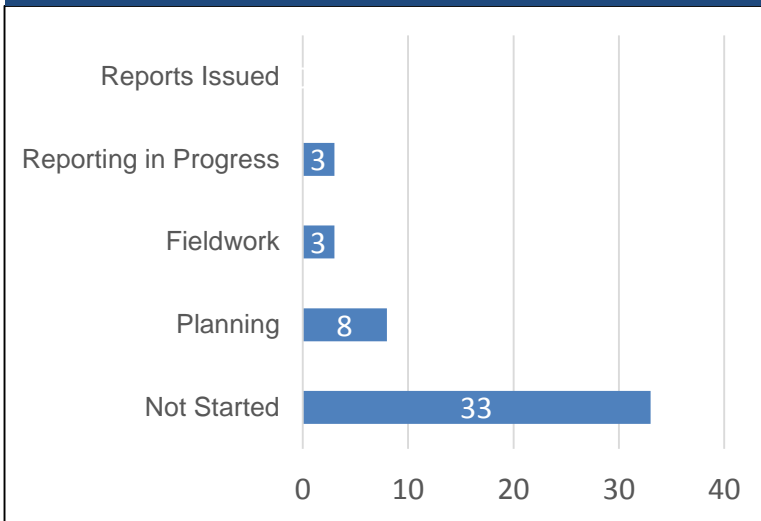
- Conducted IA Introduction to Canals leadership team at the Canals Office.
- Hosted an open IA Introduction meeting to all non-leadership Canal colleagues.

# NYPA

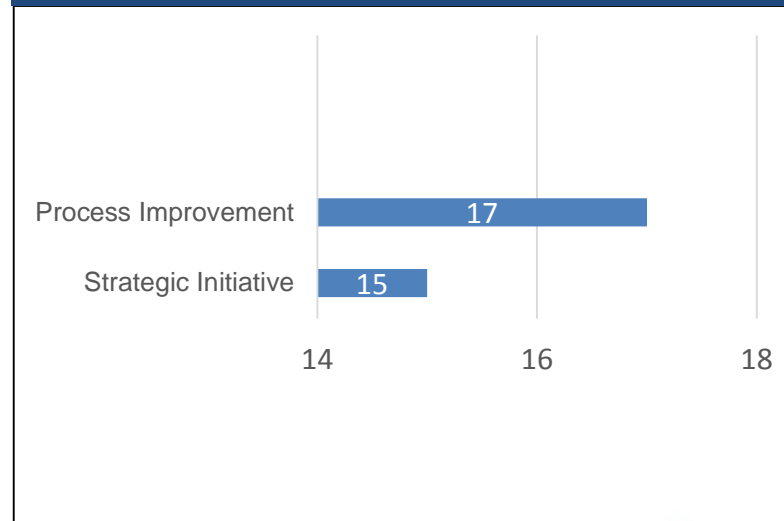
## 2017 Audit Plan Status - NYPA

- 2016 Plan Status: Closed. All open audits from the 2016 plan have been closed.
- 2017 Plan Status:
  - Fourteen audits are in reporting, fieldwork or planning stage.
  - No significant risks have been identified on unissued reports at this time.
- IA staff is engaged in 32 consulting and partnering arrangements that will result in documented or real time verbal feedback. Engagements are categorized as Process Improvement or Strategic Initiative.

### Audit Phase - Status



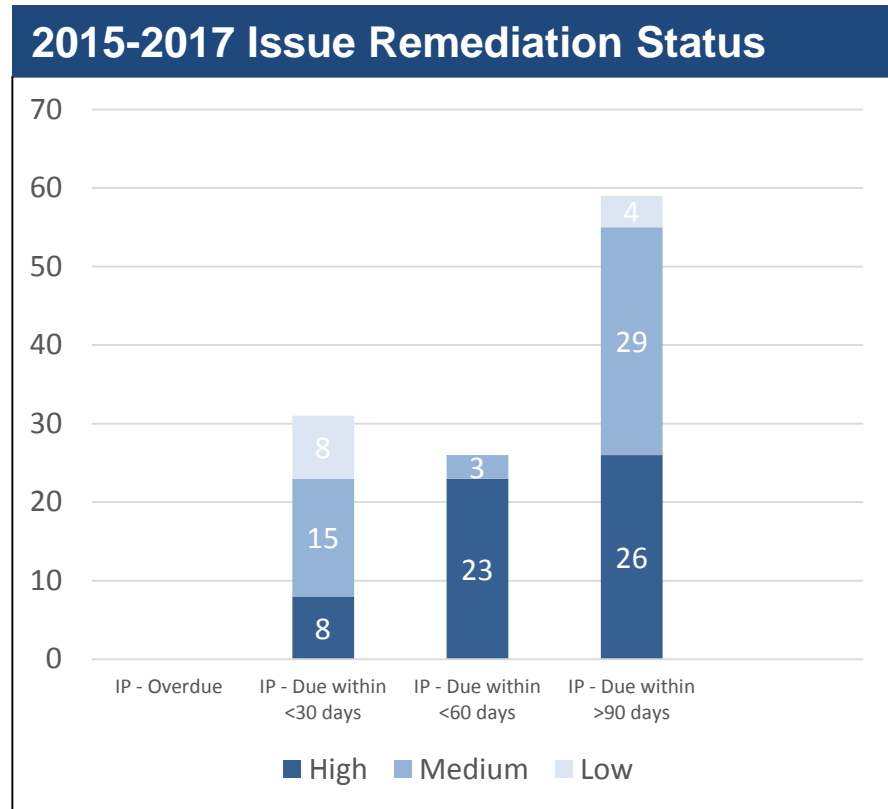
### Ongoing Consulting Activities





## Status of Open Remediation - NYPA

- In February, IA launched a SharePoint site to automate tracking of open remediation items and provide enhanced reporting to Sr. Leadership.
- Open recommendations prior to 2015 are continuously monitored for close-out. As of 3/2/17, five recommendations were still in progress.
- IA is comfortable with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



\*NOTE: Information includes both NYPA and Canal related IA activities

## Changes to 2017 IA Plan - NYPA

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2017 IA Plan:

2017 Audit Status	3/2/17
Open 2017 IA Plan	45
<b>Audit Added to 2017 IA Plan:</b> HTP First Energy, BG SCADA – Pre-/Post Implementation Review	+2
<b>Audits Removed from 2017 IA Plan</b>	0
<b>Total 2017 Audits</b>	47

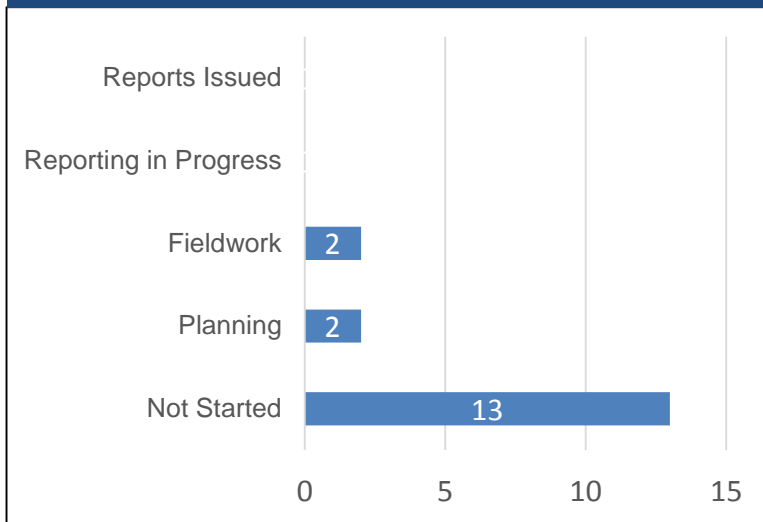
- Details explaining rationale for changes can be found in Appendix B.

# Canal Corp.

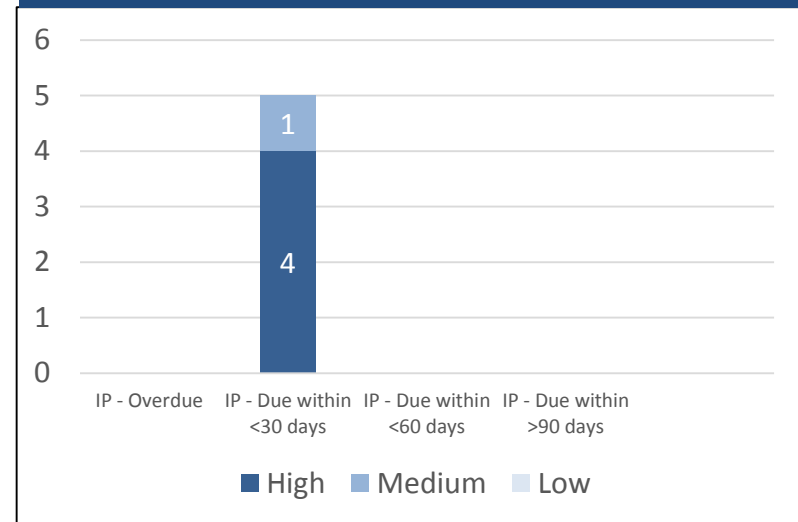
## 2017 Audit Plan Status - Canals

- 2017 Plan Status:
  - Four audits are in reporting, fieldwork or planning stage.
  - No significant risks have been identified on unissued reports at this time.

### Audit Phase - Status



### 2016-2017 Issue Remediation Status



Note: All action items will be reviewed in the SAP Migration Phase 2 audit currently in Planning.

# Canal Activities

## Risk Assessment

- Completed independent risk assessment and validation of Canals 2017 plan.
- No significant risks were identified that had not already previously been considered.
- Recommendation to add Crisis Management to Audit Plan was accepted.

## Methodology & Staffing

- Identified audit methodology changes necessary that will be specific to Canals such as audit report distribution and recommendation management.
- Management and oversight of audit activities will be at the direction of NYPA IA staff. Execution of audits will be conducted by Deloitte, IA's third party co-source provider.
- Canal IT plan is already in progress and business/operational portion of the plan will begin execution in March.

## Canal Integration

- Conducted IA Introduction to Canals leadership team at the Canals Office.
- Hosted an open IA Introduction meeting to all non-leadership Canal colleagues.

## Changes to 2017 IA Plan - Canals

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2017 IA Plan:

2017 Audit Status	3/2/17
Open 2017 IA Plan	15
<b>Audit Added to 2017 IA Plan:</b> Canals Invoice Review, Canals Crisis Management	+2
<b>Audits Removed from 2017 IA Plan</b>	0
<b>Total 2017 Audits</b>	17

- Details explaining rationale for changes can be found in Appendix B.

# Appendix

# Appendix A – 2017 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Deliverable Issued: 0</b>					
<b>Fieldwork Complete – Reporting: 3</b>					
1	2017-AU-42	Customer Compliance Audits	Commercial Operations	Audit	
2	2017-CS-46	HTP First Energy Additional Follow-up	Utility Operations	Consulting	
3	2017-AS-39	Enterprise Risk Mitigation/Action Plan Follow-up	Entity-Wide	Assessment	
<b>Fieldwork In Progress: 5</b>					
4	2017-AS-16	Business Resiliency Governance Assessment	Entity-Wide	Assessment	
5	2017-AU-41	Contributions, Sponsorships and Events	Entity-Wide	Audit	
6	2017-AU-63-C	Canals Invoice Review	Business Services	Audit	
7	2017-AU-64-C	Canals Non-SAP Applications and Infrastructure	Technology	Audit	
8	2017-AU-65	B-G SCADA Pre/Post Implementation			
<b>Audit Planning In Progress: 10</b>					
9	2017-AU-09	Ariba System Implementation – Contract Lifecycle Management Module	Technology	Audit	
10	2017-AU-14	Success Factors System Implementation	Entity-Wide	Audit	
11	2017-CS-20	SDLC Roadmap Support	Technology	Consulting	
12	2017-CS-21	ISO 55000 Framework Design Support	Utility Operations	Consulting	
13	2017-AS-27	Transitional Position Utilization Assessment	HR & Enterprise Shared Services	Assessment	
14	2017-CS-29	Customer Energy Solutions Redesign Support	Commercial Operations	Consulting	
15	2017-AU-30	Third Party Contract Audits	Entity-Wide	Audit	
16	2017-CS-44	Marketing Sales Culture Survey	Commercial Operations	Consulting	
17	2017-AS-48-C	Canals TSA Management	Technology	Audit	
18	2017-AU-51-C	SAP Migration Phase 2	Technology	Audit	
<b>Planning Not Started: 46</b>					
19	2017-AS-01	Enterprise Portfolio Management Design Assessment	Entity-Wide	Assessment	
20	2017-CS-02	Cyber Security Roadmap Consulting Support	Technology	Consulting	
21	2017-AU-03	SAP Basis Administration	Technology	Audit	
22	2017-CS-04	Cyber Security Services Function Design Support	Technology	Consulting	
23	2017-AU-05	Transmission Cost of Service	Entity-Wide	Audit	
24	2017-AU-06	Hydro Forecast Process	Utility Operations	Audit	
25	2017-AU-07	HTP Operations	Commercial Operations	Audit	
26	2017-AS-08	Resource Loaded Scheduling	Utility Operations	Assessment	
27	2017-AS-10	Generator Variable Costs	Entity-Wide	Assessment	





## Appendix A – 2017 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Planning Not Started Continued</b>					
28	2017-AU-11	Deferred Asset Accounting	Business Services	Audit	
29	2017-AU-12	New York Energy Manager	Commercial Operations	Audit	
30	2017-AU-13	Employee Data Protection	HR & Enterprise Shared Services	Audit	
31	2017-AU-15	Operating System Security	Technology	Audit	
32	2017-AU-17	Niagara SCADA Upgrade	Utility Operations	Audit	
33	2017-AU-18	IT Disaster Recovery (DR)	Technology	Audit	
34	2017-AU-19	LPGP LEM	Utility Operations	Audit	
35	2017-AU-22	Cost Allocations	Entity-Wide	Audit	
36	2017-AU-23	System Testing Management	Technology	Audit	
37	2017-AS-24	Customer Credit	Entity-Wide	Assessment	
38	2017-AU-25	2016 OSC Audit – Remediation Follow-up	Entity-Wide	Audit	
39	2017-CS-26	NERC CIP Audit Prep Support	Utility Operations	Consulting	
40	2017-AU-28	AGILE Strategic Initiative	Entity-Wide	Audit	
41	2017-AU-31	Generator Meter to Cash	Entity-Wide	Audit	
42	2017-AS-32	Physical Security Investments Assessment	Utility Operations	Assessment	
43	2017-AS-33	Business Development Governance	Entity-Wide	Assessment	
44	2017-AS-34	Project Management Methodology Assessment	Entity-Wide	Assessment	
45	2017-CS-35	IT KPI and Metric Development	Technology	Consulting	
46	2017-AU-36	Telecom Cost Recovery Project	Technology	Audit	
47	2017-AU-37	Financial Performance Metrics	Business Services	Audit	
48	2017-CS-38	Customer Contract Design Review Support	Entity-Wide	Consulting	
49	2017-AU-40	Muni/Coop Regulation Audit	Commercial Operations	Audit	
50	2017-AS-43	Post Retirement Benefits Assessment	Business Services	Assessment	
51	2017-AU-45	Office 365	Technology	Audit	
52	2017-AS-47-C	Rizzo Study Follow-up	Utility Operations	Assessment	
53	2017-AS-49-C	EH&S Study Follow-up	Utility Operations	Assessment	
54	2017-AU-50-C	User Access Management	Technology	Audit	
55	2017-AU-52-C	IT Incident Management	Technology	Audit	
56	2017-AU-53-C	PCI Compliance	Technology	Audit	
57	2017-AU-54-C	Physical Inventory/Asset Verification	Entity-Wide	Audit	
58	2017-AS-55-C	P-Cards	Entity-Wide	Assessment	
59	2017-AU-56-C	Pre/Post Day 1 Balance Review	Business Services	Audit	

## Appendix A – 2017 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Planning Not Started Continued</b>					
60	2017-AU-57-C	Pension/Other Post Retirement Benefits	Business Services	Audit	
61	2017-AU-59-C	Expenditure Authorization Procedure (EAP) Compliance	Entity-Wide	Audit	
62	2017-AU-60-C	OSC Audit Follow-up	Entity-Wide	Audit	
63	2017-AU-62-C	Canals Governance	Entity-Wide	Audit	
64	2017-AU-66-C	Canals Crisis Management	Utility Operations	Audit	

## Appendix B - Changes to 2017 IA Plan

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Business Services	Canals Invoice Review	Added to Plan	Continuation of Canal's Invoice Review	Q1	+1
Utility Operations	HTP First Energy	Added to Plan	Removed from 2016 Internal Audit Plan due to documentation from third party vendor pending receipt moved to 2017. The expectation is that information required to complete the planned work will be received during 2017 at which time the agreed upon audit procedures can be completed and conclusions drawn by IA in support of management's next steps.	Q1	+1
Utility Operations	BG SCADA – Pre/Post Implementation Review	Added to Plan	Accommodate the remaining BG SCADA implementation work.	Q1	+1
Utility Operations	Canals Crisis Management	Added to Plan	Potential areas of focus include but not limited to: emergency communication, pre-crisis preparedness, policies and procedures, and controls.		+1
Technology	Canals Non-SAP Applications and Infrastructure	Name Change	Changed from Third Party Vendor Applications Support	Q1	0
Technology	ERP Migration	Name Change	Changed name to SAP Migration Phase 2 and scope description.	Q1	0
Entity-wide	Grants and Sponsorship	Name Change	Changed name to Contributions, Sponsorships and Events. Accurate reflection of what is governed by the two policies.	Q1	0
Entity-wide	Emergency Management Governance Assessment	Name Change	Changed name to Business Resiliency Governance Assessment.	Q1	0

## Appendix C – 2017 IA Reports Issued/Ratings

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No 2017 reports have been issued as of 3/2/17.

**NEW YORK POWER AUTHORITY**

**Financial Report**

**December 31, 2016 and 2015**

**NEW YORK POWER AUTHORITY**  
**Financial Report**  
**December 31, 2016 and 2015**

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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 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, 2016, 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 [ ], 2017

# **NEW YORK POWER AUTHORITY**

## **Management's Discussion and Analysis**

December 31, 2016 and 2015

(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

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### Summary of Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's financial information for 2016, 2015, and 2014:

The following summarizes the Authority's financial performance for the years 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs. 2015 favorable (unfavorable)</u>	<u>2015 vs. 2014 favorable (unfavorable)</u>
	(In millions, except percentages)				
Operating revenues	\$ 2,421	\$ 2,625	\$ 3,175	(8)%	(17)%
Operating expenses:					
Purchased power	514	689	996	25	31
Fuel oil & gas	152	236	361	36	35
Wheeling	609	599	614	(2)	2
Operations and maintenance	619	569	562	(9)	(1)
Depreciation	231	237	232	3	(2)
Total operating expenses	<u>2,125</u>	<u>2,330</u>	<u>2,765</u>	9	16
Operating income	<u>296</u>	<u>295</u>	<u>410</u>	-	(28)
Nonoperating revenues	25	25	115	-	(78)
Nonoperating expenses	<u>299</u>	<u>246</u>	<u>253</u>	(22)	3
Net income	<u>22</u>	<u>74</u>	<u>272</u>	(70)	(73)
Contributed capital	<u>—</u>	<u>—</u>	<u>—</u>		
Net income and change in net position	22	74	272		
Net position – beginning	4,059	3,991	3,719		
Cumulative effect of change in accounting principle	<u>—</u>	<u>(6)</u>	<u>—</u>		
Net position – beginning, as restated	<u>4,059</u>	<u>3,985</u>	<u>3,719</u>		
Net position – ending	<u>\$ 4,081</u>	<u>\$ 4,059</u>	<u>\$ 3,991</u>		

The Authority had net income of \$22 million for the year ended December 31, 2016 compared to \$74 million in 2015, a decrease of \$52 million. The decrease was primarily due to the reimbursement charges, included in nonoperating expenses, of \$62 million of Canals Corporation expenditures incurred in 2016 under a funding agreement with the New York State Thruway Authority pursuant to the State Fiscal Year 2016-2017 Budget legislation. Operating income increased by \$1 million compared to last year as lower fuel and purchased power costs substantially offset lower revenues and higher operations & maintenance expenses. Purchased power and fuel expenses decreased a total of \$259 million for the year ended December 31, 2016, compared to the prior year as a result of lower prices. Operations and maintenance expenses increased by \$50 million primarily due to costs related to the Canal Corporation integration and pension expense. Revenues were \$204 million lower reflecting the pass-through of lower energy costs to customers, partially offset by higher transmission and hydro facility revenues.

The change in net position was attributable to the positive 2016 net income of \$22 million.

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### **Management's Discussion and Analysis**

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

### **Operating Revenues**

Operating revenues of \$2,421 million in 2016 were \$204 million or 8% lower than the \$2,625 million in 2015, 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 lower natural gas prices.

### **Purchased Power and Fuel**

Purchased power costs decreased by 25% in 2016 to \$514 million from \$689 million in 2015, primarily due to lower prices (\$97 million) and volumes (\$29 million) of energy purchases. Fuel costs were \$84 million (36%) lower during 2016, primarily due to lower prices (\$72 million) and lower volume (\$12 million). The average price of fuel consumed was lower in 2016 compared to 2015 due to the continuing favorable market prices experienced during the year.

### **Operations and Maintenance (O&M)**

O&M expenses increased by \$50 million, or 9%, in 2016 to \$619 million, primarily due to Canal Corporation integration costs and pension expense partially offset by lower maintenance costs.

### **Nonoperating Revenues**

For 2016, nonoperating revenues were flat when compared to prior years with \$25 million in both 2016 and 2015.

### **Nonoperating Expenses**

For 2016, nonoperating expenses increased by \$53 million, or 22%, due to reimbursement charges of \$62 million related to the Canal Corporation funding agreement with the New York State Thruway Authority.

### **Cash Flows**

Net cash flows provided by operating activities decreased by \$85 million in 2016 compared to 2015. The decrease was due to the timing of payments and receipts.

### **Net Generation**

Net generation was 29.3 million megawatt-hours (MWh) in 2016, a 2% increase compared to 2015 (28.8 million MWh). Net generation from the Niagara and St. Lawrence hydroelectric plants in 2016 (22.1 million MWh) was

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4% higher than 2015 (21.2 million MWh) due to increased water levels on Lakes Erie and Ontario resulting in higher water flow to the Niagara and St. Lawrence hydroelectric plants. For 2016, net hydro generation was approximately 110% of long-term average and above 2015, which was 105%. Combined net generation of the fossil fuel plants for 2016 was 7.2 million MWh, or 6% lower than 2015 (7.6 million MWh), with a 0.4 million MWh decrease attributable to lower generation at certain fossil fuel plants due to milder temperatures during winter peak period and cooler than normal temperatures over the summer peak period.

## Summary of Statements of Net Position

The following is a summary of the Authority's statements of net position for 2016, 2015, and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs.</u> <u>2015</u>	<u>2015 vs.</u> <u>2014</u>
	(In millions, except percentages)				
Current assets	\$ 3,082	\$ 1,754	\$ 1,925	76 %	(9) %
Capital assets	4,825	4,778	4,731	1	1
Other noncurrent assets	1,529	3,003	2,851	(49)	5
Deferred outflows	<u>107</u>	<u>40</u>	<u>17</u>	168	135
Total assets and deferred outflows	<u>\$ 9,543</u>	<u>\$ 9,575</u>	<u>\$ 9,524</u>	-	1
Current liabilities	\$ 2,439	\$ 1,096	\$ 927	123	18
Noncurrent liabilities	<u>2,668</u>	<u>4,110</u>	<u>4,320</u>	(35)	(5)
Total liabilities	<u>5,107</u>	<u>5,206</u>	<u>5,247</u>	(2)	(1)
Deferred inflows	<u>355</u>	<u>310</u>	<u>286</u>	15	8
Net position	<u>4,081</u>	<u>4,059</u>	<u>3,991</u>	1	2
Total liabilities, deferred inflows and net position	<u>\$ 9,543</u>	<u>\$ 9,575</u>	<u>\$ 9,524</u>	-	1

The following summarizes the Authority's statements of net position variances for the years 2016 and 2015:

In 2016, current assets and current liabilities increased mainly due to the reclassification of the Decommissioning Trust Fund from noncurrent assets and liabilities resulting from the transfer of the fund to Entergy on January 30, 2017 (see note 12(c) "Nuclear Plant Divestiture and Related Matters – Nuclear Plant Decommissioning" of notes to the financial statements). Excluding Decommissioning Trust Fund investment of \$1,504 million in 2016, current assets decreased by \$176 million (10%) to \$1,578 million primarily due to a decrease in investments resulting from sales of securities for repayment of debt in the first quarter of 2016. Capital assets increased by \$47 million (1%) to \$4,825 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, excluding Decommissioning Trust Fund investment of \$1,430 million in 2015, decreased by \$44 million (3%) primarily due to decrease in receivable from New York State related to Transfer of Assets – see Note 13(e) "Commitments and Contingencies – New York State Budget and Other Matters". Deferred outflows increased by \$67 million primarily due to changes in the deferral of pension related resources. Current liabilities, excluding the Decommissioning Trust Fund investment of \$1,504 million in 2016, decreased by \$161 million (15%), to \$935 million compared to last year. This decrease is attributable to the decrease in long-term debt due within one year resulting from scheduled maturities, and the Authority's repayment, on an accelerated basis, of the Adjustable

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Rate Tender Notes (ART Notes) and a portion of the Extendible Municipal Commercial Paper (EMCP) in the first quarter of 2016. Noncurrent liabilities, excluding Decommissioning Trust Fund investment of \$1,430 million in 2015, were higher by \$51 million (3%), primarily due to the increase in pension liability (\$76 million) partially offset primarily by decreases in long-term debt resulting from the scheduled maturities, and payments on capital lease obligations. Deferred inflows increased by \$45 million (15%) compared to last year due to changes in fair value and settlements of derivative instruments, \$14 million increase in the costs of removal obligation and the deferral of pension related resource. The changes in net position for 2016 and 2015 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

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.

### **Capital Asset and Long-Term Debt Activity**

The Authority currently estimates that it will expend approximately \$1.4 billion for various capital improvements over the five-year period 2017-2021. 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.

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

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MA1 & MA2 Transmission Line Upgrade	\$	171
Life Extension & Modernization Program (RMNPP)		168
PID SGT: WNY Energy Link		157
Lewiston Pump Generating Plant LEM		150
Transmission LEM (Niagara, Clark Energy Center, Massena)		128
PID - SCPP System Hardening		51
Transmission Breaker & Relay Program (St. Lawrence)		39
Transmission LEM Substation (Adk,Plattsburg) (Clark Energy Center)		38
SGT: Communications Backbone		33
New Security And Warehouse Facility (St. Lawrence)		27
IT Initiatives		24
CT R-22 Inlet Chilling System - 500mw		21
Install Advanced Hot Gas Path Components		20
Transmission Pv Line Assesment/Upgrade (St. Lawrence)		19
Transmission Relay Repl New Initiative (Niagara)		16
Rotor Modification for Stress Redistribution (St. Lawrence)		14
MA1 & MA2 Structure Replmt Phase II (St. Lawrence)		13
Switchyard T-LEM (St. Lawrence)		11
Centroplex Garage LEM		9
AM: Integrated Smart Operating Center		9
All Other (Projects below \$9.0 million)		280
	\$	<u><u>1,398</u></u>

In addition, the Authority's capital plan includes the provision of approximately \$1.4 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. It should also be noted that due to projects currently under review as well as energy initiatives announced in the Governor's State of the State address, there is a potential for significant increases in the capital expenditures indicated in the table above. 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 \$208 million spent as of December 31, 2016. 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-capacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Authority

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### **Management's Discussion and Analysis**

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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, 2016, the balance in the liability associated with the relicensing on the statement of net position is \$295 million (\$25 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 is embarking on several initiatives, which are currently 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) 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 Note 2 "Summary of Significant Accounting Policies" and Note 5 "Capital Assets" of the notes to the financial statements.

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### Capital Structure

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(In millions)	
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	\$ 784	\$ 845	\$ 902
Adjustable rate tender notes	—	—	86
Subordinated:			
Subordinated Notes, Series 2012 (1)	21	21	23
Commercial paper	5	5	44
Total long-term debt, net of current maturities	810	871	1,055
Net position	4,082	4,059	3,991
Total capitalization	\$ 4,892	\$ 4,930	\$ 5,046

(1) The Subordinated Notes, Series 2012, which were issued in 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 and the Series 2015 A Revenue Bonds.

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 on March 1, 2016.

In November 2016, the Authority's Trustees authorized the issuance of up to \$475 million of additional revenue bonds for the purpose of refunding certain revenue bonds and raising funds to finance a portion of its Lewiston Pump Generating Plant and Transmission Life Extension and Modernization programs. Such bonds have yet to be issued.

Also in November 2016, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2016, in a principal amount not to exceed \$30 million to accelerate additional 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 in connection with the Niagara Project's relicensing. The Authority issued the Subordinated Notes on February 24, 2017 in the amount of \$25.2 million re-designated as the Subordinated Notes, Series 2017. These 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 and the Series 2015 A Revenue Bonds.

Total debt to equity ratio as of December 31, 2016, was at .34-to-1 when compared to .39-to-1 as of December 31, 2015. Total debt as of December 31, 2016 is at its lowest level since December 31, 1974.

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#### Debt Ratings

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
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 – the principal and interest when due is guaranteed under insurance policies issued by MBIA Insurance Corporation. The credit ratings of MBIA Insurance Corporation are currently at or below the Authority's underlying credit ratings.

In December 2016, Moody's Investors Service affirmed the Authority's senior and subordinate debt ratings and in January 2017, Standard & Poor's Ratings Service also affirmed the Authority's senior and subordinate debt ratings, and also assigned a AA- rating to the Authority's Subordinated Notes, Series 2017. In January 2017, Fitch Ratings affirmed the Authority's subordinate debt ratings (they did not review the Authority's senior debt or Subordinated Notes, Series 2012).

The Authority has a line of credit under a 2015 revolving credit agreement, as amended (the amended 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 amended 2015 RCA terminates January 19, 2018, unless mutually extended by the banks and the Authority. There are no outstanding borrowings under the amended 2015 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 goals are 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 in Southeastern New York within the metropolitan area of 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"); (d) a firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC ("HTP") for a portion of the output of the 660 MW, seven mile, underground and underwater transmission line connecting into the PJM ISO (e) refinancing outstanding bonds to lower the overall cost of 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 energy marketplace.



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The Authority operates in a competitive and sometimes volatile energy 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, provide for the complete or partial pass-through of these costs.

To moderate cost impacts to the Authority and its customers, NYPA, at times, hedges market risks through the use of financial instruments and physical 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. 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.

The Authority can give no assurance that, even with these measures, it will retain its competitive status in the marketplace 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. 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 2017, 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 35% 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.

ReCharge New York ("RNY") is Governor Cuomo's statewide economic development electric power program, designed to retain and create jobs through the allocation of low-cost power. The RNY program allocates 455 MW of hydropower from the Authority's Niagara and St. Lawrence-FDR projects at rates similar to the expansion and replacement power customers, with certain adjustments. An additional 455 MW of market power can also be procured for RNY customers upon request.

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

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of the Authority's annual transmission revenue requirement ("TRR"). 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 more efficiently recover its revenue requirement based upon capital spending necessary to maintain the reliability of its transmission system, such as the Life Extension and Modernization program. The Authority filed an unopposed Offer of Settlement on September 30, 2016 that fully resolves the issues raised by interested parties in settlement negotiations concerning the formula rate. The settlement was approved by FERC on January 19, 2017. Separately, the annual TRR under the formula of \$190.0 million initially made effective April 1, 2016 was updated on July 1, 2016 to \$198.2 million pursuant to the formula rate annual update process.

### ***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. On July 26, 2016, the Authority's Trustees approved an additional amount not to exceed \$3 million to fund anticipated payments for the period from July 1, 2015 through June 30, 2016. As of December 31, 2016, approximately \$10 million of such discounts have been paid with approximately an additional \$3 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 \$474 million through December 2017 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, 2016, totaling cumulatively \$108 million. Operations and maintenance expenses included \$43 million and \$63 million of residential consumer discounts in the years ended December 31, 2016 and 2015, respectively.

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#### **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 (WNYED 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 \$60 million in net earnings, calculated for the period August 30, 2010 through December 31, 2016 as provided in the legislation, for deposit into the Fund. As of December 31, 2016, \$41 million has been deposited into the Fund. As of December 31, 2016, the Authority has approved awards of Fund money totaling approximately \$35 million to businesses that have proposed eligible projects and has made payments totaling \$21 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 (NNYED 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 NNYED 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, 2016, approximately \$2 million has been deposited into the Fund and no awards have been made.

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#### **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 49<sup>th</sup> 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 \$338 million. As of December 31, 2016, the Authority paid approximately \$336 million of such costs related to the interconnection and transmission upgrades. The Authority's obligations under the FTCPA also include payment of the Regional Transmission Enhancement Plan (RTEP) charges allocated to HTP in accordance with the PJM transmission tariff. Such RTEP costs are estimated to grow significantly in future years, and are discussed below.

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 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 \$93 million to \$126 million per year over the next five years. PJM's RTEP charges contribute to this under-recovery. 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, HTP and other parties on the grounds that PJM has disproportionately allocated the costs of those projects to those parties. The Authority's challenge has also pointed out that the RTEP share allocated to HTP may be greatly exacerbated by Con Edison's upcoming termination of its PJM transmission rights (scheduled to occur after April 2017) that could shift significant RTEP costs to NYPA. Depending on a variety of factors, including the outcome of FERC's review and whether any other parties decide to terminate their PJM transmission rights, HTP could be allocated, and NYPA could be obligated to pay, substantially more RTEP costs. Any RTEP costs relating to the Bergen-Linden Corridor and Edison Rebuild projects would be paid over a number of years once the improvements have been included in PSEG's revenue requirement calculation, which is expected to commence in 2017.

#### **Canal Corporation**

Article XV of the New York State Constitution provides, in part, that the barge canal, the divisions of which are the Erie canal, the Oswego canal, the Champlain canal, and the Cayuga-Seneca canal, and the terminals constructed as part of the barge canal system (collectively, the "Canal System") shall remain the property of the State and under its management and control forever.

Legislation enacted in 1992 (the "1992 Legislation") transferred jurisdiction of the Canal System, among other assets and properties, from the New York State Commissioner of Transportation to the Thruway Authority, to be held by the New York Thruway Authority (the "Thruway Authority") in the name of the people of the State. Such canal system remained the property of the State and under its management and control as exercised by and through the Thruway Authority, through its then newly created subsidiary, the New York State Canal Corporation (the

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“Canal Corporation”). The 1992 Legislation deemed the Canal Corporation to be the State for the purposes of such management and control of the canals but for no other purposes.

Legislation was enacted on April 4, 2016 (the “Canal Transfer Legislation”) which provided for (1) the transfer, effective January 1, 2017, of the Canal Corporation from the Thruway Authority to the Authority and (2) as of January 1, 2017, the Authority’s assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Authority is authorized to exercise through the Canal Corporation.

The Canal Transfer Legislation authorized the Authority to reimburse the Thruway Authority for all Canal System expenses beginning April 1, 2016 through January 1, 2017. Because the Authority did not assume ownership of the Canal Corporation until January 1, 2017, all reimbursement costs, including those for capital related activities, were treated as non-operating expenses for the Authority’s 2016 fiscal year.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. For fiscal year 2015, reports prepared by the Thruway Authority indicate that the Canal Corporation’s operating expenses were approximately \$62.1 million and operating revenues were approximately \$2.37 million with the shortfall provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation’s capital expenditures were approximately \$48.8 million with funding from various sources, including the Thruway Authority.

In addition, the financial statements of the Thruway Authority for the fiscal year ended December 31, 2015 indicate that the Present Value of Future Benefit Payments (commonly referred to as “OPEBs”) of the Canal Corporation as of December 31, 2015 was \$290.5 million and that the Unfunded Accrued Liability associated with such Future Benefit Payments as of such date was \$208.7 million.

The Canal Transfer Legislation also authorizes, but does not require, the Authority, to the extent that the Authority’s Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation. By resolution adopted November 7, 2016, the Authority’s Trustees determined that \$60 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support costs associated with the transfer of the Canal Corporation to the Authority including: (1) reimbursements to the Thruway Authority for the period of April 1, 2016 through December 15, 2016, as authorized by the Canal Transfer Legislation, in the amount of \$37.0 million, and (2) 2016 calendar year Authority integration costs associated with the Canal Corporation transfer in the amount of \$16.9 million. By resolution adopted December 15, 2016, the Authority’s Trustees determined that an additional \$44.0 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support Canal Corporation related costs, including reimbursements in respect of the remainder of calendar year 2016 and certain expected costs through January 2017. By resolution adopted January 31, 2017, the Authority’s Trustees authorized the release of an additional up to \$15.0 million in funding to support operations of the Canal Corporation for the period from February 1, 2017 to March 31, 2017. Additional releases will be considered at future meetings of the Trustees.

By resolution adopted January 31, 2017, the Canal Corporation’s Board of Directors adopted a budget for 2017 that included expenditures of \$84.3 million for operations and maintenance expenses, \$60.5 million for capital expenses and \$3.1 million for Canal Development Fund expenses. The Canal Corporation’s O&M, capital and Canal Development Fund expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority’s Board of Trustees and compliance with the Authority’s General Resolution Authorizing Revenue Obligations, as amended and supplemented. Canal

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Development Fund expenses are expected to be reimbursed to the Authority by the State Comptroller with moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance.

Given the age of the Canal System, the Authority expects that significant maintenance and capital investments will be required to assure its continuing operation. For fiscal year 2016, the Canal Corporation's operating expenses were budgeted to be \$53.75 million, capital expenditures were budgeted to be \$40 million, and operating revenues were budgeted to be \$2.95 million with the difference to be provided by the Thruway Authority, the Authority or other resources. The Authority's budget and financial plan for 2017-2020 includes Canal-related operating expenditures ranging from \$66.1 million to \$84.3 million per year.

The Authority has included in its budget and financial plan for 2017-2020 Canal-related capital expenditures which it expects will be adequate, together with amounts expected to be expended in subsequent years, to address necessary capital improvements associated with the Canal System. The Authority's 2017-2020 budget and financial plan includes annual Canal System related capital expenditures of approximately \$60.5 million in 2017 and approximately \$40 million in each of year 2018-2020.

### ***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.

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 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), 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 13(a) "Power Programs – 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 2016 and 2015, the Authority made contributions to the State of \$91 million and \$90 million, respectively, that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2016 and 2015 statements of revenues, expenses and changes in net position. These contributions

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were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2016 contributions included \$26 million that was paid to the State's General Fund and \$65 million that was paid to Empire State Development Corporation (ESD). 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). Cumulatively, between January 2008 and December 31, 2016, the Authority has made voluntary contributions to the State totaling \$763 million unrelated to the PFJ program.

The Authority cannot predict what additional contributions to the State may be authorized in the future.

### ***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 12(b) "Nuclear Plant Divestiture and Related Matters – 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.

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



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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 cumulative installment payments of \$60 million as of December 31, 2016.

The Authority expects that the State will return the \$215 million (Asset B) in installments beginning in 2017. The Assets A and B transfers are reported in miscellaneous receivable and other (\$43 million and \$21 million as of December 31, 2016 and 2015, respectively) and in other noncurrent assets (\$215 million and \$258 million at December 31, 2016 and December 31, 2015, respectively) in the statements of net position.

### **New York State Office of Parks, Recreation and Historic Preservation**

On July 18, 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of \$3 million per year to OPRHP for the term of the 50-year License. OPRHP has requested that the Authority accelerate certain of such payments by making a lump sum payment of approximately \$25 million to pay for authorized projects. In order to make the lump sum payment, the Authority issued \$25.2 million in subordinated notes on February 24, 2017 and made the proceeds available to OPRHP.

### **Niagara Parkway Redevelopment**

The State plans to replace an underutilized two-mile stretch of the Robert Moses Parkway North in Niagara Falls with open space, scenic overlooks and recreational trails. Construction is anticipated to commence in 2018 and take approximately two years to complete with funding in the amount of approximately \$40 million expected to be provided by the Authority. As of December 31, 2016, the Authority's Trustees have approved up to \$5 million in funding by the Authority.

### **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.



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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. A negotiated settlement of that cost allocation has been approved by FERC. The Authority co-developed one of the TOTS projects, the Marcy-South Series Compensation, with NYSEG and has also completed a negotiated settlement at FERC to recover the costs of its portion of that project.

### **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, 2016, the Authority has in aggregate provided approximately \$282 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, 2016, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately \$17 million. On January 31, 2017, the Authority's Trustees approved an extension of the energy efficiency market acceleration program through December 31, 2018.

### **Zero Emission Credits**

On August 1, 2016, the New York (NYPSC) issued an order establishing a Clean Energy Standard (the "CES Order") to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving

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entities identified in the order are required to purchase "Zero Emission Credits" ("ZECs") from the New York State Energy Research Development Authority ("NYSERDA") to support the preservation of existing at-risk zero emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but expects to assume a ZEC Purchase Obligation and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority estimates that it will incur ZEC Purchase Obligation costs under the CES Order of as much as \$254 million in aggregate over the 2017-2020 period, and it will work to recover all of the costs incurred.

#### **Bridge Lighting**

It is anticipated that the Authority, through its Customer Energy Solutions program, will be responsible for implementing a plan to make improvements to bridges and tunnels in the New York City metropolitan region including the addition of energy efficient LED lighting in conjunction with the Triborough Bridge and Tunnel Authority ("TBTA"), with costs, which are currently expected to be approximately \$216 million, to be paid by or recovered from TBTA.

#### ***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 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 Order Adopting a Ratemaking and Utility Revenue Model Policy Framework issued and effective May 19, 2016 (Track 2), 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***

## **NEW YORK POWER AUTHORITY**

### **Management's Discussion and Analysis**

December 31, 2016 and 2015

(Unaudited)

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, in partnership with New York State Electric & Gas Corp. (NYSEG), has developed a proposal for meeting this need which was submitted to the New York System Operator (NYISO) on December 31, 2015. The NYISO completed their initial evaluation of the submitted proposals and prepared a report identifying those solutions which were viable and sufficient. This report was forwarded to the New York Public Service Commission on June 1, 2016. The PSC in an Order dated October 13, 2016 confirmed the continuing transmission need and directed the NYISO to complete their evaluation of the viable and sufficient proposals. The NYISO is currently evaluating the viable and sufficient proposals and will select a project upon completion of the evaluation.

### **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. Email: [info@nypa.gov](mailto:info@nypa.gov)



**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, 2016 and 2015, 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, 2016 and 2015, 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,  
the U.S. member firm of KPMG International Cooperative  
("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 section 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 [ ], 2017 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.

New York, NY  
March [ ], 2017

# NEW YORK POWER AUTHORITY

## Statements of Net Position

(In millions)

	December 31,	
	2016	2015
<b>Assets and Deferred Outflows</b>		
Current Assets:		
Cash and cash equivalents	\$ 43	\$ 67
Investment in securities	1,060	1,270
Investment in securities- restricted	1,504	—
Receivables - customers	152	153
Materials and supplies, at average cost:		
Plant and general	85	82
Fuel	33	36
Miscellaneous receivables and other	205	146
Total current assets	3,082	1,754
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	25	19
Investment in securities	31	1,495
Total restricted assets	56	1,514
Capital funds:		
Cash and cash equivalents	5	6
Investment in securities	27	29
Total capital funds	32	35
Capital Assets:		
Capital assets not being depreciated	512	588
Capital assets, net of accumulated depreciation	4,313	4,190
Total capital assets	4,825	4,778
Other Noncurrent Assets:		
Receivable - New York State	215	258
Other long-term assets	1,226	1,196
Total other noncurrent assets	1,441	1,454
Total noncurrent assets	6,354	7,781
Total assets	9,436	9,535
Deferred outflows:		
Accumulated decrease in fair value of hedging derivatives	—	10
Pensions (Note 10)	107	30
Total assets and deferred outflows	\$ 9,543	\$ 9,575

(Continued)

# NEW YORK POWER AUTHORITY

## Statements of Net Position

(In millions)

	December 31,	
	2016	2015
<b>Liabilities, Deferred Inflows and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 328	\$ 363
Liability to decommission divested nuclear facilities	1,504	—
Short-term debt	516	528
Long-term debt due within one year	58	181
Capital lease obligation due within one year	25	20
Risk management activities - derivatives	8	4
Total current liabilities	2,439	1,096
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	784	845
Subordinated:		
Subordinated Notes, Series 2012	21	21
Commercial paper	5	5
Total long-term debt	810	871
Other noncurrent liabilities:		
Capital lease obligation	1,144	1,169
Liability to decommission divested nuclear facilities	—	1,430
Disposal of spent nuclear fuel	217	217
Relicensing	270	270
Risk management activities - derivatives	—	15
Other long-term liabilities	227	138
Total other noncurrent liabilities	1,858	3,239
Total noncurrent liabilities	2,668	4,110
Total liabilities	5,107	5,206
Deferred inflows:		
Cost of removal obligation	313	299
Accumulated increase in fair value of hedging	30	10
Pensions (Note 10)	12	1
Net position:		
Net investment in capital assets	2,278	2,070
Restricted	23	23
Unrestricted	1,780	1,966
Total net position	4,081	4,059
Total liabilities, deferred inflows and net position	\$ 9,543	\$ 9,575

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,	
	2016	2015
Operating revenues:		
Power sales	\$ 1,638	\$ 1,866
Transmission charges	174	160
Wheeling charges	609	599
Total operating revenues	2,421	2,625
Operating Expenses:		
Purchased power	514	689
Fuel oil and gas	152	236
Wheeling	609	599
Operations	484	415
Maintenance	135	154
Depreciation	231	237
Total operating expenses	2,125	2,330
Operating income	296	295
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	15	14
Other	10	11
Total nonoperating revenues	25	25
Nonoperating expenses		
Contribution to New York State	91	90
Canal Reimbursement Agreement	62	—
Interest on long-term debt	49	55
Interest - other	117	116
Interest capitalized	(16)	(12)
Amortization of debt premium	(4)	(3)
Total nonoperating expenses	299	246
Net income and change in net position	22	74
Net position, January 1	4,059	3,991
Cumulative effect of change in accounting principle (Note 10)	—	(6)
Net position, January 1, as restated	4,059	3,985
Net position, December 31	\$ 4,081	\$ 4,059

See accompanying notes to the financial statements.



# NEW YORK POWER AUTHORITY

## Statements of Cash Flows

(In millions)

	Year Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 2,356	\$ 2,600
Disbursements for:		
Purchased power	(515)	(705)
Fuel, oil and gas	(136)	(234)
Wheeling of power by other utilities	(617)	(602)
Operations and maintenance	(739)	(625)
Net cash provided by operating activities	349	434
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(218)	(238)
Issuance of 2015 Series Bonds	–	69
Redemption of Series 2006 A Revenue Bonds	–	(88)
Repayment of notes	(87)	(10)
Repayment of bonds	(55)	(40)
Repayment of commercial paper	(39)	(26)
Interest paid, net	(50)	(54)
Net cash used in capital and related financing activities	(449)	(387)
Cash flows from noncapital-related financing activities:		
Energy conservation program payments received from participants	143	91
Energy conservation program costs	(142)	(166)
Issuance of commercial paper	110	142
Repayment of commercial paper	(121)	(80)
Interest paid on commercial paper	(5)	(4)
Transmission line interconnection costs	(49)	(69)
Contributions to OPEB trust fund	–	(14)
Contributions to New York State	(91)	(90)
Canal Reimbursement Agreement	(44)	–
Payment received from New York State	21	21
Payments received from value sharing agreement	–	71
Payments received from notes receivable	–	20
NYISO collateral	–	14
Payments received from nuclear relicensing	–	3
Net cash used in noncapital-related financing activities	(178)	(61)
Cash flows from investing activities:		
Earnings received on investments	15	20
Purchase of investment securities	(3,074)	(5,878)
Sale of investment securities	3,318	5,867
Net cash provided by investing activities	259	9
Net increase (decrease) in cash	(19)	(5)
Cash and cash equivalents, January 1	92	97
Cash and cash equivalents, December 31	\$ 73	\$ 92
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 296	\$ 295
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	231	237
Net decrease (increase) in prepayments and other	21	(50)
Net (increase) decrease in receivables and inventory	(70)	48
Net decrease in accounts payable and accrued liabilities	(129)	(96)
Net cash provided by operating activities	\$ 349	\$ 434

See accompanying notes to the financial statements.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (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, 2016 and 2015

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 see Note 2(l) "Summary of Accounting Policies – 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 Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2016	2015
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	2.9	3.1
Transmission	2.3	2.5
General	3.3	3.5
	2.6%	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, 2016 or 2015.

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:

ARO amounts	Cost of removal obligation
-------------	----------------------------

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

	(In millions)	
Balance – December 31, 2015	\$ 53	\$ 299
Depreciation Expense	–	11
Other expense	–	3
Balance – December 31, 2016	<u>\$ 53</u>	<u>\$ 313</u>

### (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 2016 or 2015.

### (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.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (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, 2016 and 2015 consist of the following:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	\$ 277	\$ 232
Risk management activities	8	19
Other regulatory assets	26	29
Total regulatory assets	311	280
Energy efficiency program costs (b)	323	302
Other long-term receivables	235	234
Transmission line interconnection costs	292	288
Other	65	92
Total other long-term assets	<u>\$ 1,226</u>	<u>\$ 1,196</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 as of both December 31, 2016 and 2015 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.
- 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.

## NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

### (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 48% and 47% of the Authority's operating revenues in 2016 and 2015, 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.

### (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.

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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 10 "Pension Plans" of the notes to the financial statements.

#### (s) ***New Accounting Pronouncements***

In 2016, the Authority adopted 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 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 notes to the financial statements, based on the presence or absence of observable market inputs. See Note 9 "Fair Value Measurements" of notes to the financial statements.

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. 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 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.



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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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**(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, 2016, the Authority's total investment portfolio of \$2,695 million included investments of \$406 million (15%), \$316 million (12%), \$217 million (8%) and \$102 million (4%) and \$72 million (3%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

At December 31, 2015, the Authority's total investment portfolio of \$2,886 million included investments in debt securities 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.

**(d) Decommissioning Fund**

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not 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. The Authority transferred its beneficial interest in the Decommissioning Funds to Entergy on January 30, 2017. See Note 12(c) "Nuclear Plant Divestiture – Nuclear Plant Decommissioning" of notes to the financial statements.

**(e) Other**

All investments are held by designated custodians in the name of the Authority. As of both December 31, 2016 and 2015, the Authority had \$50 million of investments in repurchase agreements. The bank balances at December 31, 2016 and 2015 were \$44 million and \$50 million, respectively, of which \$43 million and \$49 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

Cash and Investments of the Authority at December 31, 2016 and 2015 are as follows:

December 31, 2016	Total	Total restricted	Restricted		Capital fund	Unrestricted	Petroleum Overcharge Restitution (POCR) 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
			Decommissioning Trust Fund	WNYEDF, POOCR, projects and other (In millions)			
Cash and investments:							
Cash and cash equivalents	\$ 73	25	—	25	5	43	
U.S. government:							
Treasury Notes	5	—	—	—	—	5	
GNMA	—	—	—	—	—	—	
	5	—	—	—	—	5	
Other debt securities:							
FNMA	406	21	—	21	15	370	
FHLMC	316	10	—	10	1	305	
FHLB	217	—	—	—	10	207	
FFCB	102	—	—	—	—	102	
All other	72	—	—	—	1	71	
	1,113	31	—	31	27	1,055	
Portfolio Manager	1,504	1,504	1,504	—	—	—	
Total investments	2,622	1,535	1,504	31	27	1,060	
Total cash and investments	\$ 2,695	1,560	1,504	56	32	1,103	
Summary of maturities (years):							
0 – 1	\$ 417	56	—	56	31	330	
1 – 5	762	—	—	—	—	762	
5 – 10	11	—	—	—	—	11	
10+	1	—	—	—	1	—	
Portfolio manager	1,504	1,504	1,504	—	—	—	
	\$ 2,695	1,560	1,504	56	32	1,103	

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 POOCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POOCR 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 POOCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POOCR 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 POOCR funds are included

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

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in restricted funds in the statements of net position. The funds are held in a separate escrow account until they are utilized.

As of December 31, 2016, restricted funds include the POCR fund (\$9 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 (\$20 million), the Northern New York Development Fund (\$2 million) (see Note 13(a) "Commitments and Contingencies – Power Programs") and other (\$6 million).

December 31, 2015	Total	Total restricted	Decommissioning Trust Fund	Restricted WNYEDF, POCR, projects and other (In millions)		Capital fund	Unrestricted
				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

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 13(a) "Commitments and Contingencies – Power Programs") and other (\$6 million).

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2016.

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending balance</u>
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 160	4	—	164
Construction in progress	428	251	(331)	348
Total capital assets not being depreciated	588	255	(331)	512
Capital assets, being depreciated:				
Production – Hydro	2,000	75	(8)	2,067
Production – Gas turbine/combined cycle	2,427	13	—	2,440
Transmission	2,002	167	(6)	2,163
General	1,245	91	(3)	1,333
Total capital assets being depreciated	7,674	346	(17)	8,003
Less accumulated depreciation for:				
Production – Hydro	770	35	(8)	797
Production – Gas turbine/combined cycle	984	98	—	1,082
Transmission	1,186	48	(5)	1,229
General	544	42	(4)	582
Total accumulated depreciation	3,484	223	(17)	3,690
Net value of capital assets, being depreciated	4,190	123	—	4,313
Net value of all capital assets	\$ 4,778	378	(331)	4,825

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## Notes to the Financial Statements

December 31, 2016 and 2015

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending balance</u>
	(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

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (6) Long-Term Debt

#### a. Components

	Amount		Interest rate	Maturity	Earliest redemption date prior to maturity
	2016	2015			
	(In millions)				
Senior debt:					
Revenue Bonds (Tax-Exempt):					
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	176	208	4.0% to 5.0%	11/15/2017 to 2021	11/15/2017
Series 2011 A Revenue Bonds:					
Serial Bonds	62	63	3.0% to 5.0%	11/15/2017 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	56	69	2.0% to 5.0%	11/15/2017 to 2020	N/A
Revenue Bonds (Taxable):					
Series 2003 A Revenue Bonds:					
Term Bonds	169	174	5.230% to 5.749%	11/15/2018 to 2033	** Any date
Series 2007 B Revenue Bonds:					
Serial Bonds	4	8	5.603%	11/15/2017	Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	** Any date
	827	882			
Plus unamortized premium and discount	20	24			
Less deferred refinancing costs	6	6			
	841	900			
Less due in one year	57	55			
	\$ 784	\$ 845			

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

\*\* Bonds are subject to sinking fund provisions.

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## Notes to the Financial Statements

December 31, 2016 and 2015

Interest on  
Series 2003  
A and 2007  
B Revenue  
Bonds and

	<u>Amount</u>		<u>Interest rate</u>	<u>Maturity</u>	
	<u>2016</u>	<u>2015</u>			
	(In millions)				
Adjustable Rate Tender Notes:					
2016 Notes	\$ —	\$ 11	N/A	N/A	***
2020 Notes	—	75	N/A	N/A	***
	—	86			
Less due in one year	—	86			
	—	—			
Subordinate debt:					
Subordinated Notes, Series 2012	22	22	1.36% to 4.05%	2017 to 2037	
Commercial Paper:					
EMCP (Series 1)	5	44	0.81%	2021	
	27	66			
Less due within one year	1	40			
	26	26			
Total Long-term debt	868	1,052			
Less due within one year	58	181			
Long-term debt, net of due in one year	\$ 810	\$ 871			

\*\*\* Notes were redeemed on March 1, 2016.

Subordinated Notes, Series 2012 is not excluded from gross income for bondholders' Federal income tax purposes.



# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

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### Senior Debt

In November 2016, the Authority's Trustees authorized the issuance of up to \$475 million of additional revenue bonds for the purpose of refunding certain revenue bonds and raising funds to finance a portion of its Lewiston Pump Generating Plant and Transmission Life Extension and Modernization programs. Such bonds have yet to be issued.

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 "Bond Resolution" of notes to the financial statements, 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 \$1.383 billion as of December 31, 2016. Principal and interest paid for 2016 and operating income plus depreciation were \$187 million and \$527 million, respectively. Principal and interest paid for 2015 and operating income plus depreciation were \$185 million and \$532 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.

In 2015, the Authority's Trustees approved the redemption of the remaining outstanding ART Notes, on an accelerated basis in the first quarter of 2016. The Authority retired the remaining outstanding ART Notes on March 1, 2016 in accordance with that authorization.

At December 31, 2016 and 2015, the current market value of the senior debt was approximately \$933 million and \$1.088 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

#### 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 and the Series 2015 A Revenue Bonds.

In November 2016, the Authority's Trustees authorized the issuance of subordinated notes, in a principal amount not to exceed \$30 million to accelerate additional 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 subordinate notes on February 24, 2017 in the amount of \$25.2 million (Subordinate Notes 2017). 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, and the Series 2015 A Revenue Bonds.

**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, 2016.

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, as amended (the amended 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 amended 2015 RCA terminates January 19, 2018, unless mutually extended by the banks and the Authority. There are no outstanding borrowings under the amended 2015 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 and the Series 2015 A Revenue Bonds.

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

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2016.

Maturities and Interest Expense:	Long-Term Debt			Capitalized Lease Obligations		
	(In millions)			(In millions)		
	Principal	Interest	Total	Principal	Interest	Total
Year:						
2017	\$ 58	44	102	\$ 25	93	118
2018	61	42	103	31	90	121
2019	64	39	103	37	88	125
2020	67	35	102	43	85	128
2021	59	32	91	50	81	131
2022 – 2026	110	135	245	383	326	709
2027 – 2031	124	106	230	600	119	719
2032 – 2036	119	69	188	—	—	—
2037 – 2041	79	42	121	—	—	—
2042 – 2046	92	19	111	—	—	—
2047 – 2051	21	1	22	—	—	—
	854	564	1,418	1,169	882	2,051
Plus unamortized bond premium	20	—	20	—	—	—
Less deferred refinancing cost	6	—	6	—	—	—
	<u>\$ 868</u>	<u>564</u>	<u>1,432</u>	<u>\$ 1,169</u>	<u>882</u>	<u>2,051</u>

### ***b. Terms by Which Interest Rates Change for Variable Rate Debt***

#### **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, 2016 the reset rate would have been 7.0%.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### c. *Changes in Noncurrent Liabilities*

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2016 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	\$ 882		55	827	57
Adjustable rate tender notes	<u>86</u>	<u>—</u>	<u>86</u>	<u>—</u>	<u>—</u>
Subtotal	<u>968</u>	<u>—</u>	<u>141</u>	<u>827</u>	<u>57</u>
Subordinate debt:					
Subordinated Notes, Series 2012	22	—	—	22	1
Commercial paper	<u>44</u>	<u>—</u>	<u>39</u>	<u>5</u>	<u>—</u>
Subtotal	<u>66</u>	<u>—</u>	<u>39</u>	<u>27</u>	<u>1</u>
Net unamortized discounts/ premiums and deferred losses	<u>18</u>	<u>—</u>	<u>4</u>	<u>14</u>	<u>—</u>
Total debt, net of unamortized discounts/ premiums/ deferred losses	<u>\$ 1,052</u>	<u>—</u>	<u>184</u>	<u>868</u>	<u>58</u>
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,169	—	25	1,144	25
Disposal of nuclear fuel	217	—	—	217	—
Relicensing	270	18	18	270	—
Other	<u>153</u>	<u>155</u>	<u>81</u>	<u>227</u>	<u>—</u>
Total other noncurrent liabilities	<u>\$ 3,239</u>	<u>173</u>	<u>124</u>	<u>1,858</u>	<u>25</u>

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

Changes in the Authority's long-term 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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## Notes to the Financial Statements

December 31, 2016 and 2015

### (7) Short-Term Debt

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

		December 31,			
		2016		2015	
		Availability	Outstanding	Availability	Outstanding
(In millions)					
CP Notes (Series 1)	\$	176	\$ 224	\$ 60	\$ 340
CP Notes (Series 2)		180	270	276	174
CP Notes (Series 3)		328	22	336	14

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). 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:

	Beginning balance	Increases	Decreases	Ending balance
	(In millions)			
Year:				
2016	\$ 528	109	121	516
2015	\$ 466	142	80	528

### (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.

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

## December 31, 2016 and 2015

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).

## Derivative Instruments

Derivative instrument description	Fair value balance December 31, 2015	Net change in fair value	Fair value balance December 31, 2016 (\$ in millions)	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2016	Unit of Measure
Interest rate swaps	\$ (3)	\$ 3	\$ —	Investment	Regulatory Asset	—	
Energy/Electric:							
Swaps	10	5	15	Cash Flow	Deferred inflow	(4,517,985)	MWh
Swaps	(9)	9	—	Cash Flow	Deferred inflow	—	
Renewable energy swaps	(16)	8	(8)	Investment	Regulatory Asset	181,881	MWh
Energy capacity futures	(1)	14	13	Cash Flow	Deferred inflow	(9,125,000)	KWm
Fuel futures/swaps	—	2	2	Cash Flow	Deferred inflow	1,472,500	MMBtu
Totals	<u>\$ (19)</u>	<u>\$ 41</u>	<u>\$ 22</u>				

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### Notes to the Financial Statements

December 31, 2016 and 2015

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 million in 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. 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.

**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 through 2017. Net settlement receipts were \$21.3 million and \$7.6 million in 2016 and 2015, respectively.

**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 \$8.7 million and \$8.1 million in 2016 and 2015, 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 \$5.4 million and \$4.8 million in 2016 and 2015, respectively.

**Fuel futures/swaps** – The Authority has outstanding forward natural gas futures, intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2016 and 2015 for the benefit of certain of the Authority's customers. Net settlement payments were \$2.4 million in 2016 and receipts were \$3.4 million in 2015. In connection with the fuel futures and for the benefit of the Authority's customers, the Authority had outstanding natural gas transportation basis swaps to mitigate the volatility of market prices for pipeline transportation to New York City in 2015. 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 2016 and 2015 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.



## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

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The Authority also imposes thresholds, based upon agency-published credit ratings and/or analysis, 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 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, 2016, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

#### ***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 commodity derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments, 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 "Long-Term Debt" of the notes to the financial statements.

#### ***Dodd Frank Act***

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## Notes to the Financial Statements

December 31, 2016 and 2015

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, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, is 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.

### (9) Fair Value Measurements

The Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application* during the year ended December 31, 2016. GAS No. 72 provides guidance for determining fair value measurements and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The implementation of this standard does not have a material effect on the Authority's reporting as the fair value measurement is already maintained by the Authority. The Authority's investments and derivatives are recorded at fair value as of December 31, 2016 and 2015.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

The fair value hierarchy prioritizes the inputs used to measure fair value into three broad Levels (Levels 1, 2, and 3), moving from quoted prices in active markets in Level 1 to unobservable inputs in Level 3. A financial instrument's level within the fair value hierarchy (where Level 1 is the highest and Level 3 is the lowest) is based on the lowest level of any input that is significant to the fair value measurement. The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Authority's perceived risk of that instrument.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 - quoted prices other than quoted prices included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and may rely on inputs using the best available data under the circumstances, including the government's own data.

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### Notes to the Financial Statements

December 31, 2016 and 2015

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

- U.S. government obligations – The fair value is based on institutional bond quotes and evaluations based on various market data/inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs.
- Corporate obligations – the fair value is based on institutional bond quotes and evaluations on various market and industry inputs.
- Common trust fund – The common trust fund represents the Nuclear Decommissioning Trust Fund (see Note 4(d) “Cash and Investments – Decommissioning Fund” of notes to the financial statements). The Authority transferred its beneficial interest in the Decommissioning Funds to Entergy on January 30, 2017 (see Note 12(c) “Nuclear Plant Divestiture and Related Matters – Nuclear Plant Decommissioning” of notes to the financial statements).

The fair value of the fund is primarily derived from the quoted prices in active markets on the underlying securities. The trust fund is a balance account that invests in a mix of asset classes, either directly through purchases of debt and equity securities, exchange-traded funds, and other collective funds.

- Derivative instruments – the Authority hedges market risks through the use of financial derivative instruments. Derivative instruments are traded on both exchange-based and non-exchange based markets. A detail disclosure on derivatives is included in Note 8 “Risk Management and Hedging Activities.”
  - The fair values for over-the-counter and exchange-traded energy, renewable energy, natural gas and natural gas transportation derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using prices published by Platts.
  - The fair value for the interest rate swaps were estimated using an internal zero-coupon discounting model that takes into consideration the prevailing interest rate environment, and the specific terms and conditions of each swap.
  - The fair value for capacity derivative instruments is based on internal pricing models which develop a demand curve for the NYISO monthly spot market capacity auctions. Capacity reference points are observed from the NYISO filing with FERC. Peak load forecast are observed in the NYISO’s Gold Book and PSC’s publications.

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## Notes to the Financial Statements

December 31, 2016 and 2015

The following table summarizes the Authority's investments within the fair value hierarchy at December 31, 2016 and December 31, 2015:

	Fair Value Measurements			
	(in millions)			
December 31, 2016	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 73	\$ 73	\$ -	\$ -
U.S. government:				
US Treasury Notes	5	5	-	-
Federal Agency securities:				
FNMA	406	-	406	-
FHLMC	316	-	316	-
FHLB	217	-	217	-
FFCB	102	-	102	-
Municipal Bonds	68	-	68	-
All other	4	-	-	4
Common trust fund	1,504	-	-	1,504
Total cash and investments at fair value	2,695	78	1,109	1,508
Derivative instruments:(a)				
Energy/Electric - swaps	15	-	15	-
Energy capacity futures	13	-	-	13
Fuel futures/swaps	2	-	2	-
Total derivatives assets at fair value	30	-	17	13
<b>Total Assets at Fair Value</b>	<b>\$ 2,725</b>	<b>\$ 78</b>	<b>\$ 1,126</b>	<b>\$ 1,521</b>
<b>Liabilities</b>				
Derivative instruments:(a)				
Renewal energy swaps	\$ 8	\$ -	\$ 8	\$ -
Total derivative liability at fair value	8	-	8	-
<b>Total Liabilities at Fair Value</b>	<b>\$ 8</b>	<b>\$ -</b>	<b>\$ 8</b>	<b>\$ -</b>

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

<b>Fair Value Measurements</b>				
(in millions)				
<b>December 31, 2015</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 109	\$ 109	\$ -	\$ -
U.S. government:				
US Treasury Notes	213	213	-	-
US Treasury Bonds	83	83	-	-
US Treasury TIPS	4	4	-	-
GNMA	26	-	26	-
Federal Agency securities:				
FNMA	649	-	649	-
FHLMC	443	-	443	-
FHLB	311	-	311	-
FFCB	112	-	112	-
Municipal Bonds	63	-	63	-
Corporate Bonds	330	1	329	-
Equity Securities	539	539	-	-
All other	4	-	-	4
Total cash and investments at fair value	<u>2,886</u>	<u>949</u>	<u>1,933</u>	<u>4</u>
Derivative instruments:(a)				
Energy/Electric swaps	10	-	10	-
Total derivatives assets at fair value	<u>10</u>	<u>-</u>	<u>10</u>	<u>-</u>
<b>Total Assets at Fair Value</b>	<u>\$ 2,896</u>	<u>\$ 949</u>	<u>\$ 1,943</u>	<u>\$ 4</u>
<b><u>Liabilities</u></b>				
Derivative instruments:(a)				
Interest rate swaps	\$ 3	\$ -	\$ 3	\$ -
Energy/Electric swaps	9	-	9	-
Renewable energy swaps	16	-	16	-
Energy capacity futures	1	-	-	1
Total derivative liability at fair value	<u>29</u>	<u>-</u>	<u>28</u>	<u>1</u>
<b>Total Liabilities at Fair Value</b>	<u>\$ 29</u>	<u>\$ -</u>	<u>28</u>	<u>1</u>

- (a) The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At December 31, 2016 and 2015, the Authority determined that nonperformance risk would have no material impact on the financial position or results of operations.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

## (10) 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 the NYSLERS 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 NYSLERS fiscal year ended March 31, 2016 was 17%. The average contribution rates relative to payroll for the NYSLERS fiscal years ending March 31, 2017 and 2018 have been set at approximately 15% for both years. The required contributions for 2016, 2015 and 2014 were \$24 million, \$25 million and \$28 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](http://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 change in accounting principle in the statements of revenues, expenses and changes in net position. In addition, the Authority recognized

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## Notes to the Financial Statements

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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, 2016, the Authority reported a liability of \$96 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, 2016 (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, 2016, the Authority’s proportion percentage (0.595%) of the net pension liability changed slightly compared to its proportion measured as of March 31, 2015 (0.592%).

For the year ended December 31, 2016 and 2015, the Authority recognized pension expense of \$34 million and \$18 million, respectively. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
	(In millions)	
Difference between expected and actual experience	\$ 1	\$ 11
Net difference between projected and actual earnings on investments	57	—
Change of assumptions	25	—
Net difference between employer contributions and proportionate share of contributions	—	1
Employer contributions subsequent to the measurement date	24	—
Total	<u>\$ 107</u>	<u>\$ 12</u>

The \$24 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, 2017. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense, \$17.8 million annually over the next three fiscal years 2017-2019, and \$17.0 million in fiscal year 2020.

### ***Actuarial Assumptions***

The NYSLERS total pension liability at March 31, 2016 was determined by using the NYSLERS actuarial valuation as of April 1, 2015 with updated procedures to roll forward the NYSLERS total pension liability to

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

March 31, 2016. The following actuarial assumptions were used for the April 1, 2015 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.5%
Salary increases:	3.8% annually
Investment rate of return, including	7.0% compounded annually, net of investment
Cost of living adjustments:	1.3 % annually

The NYSLERS Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 NYSLERS experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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, 2016 are summarized below.

#### ***Long-Term Expected Rate of Return***

<b>Asset Type</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate</b>
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 for the March 31, 2016 and 2015 measurement date was 7.0% and 7.5%, respectively. 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. 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.



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## Notes to the Financial Statements

December 31, 2016 and 2015

### ***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 7.0 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 (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Assumption</u>	<u>1% Increase</u>
Discount rate	6.0%	7.0%	8.0%
The Authority's proportionate share of the net pension liability (asset)	\$ 215 million	\$ 96 million	\$ (6) million

The NYSLERS actuary has not recommended any future changes to the actuarial assumptions used in the NYSLERS April 1, 2015 actuarial valuation.

### **(11) 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. Salaried employees hired after December 31, 2015 and IBEW employees hired after October 15, 2015, become eligible after 15 years of service. In addition, they will be required to contribute 50% of the active plan contribution. 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, 2016. 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 funding of the Authority's annual OPEB contribution is at the discretion of management as approved by the Board of Trustees. The retirees' health plan was 82% funded as of December 31, 2016 and 81% funded as of the Authority's most recent actuarial valuation date January 1, 2016. The Authority made no contributions in 2016 and contributed \$14 million to the OPEB Trust in 2015.

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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>2016</u>	<u>2015</u>
	(In millions)	
Annual OPEB cost:		
Annual required contribution (ARC):		
Normal cost	\$ 15	\$ 13
Amortization payment	18	20
Total	33	33
ARC adjustment	11	10
Interest on net OPEB obligation	(5)	(5)
Annual OPEB cost	<u>\$ 39</u>	<u>\$ 38</u>
Net OPEB obligation:		
Net OPEB (asset) obligation at beginning of fiscal year	\$ (73)	\$ (73)
Annual OPEB cost	39	38
Employer contribution:		
Benefit payments for retirees during the year	(24)	(24)
Trust fund contributions	(14)	(14)
Total employer contribution	(24)	(38)
Net OPEB (asset) obligation at end of fiscal year	<u>\$ (58)</u>	<u>\$ (73)</u>

The net OPEB asset of \$58 million, which consists of \$15 million current assets and \$43 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, 2016.

The Authority's annual OPEB cost for 2016 was \$39 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, 2016 and resulted in an actuarial accrued liability of \$600 million which was funded with assets totaling \$483 million indicating that the Authority's retiree health plan

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was 81% funded as of the valuation date. As of December 31, 2016 and 2015, the balance in the OPEB Trust was \$517 million and \$483 million, respectively, and the actuarial accrued liability was \$632 million and \$600 million, respectively.

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 2016 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 7.5 % (net of administrative expenses), including inflation, declining approximately 1/4% each year to an ultimate trend rate of approximately 4.5%. 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. Matching annual contributions were approximately \$3.1 million and \$2.8 million for 2016 and 2015, 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.

## **(12) Nuclear Plant Divestiture and Related Matters**

#### **(a) *Nuclear Plant Divestiture***

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, provided that the Entergy Subsidiaries would make certain payments to the Authority based on MWhs metered from each plant between 2007 and 2014. The final payment under the VSAs was received on January 15, 2015 in the amount of \$71 million.

Under the Decommissioning Agreements discussed in Note 12(c) "Nuclear Plant Decommissioning" below, each Entergy Subsidiary was to make certain payments to the Authority if the license for IP3 or JAF, as applicable, was extended. In connection with the August 2016 agreements described in Note 12(c) "Nuclear Plant Decommissioning", the provisions relating to the license extension payments in the Decommissioning Agreements were amended. The final payment relating to license extension, in the amount of \$2.5 million, was received on October 16, 2015.

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#### **(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 13(e) "Commitments and Contingencies – New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2016 and 2015, 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 contained provisions dealing with the decommissioning funds (Decommissioning Funds), which were maintained by the Authority under a master decommissioning trust agreement, as well as certain rights and obligations with respect to decommissioning of the plants.

In August 2016, the Authority entered into certain agreements with Entergy Nuclear Operations, Inc. and the Entergy Subsidiaries related to the proposed sale of JAF by Entergy to Exelon Generation Company, LLC. Such agreements provided for the transfer, subject to approval by the NRC, from the Authority to Entergy of the beneficial interest in the Decommissioning Funds relating to JAF and IP3, as well as all remaining nuclear decommissioning financial obligations under the Decommissioning Agreements. The Authority remains liable for the pre-1983 spent fuel obligation described in Note 12(b) "Nuclear Plant Divestiture and Related Matters – Nuclear Fuel Disposal" above. In addition, the Authority provided a standby letter of credit to Entergy Nuclear Fitzpatrick, LLC in the amount of \$35 million, which may be drawn upon by the beneficiary upon certain conditions. The Governor's 2017-2018 Executive Budget proposal includes an appropriation in the amount of \$35 million from the State to the Authority in the event of a draw upon that letter of credit. The Authority expects the sale to be completed in 2017.

On January 30, 2017, following the issuance of an NRC order approving the transfer, the Authority transferred its beneficial interest in the Decommissioning Funds to Entergy. On the transfer date, the Decommissioning Funds had a market value of approximately \$1.519 billion.

### **(13) 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

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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. On July 26, 2016, the Authority's Trustees approved an additional amount not to exceed \$3 million to fund anticipated payments for the period from July 1, 2015 through June 30, 2016. As of December 31, 2016, approximately \$10 million of such discounts have been paid with approximately an additional \$3 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 \$474 million through December 2017 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, 2016, totaling cumulatively \$108 million. Operations and maintenance expenses included \$43 million and \$63 million of residential consumer discounts in the years ended December 31, 2016 and 2015, respectively.

#### **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 (WNYED 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 \$60 million in net earnings, calculated for the period August 30, 2010 through December 31, 2016 as provided in the legislation, for deposit into the Fund. As of December 31, 2016, \$41 million has been deposited into the Fund. As of December 31, 2016, the Authority has approved awards of Fund money totaling approximately \$35 million to businesses that have proposed eligible projects and has made payments totaling \$21 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**

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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 (NNYED 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 NNYED 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, 2016, approximately \$2 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. In December 2017, the Agreements will expire. No assurance can be made that such contracts will be renewed or about what their terms may be upon renewal.

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

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in the Agreements. For 2016 and 2015, 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.

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 \$1.169 billion as of December 31, 2016, 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 49<sup>th</sup> 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 \$338 million. As of December 31, 2016, the Authority paid approximately \$336 million of such costs related to the interconnection and transmission upgrades. The Authority’s obligations under the FTCPA also include payment of the Regional Transmission Enhancement Plan (RTEP) charges allocated to HTP in accordance with the PJM transmission tariff. Such RTEP costs are estimated to grow significantly in future years, and are discussed below.

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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 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 \$93 million to \$126 million per year over the next five years. PJM's RTEP charges contribute to this under-recovery. 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, HTP and other parties on the grounds that PJM has disproportionately allocated the costs of those projects to those parties. The Authority's challenge has also pointed out that the RTEP share allocated to HTP may be greatly exacerbated by Con Edison's upcoming termination of its PJM transmission rights (scheduled to occur after April 2017) that could shift significant RTEP costs to NYPA. Depending on a variety of factors, including the outcome of FERC's review and whether any other parties decide to terminate their PJM transmission rights, HTP could be allocated, and NYPA could be obligated to pay, substantially more RTEP costs. Any RTEP costs relating to the Bergen-Linden Corridor and Edison Rebuild projects would be paid over a number of years once the improvements have been included in PSEG's revenue requirement calculation, which is expected to commence 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



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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 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. In August 2016, the Authority made a summary judgment motion seeking to dismiss the two remaining actions in their

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entirety. In a decision and order, dated January 11, 2017, the Court granted the Authority's motion for summary judgment and dismissed both complaints in their entirety.

#### **Long Island Sound Cable Project**

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 \$34 million in costs arising from this incident. At December 31, 2016, the statement of net position includes approximately \$16 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.

#### **Other Actions or Claims**

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.

While the Authority cannot presently predict the outcome of the matters described above 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.

#### **(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

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

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 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 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), 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 13(a) “Power Programs” – 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 2016 and 2015, the Authority made contributions to the State of \$91 million and \$90 million, respectively, that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2016 and 2015 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 2016 contributions included \$26 million that was paid to the State’s General Fund and \$65 million that was paid to Empire State Development Corporation (ESD). 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). Cumulatively, between January 2008 and December 31, 2016, the Authority has made voluntary contributions to the State totaling \$763 million unrelated to the PFJ program.

The Authority cannot predict what additional contributions to the State may be authorized in the future.

#### **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

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

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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 12(b) "Nuclear Plant and Divestiture – 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.

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 cumulative installment payments of \$60 million as of December 31, 2016.

The Authority expects that the State will return the \$215 million (Asset B) in installments beginning in 2017. The Assets A and B transfers are reported in miscellaneous receivable and other (\$43 million and \$21 million as of December 31, 2016 and 2015, respectively) and in other noncurrent assets (\$215 million and \$258 million at December 31, 2016 and December 31, 2015, respectively) in the statements of net position.

## NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

### **(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, 2016, the balance in the recorded liability associated with the relicensing on the statement of net position is \$295 million (\$25 million in current and \$270 million in other noncurrent liabilities). 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 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.

### **New York State Office of Parks, Recreation and Historic Preservation**

On July 18, 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of \$3 million per year to OPRHP for the term of the 50-year License. OPRHP has requested that the Authority accelerate certain of such payments by making a lump sum payment of approximately \$25 million to pay for authorized projects. In order to make the lump sum payment, the Authority issued \$25.2 million in subordinated notes on February 24, 2017 and made the proceeds available to OPRHP (see Note 6 "Long-Term Debt – Subordinate Debt" of notes to the financial statements..

### **(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.

## NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

### (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.

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. The Authority continues to operate its fossil-fueled plants within the allocated allowances and anticipates that operation of its fossil-fueled plants will not be impacted by CSAPR.

### (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), filed a federal lease request with the Bureau of Ocean Energy Management (BOEM) on September 15, 2011. On June 2, 2016, BOEM announced a lease auction for an area largely similar to the Collaborative's request. Following that, the New York State Energy Research and Development Authority announced its intention to participate in the BOEM lease auction in the furtherance of its development of New York State's Offshore Wind Master Plan. Therefore, on August 1, 2016, the Authority, on behalf of the Collaborative, officially withdrew its federal lease request. The Authority will not be participating in the BOEM lease auction.

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, 2016, the Authority has approved the award of contracts with cumulative value of up to approximately \$6 million. On January 31, 2017, the Authority's Trustees approved an extension of the solar market acceleration program through December 31, 2018.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (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 \$543 million at December 31, 2016.

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, 2016 and 2015 was \$2.1 million and \$2.2 million, respectively. Commitments under noncancelable operating leases are as follows:

	<u>Total</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>
	(In millions)						
Operating leases	\$ <u>7.5</u>	<u>1.3</u>	<u>1.3</u>	<u>1.2</u>	<u>0.8</u>	<u>0.5</u>	<u>2.4</u>

### (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.



## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

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. A negotiated settlement of that cost allocation has been approved by FERC. The Authority co-developed one of the TOTS projects, the Marcy-South Series Compensation, with NYSEG and has also completed a negotiated settlement at FERC to recover the costs of its portion of that project.

#### **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, 2016, the Authority has in aggregate provided approximately \$282 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, 2016, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately \$17 million. On January 31, 2017, the Authority's Trustees approved an extension of the energy efficiency market acceleration program through December 31, 2018.

#### **Zero Emission Credits**

On August 1, 2016, the New York (NYPSC) issued an order establishing a Clean Energy Standard (the "CES Order") to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving entities identified in the order are required to purchase "Zero Emission Credits" ("ZECs") from the New York State Energy Research Development Authority ("NYSERDA") to support the preservation of existing at-risk zero emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but expects to assume a ZEC Purchase Obligation and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority estimates that it will incur ZEC Purchase Obligation costs under the CES Order of as much as \$254 million in aggregate over the 2017-2020 period, and it will work to recover all of the costs incurred.



## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

#### (14) Canal Corporation

Article XV of the New York State Constitution provides, in part, that the barge canal, the divisions of which are the Erie canal, the Oswego canal, the Champlain canal, and the Cayuga-Seneca canal, and the terminals constructed as part of the barge canal system (collectively, the “Canal System”) shall remain the property of the State and under its management and control forever.

Legislation enacted in 1992 (the “1992 Legislation”) transferred jurisdiction of the Canal System, among other assets and properties, from the New York State Commissioner of Transportation to the Thruway Authority, to be held by the New York Thruway Authority (the “Thruway Authority”) in the name of the people of the State. Such canal system remained the property of the State and under its management and control as exercised by and through the Thruway Authority, through its then newly created subsidiary, the New York State Canal Corporation (the “Canal Corporation”). The 1992 Legislation deemed the Canal Corporation to be the State for the purposes of such management and control of the canals but for no other purposes.

Legislation was enacted on April 4, 2016 (the “Canal Transfer Legislation”) which provided for (1) the transfer, effective January 1, 2017, of the Canal Corporation from the Thruway Authority to the Authority and (2) as of January 1, 2017, the Authority’s assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Authority is authorized to exercise through the Canal Corporation.

The Canal Transfer Legislation authorized the Authority to reimburse the Thruway Authority for all Canal System expenses beginning April 1, 2016 through January 1, 2017. Because the Authority did not assume ownership of the Canal Corporation until January 1, 2017, all reimbursement costs, including those for capital related activities, were treated as non-operating expenses for the Authority’s 2016 fiscal year.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. For fiscal year 2015, reports prepared by the Thruway Authority indicate that the Canal Corporation’s operating expenses were approximately \$62.1 million and operating revenues were approximately \$2.37 million with the shortfall provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation’s capital expenditures were approximately \$48.8 million with funding from various sources, including the Thruway Authority.

In addition, the financial statements of the Thruway Authority for the fiscal year ended December 31, 2015 indicate that the Present Value of Future Benefit Payments (commonly referred to as “OPEBs”) of the Canal Corporation as of December 31, 2015 was \$290.5 million and that the Unfunded Accrued Liability associated with such Future Benefit Payments as of such date was \$208.7 million.

The Canal Transfer Legislation also authorizes, but does not require, the Authority, to the extent that the Authority’s Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation. By resolution adopted November 7, 2016, the Authority’s Trustees determined that \$60 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support costs associated with the transfer of the Canal Corporation to the Authority including: (1) reimbursements to the Thruway Authority for the period of April 1, 2016 through December 15, 2016, as authorized by the Canal Transfer Legislation, in the amount of \$37.0 million, and (2) 2016 calendar year Authority integration costs associated with the Canal Corporation transfer in the amount of \$16.9 million. By resolution adopted December 15, 2016, the Authority’s Trustees determined that an additional \$44.0 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support Canal Corporation related costs, including reimbursements in respect of the remainder of calendar year 2016 and certain expected costs through January 2017. By resolution adopted January 31, 2017, the Authority’s Trustees

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

authorized the release of an additional up to \$15.0 million in funding to support operations of the Canal Corporation for the period from February 1, 2017 to March 31, 2017. Additional releases will be considered at future meetings of the Trustees.

By resolution adopted January 31, 2017, the Canal Corporation's Board of Directors adopted a budget for 2017 that included expenditures of \$84.3 million for operations and maintenance expenses, \$60.5 million for capital expenses and \$3.1 million for Canal Development Fund expenses. The Canal Corporation's O&M, capital and Canal Development Fund expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority's Board of Trustees and compliance with the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Canal Development Fund expenses are expected to be reimbursed to the Authority by the State Comptroller with moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance.

Given the age of the Canal System, the Authority expects that significant maintenance and capital investments will be required to assure its continuing operation. For fiscal year 2016, the Canal Corporation's operating expenses were budgeted to be \$53.75 million, capital expenditures were budgeted to be \$40 million, and operating revenues were budgeted to be \$2.95 million with the difference to be provided by the Thruway Authority, the Authority or other resources. The Authority's budget and financial plan for 2017-2020 includes Canal-related operating expenditures ranging from \$66.1 million to \$84.3 million per year.

The Authority has included in its budget and financial plan for 2017-2020 Canal-related capital expenditures which it expects will be adequate, together with amounts expected to be expended in subsequent years, to address necessary capital improvements associated with the Canal System. The Authority's 2017-2020 budget and financial plan includes annual Canal System related capital expenditures of approximately \$60.5 million in 2017 and approximately \$40 million in each of year 2018-2020.



**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, 2016 and 2015, 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 [ ], 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, 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*.

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the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.



### **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.

New York, NY  
March [ ], 2017

DRAFT

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**New York Power Authority**

Required Supplementary Information

(Unaudited)

Schedule of Funding Progress for the Retiree Health Plan

(\$ in millions)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)--- Projected Unit Credit Method (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2016	\$ 483	\$ 600	\$ 117	81%	\$ 161	73%
January 1, 2014	\$ 422	\$ 575	\$ 153	73%	\$ 145	105%
January 1, 2012	283	517	234	55	143	163

The Authority has a trust for its OPEB obligations initially funded in the amount of \$100 million.

**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>
2016	0.60%	\$96	\$166	57.4%	90.7%
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>
2016	\$ 24	\$ 24	\$ —	\$ 166	15%
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



# New York Power Authority Audit results December 31, 2016

**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 21, 2017



# Agenda

## **1.0 Summary of Audit Results**

- Summary of Audit Results
- Audit Focus Areas
- Accounting policies, practices, and estimates
- Summary of corrected and uncorrected misstatements
- Internal Control Findings
- Other matters
- Status of Canal Corporation

## **2.0 Responsibilities**

## **3.0 KPMG's Audit Committee Institute and Global Energy Institute**



1.0

# Summary of Audit Results

# Summary of Audit Results

## **Significant changes to our audit plan**

There have been no changes to our audit plan dated December 15, 2016

## **Audit and other results**

- KPMG will issue an unmodified opinion on the Authority's financial statements as of and for the year ended December 31, 2016
- KPMG will issue an unmodified 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, 2016
- 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

## **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
- Advising the Authority on the interpretation and implementation of new accounting or reporting requirements
- Maintaining proactive working relationships with senior management and the Audit Committee

# Accounting policies, practices, and estimates

Significant accounting policies and practices	Results of evaluation, and conclusions about the qualitative aspects
Revenue recognition	<ul style="list-style-type: none"> <li>— Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2016</li> <li>— Detail tested SENY/Wholesale revenue by agreeing recorded amounts to invoices and cash receipts</li> <li>— Agreed SENY/Wholesale billed rates to the approved tariffs</li> <li>— Confirmed and detail tested revenue with the NYISO throughout the year</li> <li>— Detail tested wheeling charges</li> <li>— Tested and relied upon IT controls over the Authority's revenue and invoicing process</li> </ul>
Long term debt	<ul style="list-style-type: none"> <li>— Confirmed outstanding long term debt, including commercial paper with third parties</li> <li>— Recalculated interest expense throughout the year</li> <li>— Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2016</li> </ul>
Investments (including Nuclear Decommissioning Trust)	<ul style="list-style-type: none"> <li>— Tested the fair market value of a selection of investments, utilizing the KPMG National Pricing Desk</li> <li>— Reviewed a sample of investments for compliance with Board approved policies</li> <li>— Confirmed the investment balance with the bank as of December 31, 2016</li> <li>— Review of financial statements for completeness and accuracy of trust assets and obligations</li> </ul>

# Accounting policies, practices, and estimates (continued)

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

Accounting estimate	Results of evaluation, and conclusions about the qualitative aspects
Asset retirement obligations	<ul style="list-style-type: none"> <li>— Tested key management estimates and assumptions utilized in the determination of the future cost</li> <li>— Ensured the inflation and discount rates utilized by the Authority are reasonable</li> <li>— Tested the appropriateness of the presentation on the statement of net position (deferred inflow or regulatory liability)</li> </ul>
Derivative valuations	<ul style="list-style-type: none"> <li>— Ensured consistency of fair value with available market data; reliability of broker quotes and forward price curves</li> <li>— Reviewed counterparty credit risk-assumptions of likelihood of default and calculation of credit valuation allowance</li> <li>— Utilized a KPMG specialists to review the mark to model calculations for fair value</li> <li>— Utilized a KPMG specialist to review the effectiveness – correlation of hedging instrument with underlying hedged item</li> <li>— Tested the appropriateness of the classification in the statement of net position and disclosures in the financial statements</li> </ul>
Other post-employment benefits	<ul style="list-style-type: none"> <li>— Tested key inputs to actuarial valuation utilized by the Authority's actuarial specialist, Buck Consultants, such as census data and discount rates.</li> <li>— Utilized a KPMG actuarial specialist to validate the appropriateness of the assumptions used and calculations made by Buck Consultants to arrive at the OPEB liability as of December 31, 2016.</li> </ul>

# Accounting policies, practices, and estimates (continued)

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

Accounting estimate	Results of evaluation, and conclusions about the qualitative aspects
Investments (including Nuclear Decommissioning Trust)	<ul style="list-style-type: none"><li>— Tested the fair value hierarchy under GASB 72</li><li>— Tested the fair market value of a selection of investments, utilizing the KPMG National Pricing Desk</li><li>— Reviewed a sample of investments for compliance with Board approved policies</li><li>— Confirmed the investment balance with the bank as of December 31, 2016</li><li>— Review of financial statements for completeness and accuracy of trust assets and obligations</li><li>— Review of financial statements for accuracy of GASB 72 disclosures</li></ul>

# Accounting policies, practices, and estimates (continued)

## **Recently adopted standards**

- *GASB 72: Fair Value Measurement and Application*

## **Recently issued standards (Effective for fiscal years beginning after June 15, 2016)**

- *GASB 75: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- *GASB 80: Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*
- *GASB 82: Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

## **Significant Accounting Policies**

- *Significant accounting policies are disclosed in note 2 to the financials*
- *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 – GASB 62*
  - *Impairment of Capital Assets – GASB 42*
  - *Investment Accounting – GASB 31 & GASB 72*
  - *Derivative Accounting – GASB 53*
  - *Refunding of Debt – GASB 23*
  - *Regulated Operations – GASB 62*
  - *Asset Retirement Obligations – ASC 410*
  - *Pensions – GASB 68 & GASB 71*
  - *Deferred Inflows/Outflows – GASB 65*

# Audit Misstatements as of March 3, 2017

## **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 current year 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.
- 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.
- Capitalization threshold – The Authority immediately expenses capital equipment purchases under \$2 thousand rather than capitalize and depreciate them over their useful lives as the amount is immaterial.



# Significant deficiencies and material weaknesses in internal control

## **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, 2016.
- All other deficiencies in ICFR noted during our audit that are of sufficient importance to merit management's attention have been communicated to management.

# Other matters

<b>Related-party transactions</b>	All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements as of December 31, 2016.
<b>Litigations, claims, and assessments</b>	The disclosures within the financial statements as of December 31, 2016 are appropriate.
<b>Illegal acts or fraud</b>	No matters to report.
<b>Noncompliance with laws and regulations</b>	No matters to report.
<b>Significant difficulties encountered during the audit</b>	No matters to report.
<b>Disagreements with management</b>	No matters to report.
<b>Management's consultation with other accountants</b>	None noted.
<b>Significant issues discussed, or subject to correspondence, with management</b>	Other than items previously discussed in this presentation, none noted.
<b>Scope limitation</b>	None noted.

## Other matters (continued)

<b>Other findings or issues relevant to the oversight of the financial reporting process</b>	No matters to report.
<b>Independence</b>	In our professional judgment, KPMG is independent with respect to the Authority.
<b>Significant Written Communications with Management</b>	Engagement Letter Management Representation Letter Letter Communicating to Those Charged with Governance

# Status of Canal Corporation Acquisition

## **Canal Corporation Acquisition:**

- We have monitored the advisory team to ensure that KPMG has remained independent
- We have monitored the day 1 integration to become aware of any issues
- We have discussed potential accounting impacts with management
- We have met with Internal Audit to stay connected on their internal plan for Canals



2.0

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 Company 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 Company'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 Company'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.



3.0

KPMG's Audit  
Committee Institute  
and Global Energy  
Institute

## 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
- 14<sup>th</sup> Annual Audit Committee Issues Conference
  - January 8-10, 2018 in San Diego, California

### ACI-sponsored programs

- NYSE Governance Services
  - Annual Boardroom Summit
- NACD Annual Conference
  - February 22-24, 2017 in Washington, DC

### Suggested publications (available for download at [www.kpmg.com/aci](http://www.kpmg.com/aci))

- Directors Quarterly
- Global Boardroom Insights
- On the 2017 Audit Committee and Board Agendas
- Global Audit Committee Survey

### Resources

- ACI Web site: [www.kpmg-institutes.com/institutes/aci.html](http://www.kpmg-institutes.com/institutes/aci.html)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: 1-877-KPMG-AC1 (576-4224)

# KPMG's Global Energy Institute

## Recent Publications

- [Plugged In: Issues impacting the power and utilities industry](#)
- [Drilling Down: Issues impacting the oil and gas industry](#)
- [KPMG Corporate Finance - Energy Investment Banking M&A Newsletters](#)
  
- **2016 KPMG Global Energy Conference (recap available)**
- May 24-25, 2016, Royal Sonesta Hotel Houston, Texas
- Keynote speakers: John Boehner, Mark and Scott Kelly, and Robin Chase
  
- **Webcasts on Demand**
- [State Tax Legislative Update](#)
- [New Revenue Standard \(ASC Topic 606\)](#)
  
- **Resources**
- [KPMG Institutes Website](#)
- [Global Energy Institute Website](#)
- Audit Committee Insights – U.S and International editions (biweekly electronic publications):  
[www.kpmginsights.com](http://www.kpmginsights.com)



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# ***Audit Committee Internal Audit Update***

***3/14/2017***

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- 2017 Audit Plan Status - Canals
- Canal Activities
- Changes to 2017 IA Plan

## Appendix

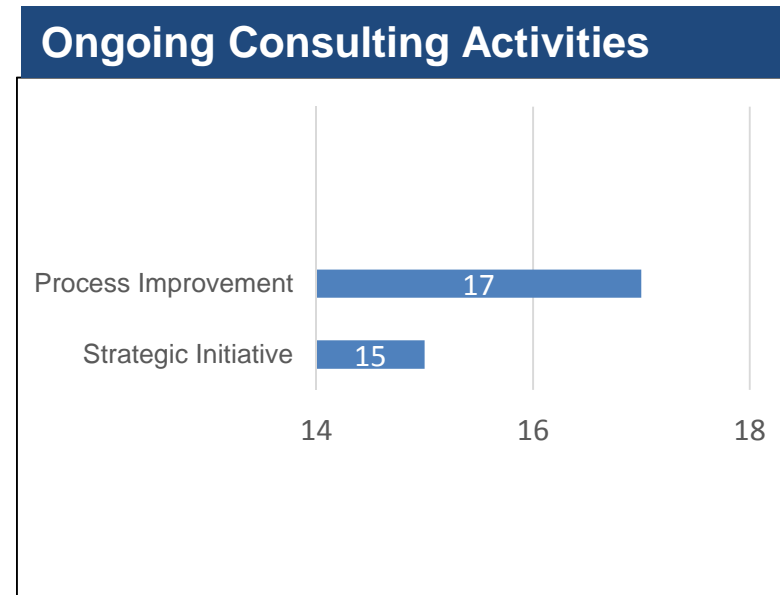
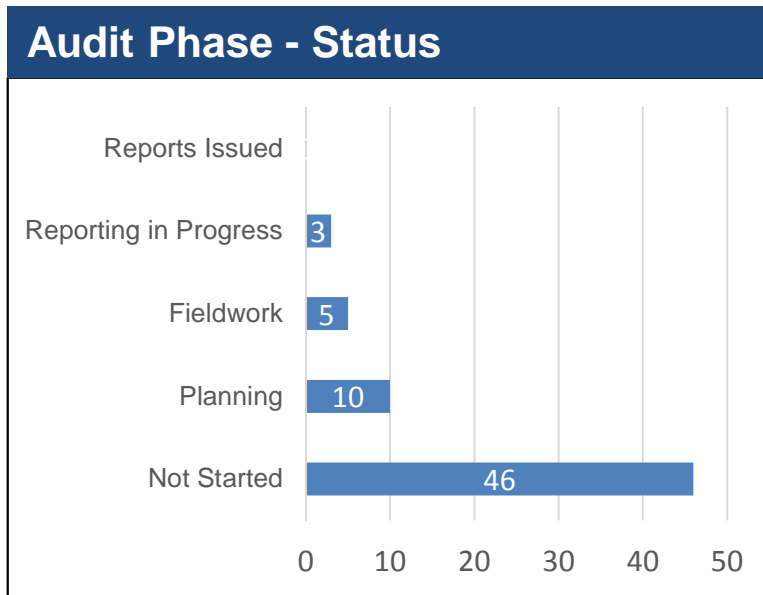
- Appendix A – 2017 IA Audit Plan
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# Executive Summary



## Executive Summary

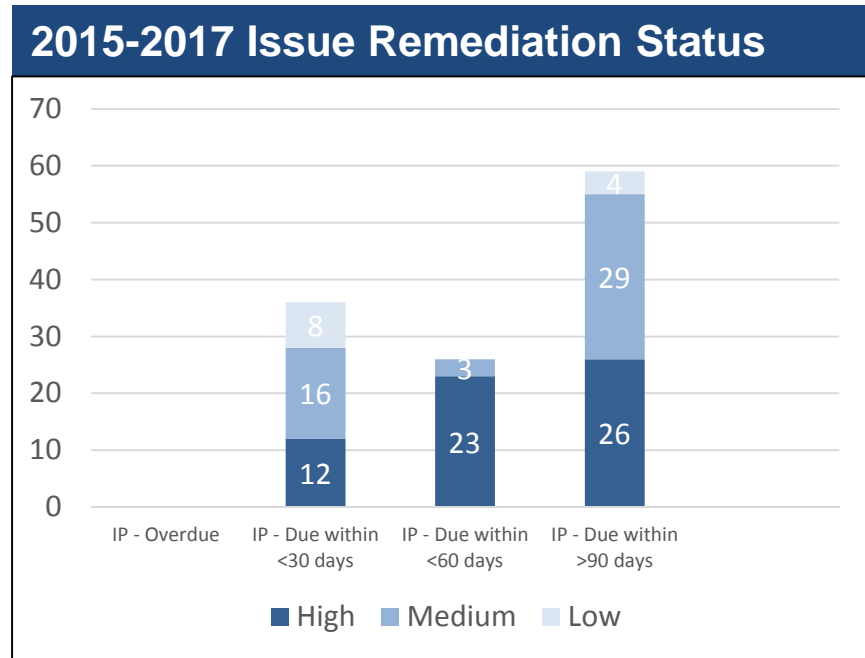
- 2016 Plan Status: Closed. All open audits from the 2016 plan have been closed.
- 2017 Plan Status:
  - Eighteen audits are in reporting, fieldwork or planning stage.
  - No significant risks have been identified on unissued reports at this time.
- IA staff is engaged in 32 consulting and partnering arrangements that will result in documented or real time verbal feedback. Engagements are categorized as Process Improvement or Strategic Initiative.



\*NOTE: Information includes both NYPA and Canal related IA activities

# Status of Open Remediation

- In February, IA launched a SharePoint site to automate tracking of open remediation items and provide enhanced reporting to Sr. Leadership.
- Open recommendations prior to 2015 are continuously monitored for close-out. As of 3/2/17, five recommendations were still in progress.
- IA is evaluating the best method to track Canal remediation status.
- IA is comfortable with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



\*NOTE: Information includes both NYPA and Canal related IA activities

## Changes to 2017 IA Plan

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2017 IA Plan:

2017 Audit Status	3/2/17
Open 2017 IA Plan	60
<b>Audit Added to 2017 IA Plan</b> <b>NYPA:</b> HTP First Energy, BG SCADA – Pre-/Post Implementation Review <b>Canals:</b> Canals Invoice Review, Canals Crisis Management	+4
<b>Audits Removed from 2017 IA Plan</b>	0
<b>Total 2017 Audits</b>	64

- Details explaining rationale for changes can be found in Appendix B.

# Canal Activities

---

## Risk Assessment

- Completed independent risk assessment and validation of Canals 2017 plan.
- No significant risks were identified that had not already previously been considered.
- Recommendation to add Crisis Management to Audit Plan was accepted.

## Methodology & Staffing

- Identified audit methodology changes necessary that will be specific to Canals such as audit report distribution and recommendation management.
- Management and oversight of audit activities will be at the direction of NYPA IA staff. Execution of audits will be conducted by Deloitte, IA's third party co-source provider.
- Canal IT plan is already in progress and business/operational portion of the plan will begin execution in March.

## Canal Integration

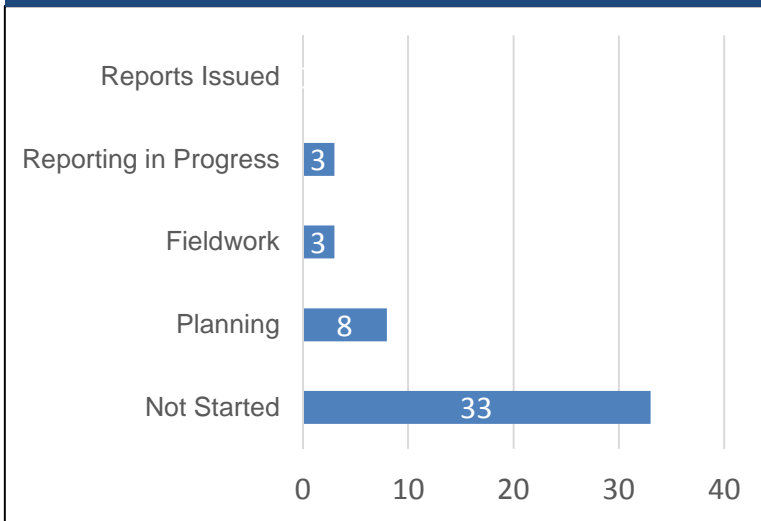
- Conducted IA Introduction to Canals leadership team at the Canals Office.
- Hosted an open IA Introduction meeting to all non-leadership Canal colleagues.

# NYPA

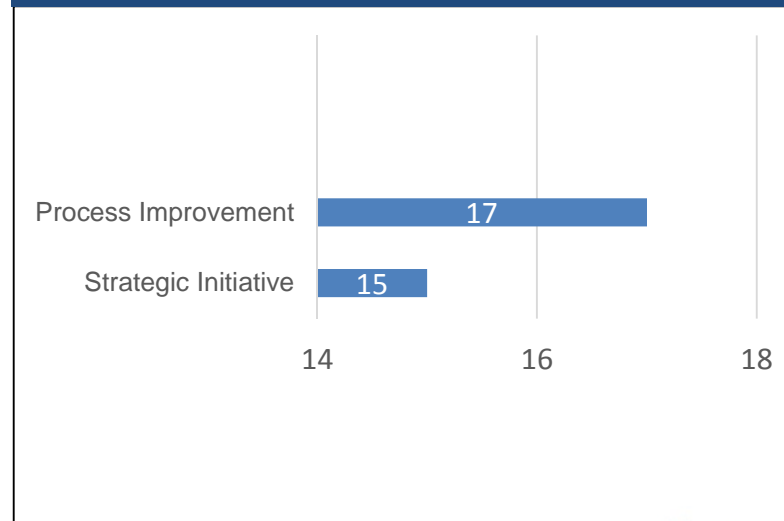
## 2017 Audit Plan Status - NYPA

- 2016 Plan Status: Closed. All open audits from the 2016 plan have been closed.
- 2017 Plan Status:
  - Fourteen audits are in reporting, fieldwork or planning stage.
  - No significant risks have been identified on unissued reports at this time.
- IA staff is engaged in 32 consulting and partnering arrangements that will result in documented or real time verbal feedback. Engagements are categorized as Process Improvement or Strategic Initiative.

### Audit Phase - Status

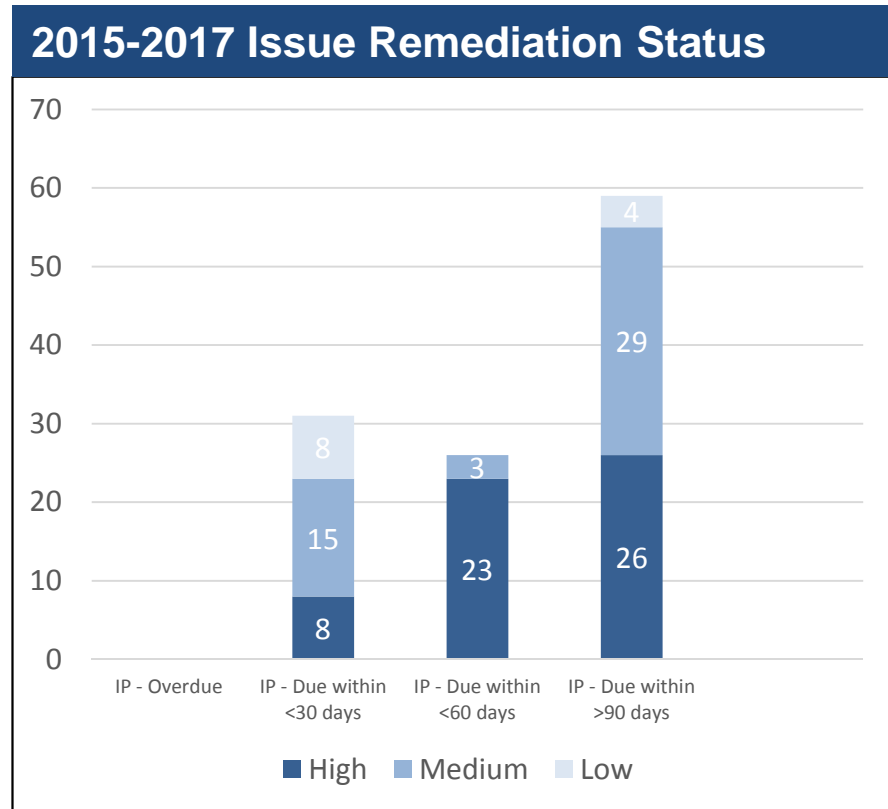


### Ongoing Consulting Activities



## Status of Open Remediation - NYPA

- In February, IA launched a SharePoint site to automate tracking of open remediation items and provide enhanced reporting to Sr. Leadership.
- Open recommendations prior to 2015 are continuously monitored for close-out. As of 3/2/17, five recommendations were still in progress.
- IA is comfortable with the progress timelines set forth by process owners for completion of identified issues and is monitoring remediation efforts with a focus on High risk issues.



\*NOTE: Information includes both NYPA and Canal related IA activities

## Changes to 2017 IA Plan - NYPA

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2017 IA Plan:

2017 Audit Status	3/2/17
Open 2017 IA Plan	45
<b>Audit Added to 2017 IA Plan:</b> HTP First Energy, BG SCADA – Pre-/Post Implementation Review	+2
<b>Audits Removed from 2017 IA Plan</b>	0
<b>Total 2017 Audits</b>	47

- Details explaining rationale for changes can be found in Appendix B.

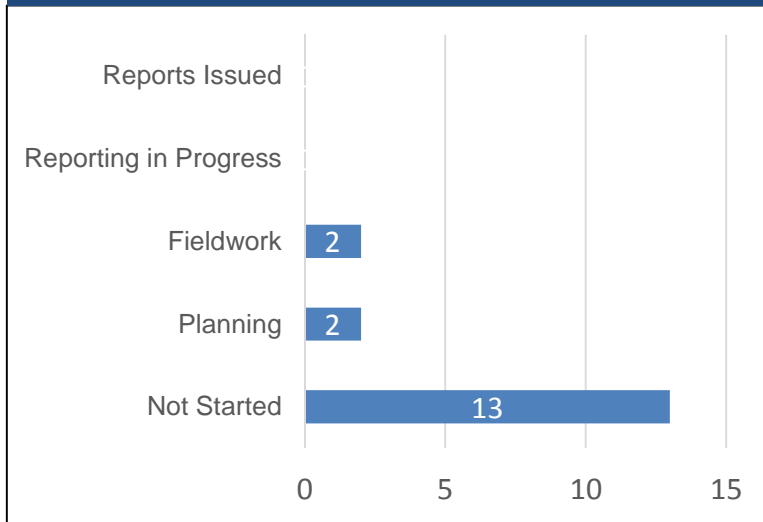


# Canal Corp.

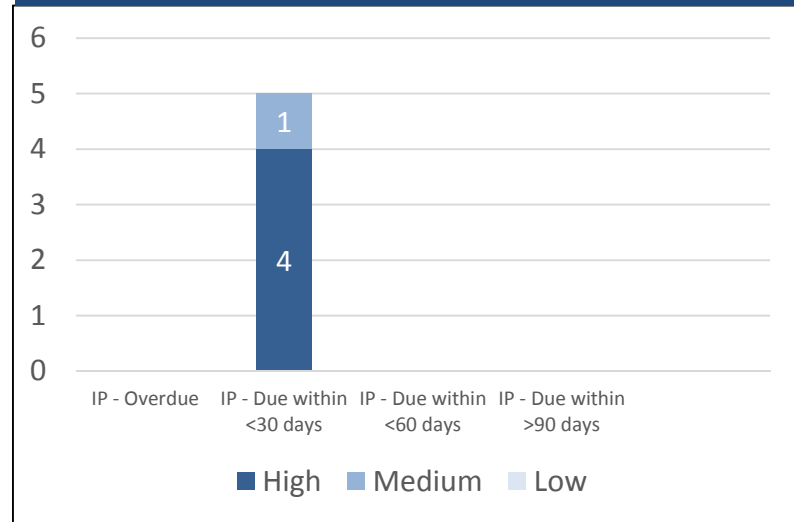
## 2017 Audit Plan Status - Canals

- 2017 Plan Status:
  - Four audits are in reporting, fieldwork or planning stage.
  - No significant risks have been identified on unissued reports at this time.

### Audit Phase - Status



### 2016-2017 Issue Remediation Status



Note: All action items will be reviewed in the SAP Migration Phase 2 audit currently in Planning.

# Canal Activities

---

## Risk Assessment

- Completed independent risk assessment and validation of Canals 2017 plan.
- No significant risks were identified that had not already previously been considered.
- Recommendation to add Crisis Management to Audit Plan was accepted.

## Methodology & Staffing

- Identified audit methodology changes necessary that will be specific to Canals such as audit report distribution and recommendation management.
- Management and oversight of audit activities will be at the direction of NYPA IA staff. Execution of audits will be conducted by Deloitte, IA's third party co-source provider.
- Canal IT plan is already in progress and business/operational portion of the plan will begin execution in March.

## Canal Integration

- Conducted IA Introduction to Canals leadership team at the Canals Office.
- Hosted an open IA Introduction meeting to all non-leadership Canal colleagues.

## Changes to 2017 IA Plan - Canals

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams and discussions with leadership. As a result, the following changes have been made to the 2017 IA Plan:

2017 Audit Status	3/2/17
Open 2017 IA Plan	15
<b>Audit Added to 2017 IA Plan:</b> Canals Invoice Review, Canals Crisis Management	+2
<b>Audits Removed from 2017 IA Plan</b>	0
<b>Total 2017 Audits</b>	17

- Details explaining rationale for changes can be found in Appendix B.

# Appendix

# Appendix A – 2017 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Deliverable Issued: 0</b>					
<b>Fieldwork Complete – Reporting: 3</b>					
1	2017-AU-42	Customer Compliance Audits	Commercial Operations	Audit	
2	2017-CS-46	HTP First Energy Additional Follow-up	Utility Operations	Consulting	
3	2017-AS-39	Enterprise Risk Mitigation/Action Plan Follow-up	Entity-Wide	Assessment	
<b>Fieldwork In Progress: 5</b>					
4	2017-AS-16	Business Resiliency Governance Assessment	Entity-Wide	Assessment	
5	2017-AU-41	Contributions, Sponsorships and Events	Entity-Wide	Audit	
6	2017-AU-63-C	Canals Invoice Review	Business Services	Audit	
7	2017-AU-64-C	Canals Non-SAP Applications and Infrastructure	Technology	Audit	
8	2017-AU-65	B-G SCADA Pre/Post Implementation			
<b>Audit Planning In Progress: 10</b>					
9	2017-AU-09	Ariba System Implementation – Contract Lifecycle Management Module	Technology	Audit	
10	2017-AU-14	Success Factors System Implementation	Entity-Wide	Audit	
11	2017-CS-20	SDLC Roadmap Support	Technology	Consulting	
12	2017-CS-21	ISO 55000 Framework Design Support	Utility Operations	Consulting	
13	2017-AS-27	Transitional Position Utilization Assessment	HR & Enterprise Shared Services	Assessment	
14	2017-CS-29	Customer Energy Solutions Redesign Support	Commercial Operations	Consulting	
15	2017-AU-30	Third Party Contract Audits	Entity-Wide	Audit	
16	2017-CS-44	Marketing Sales Culture Survey	Commercial Operations	Consulting	
17	2017-AS-48-C	Canals TSA Management	Technology	Audit	
18	2017-AU-51-C	SAP Migration Phase 2	Technology	Audit	
<b>Planning Not Started: 46</b>					
19	2017-AS-01	Enterprise Portfolio Management Design Assessment	Entity-Wide	Assessment	
20	2017-CS-02	Cyber Security Roadmap Consulting Support	Technology	Consulting	
21	2017-AU-03	SAP Basis Administration	Technology	Audit	
22	2017-CS-04	Cyber Security Services Function Design Support	Technology	Consulting	
23	2017-AU-05	Transmission Cost of Service	Entity-Wide	Audit	
24	2017-AU-06	Hydro Forecast Process	Utility Operations	Audit	
25	2017-AU-07	HTP Operations	Commercial Operations	Audit	
26	2017-AS-08	Resource Loaded Scheduling	Utility Operations	Assessment	
27	2017-AS-10	Generator Variable Costs	Entity-Wide	Assessment	



# Appendix A – 2017 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Planning Not Started Continued</b>					
28	2017-AU-11	Deferred Asset Accounting	Business Services	Audit	
29	2017-AU-12	New York Energy Manager	Commercial Operations	Audit	
30	2017-AU-13	Employee Data Protection	HR & Enterprise Shared Services	Audit	
31	2017-AU-15	Operating System Security	Technology	Audit	
32	2017-AU-17	Niagara SCADA Upgrade	Utility Operations	Audit	
33	2017-AU-18	IT Disaster Recovery (DR)	Technology	Audit	
34	2017-AU-19	LPGP LEM	Utility Operations	Audit	
35	2017-AU-22	Cost Allocations	Entity-Wide	Audit	
36	2017-AU-23	System Testing Management	Technology	Audit	
37	2017-AS-24	Customer Credit	Entity-Wide	Assessment	
38	2017-AU-25	2016 OSC Audit – Remediation Follow-up	Entity-Wide	Audit	
39	2017-CS-26	NERC CIP Audit Prep Support	Utility Operations	Consulting	
40	2017-AU-28	AGILE Strategic Initiative	Entity-Wide	Audit	
41	2017-AU-31	Generator Meter to Cash	Entity-Wide	Audit	
42	2017-AS-32	Physical Security Investments Assessment	Utility Operations	Assessment	
43	2017-AS-33	Business Development Governance	Entity-Wide	Assessment	
44	2017-AS-34	Project Management Methodology Assessment	Entity-Wide	Assessment	
45	2017-CS-35	IT KPI and Metric Development	Technology	Consulting	
46	2017-AU-36	Telecom Cost Recovery Project	Technology	Audit	
47	2017-AU-37	Financial Performance Metrics	Business Services	Audit	
48	2017-CS-38	Customer Contract Design Review Support	Entity-Wide	Consulting	
49	2017-AU-40	Muni/Coop Regulation Audit	Commercial Operations	Audit	
50	2017-AS-43	Post Retirement Benefits Assessment	Business Services	Assessment	
51	2017-AU-45	Office 365	Technology	Audit	
52	2017-AS-47-C	Rizzo Study Follow-up	Utility Operations	Assessment	
53	2017-AS-49-C	EH&S Study Follow-up	Utility Operations	Assessment	
54	2017-AU-50-C	User Access Management	Technology	Audit	
55	2017-AU-52-C	IT Incident Management	Technology	Audit	
56	2017-AU-53-C	PCI Compliance	Technology	Audit	
57	2017-AU-54-C	Physical Inventory/Asset Verification	Entity-Wide	Audit	
58	2017-AS-55-C	P-Cards	Entity-Wide	Assessment	
59	2017-AU-56-C	Pre/Post Day 1 Balance Review	Business Services	Audit	



## Appendix A – 2017 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Date Issued
<b>Planning Not Started Continued</b>					
60	2017-AU-57-C	Pension/Other Post Retirement Benefits	Business Services	Audit	
61	2017-AU-59-C	Expenditure Authorization Procedure (EAP) Compliance	Entity-Wide	Audit	
62	2017-AU-60-C	OSC Audit Follow-up	Entity-Wide	Audit	
63	2017-AU-62-C	Canals Governance	Entity-Wide	Audit	
64	2017-AU-66-C	Canals Crisis Management	Utility Operations	Audit	



## Appendix B - Changes to 2017 IA Plan

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Business Services	Canals Invoice Review	Added to Plan	Continuation of Canal's Invoice Review	Q1	+1
Utility Operations	HTP First Energy	Added to Plan	Removed from 2016 Internal Audit Plan due to documentation from third party vendor pending receipt moved to 2017. The expectation is that information required to complete the planned work will be received during 2017 at which time the agreed upon audit procedures can be completed and conclusions drawn by IA in support of management's next steps.	Q1	+1
Utility Operations	BG SCADA – Pre/Post Implementation Review	Added to Plan	Accommodate the remaining BG SCADA implementation work.	Q1	+1
Utility Operations	Canals Crisis Management	Added to Plan	Potential areas of focus include but not limited to: emergency communication, pre-crisis preparedness, policies and procedures, and controls.		+1
Technology	Canals Non-SAP Applications and Infrastructure	Name Change	Changed from Third Party Vendor Applications Support	Q1	0
Technology	ERP Migration	Name Change	Changed name to SAP Migration Phase 2 and scope description.	Q1	0
Entity-wide	Grants and Sponsorship	Name Change	Changed name to Contributions, Sponsorships and Events. Accurate reflection of what is governed by the two policies.	Q1	0
Entity-wide	Emergency Management Governance Assessment	Name Change	Changed name to Business Resiliency Governance Assessment.	Q1	0

## Appendix C – 2017 IA Reports Issued/Ratings

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No 2017 reports have been issued as of 3/2/17.

**NEW YORK POWER AUTHORITY**

**Financial Report**

**December 31, 2016 and 2015**

**NEW YORK POWER AUTHORITY**  
**Financial Report**  
**December 31, 2016 and 2015**

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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 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, 2016, 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 [ ], 2017

# **NEW YORK POWER AUTHORITY**

## **Management's Discussion and Analysis**

December 31, 2016 and 2015

(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, 2016 and 2015

(Unaudited)

### Summary of Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's financial information for 2016, 2015, and 2014:

The following summarizes the Authority's financial performance for the years 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs. 2015 favorable (unfavorable)</u>	<u>2015 vs. 2014 favorable (unfavorable)</u>
	(In millions, except percentages)				
Operating revenues	\$ 2,421	\$ 2,625	\$ 3,175	(8)%	(17)%
Operating expenses:					
Purchased power	514	689	996	25	31
Fuel oil & gas	152	236	361	36	35
Wheeling	609	599	614	(2)	2
Operations and maintenance	619	569	562	(9)	(1)
Depreciation	231	237	232	3	(2)
Total operating expenses	<u>2,125</u>	<u>2,330</u>	<u>2,765</u>	9	16
Operating income	<u>296</u>	<u>295</u>	<u>410</u>	-	(28)
Nonoperating revenues	25	25	115	-	(78)
Nonoperating expenses	<u>299</u>	<u>246</u>	<u>253</u>	(22)	3
Net income	22	74	272	(70)	(73)
Contributed capital	<u>—</u>	<u>—</u>	<u>—</u>		
Net income and change in net position	22	74	272		
Net position – beginning	4,059	3,991	3,719		
Cumulative effect of change in accounting principle	<u>—</u>	<u>(6)</u>	<u>—</u>		
Net position – beginning, as restated	<u>4,059</u>	<u>3,985</u>	<u>3,719</u>		
Net position – ending	<u>\$ 4,081</u>	<u>\$ 4,059</u>	<u>\$ 3,991</u>		

The Authority had net income of \$22 million for the year ended December 31, 2016 compared to \$74 million in 2015, a decrease of \$52 million. The decrease was primarily due to the reimbursement charges, included in nonoperating expenses, of \$62 million of Canals Corporation expenditures incurred in 2016 under a funding agreement with the New York State Thruway Authority pursuant to the State Fiscal Year 2016-2017 Budget legislation. Operating income increased by \$1 million compared to last year as lower fuel and purchased power costs substantially offset lower revenues and higher operations & maintenance expenses. Purchased power and fuel expenses decreased a total of \$259 million for the year ended December 31, 2016, compared to the prior year as a result of lower prices. Operations and maintenance expenses increased by \$50 million primarily due to costs related to the Canal Corporation integration and pension expense. Revenues were \$204 million lower reflecting the pass-through of lower energy costs to customers, partially offset by higher transmission and hydro facility revenues.

The change in net position was attributable to the positive 2016 net income of \$22 million.

## **NEW YORK POWER AUTHORITY**

### **Management's Discussion and Analysis**

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(Unaudited)

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

### **Operating Revenues**

Operating revenues of \$2,421 million in 2016 were \$204 million or 8% lower than the \$2,625 million in 2015, 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 lower natural gas prices.

### **Purchased Power and Fuel**

Purchased power costs decreased by 25% in 2016 to \$514 million from \$689 million in 2015, primarily due to lower prices (\$97 million) and volumes (\$29 million) of energy purchases. Fuel costs were \$84 million (36%) lower during 2016, primarily due to lower prices (\$72 million) and lower volume (\$12 million). The average price of fuel consumed was lower in 2016 compared to 2015 due to the continuing favorable market prices experienced during the year.

### **Operations and Maintenance (O&M)**

O&M expenses increased by \$50 million, or 9%, in 2016 to \$619 million, primarily due to Canal Corporation integration costs and pension expense partially offset by lower maintenance costs.

### **Nonoperating Revenues**

For 2016, nonoperating revenues were flat when compared to prior years with \$25 million in both 2016 and 2015.

### **Nonoperating Expenses**

For 2016, nonoperating expenses increased by \$53 million, or 22%, due to reimbursement charges of \$62 million related to the Canal Corporation funding agreement with the New York State Thruway Authority.

### **Cash Flows**

Net cash flows provided by operating activities decreased by \$85 million in 2016 compared to 2015. The decrease was due to the timing of payments and receipts.

### **Net Generation**

Net generation was 29.3 million megawatt-hours (MWh) in 2016, a 2% increase compared to 2015 (28.8 million MWh). Net generation from the Niagara and St. Lawrence hydroelectric plants in 2016 (22.1 million MWh) was



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## Management's Discussion and Analysis

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4% higher than 2015 (21.2 million MWh) due to increased water levels on Lakes Erie and Ontario resulting in higher water flow to the Niagara and St. Lawrence hydroelectric plants. For 2016, net hydro generation was approximately 110% of long-term average and above 2015, which was 105%. Combined net generation of the fossil fuel plants for 2016 was 7.2 million MWh, or 6% lower than 2015 (7.6 million MWh), with a 0.4 million MWh decrease attributable to lower generation at certain fossil fuel plants due to milder temperatures during winter peak period and cooler than normal temperatures over the summer peak period.

### Summary of Statements of Net Position

The following is a summary of the Authority's statements of net position for 2016, 2015, and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs.</u> <u>2015</u>	<u>2015 vs.</u> <u>2014</u>
	(In millions, except percentages)				
Current assets	\$ 3,082	\$ 1,754	\$ 1,925	76 %	(9) %
Capital assets	4,825	4,778	4,731	1	1
Other noncurrent assets	1,529	3,003	2,851	(49)	5
Deferred outflows	<u>107</u>	<u>40</u>	<u>17</u>	168	135
Total assets and deferred outflows	<u>\$ 9,543</u>	<u>\$ 9,575</u>	<u>\$ 9,524</u>	-	1
Current liabilities	\$ 2,439	\$ 1,096	\$ 927	123	18
Noncurrent liabilities	<u>2,668</u>	<u>4,110</u>	<u>4,320</u>	(35)	(5)
Total liabilities	<u>5,107</u>	<u>5,206</u>	<u>5,247</u>	(2)	(1)
Deferred inflows	<u>355</u>	<u>310</u>	<u>286</u>	15	8
Net position	<u>4,081</u>	<u>4,059</u>	<u>3,991</u>	1	2
Total liabilities, deferred inflows and net position	<u>\$ 9,543</u>	<u>\$ 9,575</u>	<u>\$ 9,524</u>	-	1

The following summarizes the Authority's statements of net position variances for the years 2016 and 2015:

In 2016, current assets and current liabilities increased mainly due to the reclassification of the Decommissioning Trust Fund from noncurrent assets and liabilities resulting from the transfer of the fund to Entergy on January 30, 2017 (see note 12(c) "Nuclear Plant Divestiture and Related Matters – Nuclear Plant Decommissioning" of notes to the financial statements). Excluding Decommissioning Trust Fund investment of \$1,504 million in 2016, current assets decreased by \$176 million (10%) to \$1,578 million primarily due to a decrease in investments resulting from sales of securities for repayment of debt in the first quarter of 2016. Capital assets increased by \$47 million (1%) to \$4,825 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, excluding Decommissioning Trust Fund investment of \$1,430 million in 2015, decreased by \$44 million (3%) primarily due to decrease in receivable from New York State related to Transfer of Assets – see Note 13(e) "Commitments and Contingencies – New York State Budget and Other Matters". Deferred outflows increased by \$67 million primarily due to changes in the deferral of pension related resources. Current liabilities, excluding the Decommissioning Trust Fund investment of \$1,504 million in 2016, decreased by \$161 million (15%), to \$935 million compared to last year. This decrease is attributable to the decrease in long-term debt due within one year resulting from scheduled maturities, and the Authority's repayment, on an accelerated basis, of the Adjustable

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Rate Tender Notes (ART Notes) and a portion of the Extendible Municipal Commercial Paper (EMCP) in the first quarter of 2016. Noncurrent liabilities, excluding Decommissioning Trust Fund investment of \$1,430 million in 2015, were higher by \$51 million (3%), primarily due to the increase in pension liability (\$76 million) partially offset primarily by decreases in long-term debt resulting from the scheduled maturities, and payments on capital lease obligations. Deferred inflows increased by \$45 million (15%) compared to last year due to changes in fair value and settlements of derivative instruments, \$14 million increase in the costs of removal obligation and the deferral of pension related resource. The changes in net position for 2016 and 2015 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

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.

### **Capital Asset and Long-Term Debt Activity**

The Authority currently estimates that it will expend approximately \$1.4 billion for various capital improvements over the five-year period 2017-2021. 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.

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

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MA1 & MA2 Transmission Line Upgrade	\$	171
Life Extension & Modernization Program (RMNPP)		168
PID SGT: WNY Energy Link		157
Lewiston Pump Generating Plant LEM		150
Transmission LEM (Niagara, Clark Energy Center, Massena)		128
PID - SCPP System Hardening		51
Transmission Breaker & Relay Program (St. Lawrence)		39
Transmission LEM Substation (Adk,Plattsburg) (Clark Energy Center)		38
SGT: Communications Backbone		33
New Security And Warehouse Facility (St. Lawrence)		27
IT Initiatives		24
CT R-22 Inlet Chilling System - 500mw		21
Install Advanced Hot Gas Path Components		20
Transmission Pv Line Assesment/Upgrade (St. Lawrence)		19
Transmission Relay Repl New Initiative (Niagara)		16
Rotor Modification for Stress Redistribution (St. Lawrence)		14
MA1 & MA2 Structure Replmt Phase II (St. Lawrence)		13
Switchyard T-LEM (St. Lawrence)		11
Centroplex Garage LEM		9
AM: Integrated Smart Operating Center		9
All Other (Projects below \$9.0 million)		280
	\$	<u><u>1,398</u></u>

In addition, the Authority's capital plan includes the provision of approximately \$1.4 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. It should also be noted that due to projects currently under review as well as energy initiatives announced in the Governor's State of the State address, there is a potential for significant increases in the capital expenditures indicated in the table above. 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 \$208 million spent as of December 31, 2016. 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-capacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Authority

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**(Unaudited)**

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, 2016, the balance in the liability associated with the relicensing on the statement of net position is \$295 million (\$25 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 is embarking on several initiatives, which are currently 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) 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 Note 2 "Summary of Significant Accounting Policies" and Note 5 "Capital Assets" of the notes to the financial statements.

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### Capital Structure

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(In millions)	
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	\$ 784	\$ 845	\$ 902
Adjustable rate tender notes	—	—	86
Subordinated:			
Subordinated Notes, Series 2012 (1)	21	21	23
Commercial paper	5	5	44
Total long-term debt, net of current maturities	810	871	1,055
Net position	4,082	4,059	3,991
Total capitalization	\$ 4,892	\$ 4,930	\$ 5,046

(1) The Subordinated Notes, Series 2012, which were issued in 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 and the Series 2015 A Revenue Bonds.

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 on March 1, 2016.

In November 2016, the Authority's Trustees authorized the issuance of up to \$475 million of additional revenue bonds for the purpose of refunding certain revenue bonds and raising funds to finance a portion of its Lewiston Pump Generating Plant and Transmission Life Extension and Modernization programs. Such bonds have yet to be issued.

Also in November 2016, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2016, in a principal amount not to exceed \$30 million to accelerate additional 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 in connection with the Niagara Project's relicensing. The Authority issued the Subordinated Notes on February 24, 2017 in the amount of \$25.2 million re-designated as the Subordinated Notes, Series 2017. These 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 and the Series 2015 A Revenue Bonds.

Total debt to equity ratio as of December 31, 2016, was at .34-to-1 when compared to .39-to-1 as of December 31, 2015. Total debt as of December 31, 2016 is at its lowest level since December 31, 1974.

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#### Debt Ratings

	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fitch</u>
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
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 – the principal and interest when due is guaranteed under insurance policies issued by MBIA Insurance Corporation. The credit ratings of MBIA Insurance Corporation are currently at or below the Authority's underlying credit ratings.

In December 2016, Moody's Investors Service affirmed the Authority's senior and subordinate debt ratings and in January 2017, Standard & Poor's Ratings Service also affirmed the Authority's senior and subordinate debt ratings, and also assigned a AA- rating to the Authority's Subordinated Notes, Series 2017. In January 2017, Fitch Ratings affirmed the Authority's subordinate debt ratings (they did not review the Authority's senior debt or Subordinated Notes, Series 2012).

The Authority has a line of credit under a 2015 revolving credit agreement, as amended (the amended 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 amended 2015 RCA terminates January 19, 2018, unless mutually extended by the banks and the Authority. There are no outstanding borrowings under the amended 2015 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 goals are 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 in Southeastern New York within the metropolitan area of 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"); (d) a firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC ("HTP") for a portion of the output of the 660 MW, seven mile, underground and underwater transmission line connecting into the PJM ISO (e) refinancing outstanding bonds to lower the overall cost of 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 energy marketplace.

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The Authority operates in a competitive and sometimes volatile energy 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, provide for the complete or partial pass-through of these costs.

To moderate cost impacts to the Authority and its customers, NYPA, at times, hedges market risks through the use of financial instruments and physical 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. 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.

The Authority can give no assurance that, even with these measures, it will retain its competitive status in the marketplace 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. 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 2017, 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 35% 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.

ReCharge New York ("RNY") is Governor Cuomo's statewide economic development electric power program, designed to retain and create jobs through the allocation of low-cost power. The RNY program allocates 455 MW of hydropower from the Authority's Niagara and St. Lawrence-FDR projects at rates similar to the expansion and replacement power customers, with certain adjustments. An additional 455 MW of market power can also be procured for RNY customers upon request.

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

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of the Authority's annual transmission revenue requirement ("TRR"). 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 more efficiently recover its revenue requirement based upon capital spending necessary to maintain the reliability of its transmission system, such as the Life Extension and Modernization program. The Authority filed an unopposed Offer of Settlement on September 30, 2016 that fully resolves the issues raised by interested parties in settlement negotiations concerning the formula rate. The settlement was approved by FERC on January 19, 2017. Separately, the annual TRR under the formula of \$190.0 million initially made effective April 1, 2016 was updated on July 1, 2016 to \$198.2 million pursuant to the formula rate annual update process.

### ***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. On July 26, 2016, the Authority's Trustees approved an additional amount not to exceed \$3 million to fund anticipated payments for the period from July 1, 2015 through June 30, 2016. As of December 31, 2016, approximately \$10 million of such discounts have been paid with approximately an additional \$3 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 \$474 million through December 2017 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, 2016, totaling cumulatively \$108 million. Operations and maintenance expenses included \$43 million and \$63 million of residential consumer discounts in the years ended December 31, 2016 and 2015, respectively.



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#### **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 (WNYED 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 \$60 million in net earnings, calculated for the period August 30, 2010 through December 31, 2016 as provided in the legislation, for deposit into the Fund. As of December 31, 2016, \$41 million has been deposited into the Fund. As of December 31, 2016, the Authority has approved awards of Fund money totaling approximately \$35 million to businesses that have proposed eligible projects and has made payments totaling \$21 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 (NNYED 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 NNYED 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, 2016, approximately \$2 million has been deposited into the Fund and no awards have been made.

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#### **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 49<sup>th</sup> 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 \$338 million. As of December 31, 2016, the Authority paid approximately \$336 million of such costs related to the interconnection and transmission upgrades. The Authority's obligations under the FTCPA also include payment of the Regional Transmission Enhancement Plan (RTEP) charges allocated to HTP in accordance with the PJM transmission tariff. Such RTEP costs are estimated to grow significantly in future years, and are discussed below.

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 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 \$93 million to \$126 million per year over the next five years. PJM's RTEP charges contribute to this under-recovery. 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, HTP and other parties on the grounds that PJM has disproportionately allocated the costs of those projects to those parties. The Authority's challenge has also pointed out that the RTEP share allocated to HTP may be greatly exacerbated by Con Edison's upcoming termination of its PJM transmission rights (scheduled to occur after April 2017) that could shift significant RTEP costs to NYPA. Depending on a variety of factors, including the outcome of FERC's review and whether any other parties decide to terminate their PJM transmission rights, HTP could be allocated, and NYPA could be obligated to pay, substantially more RTEP costs. Any RTEP costs relating to the Bergen-Linden Corridor and Edison Rebuild projects would be paid over a number of years once the improvements have been included in PSEG's revenue requirement calculation, which is expected to commence in 2017.

#### **Canal Corporation**

Article XV of the New York State Constitution provides, in part, that the barge canal, the divisions of which are the Erie canal, the Oswego canal, the Champlain canal, and the Cayuga-Seneca canal, and the terminals constructed as part of the barge canal system (collectively, the "Canal System") shall remain the property of the State and under its management and control forever.

Legislation enacted in 1992 (the "1992 Legislation") transferred jurisdiction of the Canal System, among other assets and properties, from the New York State Commissioner of Transportation to the Thruway Authority, to be held by the New York Thruway Authority (the "Thruway Authority") in the name of the people of the State. Such canal system remained the property of the State and under its management and control as exercised by and through the Thruway Authority, through its then newly created subsidiary, the New York State Canal Corporation (the

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“Canal Corporation”). The 1992 Legislation deemed the Canal Corporation to be the State for the purposes of such management and control of the canals but for no other purposes.

Legislation was enacted on April 4, 2016 (the “Canal Transfer Legislation”) which provided for (1) the transfer, effective January 1, 2017, of the Canal Corporation from the Thruway Authority to the Authority and (2) as of January 1, 2017, the Authority’s assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Authority is authorized to exercise through the Canal Corporation.

The Canal Transfer Legislation authorized the Authority to reimburse the Thruway Authority for all Canal System expenses beginning April 1, 2016 through January 1, 2017. Because the Authority did not assume ownership of the Canal Corporation until January 1, 2017, all reimbursement costs, including those for capital related activities, were treated as non-operating expenses for the Authority’s 2016 fiscal year.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. For fiscal year 2015, reports prepared by the Thruway Authority indicate that the Canal Corporation’s operating expenses were approximately \$62.1 million and operating revenues were approximately \$2.37 million with the shortfall provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation’s capital expenditures were approximately \$48.8 million with funding from various sources, including the Thruway Authority.

In addition, the financial statements of the Thruway Authority for the fiscal year ended December 31, 2015 indicate that the Present Value of Future Benefit Payments (commonly referred to as “OPEBs”) of the Canal Corporation as of December 31, 2015 was \$290.5 million and that the Unfunded Accrued Liability associated with such Future Benefit Payments as of such date was \$208.7 million.

The Canal Transfer Legislation also authorizes, but does not require, the Authority, to the extent that the Authority’s Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation. By resolution adopted November 7, 2016, the Authority’s Trustees determined that \$60 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support costs associated with the transfer of the Canal Corporation to the Authority including: (1) reimbursements to the Thruway Authority for the period of April 1, 2016 through December 15, 2016, as authorized by the Canal Transfer Legislation, in the amount of \$37.0 million, and (2) 2016 calendar year Authority integration costs associated with the Canal Corporation transfer in the amount of \$16.9 million. By resolution adopted December 15, 2016, the Authority’s Trustees determined that an additional \$44.0 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support Canal Corporation related costs, including reimbursements in respect of the remainder of calendar year 2016 and certain expected costs through January 2017. By resolution adopted January 31, 2017, the Authority’s Trustees authorized the release of an additional up to \$15.0 million in funding to support operations of the Canal Corporation for the period from February 1, 2017 to March 31, 2017. Additional releases will be considered at future meetings of the Trustees.

By resolution adopted January 31, 2017, the Canal Corporation’s Board of Directors adopted a budget for 2017 that included expenditures of \$84.3 million for operations and maintenance expenses, \$60.5 million for capital expenses and \$3.1 million for Canal Development Fund expenses. The Canal Corporation’s O&M, capital and Canal Development Fund expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority’s Board of Trustees and compliance with the Authority’s General Resolution Authorizing Revenue Obligations, as amended and supplemented. Canal

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Development Fund expenses are expected to be reimbursed to the Authority by the State Comptroller with moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance.

Given the age of the Canal System, the Authority expects that significant maintenance and capital investments will be required to assure its continuing operation. For fiscal year 2016, the Canal Corporation's operating expenses were budgeted to be \$53.75 million, capital expenditures were budgeted to be \$40 million, and operating revenues were budgeted to be \$2.95 million with the difference to be provided by the Thruway Authority, the Authority or other resources. The Authority's budget and financial plan for 2017-2020 includes Canal-related operating expenditures ranging from \$66.1 million to \$84.3 million per year.

The Authority has included in its budget and financial plan for 2017-2020 Canal-related capital expenditures which it expects will be adequate, together with amounts expected to be expended in subsequent years, to address necessary capital improvements associated with the Canal System. The Authority's 2017-2020 budget and financial plan includes annual Canal System related capital expenditures of approximately \$60.5 million in 2017 and approximately \$40 million in each of year 2018-2020.

#### ***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.

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 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), 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 13(a) "Power Programs – 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 2016 and 2015, the Authority made contributions to the State of \$91 million and \$90 million, respectively, that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2016 and 2015 statements of revenues, expenses and changes in net position. These contributions

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were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2016 contributions included \$26 million that was paid to the State's General Fund and \$65 million that was paid to Empire State Development Corporation (ESD). 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). Cumulatively, between January 2008 and December 31, 2016, the Authority has made voluntary contributions to the State totaling \$763 million unrelated to the PFJ program.

The Authority cannot predict what additional contributions to the State may be authorized in the future.

### ***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 12(b) "Nuclear Plant Divestiture and Related Matters – 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.

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

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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 cumulative installment payments of \$60 million as of December 31, 2016.

The Authority expects that the State will return the \$215 million (Asset B) in installments beginning in 2017. The Assets A and B transfers are reported in miscellaneous receivable and other (\$43 million and \$21 million as of December 31, 2016 and 2015, respectively) and in other noncurrent assets (\$215 million and \$258 million at December 31, 2016 and December 31, 2015, respectively) in the statements of net position.

### **New York State Office of Parks, Recreation and Historic Preservation**

On July 18, 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of \$3 million per year to OPRHP for the term of the 50-year License. OPRHP has requested that the Authority accelerate certain of such payments by making a lump sum payment of approximately \$25 million to pay for authorized projects. In order to make the lump sum payment, the Authority issued \$25.2 million in subordinated notes on February 24, 2017 and made the proceeds available to OPRHP.

### **Niagara Parkway Redevelopment**

The State plans to replace an underutilized two-mile stretch of the Robert Moses Parkway North in Niagara Falls with open space, scenic overlooks and recreational trails. Construction is anticipated to commence in 2018 and take approximately two years to complete with funding in the amount of approximately \$40 million expected to be provided by the Authority. As of December 31, 2016, the Authority's Trustees have approved up to \$5 million in funding by the Authority.

### **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.



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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. A negotiated settlement of that cost allocation has been approved by FERC. The Authority co-developed one of the TOTS projects, the Marcy-South Series Compensation, with NYSEG and has also completed a negotiated settlement at FERC to recover the costs of its portion of that project.

### **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, 2016, the Authority has in aggregate provided approximately \$282 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, 2016, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately \$17 million. On January 31, 2017, the Authority's Trustees approved an extension of the energy efficiency market acceleration program through December 31, 2018.

### **Zero Emission Credits**

On August 1, 2016, the New York (NYPSC) issued an order establishing a Clean Energy Standard (the "CES Order") to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving

## **NEW YORK POWER AUTHORITY**

### **Management's Discussion and Analysis**

December 31, 2016 and 2015

(Unaudited)

entities identified in the order are required to purchase "Zero Emission Credits" ("ZECs") from the New York State Energy Research Development Authority ("NYSERDA") to support the preservation of existing at-risk zero emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but expects to assume a ZEC Purchase Obligation and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority estimates that it will incur ZEC Purchase Obligation costs under the CES Order of as much as \$254 million in aggregate over the 2017-2020 period, and it will work to recover all of the costs incurred.

### **Bridge Lighting**

It is anticipated that the Authority, through its Customer Energy Solutions program, will be responsible for implementing a plan to make improvements to bridges and tunnels in the New York City metropolitan region including the addition of energy efficient LED lighting in conjunction with the Triborough Bridge and Tunnel Authority ("TBTA"), with costs, which are currently expected to be approximately \$216 million, to be paid by or recovered from TBTA.

### ***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 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 Order Adopting a Ratemaking and Utility Revenue Model Policy Framework issued and effective May 19, 2016 (Track 2), 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***



## **NEW YORK POWER AUTHORITY**

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(Unaudited)

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, in partnership with New York State Electric & Gas Corp. (NYSEG), has developed a proposal for meeting this need which was submitted to the New York System Operator (NYISO) on December 31, 2015. The NYISO completed their initial evaluation of the submitted proposals and prepared a report identifying those solutions which were viable and sufficient. This report was forwarded to the New York Public Service Commission on June 1, 2016. The PSC in an Order dated October 13, 2016 confirmed the continuing transmission need and directed the NYISO to complete their evaluation of the viable and sufficient proposals. The NYISO is currently evaluating the viable and sufficient proposals and will select a project upon completion of the evaluation.

### **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. Email: [info@nypa.gov](mailto:info@nypa.gov)



**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, 2016 and 2015, 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, 2016 and 2015, 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,  
the U.S. member firm of KPMG International Cooperative  
("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 section 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 [ ], 2017 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.

New York, NY  
March [ ], 2017

# NEW YORK POWER AUTHORITY

## Statements of Net Position

(In millions)

	December 31,	
	2016	2015
<b>Assets and Deferred Outflows</b>		
Current Assets:		
Cash and cash equivalents	\$ 43	\$ 67
Investment in securities	1,060	1,270
Investment in securities- restricted	1,504	—
Receivables - customers	152	153
Materials and supplies, at average cost:		
Plant and general	85	82
Fuel	33	36
Miscellaneous receivables and other	205	146
Total current assets	3,082	1,754
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	25	19
Investment in securities	31	1,495
Total restricted assets	56	1,514
Capital funds:		
Cash and cash equivalents	5	6
Investment in securities	27	29
Total capital funds	32	35
Capital Assets:		
Capital assets not being depreciated	512	588
Capital assets, net of accumulated depreciation	4,313	4,190
Total capital assets	4,825	4,778
Other Noncurrent Assets:		
Receivable - New York State	215	258
Other long-term assets	1,226	1,196
Total other noncurrent assets	1,441	1,454
Total noncurrent assets	6,354	7,781
Total assets	9,436	9,535
Deferred outflows:		
Accumulated decrease in fair value of hedging derivatives	—	10
Pensions (Note 10)	107	30
Total assets and deferred outflows	\$ 9,543	\$ 9,575

(Continued)

# NEW YORK POWER AUTHORITY

## Statements of Net Position

(In millions)

	December 31,	
	2016	2015
<b>Liabilities, Deferred Inflows and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 328	\$ 363
Liability to decommission divested nuclear facilities	1,504	—
Short-term debt	516	528
Long-term debt due within one year	58	181
Capital lease obligation due within one year	25	20
Risk management activities - derivatives	8	4
Total current liabilities	2,439	1,096
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	784	845
Subordinated:		
Subordinated Notes, Series 2012	21	21
Commercial paper	5	5
Total long-term debt	810	871
Other noncurrent liabilities:		
Capital lease obligation	1,144	1,169
Liability to decommission divested nuclear facilities	—	1,430
Disposal of spent nuclear fuel	217	217
Relicensing	270	270
Risk management activities - derivatives	—	15
Other long-term liabilities	227	138
Total other noncurrent liabilities	1,858	3,239
Total noncurrent liabilities	2,668	4,110
Total liabilities	5,107	5,206
Deferred inflows:		
Cost of removal obligation	313	299
Accumulated increase in fair value of hedging	30	10
Pensions (Note 10)	12	1
Net position:		
Net investment in capital assets	2,278	2,070
Restricted	23	23
Unrestricted	1,780	1,966
Total net position	4,081	4,059
Total liabilities, deferred inflows and net position	\$ 9,543	\$ 9,575

See accompanying notes to the financial statements.

# NEW YORK POWER AUTHORITY

## Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Operating revenues:		
Power sales	\$ 1,638	\$ 1,866
Transmission charges	174	160
Wheeling charges	609	599
Total operating revenues	2,421	2,625
Operating Expenses:		
Purchased power	514	689
Fuel oil and gas	152	236
Wheeling	609	599
Operations	484	415
Maintenance	135	154
Depreciation	231	237
Total operating expenses	2,125	2,330
<b>Operating income</b>	<b>296</b>	<b>295</b>
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	15	14
Other	10	11
Total nonoperating revenues	25	25
Nonoperating expenses		
Contribution to New York State	91	90
Canal Reimbursement Agreement	62	—
Interest on long-term debt	49	55
Interest - other	117	116
Interest capitalized	(16)	(12)
Amortization of debt premium	(4)	(3)
Total nonoperating expenses	299	246
<b>Net income and change in net position</b>	<b>22</b>	<b>74</b>
Net position, January 1	4,059	3,991
Cumulative effect of change in accounting principle (Note 10)	—	(6)
Net position, January 1, as restated	4,059	3,985
Net position, December 31	<u>\$ 4,081</u>	<u>\$ 4,059</u>

See accompanying notes to the financial statements.

# NEW YORK POWER AUTHORITY

## Statements of Cash Flows

(In millions)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 2,356	\$ 2,600
Disbursements for:		
Purchased power	(515)	(705)
Fuel, oil and gas	(136)	(234)
Wheeling of power by other utilities	(617)	(602)
Operations and maintenance	(739)	(625)
Net cash provided by operating activities	349	434
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(218)	(238)
Issuance of 2015 Series Bonds	–	69
Redemption of Series 2006 A Revenue Bonds	–	(88)
Repayment of notes	(87)	(10)
Repayment of bonds	(55)	(40)
Repayment of commercial paper	(39)	(26)
Interest paid, net	(50)	(54)
Net cash used in capital and related financing activities	(449)	(387)
Cash flows from noncapital-related financing activities:		
Energy conservation program payments received from participants	143	91
Energy conservation program costs	(142)	(166)
Issuance of commercial paper	110	142
Repayment of commercial paper	(121)	(80)
Interest paid on commercial paper	(5)	(4)
Transmission line interconnection costs	(49)	(69)
Contributions to OPEB trust fund	–	(14)
Contributions to New York State	(91)	(90)
Canal Reimbursement Agreement	(44)	–
Payment received from New York State	21	21
Payments received from value sharing agreement	–	71
Payments received from notes receivable	–	20
NYISO collateral	–	14
Payments received from nuclear relicensing	–	3
Net cash used in noncapital-related financing activities	(178)	(61)
Cash flows from investing activities:		
Earnings received on investments	15	20
Purchase of investment securities	(3,074)	(5,878)
Sale of investment securities	3,318	5,867
Net cash provided by investing activities	259	9
Net increase (decrease) in cash	(19)	(5)
Cash and cash equivalents, January 1	92	97
Cash and cash equivalents, December 31	\$ 73	\$ 92
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 296	\$ 295
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	231	237
Net decrease (increase) in prepayments and other	21	(50)
Net (increase) decrease in receivables and inventory	(70)	48
Net decrease in accounts payable and accrued liabilities	(129)	(96)
Net cash provided by operating activities	\$ 349	\$ 434

See accompanying notes to the financial statements.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (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, 2016 and 2015

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 see Note 2(l) "Summary of Accounting Policies – 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 Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2016	2015
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	2.9	3.1
Transmission	2.3	2.5
General	3.3	3.5
	2.6%	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, 2016 or 2015.

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:

ARO amounts	Cost of removal obligation
-------------	----------------------------

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

	(In millions)	
Balance – December 31, 2015	\$ 53	\$ 299
Depreciation Expense	–	11
Other expense	–	3
Balance – December 31, 2016	<u>\$ 53</u>	<u>\$ 313</u>

### (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 2016 or 2015.

### (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.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (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, 2016 and 2015 consist of the following:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	\$ 277	\$ 232
Risk management activities	8	19
Other regulatory assets	26	29
Total regulatory assets	311	280
Energy efficiency program costs (b)	323	302
Other long-term receivables	235	234
Transmission line interconnection costs	292	288
Other	65	92
Total other long-term assets	<u>\$ 1,226</u>	<u>\$ 1,196</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 as of both December 31, 2016 and 2015 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.
- 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.

## NEW YORK POWER AUTHORITY

Notes to the Financial Statements

December 31, 2016 and 2015

### (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 48% and 47% of the Authority's operating revenues in 2016 and 2015, 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.

### (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.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

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 10 "Pension Plans" of the notes to the financial statements.

#### (s) **New Accounting Pronouncements**

In 2016, the Authority adopted 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 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 notes to the financial statements, based on the presence or absence of observable market inputs. See Note 9 "Fair Value Measurements" of notes to the financial statements.

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. 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 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.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

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.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

**(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, 2016, the Authority's total investment portfolio of \$2,695 million included investments of \$406 million (15%), \$316 million (12%), \$217 million (8%) and \$102 million (4%) and \$72 million (3%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

At December 31, 2015, the Authority's total investment portfolio of \$2,886 million included investments in debt securities 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.

**(d) Decommissioning Fund**

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not 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. The Authority transferred its beneficial interest in the Decommissioning Funds to Entergy on January 30, 2017. See Note 12(c) "Nuclear Plant Divestiture – Nuclear Plant Decommissioning" of notes to the financial statements.

**(e) Other**

All investments are held by designated custodians in the name of the Authority. As of both December 31, 2016 and 2015, the Authority had \$50 million of investments in repurchase agreements. The bank balances at December 31, 2016 and 2015 were \$44 million and \$50 million, respectively, of which \$43 million and \$49 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.



# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

Cash and Investments of the Authority at December 31, 2016 and 2015 are as follows:

December 31, 2016	Total	Total restricted	Restricted		Capital fund	Unrestricted	Petroleum Overcharge Restitution (POCR) 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
			Decommiss- ioning Trust Fund	WNYEDF, POCR, projects and other (In millions)			
Cash and investments:							
Cash and cash equivalents	\$ 73	25	—	25	5	43	
U.S. government:							
Treasury Notes	5	—	—	—	—	5	
GNMA	—	—	—	—	—	—	
	5	—	—	—	—	5	
Other debt securities:							
FNMA	406	21	—	21	15	370	
FHLMC	316	10	—	10	1	305	
FHLB	217	—	—	—	10	207	
FFCB	102	—	—	—	—	102	
All other	72	—	—	—	1	71	
	1,113	31	—	31	27	1,055	
Portfolio Manager	1,504	1,504	1,504	—	—	—	
Total investments	2,622	1,535	1,504	31	27	1,060	
Total cash and investments	\$ 2,695	1,560	1,504	56	32	1,103	
Summary of maturities (years):							
0 – 1	\$ 417	56	—	56	31	330	
1 – 5	762	—	—	—	—	762	
5 – 10	11	—	—	—	—	11	
10+	1	—	—	—	1	—	
Portfolio manager	1,504	1,504	1,504	—	—	—	
	\$ 2,695	1,560	1,504	56	32	1,103	

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 POOCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POOCR 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 POOCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POOCR 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 POOCR funds are included

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

in restricted funds in the statements of net position. The funds are held in a separate escrow account until they are utilized.

As of December 31, 2016, restricted funds include the POCR fund (\$9 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 (\$20 million), the Northern New York Development Fund (\$2 million) (see Note 13(a) "Commitments and Contingencies – Power Programs") and other (\$6 million).

December 31, 2015	Total	Total restricted	Decommissioning Trust Fund	Restricted WNYEDF, ART		Capital fund	Unrestricted
				POCR, projects and other	note debt reserve		
				(In millions)			
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

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 13(a) "Commitments and Contingencies – Power Programs") and other (\$6 million).

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2016.

	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Ending balance</b>
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 160	4	—	164
Construction in progress	428	251	(331)	348
Total capital assets not being depreciated	588	255	(331)	512
Capital assets, being depreciated:				
Production – Hydro	2,000	75	(8)	2,067
Production – Gas turbine/combined cycle	2,427	13	—	2,440
Transmission	2,002	167	(6)	2,163
General	1,245	91	(3)	1,333
Total capital assets being depreciated	7,674	346	(17)	8,003
Less accumulated depreciation for:				
Production – Hydro	770	35	(8)	797
Production – Gas turbine/combined cycle	984	98	—	1,082
Transmission	1,186	48	(5)	1,229
General	544	42	(4)	582
Total accumulated depreciation	3,484	223	(17)	3,690
Net value of capital assets, being depreciated	4,190	123	—	4,313
Net value of all capital assets	\$ 4,778	378	(331)	4,825

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

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

	<b>Beginning balance</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Ending balance</b>
	(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

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### (6) Long-Term Debt

#### a. Components

	Amount		Interest rate	Maturity	Earliest redemption date prior to maturity
	2016	2015			
	(In millions)				
Senior debt:					
Revenue Bonds (Tax-Exempt):					
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	176	208	4.0% to 5.0%	11/15/2017 to 2021	11/15/2017
Series 2011 A Revenue Bonds:					
Serial Bonds	62	63	3.0% to 5.0%	11/15/2017 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	56	69	2.0% to 5.0%	11/15/2017 to 2020	N/A
Revenue Bonds (Taxable):					
Series 2003 A Revenue Bonds:					
Term Bonds	169	174	5.230% to 5.749%	11/15/2018 to 2033	** Any date
Series 2007 B Revenue Bonds:					
Serial Bonds	4	8	5.603%	11/15/2017	Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	** Any date
	827	882			
Plus unamortized premium and discount	20	24			
Less deferred refinancing costs	6	6			
	841	900			
Less due in one year	57	55			
	\$ 784	\$ 845			

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

\*\* Bonds are subject to sinking fund provisions.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

Interest on  
Series 2003  
A and 2007  
B Revenue  
Bonds and

	<u>Amount</u>		<u>Interest rate</u>	<u>Maturity</u>	
	<u>2016</u>	<u>2015</u>			
	(In millions)				
Adjustable Rate Tender Notes:					
2016 Notes	\$ —	\$ 11	N/A	N/A	***
2020 Notes	—	75	N/A	N/A	***
	—	86			
Less due in one year	—	86			
	—	—			
Subordinate debt:					
Subordinated Notes, Series 2012	22	22	1.36% to 4.05%	2017 to 2037	
Commercial Paper:					
EMCP (Series 1)	5	44	0.81%	2021	
	27	66			
Less due within one year	1	40			
	26	26			
Total Long-term debt	868	1,052			
Less due within one year	58	181			
Long-term debt, net of due in one year	\$ 810	\$ 871			

\*\*\* Notes were redeemed on March 1, 2016.

Subordinated Notes, Series 2012 is not excluded from gross income for bondholders' Federal income tax purposes.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### Senior Debt

In November 2016, the Authority's Trustees authorized the issuance of up to \$475 million of additional revenue bonds for the purpose of refunding certain revenue bonds and raising funds to finance a portion of its Lewiston Pump Generating Plant and Transmission Life Extension and Modernization programs. Such bonds have yet to be issued.

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 "Bond Resolution" of notes to the financial statements, 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 \$1.383 billion as of December 31, 2016. Principal and interest paid for 2016 and operating income plus depreciation were \$187 million and \$527 million, respectively. Principal and interest paid for 2015 and operating income plus depreciation were \$185 million and \$532 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.

In 2015, the Authority's Trustees approved the redemption of the remaining outstanding ART Notes, on an accelerated basis in the first quarter of 2016. The Authority retired the remaining outstanding ART Notes on March 1, 2016 in accordance with that authorization.

At December 31, 2016 and 2015, the current market value of the senior debt was approximately \$933 million and \$1.088 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

#### 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 and the Series 2015 A Revenue Bonds.

In November 2016, the Authority's Trustees authorized the issuance of subordinated notes, in a principal amount not to exceed \$30 million to accelerate additional 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 subordinate notes on February 24, 2017 in the amount of \$25.2 million (Subordinate Notes 2017). 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, and the Series 2015 A Revenue Bonds.

**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, 2016.

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, as amended (the amended 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 amended 2015 RCA terminates January 19, 2018, unless mutually extended by the banks and the Authority. There are no outstanding borrowings under the amended 2015 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 and the Series 2015 A Revenue Bonds.

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



# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2016.

Maturities and Interest Expense:	Long-Term Debt			Capitalized Lease Obligations		
	(In millions)			(In millions)		
	Principal	Interest	Total	Principal	Interest	Total
Year:						
2017	\$ 58	44	102	\$ 25	93	118
2018	61	42	103	31	90	121
2019	64	39	103	37	88	125
2020	67	35	102	43	85	128
2021	59	32	91	50	81	131
2022 – 2026	110	135	245	383	326	709
2027 – 2031	124	106	230	600	119	719
2032 – 2036	119	69	188	—	—	—
2037 – 2041	79	42	121	—	—	—
2042 – 2046	92	19	111	—	—	—
2047 – 2051	21	1	22	—	—	—
	854	564	1,418	1,169	882	2,051
Plus unamortized bond premium	20	—	20	—	—	—
Less deferred refinancing cost	6	—	6	—	—	—
	<u>\$ 868</u>	<u>564</u>	<u>1,432</u>	<u>\$ 1,169</u>	<u>882</u>	<u>2,051</u>

### b. Terms by Which Interest Rates Change for Variable Rate Debt

#### 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, 2016 the reset rate would have been 7.0%.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

### c. *Changes in Noncurrent Liabilities*

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2016 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	\$ 882		55	827	57
Adjustable rate tender notes	86	—	86	—	—
Subtotal	968	—	141	827	57
Subordinate debt:					
Subordinated Notes, Series 2012	22	—	—	22	1
Commercial paper	44	—	39	5	—
Subtotal	66	—	39	27	1
Net unamortized discounts/ premiums and deferred losses	18	—	4	14	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	\$ 1,052	—	184	868	58
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,169	—	25	1,144	25
Disposal of nuclear fuel	217	—	—	217	—
Relicensing	270	18	18	270	—
Other	153	155	81	227	—
Total other noncurrent liabilities	\$ 3,239	173	124	1,858	25

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Changes in the Authority's long-term 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	<u>1,037</u>	<u>69</u>	<u>138</u>	<u>968</u>	<u>141</u>
Subordinate debt:					
Subordinated Notes, Series 2012	24	—	2	22	1
Commercial paper	70	—	26	44	39
Subtotal	<u>94</u>	<u>—</u>	<u>28</u>	<u>66</u>	<u>40</u>
Net unamortized discounts/ premiums and deferred losses	<u>14</u>	<u>7</u>	<u>3</u>	<u>18</u>	<u>—</u>
Total debt, net of unamortized discounts/ premiums/ deferred losses	<u>\$ 1,145</u>	<u>76</u>	<u>169</u>	<u>1,052</u>	<u>181</u>
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	<u>165</u>	<u>30</u>	<u>42</u>	<u>153</u>	<u>—</u>
Total other noncurrent liabilities	<u>\$ 3,265</u>	<u>65</u>	<u>91</u>	<u>3,239</u>	<u>20</u>

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

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### (7) Short-Term Debt

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

		December 31,			
		2016		2015	
		Availability	Outstanding	Availability	Outstanding
(In millions)					
CP Notes (Series 1)	\$	176	\$ 224	\$ 60	\$ 340
CP Notes (Series 2)		180	270	276	174
CP Notes (Series 3)		328	22	336	14

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). 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)			
2016	\$ 528	109	121	516
2015	\$ 466	142	80	528

### (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.

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

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

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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 Standard & Poor's Global Platt's ("Platts") or internal pricing models.

### Derivative Instruments

The following table shows the fair value of outstanding derivative instruments for 2016 and 2015:

Derivative instrument description	Fair value balance December 31, 2015	Net change in fair value	Fair value balance December 31, 2016	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2016	Unit of Measure
			(\$ in millions)				
Interest rate swaps	\$ (3)	\$ 3	\$ —	Investment	Regulatory Asset	—	
Energy/Electric:							
Swaps	10	5	15	Cash Flow	Deferred inflow	(4,517,985)	MWh
Swaps	(9)	9	—	Cash Flow	Deferred inflow	—	
Renewable energy swaps	(16)	8	(8)	Investment	Regulatory Asset	181,881	MWh
Energy capacity futures	(1)	14	13	Cash Flow	Deferred inflow	(9,125,000)	KWm
Fuel futures/swaps	—	2	2	Cash Flow	Deferred inflow	1,472,500	MMBtu
Totals	\$ (19)	\$ 41	\$ 22				

**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 in 2015.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

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 million in 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. 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.

**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 through 2017. Net settlement receipts were \$21.3 million and \$7.6 million in 2016 and 2015, respectively.

**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 \$8.7 million and \$8.1 million in 2016 and 2015, 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 \$5.4 million and \$4.8 million in 2016 and 2015, respectively.

**Fuel futures/swaps** – The Authority has outstanding forward natural gas futures, intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2016 and 2015 for the benefit of certain of the Authority's customers. Net settlement payments were \$2.4 million in 2016 and receipts were \$3.4 million in 2015. In connection with the fuel futures and for the benefit of the Authority's customers, the Authority had outstanding natural gas transportation basis swaps to mitigate the volatility of market prices for pipeline transportation to New York City in 2015. 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 2016 and 2015 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.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

The Authority also imposes thresholds, based upon agency-published credit ratings and/or analysis, 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 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, 2016, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

#### ***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 commodity derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments, 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 "Long-Term Debt" of the notes to the financial statements.

#### ***Dodd Frank Act***

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## Notes to the Financial Statements

December 31, 2016 and 2015

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, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, is 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.

### (9) Fair Value Measurements

The Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application* during the year ended December 31, 2016. GAS No. 72 provides guidance for determining fair value measurements and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The implementation of this standard does not have a material effect on the Authority's reporting as the fair value measurement is already maintained by the Authority. The Authority's investments and derivatives are recorded at fair value as of December 31, 2016 and 2015.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

The fair value hierarchy prioritizes the inputs used to measure fair value into three broad Levels (Levels 1, 2, and 3), moving from quoted prices in active markets in Level 1 to unobservable inputs in Level 3. A financial instrument's level within the fair value hierarchy (where Level 1 is the highest and Level 3 is the lowest) is based on the lowest level of any input that is significant to the fair value measurement. The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Authority's perceived risk of that instrument.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 - quoted prices other than quoted prices included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and may rely on inputs using the best available data under the circumstances, including the government's own data.



## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

- U.S. government obligations – The fair value is based on institutional bond quotes and evaluations based on various market data/inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs.
- Corporate obligations – the fair value is based on institutional bond quotes and evaluations on various market and industry inputs.
- Common trust fund – The common trust fund represents the Nuclear Decommissioning Trust Fund (see Note 4(d) “Cash and Investments – Decommissioning Fund” of notes to the financial statements). The Authority transferred its beneficial interest in the Decommissioning Funds to Entergy on January 30, 2017 (see Note 12(c) “Nuclear Plant Divestiture and Related Matters – Nuclear Plant Decommissioning” of notes to the financial statements).

The fair value of the fund is primarily derived from the quoted prices in active markets on the underlying securities. The trust fund is a balance account that invests in a mix of asset classes, either directly through purchases of debt and equity securities, exchange-traded funds, and other collective funds.

- Derivative instruments – the Authority hedges market risks through the use of financial derivative instruments. Derivative instruments are traded on both exchange-based and non-exchange based markets. A detail disclosure on derivatives is included in Note 8 “Risk Management and Hedging Activities.”
  - The fair values for over-the-counter and exchange-traded energy, renewable energy, natural gas and natural gas transportation derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using prices published by Platts.
  - The fair value for the interest rate swaps were estimated using an internal zero-coupon discounting model that takes into consideration the prevailing interest rate environment, and the specific terms and conditions of each swap.
  - The fair value for capacity derivative instruments is based on internal pricing models which develop a demand curve for the NYISO monthly spot market capacity auctions. Capacity reference points are observed from the NYISO filing with FERC. Peak load forecast are observed in the NYISO’s Gold Book and PSC’s publications.

# NEW YORK POWER AUTHORITY

## Notes to the Financial Statements

December 31, 2016 and 2015

The following table summarizes the Authority's investments within the fair value hierarchy at December 31, 2016 and December 31, 2015:

	Fair Value Measurements			
	(in millions)			
December 31, 2016	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 73	\$ 73	\$ -	\$ -
U.S. government:				
US Treasury Notes	5	5	-	-
Federal Agency securities:				
FNMA	406	-	406	-
FHLMC	316	-	316	-
FHLB	217	-	217	-
FFCB	102	-	102	-
Municipal Bonds	68	-	68	-
All other	4	-	-	4
Common trust fund	1,504	-	-	1,504
Total cash and investments at fair value	<u>2,695</u>	<u>78</u>	<u>1,109</u>	<u>1,508</u>
Derivative instruments:(a)				
Energy/Electric - swaps	15	-	15	-
Energy capacity futures	13	-	-	13
Fuel futures/swaps	2	-	2	-
Total derivatives assets at fair value	<u>30</u>	<u>-</u>	<u>17</u>	<u>13</u>
<b>Total Assets at Fair Value</b>	<b>\$ <u>2,725</u></b>	<b>\$ <u>78</u></b>	<b>\$ <u>1,126</u></b>	<b>\$ <u>1,521</u></b>
<b>Liabilities</b>				
Derivative instruments:(a)				
Renewal energy swaps	\$ 8	\$ -	\$ 8	\$ -
Total derivative liability at fair value	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>
<b>Total Liabilities at Fair Value</b>	<b>\$ <u>8</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>8</u></b>	<b>\$ <u>-</u></b>

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## Notes to the Financial Statements

December 31, 2016 and 2015

December 31, 2015	Fair Value Measurements			
	(in millions)			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 109	\$ 109	\$ -	\$ -
U.S. government:				
US Treasury Notes	213	213	-	-
US Treasury Bonds	83	83	-	-
US Treasury TIPS	4	4	-	-
GNMA	26	-	26	-
Federal Agency securities:				
FNMA	649	-	649	-
FHLMC	443	-	443	-
FHLB	311	-	311	-
FFCB	112	-	112	-
Municipal Bonds	63	-	63	-
Corporate Bonds	330	1	329	-
Equity Securities	539	539	-	-
All other	4	-	-	4
Total cash and investments at fair value	<u>2,886</u>	<u>949</u>	<u>1,933</u>	<u>4</u>
Derivative instruments:(a)				
Energy/Electric swaps	10	-	10	-
Total derivatives assets at fair value	<u>10</u>	<u>-</u>	<u>10</u>	<u>-</u>
<b>Total Assets at Fair Value</b>	<u>\$ 2,896</u>	<u>\$ 949</u>	<u>\$ 1,943</u>	<u>\$ 4</u>
<b>Liabilities</b>				
Derivative instruments:(a)				
Interest rate swaps	\$ 3	\$ -	\$ 3	\$ -
Energy/Electric swaps	9	-	9	-
Renewable energy swaps	16	-	16	-
Energy capacity futures	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total derivative liability at fair value	<u>29</u>	<u>-</u>	<u>28</u>	<u>1</u>
<b>Total Liabilities at Fair Value</b>	<u>\$ 29</u>	<u>\$ -</u>	<u>\$ 28</u>	<u>\$ 1</u>

- (a) The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At December 31, 2016 and 2015, the Authority determined that nonperformance risk would have no material impact on the financial position or results of operations.

## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

## (10) 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 the NYSLERS 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 NYSLERS fiscal year ended March 31, 2016 was 17%. The average contribution rates relative to payroll for the NYSLERS fiscal years ending March 31, 2017 and 2018 have been set at approximately 15% for both years. The required contributions for 2016, 2015 and 2014 were \$24 million, \$25 million and \$28 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](http://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 change in accounting principle in the statements of revenues, expenses and changes in net position. In addition, the Authority recognized

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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, 2016, the Authority reported a liability of \$96 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, 2016 (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, 2016, the Authority’s proportion percentage (0.595%) of the net pension liability changed slightly compared to its proportion measured as of March 31, 2015 (0.592%).

For the year ended December 31, 2016 and 2015, the Authority recognized pension expense of \$34 million and \$18 million, respectively. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
	(In millions)	
Difference between expected and actual experience	\$ 1	\$ 11
Net difference between projected and actual earnings on investments	57	—
Change of assumptions	25	—
Net difference between employer contributions and proportionate share of contributions	—	1
Employer contributions subsequent to the measurement date	24	—
Total	<u>\$ 107</u>	<u>\$ 12</u>

The \$24 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, 2017. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense, \$17.8 million annually over the next three fiscal years 2017-2019, and \$17.0 million in fiscal year 2020.

### ***Actuarial Assumptions***

The NYSLERS total pension liability at March 31, 2016 was determined by using the NYSLERS actuarial valuation as of April 1, 2015 with updated procedures to roll forward the NYSLERS total pension liability to

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March 31, 2016. The following actuarial assumptions were used for the April 1, 2015 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.5%
Salary increases:	3.8% annually
Investment rate of return, including	7.0% compounded annually, net of investment
Cost of living adjustments:	1.3 % annually

The NYSLERS Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 NYSLERS experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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, 2016 are summarized below.

#### ***Long-Term Expected Rate of Return***

<b>Asset Type</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate</b>
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 for the March 31, 2016 and 2015 measurement date was 7.0% and 7.5%, respectively. 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. 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.

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### ***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 7.0 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 (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Assumption</u>	<u>1% Increase</u>
Discount rate	6.0%	7.0%	8.0%
The Authority's proportionate share of the net pension liability (asset)	\$ 215 million	\$ 96 million	\$ (6) million

The NYSLERS actuary has not recommended any future changes to the actuarial assumptions used in the NYSLERS April 1, 2015 actuarial valuation.

### **(11) 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. Salaried employees hired after December 31, 2015 and IBEW employees hired after October 15, 2015, become eligible after 15 years of service. In addition, they will be required to contribute 50% of the active plan contribution. 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, 2016. 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 funding of the Authority's annual OPEB contribution is at the discretion of management as approved by the Board of Trustees. The retirees' health plan was 82% funded as of December 31, 2016 and 81% funded as of the Authority's most recent actuarial valuation date January 1, 2016. The Authority made no contributions in 2016 and contributed \$14 million to the OPEB Trust in 2015.

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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>2016</u>	<u>2015</u>
	(In millions)	
Annual OPEB cost:		
Annual required contribution (ARC):		
Normal cost	\$ 15	\$ 13
Amortization payment	<u>18</u>	<u>20</u>
Total	33	33
ARC adjustment	11	10
Interest on net OPEB obligation	<u>(5)</u>	<u>(5)</u>
Annual OPEB cost	<u>\$ 39</u>	<u>\$ 38</u>
Net OPEB obligation:		
Net OPEB (asset) obligation at beginning of fiscal year	\$ (73)	\$ (73)
Annual OPEB cost	39	38
Employer contribution:		
Benefit payments for retirees during the year	(24)	(24)
Trust fund contributions	<u>(14)</u>	<u>(14)</u>
Total employer contribution	<u>(24)</u>	<u>(38)</u>
Net OPEB (asset) obligation at end of fiscal year	<u>\$ (58)</u>	<u>\$ (73)</u>

The net OPEB asset of \$58 million, which consists of \$15 million current assets and \$43 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, 2016.

The Authority's annual OPEB cost for 2016 was \$39 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, 2016 and resulted in an actuarial accrued liability of \$600 million which was funded with assets totaling \$483 million indicating that the Authority's retiree health plan



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was 81% funded as of the valuation date. As of December 31, 2016 and 2015, the balance in the OPEB Trust was \$517 million and \$483 million, respectively, and the actuarial accrued liability was \$632 million and \$600 million, respectively.

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 2016 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 7.5 % (net of administrative expenses), including inflation, declining approximately 1/4% each year to an ultimate trend rate of approximately 4.5%. 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. Matching annual contributions were approximately \$3.1 million and \$2.8 million for 2016 and 2015, 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.

## **(12) Nuclear Plant Divestiture and Related Matters**

#### **(a) *Nuclear Plant Divestiture***

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, provided that the Entergy Subsidiaries would make certain payments to the Authority based on MWhs metered from each plant between 2007 and 2014. The final payment under the VSAs was received on January 15, 2015 in the amount of \$71 million.

Under the Decommissioning Agreements discussed in Note 12(c) "Nuclear Plant Decommissioning" below, each Entergy Subsidiary was to make certain payments to the Authority if the license for IP3 or JAF, as applicable, was extended. In connection with the August 2016 agreements described in Note 12(c) "Nuclear Plant Decommissioning", the provisions relating to the license extension payments in the Decommissioning Agreements were amended. The final payment relating to license extension, in the amount of \$2.5 million, was received on October 16, 2015.

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#### **(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 13(e) "Commitments and Contingencies – New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2016 and 2015, 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 contained provisions dealing with the decommissioning funds (Decommissioning Funds), which were maintained by the Authority under a master decommissioning trust agreement, as well as certain rights and obligations with respect to decommissioning of the plants.

In August 2016, the Authority entered into certain agreements with Entergy Nuclear Operations, Inc. and the Entergy Subsidiaries related to the proposed sale of JAF by Entergy to Exelon Generation Company, LLC. Such agreements provided for the transfer, subject to approval by the NRC, from the Authority to Entergy of the beneficial interest in the Decommissioning Funds relating to JAF and IP3, as well as all remaining nuclear decommissioning financial obligations under the Decommissioning Agreements. The Authority remains liable for the pre-1983 spent fuel obligation described in Note 12(b) "Nuclear Plant Divestiture and Related Matters – Nuclear Fuel Disposal" above. In addition, the Authority provided a standby letter of credit to Entergy Nuclear Fitzpatrick, LLC in the amount of \$35 million, which may be drawn upon by the beneficiary upon certain conditions. The Governor's 2017-2018 Executive Budget proposal includes an appropriation in the amount of \$35 million from the State to the Authority in the event of a draw upon that letter of credit. The Authority expects the sale to be completed in 2017.

On January 30, 2017, following the issuance of an NRC order approving the transfer, the Authority transferred its beneficial interest in the Decommissioning Funds to Entergy. On the transfer date, the Decommissioning Funds had a market value of approximately \$1.519 billion.

### **(13) 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

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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. On July 26, 2016, the Authority's Trustees approved an additional amount not to exceed \$3 million to fund anticipated payments for the period from July 1, 2015 through June 30, 2016. As of December 31, 2016, approximately \$10 million of such discounts have been paid with approximately an additional \$3 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 \$474 million through December 2017 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, 2016, totaling cumulatively \$108 million. Operations and maintenance expenses included \$43 million and \$63 million of residential consumer discounts in the years ended December 31, 2016 and 2015, respectively.

#### **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 (WNYED 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 \$60 million in net earnings, calculated for the period August 30, 2010 through December 31, 2016 as provided in the legislation, for deposit into the Fund. As of December 31, 2016, \$41 million has been deposited into the Fund. As of December 31, 2016, the Authority has approved awards of Fund money totaling approximately \$35 million to businesses that have proposed eligible projects and has made payments totaling \$21 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**

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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 (NNYED 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 NNYED 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, 2016, approximately \$2 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. In December 2017, the Agreements will expire. No assurance can be made that such contracts will be renewed or about what their terms may be upon renewal.

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

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in the Agreements. For 2016 and 2015, 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.

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 \$1.169 billion as of December 31, 2016, 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 49<sup>th</sup> 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 \$338 million. As of December 31, 2016, the Authority paid approximately \$336 million of such costs related to the interconnection and transmission upgrades. The Authority’s obligations under the FTCPA also include payment of the Regional Transmission Enhancement Plan (RTEP) charges allocated to HTP in accordance with the PJM transmission tariff. Such RTEP costs are estimated to grow significantly in future years, and are discussed below.

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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 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 \$93 million to \$126 million per year over the next five years. PJM's RTEP charges contribute to this under-recovery. 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, HTP and other parties on the grounds that PJM has disproportionately allocated the costs of those projects to those parties. The Authority's challenge has also pointed out that the RTEP share allocated to HTP may be greatly exacerbated by Con Edison's upcoming termination of its PJM transmission rights (scheduled to occur after April 2017) that could shift significant RTEP costs to NYPA. Depending on a variety of factors, including the outcome of FERC's review and whether any other parties decide to terminate their PJM transmission rights, HTP could be allocated, and NYPA could be obligated to pay, substantially more RTEP costs. Any RTEP costs relating to the Bergen-Linden Corridor and Edison Rebuild projects would be paid over a number of years once the improvements have been included in PSEG's revenue requirement calculation, which is expected to commence 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

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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 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. In August 2016, the Authority made a summary judgment motion seeking to dismiss the two remaining actions in their

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entirety. In a decision and order, dated January 11, 2017, the Court granted the Authority's motion for summary judgment and dismissed both complaints in their entirety.

#### **Long Island Sound Cable Project**

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 \$34 million in costs arising from this incident. At December 31, 2016, the statement of net position includes approximately \$16 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.

#### **Other Actions or Claims**

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.

While the Authority cannot presently predict the outcome of the matters described above 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.

#### **(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



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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 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 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), 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 13(a) “Power Programs” – 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 2016 and 2015, the Authority made contributions to the State of \$91 million and \$90 million, respectively, that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2016 and 2015 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 2016 contributions included \$26 million that was paid to the State’s General Fund and \$65 million that was paid to Empire State Development Corporation (ESD). 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). Cumulatively, between January 2008 and December 31, 2016, the Authority has made voluntary contributions to the State totaling \$763 million unrelated to the PFJ program.

The Authority cannot predict what additional contributions to the State may be authorized in the future.

#### **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

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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 12(b) "Nuclear Plant and Divestiture – 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.

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 cumulative installment payments of \$60 million as of December 31, 2016.

The Authority expects that the State will return the \$215 million (Asset B) in installments beginning in 2017. The Assets A and B transfers are reported in miscellaneous receivable and other (\$43 million and \$21 million as of December 31, 2016 and 2015, respectively) and in other noncurrent assets (\$215 million and \$258 million at December 31, 2016 and December 31, 2015, respectively) in the statements of net position.

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#### **(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, 2016, the balance in the recorded liability associated with the relicensing on the statement of net position is \$295 million (\$25 million in current and \$270 million in other noncurrent liabilities). 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 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.

#### **New York State Office of Parks, Recreation and Historic Preservation**

On July 18, 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of \$3 million per year to OPRHP for the term of the 50-year License. OPRHP has requested that the Authority accelerate certain of such payments by making a lump sum payment of approximately \$25 million to pay for authorized projects. In order to make the lump sum payment, the Authority issued \$25.2 million in subordinated notes on February 24, 2017 and made the proceeds available to OPRHP (see Note 6 "Long-Term Debt – Subordinate Debt" of notes to the financial statements..

#### **(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.

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### (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.

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. The Authority continues to operate its fossil-fueled plants within the allocated allowances and anticipates that operation of its fossil-fueled plants will not be impacted by CSAPR.

### (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), filed a federal lease request with the Bureau of Ocean Energy Management (BOEM) on September 15, 2011. On June 2, 2016, BOEM announced a lease auction for an area largely similar to the Collaborative's request. Following that, the New York State Energy Research and Development Authority announced its intention to participate in the BOEM lease auction in the furtherance of its development of New York State's Offshore Wind Master Plan. Therefore, on August 1, 2016, the Authority, on behalf of the Collaborative, officially withdrew its federal lease request. The Authority will not be participating in the BOEM lease auction.

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, 2016, the Authority has approved the award of contracts with cumulative value of up to approximately \$6 million. On January 31, 2017, the Authority's Trustees approved an extension of the solar market acceleration program through December 31, 2018.

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### (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 \$543 million at December 31, 2016.

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, 2016 and 2015 was \$2.1 million and \$2.2 million, respectively. Commitments under noncancelable operating leases are as follows:

	<u>Total</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>
	(In millions)						
Operating leases	\$ <u>7.5</u>	<u>1.3</u>	<u>1.3</u>	<u>1.2</u>	<u>0.8</u>	<u>0.5</u>	<u>2.4</u>

### (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.

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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. A negotiated settlement of that cost allocation has been approved by FERC. The Authority co-developed one of the TOTS projects, the Marcy-South Series Compensation, with NYSEG and has also completed a negotiated settlement at FERC to recover the costs of its portion of that project.

#### **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, 2016, the Authority has in aggregate provided approximately \$282 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, 2016, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately \$17 million. On January 31, 2017, the Authority's Trustees approved an extension of the energy efficiency market acceleration program through December 31, 2018.

#### **Zero Emission Credits**

On August 1, 2016, the New York (NYPSC) issued an order establishing a Clean Energy Standard (the "CES Order") to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving entities identified in the order are required to purchase "Zero Emission Credits" ("ZECs") from the New York State Energy Research Development Authority ("NYSERDA") to support the preservation of existing at-risk zero emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but expects to assume a ZEC Purchase Obligation and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority estimates that it will incur ZEC Purchase Obligation costs under the CES Order of as much as \$254 million in aggregate over the 2017-2020 period, and it will work to recover all of the costs incurred.

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#### (14) Canal Corporation

Article XV of the New York State Constitution provides, in part, that the barge canal, the divisions of which are the Erie canal, the Oswego canal, the Champlain canal, and the Cayuga-Seneca canal, and the terminals constructed as part of the barge canal system (collectively, the “Canal System”) shall remain the property of the State and under its management and control forever.

Legislation enacted in 1992 (the “1992 Legislation”) transferred jurisdiction of the Canal System, among other assets and properties, from the New York State Commissioner of Transportation to the Thruway Authority, to be held by the New York Thruway Authority (the “Thruway Authority”) in the name of the people of the State. Such canal system remained the property of the State and under its management and control as exercised by and through the Thruway Authority, through its then newly created subsidiary, the New York State Canal Corporation (the “Canal Corporation”). The 1992 Legislation deemed the Canal Corporation to be the State for the purposes of such management and control of the canals but for no other purposes.

Legislation was enacted on April 4, 2016 (the “Canal Transfer Legislation”) which provided for (1) the transfer, effective January 1, 2017, of the Canal Corporation from the Thruway Authority to the Authority and (2) as of January 1, 2017, the Authority’s assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Authority is authorized to exercise through the Canal Corporation.

The Canal Transfer Legislation authorized the Authority to reimburse the Thruway Authority for all Canal System expenses beginning April 1, 2016 through January 1, 2017. Because the Authority did not assume ownership of the Canal Corporation until January 1, 2017, all reimbursement costs, including those for capital related activities, were treated as non-operating expenses for the Authority’s 2016 fiscal year.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. For fiscal year 2015, reports prepared by the Thruway Authority indicate that the Canal Corporation’s operating expenses were approximately \$62.1 million and operating revenues were approximately \$2.37 million with the shortfall provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation’s capital expenditures were approximately \$48.8 million with funding from various sources, including the Thruway Authority.

In addition, the financial statements of the Thruway Authority for the fiscal year ended December 31, 2015 indicate that the Present Value of Future Benefit Payments (commonly referred to as “OPEBs”) of the Canal Corporation as of December 31, 2015 was \$290.5 million and that the Unfunded Accrued Liability associated with such Future Benefit Payments as of such date was \$208.7 million.

The Canal Transfer Legislation also authorizes, but does not require, the Authority, to the extent that the Authority’s Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation. By resolution adopted November 7, 2016, the Authority’s Trustees determined that \$60 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support costs associated with the transfer of the Canal Corporation to the Authority including: (1) reimbursements to the Thruway Authority for the period of April 1, 2016 through December 15, 2016, as authorized by the Canal Transfer Legislation, in the amount of \$37.0 million, and (2) 2016 calendar year Authority integration costs associated with the Canal Corporation transfer in the amount of \$16.9 million. By resolution adopted December 15, 2016, the Authority’s Trustees determined that an additional \$44.0 million is not needed for any of the specified purposes required to be considered by the Trustees under the Resolution and authorized the release of such amount to support Canal Corporation related costs, including reimbursements in respect of the remainder of calendar year 2016 and certain expected costs through January 2017. By resolution adopted January 31, 2017, the Authority’s Trustees



## NEW YORK POWER AUTHORITY

### Notes to the Financial Statements

December 31, 2016 and 2015

authorized the release of an additional up to \$15.0 million in funding to support operations of the Canal Corporation for the period from February 1, 2017 to March 31, 2017. Additional releases will be considered at future meetings of the Trustees.

By resolution adopted January 31, 2017, the Canal Corporation's Board of Directors adopted a budget for 2017 that included expenditures of \$84.3 million for operations and maintenance expenses, \$60.5 million for capital expenses and \$3.1 million for Canal Development Fund expenses. The Canal Corporation's O&M, capital and Canal Development Fund expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority's Board of Trustees and compliance with the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Canal Development Fund expenses are expected to be reimbursed to the Authority by the State Comptroller with moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance.

Given the age of the Canal System, the Authority expects that significant maintenance and capital investments will be required to assure its continuing operation. For fiscal year 2016, the Canal Corporation's operating expenses were budgeted to be \$53.75 million, capital expenditures were budgeted to be \$40 million, and operating revenues were budgeted to be \$2.95 million with the difference to be provided by the Thruway Authority, the Authority or other resources. The Authority's budget and financial plan for 2017-2020 includes Canal-related operating expenditures ranging from \$66.1 million to \$84.3 million per year.

The Authority has included in its budget and financial plan for 2017-2020 Canal-related capital expenditures which it expects will be adequate, together with amounts expected to be expended in subsequent years, to address necessary capital improvements associated with the Canal System. The Authority's 2017-2020 budget and financial plan includes annual Canal System related capital expenditures of approximately \$60.5 million in 2017 and approximately \$40 million in each of year 2018-2020.





**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, 2016 and 2015, 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 [ ], 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2016, 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*.

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.



### **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.

New York, NY  
March [ ], 2017

DRAFT

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**New York Power Authority**

Required Supplementary Information

(Unaudited)

Schedule of Funding Progress for the Retiree Health Plan

(\$ in millions)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)--- Projected Unit Credit Method (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2016	\$ 483	\$ 600	\$ 117	81%	\$ 161	73%
January 1, 2014	\$ 422	\$ 575	\$ 153	73%	\$ 145	105%
January 1, 2012	283	517	234	55	143	163

The Authority has a trust for its OPEB obligations initially funded in the amount of \$100 million.

**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>
2016	0.60%	\$96	\$166	57.4%	90.7%
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>
2016	\$ 24	\$ 24	\$ —	\$ 166	15%
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



# New York Power Authority Audit results December 31, 2016

**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 21, 2017

# Agenda

## **1.0 Summary of Audit Results**

- Summary of Audit Results
- Audit Focus Areas
- Accounting policies, practices, and estimates
- Summary of corrected and uncorrected misstatements
- Internal Control Findings
- Other matters
- Status of Canal Corporation

## **2.0 Responsibilities**

## **3.0 KPMG's Audit Committee Institute and Global Energy Institute**



1.0

# Summary of Audit Results



# Summary of Audit Results

## **Significant changes to our audit plan**

There have been no changes to our audit plan dated December 15, 2016

## **Audit and other results**

- KPMG will issue an unmodified opinion on the Authority's financial statements as of and for the year ended December 31, 2016
- KPMG will issue an unmodified 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, 2016
- 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

## **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
- Advising the Authority on the interpretation and implementation of new accounting or reporting requirements
- Maintaining proactive working relationships with senior management and the Audit Committee

# Accounting policies, practices, and estimates

Significant accounting policies and practices	Results of evaluation, and conclusions about the qualitative aspects
Revenue recognition	<ul style="list-style-type: none"> <li>— Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2016</li> <li>— Detail tested SENY/Wholesale revenue by agreeing recorded amounts to invoices and cash receipts</li> <li>— Agreed SENY/Wholesale billed rates to the approved tariffs</li> <li>— Confirmed and detail tested revenue with the NYISO throughout the year</li> <li>— Detail tested wheeling charges</li> <li>— Tested and relied upon IT controls over the Authority's revenue and invoicing process</li> </ul>
Long term debt	<ul style="list-style-type: none"> <li>— Confirmed outstanding long term debt, including commercial paper with third parties</li> <li>— Recalculated interest expense throughout the year</li> <li>— Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2016</li> </ul>
Investments (including Nuclear Decommissioning Trust)	<ul style="list-style-type: none"> <li>— Tested the fair market value of a selection of investments, utilizing the KPMG National Pricing Desk</li> <li>— Reviewed a sample of investments for compliance with Board approved policies</li> <li>— Confirmed the investment balance with the bank as of December 31, 2016</li> <li>— Review of financial statements for completeness and accuracy of trust assets and obligations</li> </ul>

# Accounting policies, practices, and estimates (continued)

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

Accounting estimate	Results of evaluation, and conclusions about the qualitative aspects
Asset retirement obligations	<ul style="list-style-type: none"> <li>— Tested key management estimates and assumptions utilized in the determination of the future cost</li> <li>— Ensured the inflation and discount rates utilized by the Authority are reasonable</li> <li>— Tested the appropriateness of the presentation on the statement of net position (deferred inflow or regulatory liability)</li> </ul>
Derivative valuations	<ul style="list-style-type: none"> <li>— Ensured consistency of fair value with available market data; reliability of broker quotes and forward price curves</li> <li>— Reviewed counterparty credit risk-assumptions of likelihood of default and calculation of credit valuation allowance</li> <li>— Utilized a KPMG specialists to review the mark to model calculations for fair value</li> <li>— Utilized a KPMG specialist to review the effectiveness – correlation of hedging instrument with underlying hedged item</li> <li>— Tested the appropriateness of the classification in the statement of net position and disclosures in the financial statements</li> </ul>
Other post-employment benefits	<ul style="list-style-type: none"> <li>— Tested key inputs to actuarial valuation utilized by the Authority's actuarial specialist, Buck Consultants, such as census data and discount rates.</li> <li>— Utilized a KPMG actuarial specialist to validate the appropriateness of the assumptions used and calculations made by Buck Consultants to arrive at the OPEB liability as of December 31, 2016.</li> </ul>

# Accounting policies, practices, and estimates (continued)

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

Accounting estimate	Results of evaluation, and conclusions about the qualitative aspects
Investments (including Nuclear Decommissioning Trust)	<ul style="list-style-type: none"><li>— Tested the fair value hierarchy under GASB 72</li><li>— Tested the fair market value of a selection of investments, utilizing the KPMG National Pricing Desk</li><li>— Reviewed a sample of investments for compliance with Board approved policies</li><li>— Confirmed the investment balance with the bank as of December 31, 2016</li><li>— Review of financial statements for completeness and accuracy of trust assets and obligations</li><li>— Review of financial statements for accuracy of GASB 72 disclosures</li></ul>

# Accounting policies, practices, and estimates (continued)

## **Recently adopted standards**

- *GASB 72: Fair Value Measurement and Application*

## **Recently issued standards (Effective for fiscal years beginning after June 15, 2016)**

- *GASB 75: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- *GASB 80: Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*
- *GASB 82: Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

## **Significant Accounting Policies**

- *Significant accounting policies are disclosed in note 2 to the financials*
- *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 – GASB 62*
  - *Impairment of Capital Assets – GASB 42*
  - *Investment Accounting – GASB 31 & GASB 72*
  - *Derivative Accounting – GASB 53*
  - *Refunding of Debt – GASB 23*
  - *Regulated Operations – GASB 62*
  - *Asset Retirement Obligations – ASC 410*
  - *Pensions – GASB 68 & GASB 71*
  - *Deferred Inflows/Outflows – GASB 65*

# Audit Misstatements as of March 3, 2017

## **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 current year 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.
- 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.
- Capitalization threshold – The Authority immediately expenses capital equipment purchases under \$2 thousand rather than capitalize and depreciate them over their useful lives as the amount is immaterial.

# Significant deficiencies and material weaknesses in internal control

## **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, 2016.
- All other deficiencies in ICFR noted during our audit that are of sufficient importance to merit management's attention have been communicated to management.

# Other matters

<b>Related-party transactions</b>	All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements as of December 31, 2016.
<b>Litigations, claims, and assessments</b>	The disclosures within the financial statements as of December 31, 2016 are appropriate.
<b>Illegal acts or fraud</b>	No matters to report.
<b>Noncompliance with laws and regulations</b>	No matters to report.
<b>Significant difficulties encountered during the audit</b>	No matters to report.
<b>Disagreements with management</b>	No matters to report.
<b>Management's consultation with other accountants</b>	None noted.
<b>Significant issues discussed, or subject to correspondence, with management</b>	Other than items previously discussed in this presentation, none noted.
<b>Scope limitation</b>	None noted.



## Other matters (continued)

<b>Other findings or issues relevant to the oversight of the financial reporting process</b>	No matters to report.
<b>Independence</b>	In our professional judgment, KPMG is independent with respect to the Authority.
<b>Significant Written Communications with Management</b>	Engagement Letter Management Representation Letter Letter Communicating to Those Charged with Governance

# Status of Canal Corporation Acquisition

## **Canal Corporation Acquisition:**

- We have monitored the advisory team to ensure that KPMG has remained independent
- We have monitored the day 1 integration to become aware of any issues
- We have discussed potential accounting impacts with management
- We have met with Internal Audit to stay connected on their internal plan for Canals



2.0

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 Company 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 Company'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 Company'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.



3.0

KPMG's Audit  
Committee Institute  
and Global Energy  
Institute



## 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
- 14<sup>th</sup> Annual Audit Committee Issues Conference
  - January 8-10, 2018 in San Diego, California

### ACI-sponsored programs

- NYSE Governance Services
  - Annual Boardroom Summit
- NACD Annual Conference
  - February 22-24, 2017 in Washington, DC

### Suggested publications (available for download at [www.kpmg.com/aci](http://www.kpmg.com/aci))

- Directors Quarterly
- Global Boardroom Insights
- On the 2017 Audit Committee and Board Agendas
- Global Audit Committee Survey

### Resources

- ACI Web site: [www.kpmg-institutes.com/institutes/aci.html](http://www.kpmg-institutes.com/institutes/aci.html)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: 1-877-KPMG-AC1 (576-4224)

# KPMG's Global Energy Institute

## Recent Publications

- [Plugged In: Issues impacting the power and utilities industry](#)
- [Drilling Down: Issues impacting the oil and gas industry](#)
- [KPMG Corporate Finance - Energy Investment Banking M&A Newsletters](#)
  
- **2016 KPMG Global Energy Conference (recap available)**
- May 24-25, 2016, Royal Sonesta Hotel Houston, Texas
- Keynote speakers: John Boehner, Mark and Scott Kelly, and Robin Chase
  
- **Webcasts on Demand**
- [State Tax Legislative Update](#)
- [New Revenue Standard \(ASC Topic 606\)](#)
  
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