



**NY Power
Authority**

**Canal
Corporation**

**MINUTES OF THE REGULAR JOINT MEETING
OF THE
NYPA AND CANAL AUDIT COMMITTEE**

March 26, 2020

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March 26, 2020

Minutes of the regular meeting of the New York Power Authority and Canal Corporation's Audit Committee held via video conference, at approximately 9:00 a.m.

The following Members of the Audit Committee were present:

Eugene Nicandri, Chairman
John R. Koelmel
Dennis Trainor
Michael Balboni

Anthony Picente, Jr. – Excused
Tracy McKibben – 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 Operations Officer
Adam Barsky	Executive Vice President and Chief Financial Officer
Sarah Salati	Executive Vice President and Chief Commercial Officer
Soubhagya Parija	Senior Vice President and Chief Risk Officer
Angela Gonzalez	Senior Vice President – Internal Audit
Karen Delince	Vice President and Corporate Secretary
Daniella Piper	Vice President – VP Digital Transformation/Chief of Staff
Christine Reynolds	Treasurer
Anne Reasoner	Vice President Budgets & Business Controls
Sundeep Thakur	Controller
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Quatrocci	Associate Corporate Secretary
Lori DeMichele	Board Travel Specialist
Scott Heiser	Lead Audit Partner – KPMG
Christopher Davanzo	Audit Manager – KPMG
Rebecca Lieberman	Audit Manager – KPMG

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**

On motion made by member John Koelmel and seconded by member Dennis Trainor, the agenda for the meeting was adopted, as amended.

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

Mr. Chairman, I move that the Audit Committee conduct an executive session to discuss the financial and credit history of a particular corporation (pursuant to section 105f of New York Public Officers Law). On motion made by member John Koelmel and seconded by member Dennis Trainor, an Executive Session was held.

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

Mr. Chairman, I move to resume the meeting in Open Session. On motion made by member Dennis Trainor and seconded by member John Koelmel, the meeting resumed in Open Session.

Chairman Nicandri said no votes were taken during the Executive Session.

4. DISCUSSION AGENDA:

a. New York Power Authority Year-end 2019 Financial Report

Mr. Adam Barsky, Executive Vice President and Chief Financial Officer, provided an update of the Authority's Year-End 2019 Financial Report to the Committee (Exhibit "4a-A"). He said that staff will be requesting acceptance of the 2019 year-end financial statements, the annual audit results from KPMG and the filing of the financial statements per Section 2800 of the Public Authorities Law.

Financial Report Summary

For the year ended December 31, 2019, the Authority's Net Income was \$23 million. The change in Net Position is \$26 million. This was due to the addition of \$3 million contributed capital to the Authority from a wind farm project. As related to the Balance Sheet, cash and investments went down \$200 million in total (this was from the amount of cash generated by operations and cash used to fund capital projects, the net of which was a decrease of \$200 million).

The Authority has been funding all of its capital projects with the exception of energy efficiency projects which has been done through a combination of commercial paper and reserves. The energy efficiency projects has been 100 percent cash funded, as well.

There is an additional footnote disclosure for GASB 88, which is related to Debt and Debt obligations. The Authority has to disclose any collateral pledged or any other obligations or commitments made that are not shown on the Balance Sheet. There are no other major changes from year-to-year in terms of material movement.

Year-end 2019 Financial Report (Consolidated)

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 (consolidated) for the year ended December 31, 2019 and submit this report to the Governor, legislative leaders, the State Comptroller and the Authorities Budget Office. The PAAA reflects the State's commitment to maintaining public confidence in public authorities by ensuring that the essential governance principles of accountability, transparency and integrity are followed at all times.

This year-end 2019 financial report (consolidated) includes financial statements that present the consolidated financial position and result of operations of the Authority as of December 31, 2019 under generally accepted accounting principles. The report is prepared by staff and the consolidated financial statements are audited by independent accountants from KPMG LLP. As required by the PAAA, the financial report (consolidated) has been certified by the Authority's chief executive officer and chief financial officer. After audit committee review, the 2019 financial report (consolidated) is scheduled to be presented for approval by the Authority's Trustees at their meeting on March 31, 2020. Changes of 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 consolidated financial statements for the year ended December 31, 2019.

On motion made by member Dennis Trainor and seconded by member John Koelmel, the Audit Committee unanimously approved the recommendation by the Executive Vice President and Chief Financial Officer that the Authority's Trustees approve the financial statements for the year ended December 31, 2019.

b. New York Power Authority 2019 Annual Audit Results (KPMG)

Mr. Scott Heiser, KPMG's Lead Audit Partner, introduced Christopher Davanzo and Rebecca Lieberman, Audit Managers, to the Committee. He then presented a summary of the 2019 Annual Audit of the Authority's Financial Statements to the Committee (Exhibit "4b-A").

Mr. Heiser said that for the year ended December 31, 2019 KPMG's audit of the Authority's financial statements is substantially complete. There were no significant changes to KPMG's Audit plan or audit strategy that was previously presented to the Committee. KPMG's intention is to issue an unqualified report on the financial statements and other reports over investment and controls after the Authority's approval of the financial statements.

Mr. Heiser continued that the audit went well. KPMG did a deep dive particularly on revenues and how they execute their testing. KPMG reviewed the internal audit reports and did not have any findings that would change KPMG's risk assessment or its audit strategy.

KPMG had discussions with management regarding Conduit Financing transactions and the new GASB Leased standard which KPMG have started working on with management and their team.

KPMG did not have any uncorrected or corrected audit misstatements in connection with its audit for the current year and did not identify any material weaknesses or significant deficiencies in internal control.

Audit Results

Mr. Christopher Davanzo highlighted the following audit results:

Scope of Audit

KPMG's audit of the consolidated financial statements of NYPA for the period ended December 31, 2019 was performed in accordance with auditing standards generally accepted in the United States of America.

Audit Deliverables

Other planned audit deliverables include:

- The Report on Internal Control over Financial Reporting and compliance and other matters which are included within the financial statements; and
- Report KPMG's Report on Investment Compliance.

Outstanding matters

KPMG's audit is substantially complete. Outstanding matters include:

- Final reviews and management representation letter
- Finalize its audit report and sign its opinion

Uncorrected / Corrected Misstatements

Regarding uncorrected and corrected misstatements, KPMG has no matters to report.

Auditor's Report

KPMG expects to issue an unmodified opinion on the consolidated financial statements of NYPA. No other findings were identified in connection with the other reports to be issued.

As of December 11, 2019, when KPMG presented its audit plan to the NYPA Board, KPMG has no significant changes to its planned risk assessment and audit strategy.

Significant Accounting Policies

KPMG have reviewed the significant accounting policies utilized in preparing NYPA's consolidated financial statements and found them to be appropriate.

New Accounting Pronouncements

New accounting pronouncement, GASB Statement No. 88 - disclosure related to Debt disclosures, including direct borrowing and payments, was adopted by the Authority.

Significant Risks and other Significant Audit matters

Significant risk and other audit matters is fraud risk related to management override of controls which is present in all entities.

Related Parties

KPMG evaluated the Authority's identification, accounting and disclosure of relationships with related parties and have no matters to report in that regard.

Conduit Financing

Regarding Conduit Financing, KPMG have been in discussion with management regarding the accounting impact for potential Conduit Financing transactions under GASB 91.

Noncompliance with Laws & Regulations

KPMG have no matters to report regarding noncompliance with laws and regulations, going concern, or any other findings, issues or disagreements with management.

Ms. Rebecca Lieberman highlighted the following audit results:

Internal Control Related Matters

No significant deficiencies or material weaknesses were identified during the audit.

Significant Risks

Management Override of Controls

KPMG assessed management's design and implementation of controls as well as the operating effectiveness of those controls and have tested manual journal entries throughout the year and any post-closing adjustments.

There are no matters to report related to the internal controls over management override.

KPMG did not identify any instances of fraud as a result of any of its procedures.

Significant Audit Areas:

Revenue Recognition

- Confirmed accounts receivables with the NYISO as well as SENY and Wholesale customers as of December 31,2019.
- Detail tested SENY and wholesale revenue by agreeing recorded amounts to invoices and cash receipts, as well as vouching billed rates to the approve tariffs.
- Performed volume reconciliation for delivery to customers during 2019.

- Confirmed and detailed tested revenue with the NYISO throughout the year and also detailed tested wheeling charges.

The engagement team did not find any matters to report related to revenue recognition.

Long-Term Debt

- KPMG confirmed outstanding debt with third parties.
- Recalculated interest expense throughout the year.
- Reviewed debt covenants to make sure they are compliant as of December 31, 2019.

The engagement team determined that there are no matters to report related to long-term debt.

Investments

- KPMG tested the fair market value of the portfolio of investments by utilizing KPMG's national pricing debts.
- Reviewed sample of investments to ensure that they were in compliance with the Board's approved policies.
- Confirmed investment balances with the respective banks as of December 31, 2019.
- Reviewed consolidated financial statements for completeness and accuracy of the trust assets.

The engagement team determined that there are no matters to report related to investments.

Capital Assets

- Performed rollforward of Construction Work in Process and Plant-in-Service
- Tested additions to CWIP and the additions and retirement to EPIS
- Performed substantive analytics to determine the appropriateness of depreciation expense
- Ensured proper classification between capital and operating leases
- Tested amounts determined to be capitalized
- Ensured proper impairment disclosure within the financial statements

The engagement team determined that there are no matters to report related to Capital assets.

Other Post-Employment Benefits (OPEB)

- Confirmed with the actuarial specialist utilized by NYPA, Buck Consultants, to determine the appropriate liability amount.
- Utilized KPMG's Actuary Specialist, to validate the appropriateness of the assumptions used and calculations made by Buck Consultants to arrive at the OPEB liability.

The engagement team determined that there are no matters to report related to OPEB as of December 31, 2019.

c. New York Power Authority and Canal Corporation Internal Audit Update

Ms. Angela Gonzalez, Senior Vice President, Internal Audit, provided an update on the 2020 Internal Audit Plan for NYPA and Canal Corporation. (Exhibit “4c-A”)

Internal Audit Scorecard

Internal Audit did some benchmarking and set internal targets with the following results:

Operational Excellence – Audit

Operational Excellence met the benchmarks with the exception of Audit Deliverables with Opinions because 34% of time is charged to reinvestment of Internal Audit initiatives related to GRC automation; Data Analytics; Quality Assurance Improvement Program and internal administration.

- Audit Plan Percentage Complete – measures effectiveness at completing the audit plan
- Audit Deliverables with Opinions – measures the level of opinions provided to management
- Fieldwork to Report Issuance – measures time to issue an audit report from the end of fieldwork
- Audit Utilization Rate – measures the percentage of time staff charge to audit work
- IA Average Project Cycle Time – measures audit cycle from Audit start to Report issuance

Value and Impact – Observations

- Percentage of High-Risk Observations – Measures value insights for high-risk areas provided to management
- Percentage of High-Risk Observations Implemented – measures closure of high-risk observations by year
Includes only observations that had an original due date prior to 3/13/20; currently at 89%; projecting 100% complete by due dates.
- Percentage of Observations Implemented by Original Action Plan Due Date – measures timeliness of closing open observations
Includes only observations that had an original due date prior to 3/13/20; observations are open / extended due to new technology, implementations, limited resources, organizational changes, process restructuring.
- Percentage of Observations Extended – measures the level of observations due date extensions
observations are open / extended due to new technology, implementations, limited resources, organizational changes, process restructuring.
- Percentage of Observations extended and Implemented – measures the timeliness of closing extended observations
Includes only observations that had an original due date prior to 3/13/20

2020 Audit Plan Status

- 2020 Plan Status:
 - 50 audits are included in the NYPA and Canals Audit Plan.
 - Four audit reports have been issued to date. Three audits have moved to the reporting stage and are expected to be issued by the end of the month.

Five audits are in fieldwork and are expected to be issued by the end of the month or mid-April. Planning for five Q2 audits are in progress, to date.

Changes to 2020 Internal Audit Plan

There are no project additions or deletions to the 2020 Audit Plan, to date.

Internal Audit Remediation Status - NYPA

To date, there are five 2020 open observations; for 2019, 18 recommendations remain opened. IA continues to work with management on open recommendations, and monitors remediation efforts for the 2018 issues.

Internal Audit Remediation Status - CANALS

To date, five 2019 recommendations remain open for Canals. There are no open 2018 recommendations.

Status of 2018 Audit Recommendations – NYPA

Treasury Operations

One recommendation open – in the processing of closing

Fleet Management Operations

Four recommendations related to the Maximo transportation module transition

Internal Audit Transformation Highlights

BRANDING

- IA continues to work on its brand. IA is in the process of developing video clips, considering a focus on COVID-19.
- Site visit to Syracuse for Canals staff meeting and provided an overview of IA's function and its brand.
- Site visits to the other projects are on hold until travel restrictions are lifted.

DELIVERY

Agile Project Methodology

- 72% of the Audit Plan is using the Agile methodology; the remaining 28% will use the Traditional methodology since these projects comprise ongoing system implementations, advisory engagement and Canal projects.
- IA is maturing its processes, applying Agile to manage the audit portfolio.
- IA is training its managers as Agile Coaches as well as stretch assignment to IA's senior auditors to act as Scrum Masters managing audits on their own

GRC Automation

- IA's engagement functionality was recently enhanced and is now in production. The Audit Universe, Audit Plan and Observations Management modules went into production early March.
- All of IA's Q2 audits will be executed in the GRC Audit System. Observations from 2015 – 2020 will also be in the GRC system.
- Configuration for timekeeping and reporting is underway and is expected to "go live" by mid-April.

Data Analytics

- 31 of IA's 50 audit projects have been identified for data analytics. Eight out of 14 Q1 projects have applied data analytics, to date.
- IA is pursuing a new data analytics tool. The team conducted a design thinking session to develop the requirements for selected vendors. Five vendors have been identified to provide demos after which a decision will be made on the type of tool to select.
- A data analytics skill survey was conducted to determine the current staff skill level and training needs. The results showed:
 - 20% increase in the use of Tableau
 - 40% increase in Excel intermediate level proficiency
 - 43 % increase in the use of data visualization and scripting tools to evaluate controls

Quality Assurance Improvement Program (QAIP)

- The QAIP team is working on remediation of recommendations from the 2019 external quality assessment. To date, IA is at 70% completion and is tracking to complete all items by year-end.
- One of the recommendations that was implemented was to add language to IA's reports that IA is in conformance with the Institute of Internal Audit standards and the report is proprietary and confidential.
- Another recommendation was to incorporate the "Required Communications to the Audit Committee" list which has been completed.
- IA is working on revising the format of its Internal Audit Report.

Talent (Staff Excellence)

- IA plans to conduct a virtual training in April on the electric utility industry to enhance IA staff's knowledge of the industry.
- IA's Directors are continuing to meet with staff to discuss their development plans.
- IA staff will continue to pursue certifications, e.g. CIA, CPA and CISA.

Internal Audit Remote Operations – COVID-19

Ms. Gonzalez said that the Internal Audit team all have remote access. She keeps in contact with the IA leadership team daily; they, too, meet virtually with their teams daily to discuss their assignments. In addition, she meets with IA staff once per week to provide updates on IA matters. The main drawback is support from management, because, understandably, they are focused on COVID-19 issues. IA has specific risk areas management would like IA to investigate; IA is ready to perform this task as soon as management advises them to so.

Ms. Gonzalez continued that at a recent leadership meeting they discussed responses to various scenarios. They prioritized projects as high, medium and low. IA now awaits information from

management as to their portfolios, since it will directly affect IA's Plan. IA will then adjust the Audit Plan accordingly and report any adjustments to the Plan to the Committee at its next meeting.

5. **CONSENT AGENDA**

On motion made by member John Koelmel and seconded by member Dennis Trainor, the Consent Agenda was approved.

a. **Approval of the Minutes of the Regular Meeting held on December 11, 2019**

On motion made and seconded, the Minutes of the Committee's Regular Meeting held on December 11, 2019 were approved.

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

On motion made by member John Koelmel and seconded by member Dennis Trainor, the members held an executive session.

No votes were taken during the Executive Session.

7. **Next Meeting**

The next regular meeting of the Audit Committee will be held on July 16, 2020 at a time to be determined.

Closing

The meeting was adjourned by the Chairman.

Karen Delince

Karen Delince
Corporate Secretary

March 26, 2020

EXHIBITS

For

Audit Committee

Minutes

March 26, 2020

Exhibit A
March 26, 2020

Confidential draft – vAC

NEW YORK POWER AUTHORITY

Financial Report
December 31, 2019 and 2018

NEW YORK POWER AUTHORITY

Financial Report

December 31, 2019 and 2018

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

Independent Auditors' Report

Board of Trustees
New York Power Authority:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities and fiduciary funds of the Power Authority of the State of New York (the Authority) and its blended component unit, as of and for the years ended December 31, 2019 and 2018, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 opinions on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary funds of the Authority and its blended component unit as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 16 and Required Supplementary Information on pages 73 through 78 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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 27, 2020 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 solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

[(signed) KPMG LLP]

New York, New York

March 27, 2020

Management Report

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements of the Authority, as well as all other information contained in the Annual Report. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (U.S.GAAP) 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 consolidated 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, 2019, the Authority's system of internal controls provides reasonable assurance related to material items, 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 (the Authority's Trustees), appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Authority's 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.

Adam Barsky
Executive Vice President and Chief Financial Officer

March [26, 2020]

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Overview of the Consolidated Financial Statements

The New York Power Authority (the "Power Authority") is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. Effective January 1, 2017, the New York State Canal Corporation (the "Canal Corporation") became a subsidiary of the Power Authority, and the Power Authority assumed certain powers and duties relating to the Canal System (as defined below) to be exercised through the Canal Corporation. The Canal Corporation is responsible for a 524-mile canal system consisting of the Erie, Champlain, Oswego, and Cayuga-Seneca canals (the "Canal System"). The Power Authority and its subsidiary (collectively "the Authority") follow financial reporting for enterprise funds. The consolidated financial statements of the Authority are prepared in accordance with U.S. generally accepted accounting principles (U.S. 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. The Power Authority and its subsidiary the Canal Corporation are referred to collectively as the "Authority" in the consolidated financial statements, except where noted.

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

The consolidated financial statements provide summary information about the Authority's overall financial condition. The notes provide explanation and more details about the contents of the consolidated financial statements.

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, 2019 and 2018

(Unaudited)

Summary of Consolidated Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's consolidated financial information for 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019 vs. 2018 favorable (unfavorable)</u>	<u>2018 vs. 2017 favorable (unfavorable)</u>
	(\$ In millions)			(In Percentages)	
Operating revenues	\$ 2,370	\$ 2,689	\$ 2,573	(12)%	5%
Operating expenses:					
Purchased power	529	710	557	25	(27)
Fuel oil & gas	140	189	165	26	(15)
Wheeling	647	654	618	1	(6)
Operations and maintenance	692	679	680	(2)	—
Depreciation	250	235	242	(6)	3
Impairment loss	—	—	73	—	(100)
Total operating expenses	<u>2,258</u>	<u>2,467</u>	<u>2,335</u>	8	(6)
Operating income	<u>112</u>	<u>222</u>	<u>238</u>	(50)	(7)
Nonoperating revenues	46	23	29	100	(21)
Nonoperating expenses	<u>135</u>	<u>143</u>	<u>148</u>	6	3
Net income	23	102	119	(77)	(14)
Contributed capital	<u>3</u>	<u>—</u>	<u>—</u>		
Change in net position	26	102	119		
Net position – beginning, as restated	<u>4,734</u>	<u>4,632</u>	<u>4,620</u>		
Net position – ending	<u>\$ 4,760</u>	<u>\$ 4,734</u>	<u>\$ 4,739</u>		

The following summarizes the Authority's consolidated financial performance for the years 2019 and 2018:

The Authority had net income of \$23 million for the year ended December 31, 2019 compared to \$102 million in 2018, a decrease of \$79 million (77%). The decrease in net income was primarily due to lower operating income of \$110 million (50%), partially offset by lower non-operating expenses of \$8 million (6%) and higher non-operating revenues of \$23 million. Operating income decreased by \$110 million compared to 2018 primarily due to lower margins on sales of \$82 million resulting from lower energy prices. Operating expenses were lower in 2019, primarily due to lower purchased power costs. The operations and maintenance expenses were \$13 million (2%) higher compared to 2018 primarily due to higher postemployment benefits other than pensions (OPEB) and pension expenses.

The change in net position was attributable to the positive 2019 net income of \$23 million and \$3 million of contributed capital related to certain wind farm transmission assets (see note 5 "Capital Assets" of notes to the consolidated financial statements).

The Authority had net income of \$102 million for the year ended December 31, 2018 compared to \$119 million in 2017, a decrease of \$17 million. The decrease in net income was primarily due to lower operating income of \$16 million, lower non-operating revenues of \$6 million, partially offset by lower non-operating expenses of \$5 million. Operating expenses were higher in 2018, primarily due to higher purchased power costs. Operating

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income decreased by \$16 million compared to last year primarily due to lower margin on sales of \$97 million, partially offset by the absence of an impairment loss. The operations and maintenance expenses were flat compared to 2017.

The change in net position was attributable to the positive 2018 net income of \$102 million and a (\$107) million adjustment to the beginning net position as a result of the Authority's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2 "Summary of Significant Accounting Policies – New Accounting Pronouncements" and Note 11 "Postemployment Benefits Other Than Pensions, Deferred Compensation and Savings" of the notes to the consolidated financial statements.

Operating Revenues

Operating revenues of \$2,370 million in 2019 were \$319 million, or 12%, lower than the \$2,689 million in 2018, primarily due to lower market-based energy sales resulting from lower market prices and the pass through of lower power costs to customers, partially offset by higher hydro production.

Purchased Power and Fuel

Purchased power costs decreased by \$181 million or 25% in 2019 to \$529 million from \$710 million in 2018, primarily due to both lower prices and volume. Fuel costs were \$49 million (26%) lower during 2019, primarily due to lower fuel prices (\$43 million) and lower generation volume (\$6 million).

Operations and Maintenance (O&M)

O&M expenses increased by \$13 million or 2% in 2019 compared to 2018 primarily due to higher OPEB and pension expenses.

Nonoperating Revenues

For 2019, nonoperating revenues increased by \$23 million, to \$46 million from \$23 million in 2018, primarily due to higher market value on the Authority's investment portfolio.

Nonoperating Expenses

For 2019, nonoperating expenses decreased by \$8 million, or 6%, primarily attributable to capitalization of interest related to higher construction work in progress and lower interest on debt.

Cash Flows

Net cash flows provided by operating activities decreased by \$11 million in 2019 compared to 2018, due to the timing of payments and receipts.

Net Generation

Net generation was 30.1 million megawatt-hours (MWh) in 2019 and 2018. Net generation from the Niagara and St. Lawrence hydroelectric plants in 2019 (24.3 million MWh) was 1% higher than 2018 (24.1 million MWh) due to continued higher water levels on Lakes Erie and Ontario resulting in higher water flow to the Niagara and St. Lawrence hydroelectric plants. For 2019, net hydro generation was approximately 120% of long-term average and above 2018, which was 119%. Combined net generation of the fossil fuel plants for 2019 was 5.8 million MWh, or 3% lower than 2018 (6.0 million MWh).

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Summary of Consolidated Statements of Net Position

The following is a summary of the Authority's consolidated statements of net position for 2019, 2018, and 2017:

	2019	2018	2017	2019 vs. 2018	2018 vs. 2017
	(\$ In millions)			(In Percentage)	
Current assets	\$ 1,303	\$ 1,434	\$ 1,580	(9) %	(9) %
Capital assets	5,800	5,519	5,442	5	1
Other noncurrent assets	1,670	1,798	1,638	(7)	10
Deferred outflows of resources	168	137	66	23	108
Total assets and deferred outflows	<u>\$ 8,941</u>	<u>\$ 8,888</u>	<u>\$ 8,726</u>	1	2
Current liabilities	\$ 1,293	\$ 1,051	\$ 984	23	7
Noncurrent liabilities	2,456	2,631	2,655	(7)	(1)
Total liabilities	<u>3,749</u>	<u>3,682</u>	<u>3,639</u>	2	1
Deferred inflows of resources	432	472	348	(8)	(2)
Net position	<u>4,760</u>	<u>4,734</u>	<u>4,739</u>	1	—
Total liabilities, deferred inflows and net position	<u>\$ 8,941</u>	<u>\$ 8,888</u>	<u>\$ 8,726</u>	1	2

The following summarizes the Authority's consolidated statements of net position variances for the years 2019 and 2018:

In 2019, current assets decreased by \$131 million (9%) to \$1,303 million due to use of investments to fund capital projects. Capital assets increased by \$281 million (5%) to \$5,800 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, decreased by \$128 million (7%), primarily due to decreased energy efficiency program work in progress and OPEB assets. Deferred outflows increased by \$31 million (23%) primarily due to changes in deferral of OPEB resources, partially offset by changes in deferral of pension resources. Current liabilities increased by \$242 million (23%) to \$1,293 million compared to last year. This increase is attributable primarily to the increase in short-term debt due to issuance of commercial paper to refund \$156 million of the Authority's Series 2007 A and Series 2007 C Revenue Bonds and the timing of accounts payable payments. Noncurrent liabilities were lower by \$175 million (7%), primarily due to the decrease in long-term debt resulting from refunding of \$156 million of Series 2007 A and Series 2007 C Revenue Bonds and scheduled maturities. Deferred inflows decreased by \$40 million (8%) compared to last year, primarily due to the changes in the deferral of pension resources. The changes in net position for 2019 and 2018 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

In 2018, current assets decreased by \$146 million (9%) to \$1,434 million due to use of investments to fund capital projects. Capital assets increased by \$77 million (1%) to \$5,519 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 \$160 million (10%), primarily due to an increase in energy efficiency program work in progress costs. Deferred outflows increased by \$71 million primarily due to the deferral of OPEB resources, as a result of the Authority adopting GASB Statement No.75, in 2018, and due to changes in deferral of pension resources. Current liabilities increased by \$67 million (7%) to \$1,051 million

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compared to last year. This increase is attributable to the increase in long-term debt due within one year resulting from scheduled maturities. Noncurrent liabilities, were lower by \$24 million (1%), primarily due to the decrease in long-term debt resulting from the scheduled maturities, and payments on capital lease obligations, partially offset by the increase in the pension and OPEB liability. Deferred inflows increased by \$124 million (36%) compared to last year, due to the changes in the deferral of OPEB resources, as a result of the Authority adopting GASB Statement No. 75, in 2018, and due to the changes in the deferral of pension resources. The changes in net position for 2018 and 2017 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 \$4.5 billion (\$2.6 billion for various capital improvements, \$1.6 million for energy services projects and \$0.3 million for reimagine Canals) over the five-year period 2020-2024. 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.

The Authority's capital plan includes the provision of approximately \$1.6 billion, the amount of which will be reimbursed subsequently back to the Authority, in financing for Energy Services 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.

On January 29, 2020 the Authority's Trustees authorized an investment of \$300 million over five years for the Reimagine the Canals Initiative ("Initiative") and approved \$30 million to fund the Initiative in 2020. The Initiative encompasses three prongs: (1) \$100 million of funding for projects in communities along the Canal system, (2) \$65 million of funding for projects that will help prevent ice jams and related flooding, and (3) \$135 million of funding for projects recommended by the Reimagine the Erie Canal Task Force and approved by the Authority for projects related to mitigation of drought impacts on agriculture, expansion of fishing opportunities, flood mitigation, invasive species prevention, and ecosystem restoration.

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

Strategic EV Charging Stations Installs	205
RM Mechanical & Electrical LEM	124
Transmission LEM (NIA, STL, CEC)	117
Communications Backbone	92
Lewiston Pump Generating Plant LEM	74
Repl. Of Superstructure Bridges- RMNPP	56
IT Initiatives	56
RM Controls LEM	50
Y-49 LEM	49
Transmission LEM: STL Remote Substations	37
Cyber Resiliency	33
NPP Fire Detection System	31
SCPP Energy Storage	27
RM Penstock LEM	24
Breaker & Relay Replacement (STL)	23
WPO-Life Extension Modification-LEM	19
Garage - Centroplex Upgrade (WPO)	18
Sensor Deployment (Transmission)	18
North Country Zone D Energy Storage	14
Transmission Power Flow Control	13
Transmission -Q 35 L/M LEM	12
SENY Physical Security Re-Evaluate	11
Hatch Cover Deck Surface Upgrade	10
Rotor Modification Stress Redistribution	9
Customer Digital Experience Software (WPO)	9
Digital Substation -Saranac	9
Canal Corporation	270
All Other (Projects Below \$9.0 Million)	462
	<u>\$ 2,576</u>

The Authority is moving forward with its plans to update a major section of the Moses Adirondack Line, one of the Authority's backbone transmission facilities. The project covers 78 miles of 230 kV transmission line from Massena to the town of Croghan in Lewis County. In July 2017, the Authority received authorization under the New York Independent System Operator (NYISO) tariff to include the costs of this project in its NYPA Transmission Adjustment Charge mechanism for cost recovery of the Authority's transmission system costs, which means that the costs will be allocated to all ratepayers in the State. The project includes the update of obsolete wood pole structures with higher, steel pole structures, as well as update of failing conductor with new conductor and insulation. The line will operate at its current 230 kV level, but the conductor and insulation design will accommodate future 345 kV operation. The Authority anticipates that the Moses Adirondack line will support the transmission of growing levels of renewable generation located in upstate New York and Canada, such as wind and hydroelectricity, and assist in meeting the State's renewable energy goals. The rebuilt line is also expected to enhance grid reliability by supporting the NYISO's black start plan. On September 21, 2018, the Public Service Commission (PSC) determined that the Authority's April 2018 Article VII application was complete. The PSC granted the Certificate of Compatibility and Public Need for the project on November 14, 2019, approving the Joint Proposal. On February 6, 2020, the PSC issued an order approving Part One of the Environmental Management and Construction Plan. Additionally, the Authority has received its Nationwide Permit from the U.S. Army Corps of Engineers and the New York State Department of Public Service has issued a Notice to Proceed. It is anticipated that construction will begin in 2020. The Authority estimates a project cost of \$484 million through project completion in 2023.

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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. As of December 31, 2019, the Authority has spent approximately \$350 million. 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 \$460 million of expenditures have been authorized and \$328 million spent as of December 31, 2019. 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 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 2022.

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, 2019, the balance in the recorded liability associated with the Niagara relicensing on the statement of net position is \$225 million (\$18 million in current and \$207 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 and has spent approximately \$27 million as of December 31, 2019.

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 consolidated financial statements.

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Capital Structure

	<u>2019</u>	<u>2018</u> (In millions)	<u>2017</u>
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	\$ 465	\$ 653	\$ 720
Subordinated:			
Subordinated Notes, Series 2017 and 2012 (1)	42	43	44
Commercial paper	<u>5</u>	<u>5</u>	<u>5</u>
Total long-term debt, net of current maturities	512	701	769
Net position	<u>4,760</u>	<u>4,734</u>	<u>4,739</u>
Total capitalization	<u>\$ 5,272</u>	<u>\$ 5,435</u>	<u>\$ 5,508</u>

(1) The Subordinated Notes, Series 2017 and 2012, which were issued in 2017 and 2012, respectively, are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 B Revenue Bonds, the Series 2011 A Revenue Bonds and the Series 2015 A Revenue Bonds.

During 2019, long-term debt, net of current maturities, decreased by \$189 million, primarily due to a debt refinance of the 2007 A and 2007 C Revenue Bonds and scheduled maturities.

In November 2016, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2017 (Subordinated Notes Series 2017) 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 subordinate notes on February 24, 2017 in the amount of \$25.2 million.

Total debt to equity ratio as of December 31, 2019, was at .26-to-1 when compared to .27-to-1 as of December 31, 2019.

Debt Ratings

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
Subordinate debt:			
Subordinate Notes, Series 2017	N/A	AA-	N/A
Subordinate Notes, Series 2012	N/A	N/A	AA
Commercial paper	P-1	A-1+	F1+

(a) Long term debt includes certain bonds – Series 2007 B Revenue Bonds and Series 2003 A Revenue Bonds – the principal and interest when due is guaranteed under insurance policies issued by MBIA Insurance Corporation and Assured Guaranty Municipal Corporation, respectively. The credit ratings of MBIA

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Insurance Corporation and Assured Guaranty Municipal Corporation are currently at or below the Authority's underlying credit ratings.

In November 2019, Standard & Poor's Ratings Service assigned a AA- rating to the Authority's Subordinated Notes, Series 2017, which they reaffirmed in November 2019. In November 2019, Standard & Poor's Ratings Service also affirmed the Authority's senior and subordinate debt ratings, which they affirmed in November 2019. In November 2019, Moody's Investors Service affirmed the Authority's commercial paper rating (they did not reconfirm their rating for the Authority's senior debt or review the Authority's Subordinated Notes, Series 2017 or Series 2012). In November 2019, Fitch Ratings affirmed the Authority's commercial paper rating, which they affirmed in January 2019 (they did not reaffirm their rating for the Authority's senior debt or Subordinated Notes, Series 2012 or review the Authority's Subordinated Notes, Series 2017).

The Authority has a line of credit under a 2019 revolving credit agreement (the 2019 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 \$700 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1-3 CP Notes. The 2019 RCA expires January 22, 2022. There are no outstanding borrowings under the 2019 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, St. Lawrence-FDR, and Blenheim-Gilboa ("BG") projects; (b) long-term supplemental electricity supply agreements with NYPA's governmental customers located in Southeastern New York (NYC Governmental Customers); (c) construction and operation of the 500 MW combined cycle electric generating plant located at the Authority's Poletti plant site; (d) 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"), in which the Authority's costs associated with the AEII contract are recovered under a separate agreement with the NYC Governmental Customers who are served by the output that ensures the project is economically neutral to the Authority; (e) 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 transmission system operated by PJM Interconnection LLC; (f) construction and maintenance of new transmission lines to relieve congestion and increase transfer capability from central to eastern New York addressing NYISO's AC Transmission Public Policy Need ("AC Proceeding"); (g) refinancing outstanding callable bonds to lower the overall cost of debt; and (h) implementation of an enterprise-wide energy risk management program. As a component of Authority's strategic plan, efforts to modernize the Authority's generation and transmission, infrastructure are being developed and implemented to increase flexibility and resiliency, and to serve customers' needs in an increasingly dynamic energy marketplace.

To achieve its goal of promoting clean energy and efficiency, the Authority implements energy efficiency services for the benefit of its power supply customers and for various other public entities throughout the States. The Authority finances the installation of energy saving greenhouse measures and equipment which are owned by the customers and public entities to focus on the reduction of the demand for electricity and the efficient use of energy.

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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 prices, fuel prices 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, the Authority, 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 to mitigate 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, capacity and congestion costs associated with the supply of electricity. Any such actions are taken pursuant to policies 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, out-of-state customers, and into the wholesale market. 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, eight host communities and seven out-of-state public customers have been established on the basis of the hydroelectric project costs. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for phased-in rate increases covering the period ending April 30, 2015. The current rates, established with the last increase in May 2014, in conjunction with the Rate Stabilization Reserve mechanism, continue to be sufficient to recover the estimated costs to run the facilities for 2020, 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 contracted demand of the plants. Their rates are subject to annual adjustment based on the average of three contractually agreed-upon economic indices reflecting changes in industrial energy prices. In addition, one of the customers served by the St. Lawrence-FDR facility has an energy rate partially tied to market prices of aluminum.

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 Preservation Power rates, which are similar to the Expansion and Replacement power customer rates, with certain adjustments. An additional 455 MW of market power can also be procured for RNY customers upon request.

The Authority has supplied electric power to its governmental customers located within New York City and Westchester County since 1976. New long term agreements have been executed with the New York City governmental customers, incorporating recent shifts in the electricity business, New York State's clean energy

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goals, and continuing changes in the Authority's supply portfolio, all in an effort to continue to provide value for, and serve this customer group.

In an order issued January 27, 1999, FERC approved the use of a \$165.4 million transmission system revenue requirement in developing rates for use of NYPA's transmission facilities in the NYISO market. FERC also approved, among other things, the imposition of a NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements established to achieve full recovery of the Authority's annual transmission revenue requirement ("ATRR"). 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 ensure full recovery of its revenue requirement based upon operating and maintenance expenses as well as the 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 resolved 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 ATRR under the formula of \$190 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. The ATRR effective July 1, 2019 is \$237.7 million including the revenue requirement for the Marcy South Series Compensation Project.

Commitments and contingencies

The Authority's commitments and contingencies are more fully detailed in note 13 "Commitments and Contingencies" of the notes to the consolidated financial statements.

Canal Corporation

The Canal Transfer Legislation enacted April 4, 2016, authorized, 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.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. The Canal Corporation's 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. Certain expenses eligible for reimbursement are expected to be reimbursed to the Authority by moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance. For the year ended December 31, 2019, the Canal Corporation recognized \$2 million in revenues, \$86 million in operations and maintenance expenses and \$25 million in depreciation expense. For the year ended December 31, 2018, the Canal Corporation recognized \$2 million in revenues, \$101 million in operations and maintenance expenses and \$23 million in depreciation expense.

By resolution adopted December 11, 2019, the Canal Corporation's Board of Directors adopted a budget for 2020 that consisted of expenditures of \$91 million for operations and maintenance expenses, \$69.9 million for capital expenses and \$2.6 million for Canal Development Fund expenses.

Given the age of the Canal System, the Authority expects that significant maintenance and capital investments will be required to assure the Canal System's continuing operation. The Authority's budget and financial plan for 2020-2023 includes the adopted Canal budget for 2020 and Canal-related operating expenditures of approximately \$94 million per year for 2021-2023. The Authority's 2020-2023 budget and financial plan includes the adopted Canal budget for 2020 and Canal System related capital expenditures of approximately \$53 million per year for

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2021-2023. The Authority will continue to evaluate the condition of the Canal System and expects to allocate additional funding if deemed necessary through its annual budgeting process

Reforming the Energy Vision

In April 2014, the New York Public Service Commission ("NYPSC") commenced a proceeding to reform the State's energy industry and regulatory practices. According to the NYPSC, 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 NYPSC 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 NYPSC 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 NYPSC "Staff Report and Proposal" released in April 2014 set forth a vision for how to accomplish the NYPSC'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 NYPSC has several ongoing proceedings related to Track 1 and Track 2 of REV that the Authority is following. In 2019, the PSC issued a number of orders addressing REV-related issues including compensation for distributed energy resources, community-scale clean energy initiatives, and electric vehicle incentives.

While the NYPSC 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 NYPSC 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 well as the economics of clean energy projects developed by the Authority's 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.

Transmission Congestion and System Operation Issues

Infrastructure limitations in the vicinity of the Authority's Niagara Project contribute to transmission congestion that limits the amount of Niagara Project output that can be accommodated on the transmission system. Transmission congestion prevents the full and efficient use of this asset, as well as other generation assets located in Western New York. To begin alleviating this congestion, on July 20, 2015, the NYPSC 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 the Niagara Project and support the import of capacity from Ontario during emergency conditions. This order initiated the NYISO's competitive solicitation process which resulted in the NYISO Board of Directors selection of the NextEra Energy Transmission New York, Inc. (NextEra) Empire State Line transmission project on October 17, 2017. NextEra currently has requests pending before the PSC for two regulatory approvals that are necessary before it may begin developing the line. The project is a partial solution to the identified congestion issues and is expected to be completed in June 2022.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2019 and 2018

(Unaudited)

Certain New Legislation Affecting the Authority

Bills are periodically introduced or passed in the New York State Legislature which propose to limit or restrict the powers, rights and exemptions from regulation which the Authority currently possesses under the Power Authority Act and other laws, or could otherwise affect the Authority's financial condition or its ability to conduct its business, activities, or operations in the manner presently conducted or contemplated hereby. It is not possible to predict whether any such bills, or other bills of a similar type which may be introduced or passed in the future, will be enacted.

As more specifically described in the enactment, and subject to limitations described therein, the 2019-20 Enacted State Budget amended the Power Authority Act to authorize the Authority, subject to feasible and advisable determinations by the Authority's Trustees, to: (1) design, finance, develop, construct, install, lease, operate and maintain electric vehicle charging stations throughout the state for use by the public; (2) plan, finance, construct, acquire, operate, improve and maintain, either alone or jointly with one or more other entities, transmission facilities for the purpose of transmitting power and energy generated by renewable wind energy generation projects that are located in State territorial waters, and/or in waters under the jurisdiction or regulation of the U.S.; (3) supply certain market power and energy and renewable energy products to any Authority customer, public entity, or community choice aggregation ("CCA") community in the State (collectively, "Eligible Entities"); and (4) alone or jointly with one or more other entities, finance the development of renewable energy generating projects that are located in the State, including its territorial waters, and/or on property or in waters under the jurisdiction or regulatory authority of the United States, purchase power, energy or related credits or attributes produced from such renewable energy generating projects, and allocate and sell such products to Eligible Entities. The Authority may exercise any of this authority at its discretion, and the changes made by the amendments do not affect the Authority's previously-existing statutory authority.

On July 18, 2019, the State enacted the "New York State Climate Leadership and Community Protection Act" as Chapter 106 of the Laws of 2019 ("Chapter 106"). As presently drafted, the date upon which most provisions of Chapter 106 will become effective will depend on the date that related legislation becomes effective.

In its present form, several provisions of Chapter 106 could potentially impact the Authority's business and operations, such as the following: (1) provisions authorizing the New York State Department of Environmental Conservation to promulgate regulations establishing limits for State-wide greenhouse gas ("GHG") emissions and to ensure compliance with such limits; (2) a requirement that specified State entities, including the Authority, adopt regulations to contribute to achieving statewide GHG emissions; (3) a requirement that State entities, including the Authority, assess and implement strategies to reduce GHG emissions; (4) consideration of whether actions that the Authority would undertake in the course of its operations are consistent with State GHG emission limits that will be established pursuant the enactment; and (5) potential allocation or realignment of resources to support State clean energy and energy efficiency goals for disadvantaged communities.

Many of the provisions of Chapter 106 that could impact the Authority are not likely to be implemented for years based on deadlines established in the enactment. Therefore, the Authority is not in a position at this time to evaluate the impact of any particular provision of Chapter 106 on the Authority's business and operations.

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

NEW YORK POWER AUTHORITY
Consolidated Statements of Net Position
(In millions)

	December 31,	
	2019	2018
Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	\$ 66	\$ 7
Investment in securities	695	940
Receivables - customers	183	180
Materials and supplies, at average cost:		
Plant and general	86	82
Fuel	30	33
Miscellaneous receivables and other	243	192
Total current assets	1,303	1,434
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	52	31
Investment in securities	16	30
Total restricted assets	68	61
Capital funds:		
Cash and cash equivalents	16	2
Investment in securities	10	23
Total capital funds	26	25
Capital Assets:		
Capital assets not being depreciated	931	896
Capital assets, net of accumulated depreciation	4,869	4,623
Total capital assets	5,800	5,519
Other Noncurrent Assets:		
Receivable - New York State	86	129
Other long-term assets	1,490	1,583
Total other noncurrent assets	1,576	1,712
Total noncurrent assets	7,470	7,317
Total assets	8,773	8,751
Deferred outflows of resources:		
Accumulated decrease in fair value of derivative hedging	5	1
Pensions	58	89
Postemployment benefits other than pensions (Note 11)	105	47
Total assets and deferred outflows of resources	\$ 8,941	\$ 8,888

(Continued)

NEW YORK POWER AUTHORITY
Consolidated Statements of Net Position
(In millions)

	December 31,	
	2019	2018
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 527	\$ 424
Short-term debt	692	526
Long-term debt due within one year	31	64
Capital lease obligation due within one year	43	37
Total current liabilities	1,293	1,051
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	465	653
Subordinated:		
Subordinated Notes	42	43
Commercial paper	5	5
Total long-term debt	512	701
Other noncurrent liabilities:		
Capital lease obligation	1,034	1,077
Disposal of spent nuclear fuel	228	223
Relicensing	256	244
Other long-term liabilities	426	386
Total other noncurrent liabilities	1,944	1,930
Total noncurrent liabilities	2,456	2,631
Total liabilities	3,749	3,682
Deferred inflows of resources:		
Cost of removal obligation	365	348
Accumulated increase in fair value of derivative hedging	1	7
Pensions	20	76
Postemployment benefits other than pensions (Note 11)	46	41
Net position:		
Net investment in capital assets	3,647	3,171
Restricted	45	42
Unrestricted	1,068	1,521
Total net position	4,760	4,734
Total liabilities, deferred inflows of resources and net position	\$ 8,941	\$ 8,888

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Consolidated Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	Year Ended December 31,	
	2019	2018
Operating revenues:		
Power sales	\$ 1,481	\$ 1,812
Transmission charges	214	202
Wheeling charges	647	654
Other	28	21
Total operating revenues	2,370	2,689
Operating Expenses:		
Purchased power	529	710
Fuel oil and gas	140	189
Wheeling	647	654
Operations	562	534
Maintenance	130	145
Depreciation	250	235
Total operating expenses	2,258	2,467
Operating income	112	222
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	44	21
Other	2	2
Total nonoperating revenues	46	23
Nonoperating expenses		
Interest on long-term debt	45	47
Interest - other	115	117
Interest capitalized	(23)	(18)
Amortization of debt premium	(2)	(3)
Total nonoperating expenses	135	143
Net income before contributed capital	23	102
Contributed capital- Wind farm transmission assets	3	—
Change in net position	26	102
Net position, January 1, as restated (Note 2)	4,734	4,632
Net position, December 31	\$ 4,760	\$ 4,734

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY
Consolidated Statements of Cash Flows
(In millions)

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 2,356	\$ 2,670
Disbursements for:		
Purchased power	(529)	(712)
Fuel, oil and gas	(145)	(193)
Wheeling of power by other utilities	(640)	(647)
Operations and maintenance	(847)	(912)
Net cash provided by operating activities	195	206
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(407)	(293)
Issuance of commercial paper	156	–
Repayment of bonds	(219)	(60)
Repayment of notes	(1)	(1)
Interest paid, net	(42)	(43)
Net cash used in capital and related financing activities	(513)	(397)
Cash flows from noncapital-related financing activities:		
Energy conservation program payments received from participants	193	107
Energy conservation program costs	(153)	(159)
Issuance of commercial paper	138	103
Repayment of commercial paper	(128)	(62)
Interest paid on commercial paper	(10)	(11)
Payment received from New York State	43	43
Margin deposits	15	4
NYISO collateral	8	(12)
Net cash provided by noncapital-related financing activities	106	13
Cash flows from investing activities:		
Earnings received on investments	17	19
Purchase of investment securities	(4,385)	(3,005)
Sale of investment securities	4,674	3,141
Net cash provided by investing activities	306	155
Net increase (decrease) in cash	94	(23)
Cash and cash equivalents, January 1	40	63
Cash and cash equivalents, December 31	\$ 134	\$ 40
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 112	\$ 222
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	250	235
Net increase in miscellaneous receivables and other	(235)	(151)
Net increase in receivables and materials and supplies	(50)	(36)
Net decrease in accounts payable/accrued liabilities and other	118	(64)
Net cash provided by operating activities	\$ 195	\$ 206

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Statements of Fiduciary Net Position

(In millions)

	December 31,	
	2019	2018
Assets		
Assets:		
Cash and cash equivalents	\$ 24	\$ 13
Receivables:		
Due from broker for investments sold	—	1
Investment income	1	1
Total receivables	1	2
Investments at fair value:		
Domestic equity	130	297
International equity	46	84
Index Fund	297	—
Real Estate (REIT)	39	31
Fixed Income	152	145
Total investments	664	557
Total assets	689	572
Liabilities:		
Payables:		
Due to broker for investments purchased	3	7
Total liabilities	3	7
Net position available for postemployment benefits other than pensions	\$ 686	\$ 565

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY
Statements of Changes in Fiduciary Net Position
(In millions)

	Year Ended December 31,	
	2019	2018
Additions:		
Employer contributions	\$ 25	\$ 25
Investment income:		
Net increase / (decrease) in fair value of investments	112	(45)
Interest and dividend income	11	9
Less: investment expense	(2)	(2)
Net investment income / (loss)	121	(38)
Total additions	146	(13)
Deductions:		
Benefits payments	25	25
Total deductions	25	25
Changes in net position	121	(38)
Net position available for postemployment benefits other than pensions – beginning of year	565	603
Net position available for postemployment benefits other than pensions – end of year	<u>\$ 686</u>	<u>\$ 565</u>

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(1) General

The Power Authority of the State of New York (the Power 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 Power Authority's mission is to power the economic growth and competitiveness of the 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 Power 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 Power Authority generates, transmits and sells electricity principally at wholesale. The Power 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 Power 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 Power 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 Power Authority acts through a Board of Trustees. The Power Authority's Trustees are appointed by the Governor of the State of New York, with the advice and consent of the State Senate. The Power 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 Power 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.

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

NEW YORK POWER AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

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 New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Power Authority and (2) as of January 1, 2017, the Power 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 Power Authority is authorized to exercise through the Canal Corporation. The Canal Corporation is responsible for a 524-mile Canal System consisting of the Erie, Champlain, Oswego and Cayuga-Seneca canals and the terminals constructed as part of the barge canal system (the “Canal System”).

(2) Summary of Significant Accounting Policies

Significant accounting policies include the following:

(a) **Basis of Reporting**

The operations of the Power Authority and its subsidiary, the Canal Corporation, 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. The accounts and transactions of the Canal Corporation are included in the consolidated financial statements and notes to the consolidated financial statements. All significant transactions between the Power Authority and the Canal Corporation have been eliminated. The Power Authority and its blended component unit are referred to collectively as the “Authority” in the consolidated financial statements, except where noted.

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with Governmental Accounting Standards (GAS) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, (GAS No. 62) 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.

(b) **Regulatory Accounting**

The Power Authority’s Board of Trustees has broad rate setting authority for its power sales agreements with customers. The sale of transmission service over the Power 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 Power 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 its regulated operations under the provisions of GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500. 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

NEW YORK POWER AUTHORITY
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

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 consolidated financial statements.

(c) Estimates

The preparation of consolidated 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 consolidated 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 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. 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, 2019 and 2018 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2019	2018
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	2.0	2.1
Transmission	1.9	1.9
General	3.9	3.2
Canal system	3.4	3.3
	<u>2.6%</u>	<u>2.5%</u>

(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

NEW YORK POWER AUTHORITY
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

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, 2019 or 2018.

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 GAS Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500. 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
	(In millions)	
Balance – December 31, 2018	\$ 53	\$ 348
Depreciation Expense	–	14
Other expense	(2)	3
Balance – December 31, 2019	<u>\$ 51</u>	<u>\$ 365</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.

(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 energy and capacity price, fuel cost changes and interest rate when applicable, 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

NEW YORK POWER AUTHORITY
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

reporting requirements for derivative instruments (see Note 8 “Risk Management and Hedging Activities” of the notes to the consolidated 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.

(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*. See note 6 “Long-Term Debt” of the notes to the consolidated financial statements.

(l) Other Long-Term Assets

Other long-term assets at December 31, 2019 and 2018 consist of the following:

	December 31,	
	2019	2018
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	\$ 364	\$ 338
Other regulatory assets	12	15
Total regulatory assets	376	353
Energy efficiency program costs (b)	286	439
Other long-term receivables	443	367
Transmission line interconnection costs	238	256
Other postemployment employee benefits	—	43
Other	147	125
Total other long-term assets	<u>\$ 1,490</u>	<u>\$ 1,583</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.

In October 2017, a Memorandum of Understanding was entered between the Authority and ten investor owned utility companies to provide Hurricane Relief assistance in Puerto Rico. The Authority’s deployment cost associated with the assistance efforts are subject to reimbursement by the Emergency Management Assistant Compact (EMAC) program. As of December 31, 2019, the related costs are included in other long-term assets in the consolidated statements of net position.

NEW YORK POWER AUTHORITY
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

(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 \$35 million and \$34 million in other non-current liabilities at December 31, 2019 and 2018, respectively, and \$6 million at December 31, 2019 and 2018, in 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:

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

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

The Power 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 Power Authority's transmission facilities, and collects ancillary services, losses and congestion fees from customers. In addition, the Power 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 Power Authority's scheduled customer power needs and available electricity generated by the Power Authority's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. A significant amount of the Power Authority's energy and capacity revenues result from sales of the Power Authority's generation into the NYISO market. A significant amount of the Power 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 Power Authority and the rates paid by such customers vary with the Power Authority 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 largest customers operating in the State accounted for approximately 52% and 47% of the Authority's operating revenues in 2019 and 2018, respectively.

NEW YORK POWER AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

In addition to contractual sales to customers, the Power 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 Power Authority's Board of Trustees or other regulatory bodies. Accordingly, the Power Authority does not apply the provisions of GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500 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

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, *Accounting and Financial Reporting for Pensions*, and have been determined on the same basis as reported by the NYSLERS. See Note 10 "Pension Plans" of the notes to the consolidated financial statements.

(s) Postemployment Benefits Other Than Pensions (OPEB)

The Power 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 (Power Authority OPEB Plan). The Power Authority has an established trust for its OPEB obligations (OPEB Trust) that is a separate entity from the Power Authority held by an independent custodian for the exclusive benefit of the OPEB Trust beneficiaries and not of the Power Authority. The ownership of the OPEB Trust assets are held by the independent custodian at all times and the OPEB Trust assets are not considered funds or assets of the Power Authority for any purpose. All of the OPEB Trust assets are irrevocably dedicated to, and are used for the exclusive purpose of, making payments of benefits to or for the benefit of the Power Authority OPEB Plan beneficiaries and for paying administrative expenses of the Power Authority OPEB Plan and the OPEB Trust and will not be available to any creditors of the Power Authority. The OPEB Trust does not issue a stand-alone financial report and its financial statements are reported as a fiduciary fund in the Authority's financial report.

The Power Authority's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The actuarial valuation is performed biennially. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the OPEB Trust and additions to/deductions from OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the Power Authority OPEB Plan as of the same measurement date. For this purpose, the Power Authority OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at

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fair value, except investments that have a maturity at the time of purchase of one year or less, which are reported at cost.

(t) New Accounting Pronouncements

In 2018, the Authority adopted the GASB issued GAS Statement No. 75 (GAS No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires governments that provide other postemployment benefits (OPEB) to their employees to recognize their unfunded accrued other postemployment benefits (OPEB) obligation in their financial statements. See Note 11 “Postemployment Benefits Other Than Pension Plans, Deferred Compensation and Savings” of the notes to the consolidated financial statements.

The following details the restatement to net position as a result of the adoption of GAS No. 75.

	<u>Year Ended December 31,</u>
	<u>2018</u>
	(In millions)
Net position, January 1	\$ 4,739
Adoption of GAS No. 75	(107)
	<hr/>
Net position, January 1, as restated	\$ 4,632

GASB issued GAS Statement No. 84 (GAS No. 84), *Fiduciary Activities*, which is effective for reporting periods beginning after December 15, 2018. GAS No. 84 addresses criteria for identifying activities of all state and local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Activities meeting this criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. In 2018, the Authority applied the GAS No. 84 criteria as it relates to the fiduciary activities of its postemployment benefits other than pensions arrangements.

GASB issued GAS Statement No. 87 (GAS No. 87), *Leases*, which is effective for reporting periods beginning after December 15, 2019. GAS No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under GAS No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is evaluating the impact of GAS No. 87 on its consolidated financial statements.

GASB issued GAS Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which is effective for reporting periods beginning after June 15, 2018. GAS Statement No. 88 addresses improvement of the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. GAS Statement No. 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The Authority has adopted provisions of GAS No. 88 and has reflected the impact of this adoption in notes to the consolidated financial statements.

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GASB issued GAS Statement No. 89 (GAS No. 89), *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is effective for reporting periods beginning after December 15, 2019 and will be applied prospectively. GAS No. 89 addresses (1) enhancement of the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) simplifies accounting for interest cost incurred before the end of a construction period. GAS No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Based on the Authority's evaluation and FERC accounting, the Authority being a GAAP regulated utility is exempt from the provisions of GAS No. 89 and will continue capitalizing interest cost incurred before the end of construction period.

GASB issued GAS Statement No. 90 (GASB No. 90), *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*, which is effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires 100 percent equity interest which should be applied on a prospective basis. GAS No. 90 addresses (1) a majority equity interest and specifies that a majority interest in a legally separate organization should be reported as an investment, using the equity method, if a government's holding of the equity interest meets the definition of an investment, (2) special-purpose governments engaged only in fiduciary activities, a fiduciary fund or an endowment/permanent fund should measure the majority equity interest at fair value instead of the equity method and (3) all other holdings of a majority interest in a legally separate organization, not meeting the definition of an investment, should report the legally separate organization as a component unit using the equity. The provisions of GAS 90 are deemed not applicable to the Authority's 2019 consolidated financial statements.

GASB issued GAS Statement No. 91 (GAS No. 91), *Conduit Debt Obligations*, which is effective for reporting periods beginning after December 15, 2020. GAS No. 91 provides a single method of reporting conduit debt obligations by issuers associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement clarifies the definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and improves required note disclosures. The Authority is evaluating the impact of GAS No. 91 on its consolidated financial statements.

(3) Bond Resolution and Related Matters

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 therefore (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),

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to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

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

Collateral - Under the Authority's Bond Resolution, a Trust Estate was created and pledged for the payment of the principal and redemption price of, and interest on, the Authority's Obligations issued under the Bond Resolution and, on a parity basis, other Parity Debt as defined in the Bond Resolution. The Authority's subordinated debt, including the Commercial Paper Notes, loans issued under the Revolving Credit Agreement described below, the Extendible Municipal Commercial Paper Notes, the Subordinated 2012 Notes and Subordinated 2017 Notes, are not Obligations under the Bond Resolution but share a subordinated lien in the Trust Estate. The Trust Estate means, collectively: (i) all Revenues (as defined in the Bond Resolution) of the Authority; (ii) the proceeds of the sale of Obligations until expended for the purposes authorized in the supplemental resolution authorizing the issuance of such Obligations; (iii) all funds, accounts and subaccounts established by the Bond Resolution, including investment earnings thereon; and (iv) all funds, moneys, and securities and any and all other rights and interests in property, whether tangible or intangible, conveyed as and for additional security pursuant to the Bond Resolution by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee.

Events of Default/Termination - Pursuant to the Bond Resolution, upon an Event of Default so long as such Event of Default shall not have been remedied, either the Trustee or the owners of 25% in principal amount of the Obligations then outstanding may declare the principal and accrued interest on all Obligations due and payable immediately.

Under the revolving credit agreement supporting the Authority's Commercial Paper Notes effective January 16, 2019, and amended on November 8, 2019, among the Authority, JP Morgan Chase Bank, National Association, as Administrative Agent, and the lenders thereunder (Revolving Credit Agreement), the Authority is able to borrow up to \$700 million in aggregate principal amount outstanding at any time for the repayment of the Commercial Paper Notes. In the case of an Event of Default (as defined in the Revolving Credit Agreement), the lenders under the Revolving Credit Agreement holding 66 2/3% of the commitments thereunder will be able to: terminate their commitments; direct the Authority to cease issuing Commercial Paper Notes; and declare the principal and accrued interest on obligations under the Revolving Credit Agreement due and immediately payable.

(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

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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 senior 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.

(c) *Concentration of Credit Risk*

There is no limit on the amount that the Power 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, 2019, the Authority's total investment portfolio of \$841 million, excluding the Canal Development Fund, consists of investments of \$222 million (26%), \$124 million (15%), \$179 million (21%) \$72 million (9%) and \$16 million (2%), \$108 (12%) in securities of FHLB, FNMA, FFCB, FHLMC, U.S. government and other various municipal debt securities, respectively.

At December 31, 2018, the Power Authority's total investment portfolio of \$1,022 million, excluding the Canal Development Fund, consists of investments of \$367 million (36%), \$169 million (16%), \$160 million (16%) \$147 million (14%) and \$16 million (2%), \$134 (13%) in securities of FHLB, FNMA, FFCB, FHLMC, U.S. government and other various municipal debt securities, respectively.

(d) *Other*

All investments are held by designated custodians in the name of the Authority. The bank balances at December 31, 2019 and 2018 were \$32 million and \$33 million, respectively, of which \$31 million and \$32 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority. As of December 31, 2019, the Authority had no investments in repurchase agreements.

Cash and Investments of the Authority at December 31, 2019 and 2018 are as follows:

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December 31, 2019	Total	Total restricted	Restricted			Capital fund	Unrestricted
			Canal Development Fund	WNYEDF, POCR, projects and other	(In millions)		
Cash and investments:							
Cash and cash equivalents	\$ 134	52	14	38		16	66
U.S. government:							
U.S. Treasury bills	16	16	—	16		—	—
U.S. Treasury notes	—	—	—	—		—	—
	16	16	—	16		—	—
Other debt securities:							
FNMA	124	—	—	—		—	124
FHLMC	72	—	—	—		6	66
FHLB	222	—	—	—		—	222
FFCB	179	—	—	—		1	178
All other	108	—	—	—		3	105
	705	—	—	—		10	695
Total investments	721	16	—	16		10	695
Total cash and investments	\$ 855	68	14	54		26	761
Summary of maturities (years):							
0 – 1	\$ 336	68	14	54		23	245
1 – 5	497	—	—	—		3	494
5 – 10	13	—	—	—		—	13
10+	9	—	—	—		—	9
	\$ 855	68	14	54		26	761

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 funding limitations. The legislation also states that the Authority “shall transfer” equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

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

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As of December 31, 2019, restricted funds include the POCR fund (\$8 million), the Lower Manhattan Energy Independence Initiative fund (\$6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing (\$14 million), the Western New York Economic Development Fund (\$10 million), the Northern New York Economic Development Fund (\$5 million) (see Note 13(a) “Commitments and Contingencies – Power Programs”), Canal Development Fund (\$14 million) and other (\$11 million).

December 31, 2018	Total	Total restricted	Restricted		Capital fund	Unrestricted
			Canal Development Fund	WNYEDF, POCR, projects and other		
			(In millions)			
Cash and investments:						
Cash and cash equivalents	\$ 40	31	11	20	2	7
U.S. government:						
U.S. Treasury bills	10	—	—	—	10	—
U.S. Treasury notes	6	6	—	6	—	—
	16	6	—	6	10	—
Other debt securities:						
FNMA	169	—	—	—	—	169
FHLMC	147	4	—	4	6	137
FHLB	367	20	—	20	1	346
FFCB	160	—	—	—	2	158
All other	134	—	—	—	4	130
	977	24	—	24	13	940
Total investments	993	30	—	30	23	940
Total cash and investments	\$ 1,033	61	11	50	25	947
Summary of maturities (years):						
0 – 1	\$ 352	61	11	50	21	270
1 – 5	659	—	—	—	4	655
5 – 10	13	—	—	—	—	13
10+	9	—	—	—	—	9
	\$ 1,033	61	11	50	25	947

As of December 31, 2018, restricted funds include the POCR fund (\$7 million), the Lower Manhattan Energy Independence Initiative fund (\$6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing (\$14 million), the Western New York Economic Development Fund (\$11 million), the Northern New York Economic Development Fund (\$4 million) (see Note 13(a) “Commitments and Contingencies – Power Programs”), Canal Development Fund (\$11 million) and other (\$8 million).

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(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2019.

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 193	—	—	\$ 193
Construction in progress	703	506	(471)	738
Total capital assets not being depreciated	896	506	(471)	931
Capital assets, being depreciated:				
Production – Hydro	2,114	160	(12)	2,262
Production – Gas turbine/combined cycle	2,386	17	(50)	2,353
Transmission	2,228	151	(13)	2,366
General	1,198	111	(8)	1,301
Canal System	723	45	—	768
Total capital assets being depreciated	8,649	484	(83)	9,050
Less accumulated depreciation for:				
Production – Hydro	862	38	(12)	888
Production – Gas turbine/combined cycle	1,260	86	(50)	1,296
Transmission	1,304	40	(13)	1,331
General	413	49	(6)	456
Canal System	187	25	(2)	210
Total accumulated depreciation	4,026	238	(83)	4,181
Net value of capital assets, being depreciated	4,623	246	—	4,869
Net value of all capital assets	\$ 5,519	752	(471)	\$ 5,800

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The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2018.

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending balance</u>
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 193	—	—	\$ 193
Construction in progress	565	295	(157)	703
Total capital assets not being depreciated	758	295	(157)	896
Capital assets, being depreciated:				
Production – Hydro	2,101	18	(5)	2,114
Production – Gas turbine/combined cycle	2,378	8	—	2,386
Transmission	2,193	38	(3)	2,228
General	1,155	85	(42)	1,198
Canal System	712	13	(2)	723
Total capital assets being depreciated	8,539	162	(52)	8,649
Less accumulated depreciation for:				
Production – Hydro	832	35	(5)	862
Production – Gas turbine/combined cycle	1,172	88	—	1,260
Transmission	1,269	38	(3)	1,304
General	417	39	(43)	413
Canal System	165	24	(2)	187
Total accumulated depreciation	3,855	224	(53)	4,026
Net value of capital assets, being depreciated	4,684	(62)	1	4,623
Net value of all capital assets	\$ 5,442	233	(156)	\$ 5,519

Wind Farm Transmission Assets

In April 2019, Jericho Rise Wind Farm, LLC, a wind farm developer, and in accordance with a Large Generator Interconnection Agreement signed in June 2016 between the Authority, Jericho Rise Wind Farm, LLC and the New York Independent System Operator, Inc. transferred title of certain transmission assets (valued at \$3 million) to the Authority. The transfer was accounted for as a capital contribution.

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(6) Long-Term Debt

a. Components

	<u>Amount</u>		<u>Interest rate (a)</u>	<u>Maturity</u>	<u>Earliest redemption date prior to maturity</u>	
	<u>2019</u>	<u>2018</u>				
	(In millions)					
Senior debt:						
Revenue Bonds (Tax-Exempt):						
Series 2007 A Revenue Bonds:						
Term Bonds	\$ —	\$ 82	4.5% to 5.0%	11/15/2047	**	Any date
Series 2007 C Revenue Bonds:						
Serial Bonds	—	110	4.0% to 5.0%	11/15/2019 to 2021		Any date
Series 2011 A Revenue Bonds:						
Serial Bonds	57	59	3.0% to 5.0%	11/15/2019 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	15	29	2.0% to 5.0%	11/15/2019 to 2020		11/15/2020
Revenue Bonds (Taxable):						
Series 2003 A Revenue Bonds:						
Term Bonds	149	156	5.230% to 5.749%	11/15/2019 to 2033	**	Any date
Series 2007 B Revenue Bonds:						
Term Bonds	231	235	5.905% to 5.985%	11/15/2037 and 2043	**	Any date
	491	710				
Plus unamortized premium and discount	9	12				
Less deferred refinancing costs	5	6				
	495	716				
Less due in one year	30	63				
Long-term senior debt, net of due in one year	\$ 465	\$ 653				

(a) interest rate at issuance

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

** Bonds are subject to sinking fund provisions.

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	<u>Amount</u>		<u>Interest rate (a)</u>	<u>Maturity</u>	<u>Earliest redemption date prior to maturity</u>
	<u>2019</u>	<u>2018</u>			
	(In millions)				
Subordinate debt:					
Subordinated Notes, Series 2017	\$ 23	\$ 24	2.61% to 4.27%	2022 to 2041	Any date
Subordinated Notes, Series 2012	20	20	1.70% to 4.05%	2019 to 2037	Any date
Commercial Paper:					
EMCP (Series 1)	5	5	1.41%	2021	
	48	49			
Less due within one year	1	1			
	47	48			
Total Long-term debt	543	765			
Less due within one year	31	64			
Long-term debt, net of due in one year	\$ 512	\$ 701			

(a) interest rate at issuance

Interest on Series 2003 A and 2007 B Revenue Bonds and Subordinated Notes, Series 2012 and Subordinated Notes, Series 2017 is not excluded from gross income for bondholders' Federal income tax purposes. In December 2019, the Authority issued Commercial Paper to refund \$156 million of its Series 2007 A and Series 2007 C Revenue Bond Senior Debt

As indicated in Note 3 "Bond Resolution" of notes to the consolidated 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 \$0.8 billion as of December 31, 2019. Principal and interest paid for 2019 and operating income plus depreciation were \$104 million and \$362 million, respectively. Principal and interest paid for 2018 and operating income plus depreciation were \$101 million and \$457 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.

At December 31, 2019 and 2018, the current market value of the senior debt was approximately \$632.8 million and \$818 million, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

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Subordinate Debt:

Subordinate Notes – In November 2016, the Authority’s Trustees authorized the issuance of Subordinated Notes, Series 2017 (Subordinated Notes, Series 2017) 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 subordinate notes on February 24, 2017 in the amount of \$25.2 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 2012, the Authority’s Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes, Series 2012), 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.

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, 2019.

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 2019 revolving credit agreement (the 2019 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 \$700 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The 2019 RCA expires January 22, 2022. The 2019 RCA succeeded the amended 2015 RCA, which expired by its terms on January 18, 2019 with no outstanding borrowings. There are no outstanding borrowings under the 2019 RCA.

CP Notes and EMCP Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 B 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.

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The interest rate used to calculate future interest expense on variable rate debt is the interest rate at issuance.

Maturities and Interest Expense:	Long-Term Debt			Capitalized Lease Obligations		
	(In millions)			(In millions)		
	Principal	Interest	Total	Principal	Interest	Total
Years ending December 31:						
2020	\$ 31	\$ 29	\$ 60	\$ 43	\$ 85	\$ 128
2021	22	28	50	50	81	131
2022	41	27	68	58	77	135
2023	17	25	42	66	72	138
2024	17	24	41	76	66	142
2025 – 2029	109	103	212	550	216	766
2030 – 2034	140	68	208	234	15	249
2035 – 2039	96	34	130	—	—	—
2040 – 2044	66	10	76	—	—	—
	539	348	887	1,077	612	1,689
Plus unamortized bond premium	9	—	9	—	—	—
Less deferred refinancing cost	5	—	5	—	—	—
Total	\$ 543	\$ 348	\$ 891	\$ 1,077	\$ 612	\$ 1,689

The Authority has a long-term electricity supply contract with Astoria Energy II LLC for the purchase of the output of Astoria Energy II, which is accounted for as a capital lease. The delivery period under the contract is through 2031. The Authority's costs associated with the contract are recovered, under a separate agreement with the NYC Governmental Customers who are served by the output that ensures the project is economically neutral to the Authority. See note 13(b) "Commitments and Contingencies – Governmental Customers in the New York City Metropolitan Area" of the notes to the consolidated financial statements.

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, 2019, the reset rate would have been 8.32%.

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c. Changes in Noncurrent Liabilities

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2019 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	\$ 710	—	219	\$ 491	\$ 30
Subtotal	710	—	219	491	30
Subordinate debt:					
Subordinated Notes, Series 2017	24	—	1	23	—
Subordinated Notes, Series 2012	20	—	—	20	1
Commercial paper	5	—	—	5	—
Subtotal	49	—	1	48	1
Net unamortized discounts/ premiums and deferred losses	6	—	2	4	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	\$ 765	—	222	\$ 543	\$ 31
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,077	—	43	1,034	43
Disposal of nuclear fuel	223	5	—	228	—
Relicensing	244	37	25	256	—
Other	386	34	—	\$ 420	\$ —
Total other noncurrent liabilities	\$ 1,930	76	68	\$ 1,938	\$ 43

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Changes in the Authority's long-term liabilities for the year ended December 31, 2018 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	\$ 770	—	60	\$ 710	\$ 63
Subtotal	<u>770</u>	<u>—</u>	<u>60</u>	<u>710</u>	<u>63</u>
Subordinate debt:					
Subordinated Notes, Series 2017	25	—	1	24	1
Subordinated Notes, Series 2012	21	—	1	20	—
Commercial paper	<u>5</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>—</u>
Subtotal	<u>51</u>	<u>—</u>	<u>2</u>	<u>49</u>	<u>1</u>
Net unamortized discounts/ premiums and deferred losses	<u>10</u>	<u>—</u>	<u>4</u>	<u>6</u>	<u>—</u>
Total debt, net of unamortized discounts/ premiums/ deferred losses	<u>\$ 831</u>	<u>—</u>	<u>66</u>	<u>\$ 765</u>	<u>\$ 64</u>
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,114	—	37	1,077	37
Disposal of nuclear fuel	219	4	—	223	—
Relicensing	250	16	22	244	—
Other	<u>303</u>	<u>83</u>	<u>—</u>	<u>\$ 386</u>	<u>\$ —</u>
Total other noncurrent liabilities	<u>\$ 1,886</u>	<u>103</u>	<u>59</u>	<u>\$ 1,930</u>	<u>\$ 37</u>

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(7) Short-Term Debt

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

		December 31,			
		2019		2018	
		Availability	Outstanding	Availability	Outstanding
(In millions)					
CP Notes (Series 1)	\$	91	\$ 309	\$ 194	\$ 206
CP Notes (Series 2)		233	217	176	274
CP Notes (Series 3)		184	166	304	46

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. In December 2019, the Authority issued Series 3 CP Notes to refund \$156 million of its Series 2007 A and Series 2007 C Revenue Bond.

The changes in short-term debt are as follows:

	Beginning balance	Increases	Decreases	Ending balance
	(In millions)			
Year:				
2019	\$ 526	294	128	\$ 692
2018	\$ 485	103	62	\$ 526

(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 its officers and directors. Cyber liability insurance protects the Authority against first- and third-party losses. 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, the physical damage claims for its owned and leased vehicles and 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 and electric capacity prices. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel

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price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate potential adverse effects and to moderate cost impacts to its customers (many of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks through the use of financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and to mitigate 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. The fair value for over-the-counter and exchange-traded energy, and capacity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding energy 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 2019 and 2018:

Derivative instrument description	Fair value balance December 31, 2018	Net change in fair value	Fair value balance December 31, 2019	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2019	Unit of Measure
			(\$ in millions)				
Energy swaps/futures (sales)	\$ (7)	\$ 12	\$ 5	Cash Flow	Deferred outflow	(2,165,600)	MWh
Energy swaps (purchases)	—	(1)	(1)	Cash Flow	Deferred inflow	122,760	
Energy capacity futures	1	(1)	—	Cash Flow	—	(255,000)	KWm
Totals	<u>\$ (6)</u>	<u>\$ 10</u>	<u>\$ 4</u>				

Energy swaps and futures – As of December 31, 2019, the Authority has outstanding short-term energy swaps and futures to manage the revenue stream from forecasted merchant hydro generation through 2022. Net settlement receipts were \$5.8 million and payments were \$27.3 million in 2019 and 2018, respectively. As of December 31, 2019, the Authority has outstanding short-term energy swaps to manage the cost of energy for the benefit of its NYC Governmental Customers. There were no settlements in 2019 and 2018.

Energy capacity futures – As of December 31, 2019, the Authority has outstanding forward installed capacity futures intended to mitigate the volatility of market prices for transactions in the NYISO markets through 2020. Net settlement receipts were \$0.7 million and payments were \$7.8 million in 2019 and 2018, respectively.

Other – The Authority from time to time enters into certain derivative instruments that may become ineffective due to changes in the hedged item. The change in fair value of such derivative instruments would be recognized as

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other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. The Authority did not recognize hedging ineffectiveness in 2019 and in 2018 was insignificant.

Counterparty Credit Risk

The Authority 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, 2019, 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 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 be exposed to risk as a result of the hedging inability of the electrical commodity swaps to offset the delivery price of the related energy.

Rollover risk – Certain electrical commodity swaps are based upon projected future customer loads or facility operations. Beyond the terms of these swaps, the Authority is subject to the corresponding market volatilities.

Termination risk – The Authority or its counterparties may terminate a derivative instrument agreement if 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 consolidated financial statements.

Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) addresses, among other things, interest rate and commodity swap transactions of the type in which the Authority may engage. The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). The CFTC rules are not anticipated to have significant impact on the Authority's liquidity and/or future risk mitigation activities. The Authority continues to monitor developments with respect to Dodd-Frank rules and regulations.

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(9) Fair Value Measurements

GAS No. 72 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 fair value hierarchy is based upon pricing transparency and is not necessarily an indication of the Authority's perceived risk of that financial instrument.

The following describes the fair value hierarchy of inputs used by the Authority 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 the Authority 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 Authority's own data.

The following describes the valuation methodologies used by the Authority 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.
- Derivative instruments – The Authority hedges market risks through the use of 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" of notes to the consolidated financial statements.
 - The fair values for over-the-counter and exchange-traded energy, 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 capacity derivative instruments is based on internal pricing models which develop a demand curve for the NYISO monthly spot market capacity auctions. Capacity reference

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points are observed from the NYISO filing with FERC. Peak load forecast are observed in the NYISO's Gold Book and NYPSC's publications.

The following tables summarize the Authority's outstanding assets and liabilities, of which there are no Level 3, within the fair value hierarchy at December 31, 2019 and December 31, 2018:

	Fair Value Measurements			
	(in millions)			
December 31, 2019	Total	Level 1	Level 2	Level 3
<u>Assets</u>				
Cash and cash equivalents	\$ 134	\$ 134	\$ -	\$ -
Treasury bills	16	16	-	-
Federal Agency securities:				
FNMA	124	-	124	-
FHLMC	72	-	72	-
FHLB	222	-	222	-
FFCB	179	-	179	-
Municipal Bonds	105	-	105	-
All other	3	3	-	-
Total cash and investments at fair value	<u>855</u>	<u>153</u>	<u>702</u>	<u>-</u>
Derivative instruments:(a)				
Energy capacity futures	<u>5</u>	<u>-</u>	<u>5</u>	<u>-</u>
Total derivative assets at fair value	<u>5</u>	<u>-</u>	<u>5</u>	<u>-</u>
Total assets at fair value	\$ <u>860</u>	\$ <u>153</u>	\$ <u>707</u>	\$ <u>-</u>
<u>Liabilities</u>				
Derivative instruments:(a)				
Energy swaps	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>
Total derivative liabilities at fair value	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
Total liabilities at fair value	\$ <u>1</u>	\$ <u>-</u>	\$ <u>1</u>	\$ <u>-</u>

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<u>December 31, 2018</u>	<u>Fair Value Measurements</u> (in millions)			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 40	\$ 40	\$ -	\$ -
Treasury bills	10	10	-	-
Treasury notes	6	6		
Federal Agency securities:				
FNMA	169	-	169	-
FHLMC	147	-	147	-
FHLB	367	-	367	-
FFCB	160	-	160	-
Municipal Bonds	130	-	130	-
All other	4	4	-	-
Total cash and investments at fair value	<u>1,033</u>	<u>60</u>	<u>973</u>	<u>-</u>
Derivative instruments:(a)				
Energy capacity futures	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
Total derivative assets at fair value	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
Total assets at fair value	\$ <u>1,034</u>	\$ <u>60</u>	\$ <u>974</u>	\$ <u>-</u>
<u>Liabilities</u>				
Derivative instruments:(a)				
Energy swaps	\$ <u>7</u>	\$ <u>-</u>	\$ <u>7</u>	\$ <u>-</u>
Total derivative liabilities at fair value	<u>7</u>	<u>-</u>	<u>7</u>	<u>-</u>
Total liabilities at fair value	\$ <u>7</u>	\$ <u>-</u>	\$ <u>7</u>	\$ <u>-</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, 2019 and 2018 the Authority determined that nonperformance risk would have no material impact on the financial position or results of operations.

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(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, 2019 was 15%. The average contribution rates relative to payroll for the NYSLERS fiscal years ending March 31, 2020 and 2021 have been set at approximately 15% for both years. The required contributions for 2019 and 2018 were \$30 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.

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

At December 31, 2019, the Authority reported a liability of \$53 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, 2019 (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, 2019, the Authority's proportion percentage (0.671%) of the net pension liability changed slightly compared to its proportion measured as of March 31, 2018 (0.639%). The Canal Corporation's proportionate share was 0.08% at March 31, 2019 and March 31, 2018.

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For the year ended December 31, 2019 and 2018, the Authority recognized pension expense of \$35 million and \$28 million, respectively. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	(In millions)	
Difference between expected and actual experience	\$ 10	\$ 3
Net difference between projected and actual earnings on investments	—	14
Change of assumptions	13	—
Net difference between employer contributions and proportionate share of contributions	4	3
Employer contributions subsequent to the measurement date	31	—
Total	<u>\$ 58</u>	<u>\$ 20</u>

The \$31 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, 2020. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in millions):

Year ending December 31,	
2020	\$ 11
2021	(10)
2022	(1)
2023	7
Total	<u>\$ 7</u>

Actuarial Assumptions

The NYSLERS total pension liability at March 31, 2019 was determined by using the NYSLERS actuarial valuation as of April 1, 2018 with updated procedures to roll forward the NYSLERS total pension liability to March 31, 2019. The following actuarial assumptions were used for the April 1, 2018 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.5%
Salary increases:	4.2% annually
Investment rate of return:	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, 2018 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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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, 2019 are summarized below.

Long-Term Expected Rate of Return

<u>Asset Type</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate</u>
Domestic Equity	36%	4.55%
International Equity	14	6.35
Private Equity	10	7.50
Real Estate	10	5.55
Absolute Return	2	3.75
Opportunistic Portfolio	3	5.68
Real Asset	3	5.29
Bonds and Mortgages	17	1.31
Cash	1	(0.25)
Inflation Indexed Bonds	4	1.25
	100%	

Discount Rate

The NYSLERS discount rate used to calculate the total pension liability for the March 31, 2019 and 2018 measurement date was 7.0%. 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.

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)	\$ 234 million	\$ 53 million	\$ (98) million

The NYSLERS actuary has not recommended any future changes to the actuarial assumptions used in the NYSLERS April 1, 2018 actuarial valuation.

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(11) Postemployment Benefits Other Than Pensions, Deferred Compensation and Savings

Adoption of GASB Statement No. 75

The Authority, effective January 1, 2018, adopted Government Accounting Standard Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GAS No. 75). GAS No. 75 refines reporting guidance established under GAS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GAS No. 75 requires governments that provide OPEB plans to their employees, to recognize their long-term obligation for OPEB benefits as a liability and to more comprehensively and comparably measure the annual costs of OPEB benefits. GAS No. 75 concluded that OPEB's are a form of employee compensation and should be recognized in the same period in which the compensated service is provided by the employees. GAS No. 75 also eliminated the phase-in over a period of years of the amortization for the unfunded actuarial accrued liabilities (or funding excess). GAS No. 75 also enhances accountability and transparency through revised and new note disclosures and required supplemental information. As a result of the adoption of GAS No. 75, the Authority recorded a \$(107) million adjustment to its January 1, 2018 net position reflected in its consolidated statements of revenues, expenses and changes in net position for the year ended December 31, 2018. See Note 2 (t) "Summary of Significant Accounting Policies –New Accounting Pronouncements" of the notes to the consolidated financial statements.

(a) *Power Authority*

The Power 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 (Power Authority OPEB 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 Power 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.

The Power 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 OPEB Trust is set-up to pay for the exclusive benefit of the OPEB Trust. The funding of the Power Authority's OPEB Trust is at the discretion of management as approved by the Board of Trustees. The Power Authority made contributions on a pay-as you go basis in 2019 and 2018 and did not contribute any amount beyond these contributions to the OPEB Trust.

As of the December 31, 2019, the following current and former employees were covered by the benefit terms, under the Plan. It is assumed that 100% of future retirees who meet the eligibility requirements will participate in the OPEB plan.

Active employees	1,867
Inactive employees and beneficiaries, receiving and or entitled to benefits	<u>2,914</u>
Total	<u>4,781</u>

OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB

For the year ended December 31, 2019, the Authority recognized OPEB expense of \$14.9 million. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In millions)	
Differences between expected and actual experience	\$	\$ –
Changes in assumptions		–
Differences between projected & actual investment earnings	62	31
Employer contributions subsequent to the measurement date	25	–
Total	\$ 87	\$ 31

The \$25 million reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year. The other amount reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending December 31,	(In millions)
2020	\$ 5
2021	5
2022	5
2023	16
	\$ 31

Net OPEB Liability

The Authority's net OPEB liability (asset) was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was based on a no gain or loss rollforward of the December 31, 2017 valuation. The Authority's net OPEB asset of \$5 million is recorded in miscellaneous receivables in current assets, respectively, in the Authority's consolidated statements of net position.

The following table shows the components of the Authority's changes in its total OPEB liability, the OPEB fiduciary net position, and the net OPEB (asset) during the measurement period ending December 31, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB (Asset)
	Increase (Decrease) (In millions)		
Balance – beginning of year	\$ 535	\$ 603	\$ (68)
Service Cost	12	–	12
Interest	38	–	38
Differences between expected and actual experience	–	–	–
Contributions – employer	–	25	(25)
Net investment income	–	(36)	(36)
Benefit payments	(25)	(25)	–
Administrative expense	–	(2)	(2)
Net changes	25	(38)	63
Balance – end of year	\$ 560	\$ 565	\$ (5)

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The components of the net OPEB asset at December 31, 2019, were as follows (in millions):

Total OPEB liability	\$ 590
Plan fiduciary net position	(686)
Net OPEB (Asset)	<u>\$ (96)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	116%

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 biennial actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return:	7.00%
Inflation:	2.50%
Healthcare Cost Trend Rates:	Pre-Medicare - 8.0 percent for 2018, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent for 2025 and later years. Post-Medicare - 5.1 percent for 2018, decreasing to an ultimate rate of 4.5 percent for 2025. Prescription drugs (Rx) – 9.0 percent for 2018, decreasing to an ultimate rate of 4.5 percent for 2025.
Salary increases:	Varies by service, average of 4.5 percent for 1-5 years of service, 3.8 percent for 6-10 years of service, 3.3 percent for 11-15 years of service, and 3.0 percent for 20 years or more of service.
Mortality:	Gender distinct pre- and post-commencement rates based on experience under the New York State Local Retirement System. Base rates reflect a 2014 base year, and the MP-2017 Projection Scale is applied to the base rates.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates (expected returns net of 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 are summarized in the following table:

Asset Type	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	37 %	5.3 %
International Equity	24	7.9
Fixed Income	30	2.4
Real Estate	6	6.5
Cash	3	2.0
Total	<u>100 %</u>	

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Rate of Return

For the year ended December 31, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 21.42 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to calculate the total OPEB liability was 7.0%, the long-term rate of return on the OPEB Trust assets. The projection of cash flows used to determine the discount rate assumed that NYPA will contribute at a rate equal to the average of contributions made over the most recent five-year period (2013 through 2017), and that contributions apply first to service cost of current and future plan members and then to past service costs. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees for the foreseeable future.

Sensitivity of the Net OPEB (Asset) to Changes in the Discount Rate

Changes in the discount rate affect the measurement of the total OPEB liability. The following table depicts the Authority's Net OPEB liability / (asset), as well as the sensitivity of using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current discount rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB Liability / (Asset)	\$ 73 million	\$ (5) million	\$ (69) million

Sensitivity of the Net OPEB Liability / (Asset) to Changes in the Healthcare Cost Trend Rates

Changes in the healthcare cost trends affect the measurement of the total OPEB liability. The table below shows the sensitivity of the net OPEB liability / (asset) to the changes in the healthcare cost trends:

	1% Decrease	Current Healthcare Trend Rate	1% Increase
Net OPEB Liability / (Asset)	\$ (82) million	\$ (5) million	\$ 99 million

(b) Canal Corporation

The Canal Corporation provides health care and death benefit for eligible retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Canal Corporation. The Canal Corporation participates, pursuant to the provision of Section 163(4) of the New York State Civil Service Law, in the New York State health Insurance Program (NYSHIP). NYSHIP does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

To be eligible an employee must (1) retiree as a member of Canal Corporation, or be at least 55 years old at time of termination; (2) be enrolled in the NYSHIP on date of retirement; and (3) complete at least 5 years

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of service for the retiree and dependent to have coverage while the employee is living. Ten years of service are needed for continued dependent coverage upon death of the employee. The Plan currently pays a portion of the medical premium cost for retired employees and covered dependents. Additionally, the Plan reimburses retirees and covered dependents for their Medicare Part B premiums.

As of the December 31, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms, under the Plan. It is assumed that 100% of future retirees who meet the eligibility requirements will participate in the OPEB plan.

Active employees, including opt-out (actives not in medical plan)	494
Inactive employees and beneficiaries, receiving and or entitled to benefits	<u>579</u>
Total	<u><u>1,073</u></u>

OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB

The Authority's consolidated financial statements include the Canal Corporation's OPEB costs of \$16.0 million, for the year ended December 31, 2019. In addition, the Authority's consolidated statements include the Canal Corporations deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	(in millions)	
Differences between expected & actual experience	\$ —	\$ —
Changes in assumptions	12	15
Employer contributions subsequent to the measurement date	6	—
Total	<u>\$ 18</u>	<u>\$ 15</u>

The \$7 million reported as deferred outflows of resources related to OPEB resulting from the Canal Corporation's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year. The other amount reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending December 31,</u>	(in millions)
2020	\$ —
2021	—
2022	—
2023	(3)
	<u>\$ (3)</u>

Total OPEB Liability

The Canal Corporation's total OPEB liability was measured as of December 31, 2017, based on a no gain or loss rollforward of the December 31, 2017 valuation. The Canal Corporation's total OPEB liability is

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recorded in the Authority's consolidated statements of net position in other long-term liabilities in the amount of \$226 million.

The following table shows the components of the Canal Corporation's changes in its total OPEB liability during the measurement period ending December 31, 2017.

	<u>Total OPEB Liability</u> Increase (Decrease) (in millions)
Balance – beginning of year	<u>\$ 234</u>
Changes for the year:	
Service cost	9
Interest	7
Changes of benefit terms	–
Differences between expected & actual experience	–
Changes of assumptions	(18)
Benefit payments	<u>(6)</u>
Net Changes in Total OPEB Liability	<u>(8)</u>
Balance – end of year	<u><u>\$ 226</u></u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 biennial actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation:	2.50%
Healthcare Cost Trend Rates:	Pre-Medicare - 5.75 percent for 2018, decreasing to an ultimate rate of 4.5 percent for 2025 and later years. Post-Medicare - 5.1 percent for 2018, decreasing to an ultimate rate of 4.5 percent for 2025. Prescription drugs (Rx) – 9.0 percent for 2018, decreasing to an ultimate rate of 4.5 percent for 2025.
Salary increases:	Varies by service, average of 4.5 percent for 1-5 years of service, 3.8 percent for 6-10 years of service, 3.3 percent for 11-15 years of service, and 3.0 percent for 20 years or more of service.
Mortality:	Gender distinct pre and post-commencement rates based on experience under the New York State Local Retirement System. Base rates reflect a 2014 base year, and the MP-2017 Projection Scale is applied to the base rates.

Discount Rate

The discount rate at the measurement date used to calculate the total OPEB liability is 3.64%. The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 29, 2018. Benefit

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payments are funded on a pay-as-you go basis. The discount rate at the previous measurement date is 3.16% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 30, 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

Changes in the discount rate affect the measurement of the total OPEB liability. The following table depicts the Canal Corporation' Total OPEB liability, as well as the sensitivity of using a discount rate that is 1 percentage point lower (2.16 percent) or 1 percentage point higher (4.16 percent) than the current discount rate:

	1% Decrease (2.64%)	Current Discount Rate (3.64%)	1% Increase (4.64%)
Total OPEB Liability	\$ 266 million	\$ 226 million	\$ 284 million

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

Changes in the healthcare cost trends affect the measurement of the total OPEB liability. The table below shows the sensitivity of the total OPEB liability to the changes in the healthcare cost trends:

	1% Decrease	Current Healthcare Trend Rate	1% Increase
Total OPEB Liability	\$ 184 million	\$ 226 million	\$ 284 million

(c) Deferred Compensation and Savings Plans

The Power 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 Power 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 Power Authority matches contributions of employees up to limits specified in the plan. Matching annual contributions were approximately \$3.5 million and \$3.7 million for 2019 and 2018, 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

On November 21, 2000, the Power Authority sold the James A. Fitzpatrick nuclear plant (JAF) and the Indian Point 3 nuclear plant (IP3) to two subsidiaries of Entergy Corporation (collectively, Entergy or the Entergy Subsidiaries). On March 31, 2017, Entergy transferred JAF to Exelon Generation Company, LLC (Exelon).

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In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Power 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 Power Authority's contract with the DOE was assigned to Entergy. Entergy assigned the portion of the pre-1983 spent fuel obligation applicable to JAF to Exelon in connection with the sale of JAF to Exelon. The Power Authority remains liable for the pre-1983 spent fuel obligation to Exelon for JAF and to Entergy for IP3 (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, 2019 and 2018, the pre-1983 spent fuel liability for JAF and IP3 totaled \$228 million and \$223 million, respectively.

(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 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 \$564 million for the period from August 2011 to December 2019 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, 2019, totaling approximately \$67 million. Operations and maintenance expenses included \$30 million of residential consumer discounts in each year ended December 31, 2019 and 2018.

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.

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The Authority's Trustees have approved the release of up to \$64 million in net earnings, calculated for the period August 30, 2010 through December 31, 2019 as provided in the legislation, for deposit into the Fund. As of December 31, 2019, approximately \$42 million has been deposited into the Fund. As of December 31, 2019, the Authority has approved awards of Fund money totaling approximately \$38 million to businesses that have proposed eligible projects and has made payments totaling \$32 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.

As of December 31, 2019, the Authority's Trustees approved the release of funds, of up to \$14 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, 2019. As of December 31, 2019, approximately \$5 million has been deposited into the Fund. As of December 31, 2019, the Authority has approved awards of NNYED Fund money totaling approximately \$2 million to businesses that have proposed eligible projects. Payment of approved awards of the NNYED Fund money is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

(b) Governmental Customers in the New York City Metropolitan Area

In 2018 and 2019, the Authority executed new supplemental long-term electricity supply agreements (Supplemental LTAs) with its eleven NYC Governmental Customers. Under the Supplemental LTAs, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2027, with the NYC Governmental Customers having the right to (1) terminate at any time upon at least 12 months' notice or (2) terminate effective December 31, 2022 upon at least 6 months' notice. Under the Supplemental LTAs, fixed costs were set for each customer and are subject to renegotiation in 2022. Variable costs, including fuel, purchased power and NYISO related costs, will be passed through to each customer by an energy charge adjustment.

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

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(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.

Astoria Energy II

In 2008, the Authority entered a long-term electricity supply contract with 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 delivery period under the contract is through 2031. The Authority’s costs associated with the contract are recovered, under a separate agreement with the NYC Governmental Customers who are served by the output that ensures the project is economically neutral to the Authority.

The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of \$1.077 billion as of December 31, 2019, 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. As of December 31, 2019, the Authority has a recorded capital asset (net of depreciation) of \$713 million and a regulatory asset with respect to the recoverable cost associated with the lease obligation of \$364 million (see note 2 (l) “Summary of Accounting Policies – Other Long-Term Assets” of the notes to the consolidated financial statements).

HTP Transmission Line

In 2011 the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (“HTP”) for the purchase of capacity to meet the long-term requirements of the Authority’s NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the transmission rights associated with HTP’s transmission line (the “Line”) extending from Bergen County, New Jersey in the PJM Interconnection, LLC (PJM) transmission system, to Consolidated Edison Company of New York, Inc.’s (“Con Edison”) West 49th Street substation in the NYISO. Specifically, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP under which the Authority gained the entitlement to 75% of the Line’s 660 MW capacity, or 495 MW, for 20 years. On March 31, 2017, the Authority and HTP amended the FTCPA to, among other changes, (a) create a mechanism for HTP to relinquish its Firm Transmission Withdrawal Rights as discussed below and (b) increase the Authority’s leased portion of the Line’s capacity to 87.12%, or 575 MW, at a monthly capacity charge rate that represents a decrease in the unit price (on a \$/MW-month basis) paid to HTP in the original FTCPA.

The Authority’s payment obligations under the FTCPA include capacity payments, interconnection and transmission upgrades, and Regional Transmission Enhancement Plan (“RTEP”) charges allocated to HTP in accordance with the PJM tariff. Interconnection and transmission upgrades were completed in 2018 at a total cost to the Authority of \$334.9 million. The RTEP charges imposed upon HTP, which are still subject to legal challenge, are discussed in more detail 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. In December 2019, the Authority estimated that its under-recovery of costs for the Line could be in the range of approximately \$91 million to \$95 million per year over the period from 2020-2023. The under-recovery estimates were based on projections of the capacity payment obligations, the costs of interconnection and transmission upgrades and energy revenues.

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The Authority's obligations under the FTCPA include payment of the RTEP charges allocated to HTP. From June 2013 through December 2019, the Authority has paid approximately \$97 million in RTEP charges for the Line. Effective 2018, HTP relinquished the Firm Transmission Withdrawal Rights ("FTWRs") held by HTP on the Line that were the basis for the bulk of its RTEP allocations. PJM's annual RTEP cost allocation update for 2018 eliminated the Authority's obligation in 2018 and beyond to pay RTEP charges related to the Bergen Linden Corridor project, which accounted for the bulk of the RTEP charges allocated to HTP.

(c) *Small, Clean Power Plants*

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area in the early 2000s, the Authority placed into operation the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, 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 (the St. Regis litigation) against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil islands. These islands are within the boundary of the Authority's St. Lawrence-FDR Project and 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 have included, among other things, the payment by the Authority of \$2 million a year for 35 years to the tribal plaintiffs and the provision of up to 9 MW of low cost Authority power for use on the reservation. The legislation required to effectuate the settlement was never enacted and the litigation continued.

In 2013, all claims against the Authority were dismissed and the lawsuit against the Authority was concluded. On May 28, 2014, the State of New York, the St. Regis Mohawk 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, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. In addition, before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims.

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The surviving plaintiff of a case known as Auer I, which resulted in a 1984 order issued by Judge Tenney of the New York State Supreme Court, Oswego County, brought an enforcement action seeking to enforce the 1984 order. The 1984 order related to the manner in which the Authority computes its rates for its preference power customers. By statute, those rates must be as low as possible, which essentially means the Authority must sell the power at its cost. The plaintiff contends that the Authority's rate-making methodology does not adhere to the statutory scheme nor spirit of the Auer I order and subsequent settlement. The plaintiff is seeking monetary damages of an unspecified amount. The plaintiff has also made a motion to add certain other residential customers of certain New York municipal electric systems to the action as additional plaintiffs.

The Authority successfully made a motion to transfer the venue from New York State Supreme Court in Oswego County to the same court in Albany County. The Authority had a motion pending in Albany County to dismiss the action on multiple grounds. Plaintiff then appealed the Oswego Judge's decision to transfer venue to the Appellate Division, Fourth Department. The Authority's motion to dismiss in Albany County was stayed pending the outcome of the appeal. On October 4, 2019, the Appellate Division, Fourth Department issued a decision that dismissed plaintiff's appeal of the change of venue motion and declared that the plaintiff has improperly brought this action which should have been commenced as a plenary action.

On December 2, 2019, the New York State Supreme Court, Albany County, issued an order granting the Authority's motion to dismiss the proceeding. Plaintiff did not appeal that decision. In addition, Plaintiff's motion to the Court of Appeals, seeking permission to further appeal the venue decision, was denied in an order dated February 18, 2020. This litigation has concluded with no financial impact on the Authority's consolidated financial statements.

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. At December 31, 2019 and December 31, 2018, the consolidated statements of net position includes approximately \$19 million and \$18 million, respectively, 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.

Helicopter Incident Near the Authority's Transmission Lines in Beekmantown, New York

The Authority contracted with Northline Utilities, LLC ("Northline") to install fiber optic ground wire along the Authority's transmission system. Thereafter, Northline entered into a contract with Catalyst Aviation, LLC ("Catalyst") for helicopter services. On October 30, 2018, a Catalyst helicopter was destroyed when it collided with a wooden utility pole and power lines near Beekmantown, New York. Members of the helicopter crew were injured, and two members of that crew died as a result of their injuries. The Authority has received two notices of claim arising out of this incident. The Authority has pursued insurance coverage under Northline's insurance policies that name the Authority as an additional insured. The Authority tendered its defense of these Notices of Claim to Northline's insurer and the insurer has accepted the Authority's tender. The Authority believes that there exists sufficient insurance coverage to cover these claims. In any event, to the extent that the insurance coverage limitations are insufficient, Northline is responsible under the defense and indemnification provisions of its contract with the Authority.

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

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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.

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

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

In addition, from time to time, legislation is enacted into New York law that purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that in the case of each such provision, the Authority will be immune from the financial obligations imposed by such provision. Examples of such legislation affecting only the Authority include legislation, discussed below and elsewhere herein, relating to the Authority's voluntary contributions to the State, the Authority's temporary transfer of funds to the State, and contributions and transfers to fund temporary and permanent programs administered by the Authority and other State entities.

Budget

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

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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 11 – "Nuclear Plant Divestiture and Pre-1983 Spent Fuel Obligations"). 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. 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 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.

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 amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. In the Second Amendment to the MOU discussed below, the Authority and the State agreed on a framework for alternative cost recovery agreements for each of State Fiscal Year 2017-18 through State Fiscal Year 2022-23 that the asset transfers have not been fully returned to the Authority that would relieve the Authority of up to \$5 million in cost recovery assessment payments to the State in each year.

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 over State Fiscal Years 2014-2018. The Authority received cumulative installment payments of \$103 million as of December 31, 2018.

The Authority and the State executed a Second Amendment to the MOU, dated as of June 30, 2017, that provides for the return to the Authority of the \$215 million (Asset B) in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) \$22 million for State Fiscal Year 2017-18, (2) \$21 million for State Fiscal Year 2018-19, (3) \$43 million for State Fiscal Year 2019-20, (4) \$43 million for State Fiscal Year 2020-21, (5) \$43 million for State Fiscal Year 2021-22, and (6) \$43 million for State Fiscal Year 2022-23. The obligation of the State to return the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. The Authority has received cumulative installment payments of \$86 million and \$43 million as of December 31, 2019 and 2018, respectively. The asset transfers are reported in miscellaneous receivables and other (\$43 million as of December 31, 2019 and December 31, 2018) and in other noncurrent assets (\$86 million and \$129 million at December 31, 2019 and December 31, 2018, 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, 2019, the balance in the recorded liability associated with the Niagara relicensing on the statement of net position is \$225 million (\$18 million in current and \$207 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. In 2012 and 2017, OPRHP requested that the Authority accelerate such payments by making two lump sum payments of approximately \$25 million each to pay for authorized projects. In order to make the lump sum payments, the Authority issued (a) \$25.2 million in subordinated notes in 2012 and (b) \$25.2 million in subordinated notes in 2017. The proceeds of those subordinated note issuances were made 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*

The St. Lawrence-FDR Power Project No. 2000 Relicensing Agreement ("LGTFSA") between the Authority and the Local Government Task Force ("LGTF") provides for a review of the LGTFSA every ten years to discuss issues not contemplated at the time of relicensing in 2003. The first such review commenced in December 2013. The Authority and the LGTF entered into an agreement effective May 4, 2015 in which the Authority agreed to commit up to \$45.1 million over 10 years for certain actions, including to: (1) fund an economic development strategic marketing study (the "Marketing Study"); (2) temporarily reduce electricity costs for certain farms and businesses (the "Discount Program"); (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities.

In July 2016, the Authority's Trustees approved a proposal to terminate the Discount Program early and repurpose funding to be used to support a collaborative marketing effort between the Authority and North Country communities through the St. Lawrence County Economic Development Study Advisory Board created in connection with the Marketing Study at the rate of \$2 million/year for five years (\$10 million total) commencing in 2017.

In July 2017, the Authority's Trustees approved: (1) a new temporary business incentive program consisting of a monetary discount or rebate that would be payable to eligible private business applicants who agree to

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establish new business operations in certain North Country counties (“Business Incentive Discount Program”); and (2) the repurposing of funds previously approved for the marketing effort to include funding for the Business Incentive Discount Program. Funding repurposed for the marketing effort, including the Business Incentive Discount Program, would not exceed a total of \$10 million.

As of December 31, 2019, the Authority has spent approximately \$27 million of the \$45.1 million authorized by the Trustees.

(h) *Relicensing of Blenheim-Gilboa Pumped Storage Power Project*

On April 30, 2019, the Federal Energy Regulatory Commission issued a new 50-year operating license, effective May 1, 2019, to the Power Authority for the Blenheim-Gilboa Pumped Storage Power Project. In May 2019, the Power Authority’s Trustees accepted the new license and approved the settlement package with state and federal resource agencies, the towns of Gilboa and Blenheim, and Schoharie County. The Trustees also authorized \$37.1 million in capital expenditures for the period 2019-2069 for all compliance, implementation and settlement activities. Through December 31, 2019, the Authority has spent approximately \$1.2 million, as well as established a Recreation Fund of \$6 million and an Ecological Fund of \$3.5 million. As of December 31, 2019, the recorded a liability of the Blenheim-Gilboa Pumped Storage Power Project relicensing is approximately \$21 million.

(i) *Regional Greenhouse Gas Initiative, Clean Power Plant Rule, Proposed Affordable Clean Energy Rule 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 reduce carbon dioxide emission levels. Participating states have established a regional carbon dioxide emissions cap from the power sector (fossil fuel-fired power plants 25MW or greater). The emissions cap reduces by 2.5% annually until 2020. 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 to acquire carbon dioxide allowances, which the Authority requires to cover operation of its fossil-fueled power plants and the Astoria Energy II plant and expects to recover RGGI costs through its power sales revenues. 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 60.3 million tons in 2018 and will decline by 2.5% each year through 2020. On December 19, 2017, the RGGI states released an updated Model Rule that includes an additional 30% regional cap reduction between 2020 and 2030. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

On June 19, 2019, the United States Environmental Protection Agency (EPA) released its final Affordable Clean Energy (ACE) rule. This rule replaces the Clean Power Plan (“CPP”) rule. The ACE rule established guidelines for states, including New York, to use for carbon dioxide emissions from coal-fired plants and other regulations for implementation of the Clean Air Act Section 111 (d) for existing power plants. Previously, the CPP Rule was stayed by the U.S. Supreme Court on February 9, 2016 pending disposition of petitions for review before the U.S. Court of Appeals for the District of Columbia Circuit. Thereafter, the D.C. Circuit Court granted EPA’s motion to suspend cases challenging the CPP Rule, which the EPA has now rescinded and replaced, and is likely moot pending the D.C. Circuit Court formally ending the litigation. On August 13, 2019, twenty-two states, including New York, and seven local governments filed a petition with the U.S. Court of Appeals for the D.C. Circuit challenging the ACE rule (on August 14, 2019, a coalition of health and environmental groups followed suit by filing a petition challenging ACE). With regard to greenhouse gas emissions in New York, on July 18, 2019, Governor Andrew Cuomo signed the New York

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State Climate Leadership and Community Protection Act that sets a goal of net-zero carbon emissions for the entire state, not limited to the energy sector, by 2050 (85% reduction of greenhouse gas emissions from 1990 levels and implement measures to offset the remaining 15%), with a requirement for 70% of the state's electricity to be from renewable sources by 2030 (see discussion in "New Legislation Affecting the Authority"). 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"), which was updated in 2016. 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. In July 2018, a proposed determination published by the EPA found that the 2016 CSAPR Update to the National Ambient Air Quality Standards ("NAAQS") was sufficient to address the good neighbor provisions of the Clean Air Act, and that no further rulemaking is required to address out-of-state emissions as additional upwind reductions are not required to meet the 2008 ozone NAAQS. The U.S. Court of Appeals for the D.C. Circuit has not yet decided the legality of the CSAPR 2016 update (oral arguments were heard by the Court in October 2018). 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.

(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 \$1.1 billion at December 31, 2019.

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, 2019 and 2018 was \$5.6 million and \$3.2 million, respectively. Commitments under noncancelable operating leases are as follows:

	<u>Total</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>
	(In millions)						
Operating leases	\$ <u>9.0</u>	<u>1.9</u>	<u>1.7</u>	<u>1.6</u>	<u>1.4</u>	<u>1.0</u>	<u>1.4</u>

(k) Other Developments

Marcy to New Scotland Upgrade Project

On August 1, 2014, the Public Policy Transmission Planning Process administered by the NYISO invited solicitations of new transmission lines to relieve the congested Central East and UPNY/SENY transmission interfaces. In March 2016, the Authority executed a Memorandum of Understanding ("MOU") with North America Transmission ("NAT") to develop and submit proposals to the solicitation. The MOU provided that, if any of the Authority/NAT proposals are accepted, the Authority, at its sole discretion, may elect to purchase an ownership share in the project(s) or operate and maintain the project(s). In December 2016, the Authority's Trustees' approved funding in the amount of approximately \$1 million for the Authority's share of expenses pursuant to the MOU.

In June 2018, the Authority and NAT entered into a Participation Agreement that supersedes the MOU, which granted the Authority the option to secure an ownership interest of up to 37.5% in the jointly proposed projects. In April 2019, the NYISO board selected the project proposed by LS Power Grid New York, LLC (formerly known as NAT) and the Authority for Segment A (also known as the Marcy to New Scotland Upgrade Project) to increase transfer capability from central to eastern New York.

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The NYISO estimated the total cost of the Segment A project to be about \$750 million (in 2018 dollars, including 30 percent contingency). In August 2019, LS Power and the Authority submitted an Article VII application to the PSC and the Authority filed an incentive to FERC under Order 679. If the PSC authorizes the project, construction of the project would begin, which is targeted for late 2020. Ultimately, the transmission lines to be rebuilt as part of the Segment A project are expected to be energized as part of the New York electrical system by the end of 2023.

In May 2019, the Authority's Trustees approved capital expenditures of approximately \$28 million for the Segment A project. In December 2019, the Authority's Trustees approved a capital commitment of \$275 million for the Segment A project as part of the 2020-2023 Budget and Financial Plan. As of December 31, 2019, the Authority has spent approximately \$4.6 million. In consideration of maintaining the purchase option under the Participation Agreement, the Authority will fund 33% of the Segment A project development costs until such time as the Authority decides to exercise its 37.5% purchase option.

The Development Agreement was approved by the Authority's Trustees in January 2020 and the executed agreement was filed at FERC on March 4, 2020. The Authority expects its costs with respect to the development of the Segment A project to be recovered through FERC's cost-recovery mechanisms.

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 low-cost financing for this initiative for state owned buildings and an additional \$350 million for towns and municipalities. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. In addition, as provided for in EO 88, 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. As of December 31, 2019, the Authority has in aggregate provided approximately \$651 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Clean Energy Standard

On August 1, 2016, the 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 has assumed an obligation to purchase ZECs consistent with the terms of the CES Order 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 and NYSERDA executed an agreement covering a two year period from April 1, 2017 to March 31, 2019 under which the Authority committed to purchase ZECs in a quantity based on its proportional load in the New York control area. As of March 2020, the Authority estimates that it will incur ZEC purchase costs associated with participation in the ZEC program of approximately \$289.7 million in aggregate over the 2020-2023 period, of which approximately \$31.2 million is not expected to be recovered under customer contracts that predate the adoption of the CES Order. As of December 31, 2019, the Authority has paid \$150.1 million in ZEC purchase costs.

AGILE

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The Authority, in collaboration with the State utilities, NYSERDA and NYISO, has developed an advanced grid innovation lab for energy (“AGILE”) to create new tools to better monitor, control, accommodate and respond to the evolving energy sector. Costs to the Authority are estimated at \$20 million over the initial three year period and are not expected to exceed \$50 million through final build-out of the facility. Upon completion, operating and maintenance costs are expected to be shared among AGILE participants. On July 25, 2017, the Authority’s Trustees authorized capital expenditures in the amount of \$20 million for the initial phase of AGILE, which has since commenced. As of December 31, 2019, approximately \$4.7 million has been spent.

Moses Adirondack Line

The Authority is moving forward with its plans to update a major section of the Moses Adirondack Line, one of the Authority’s backbone transmission facilities. The project covers 78 miles of 230 kV transmission line from Massena to the Town of Croghan in Lewis County. In July 2017, the Authority received authorization under the NYISO tariff to include the costs of this project in its NYPA Transmission Adjustment Charge mechanism for cost recovery of the Authority’s transmission system costs, which means that the costs will be allocated to all ratepayers in the State. The project includes the update of obsolete wood pole structures with higher, steel pole structures, as well as update of failing conductor with new conductor and insulation. The line will operate at its current 230 kV level, but the conductor and insulation design will accommodate future 345 kV operation. The Authority anticipates that the Moses Adirondack line will support the transmission of growing levels of renewable generation located in upstate New York and Canada, such as wind and hydroelectricity, and assist in meeting the State’s renewable energy goals. The rebuilt line is also expected to enhance grid reliability by supporting the NYISO’s black start plan. On September 21, 2018, the Public Service Commission (PSC) determined that the Authority’s April 2018 Article VII application was complete. The PSC granted the Certificate of Compatibility and Public Need for the project on November 14, 2019, approving the Joint Proposal. On February 6, 2020, the PSC issued an order approving Part One of the Environmental Management and Construction Plan. Additionally, the Authority has received its Nationwide Permit from the U.S. Army Corps of Engineers and the New York State Department of Public Service has issued a Notice to Proceed. It is anticipated that construction will begin in 2020. The Authority estimates a project cost of \$484 million through project completion in 2023.

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 commenced in 2018 and is expected to take approximately three years to complete with funding to be provided by the Authority. As of December 31, 2019, the Authority has approved up to \$46.3 million in funding by the Authority. As of December 31, 2019, the Authority has disbursed approximately \$25.4 million.

Electric Vehicle Acceleration Initiative

In May 2018, the Authority’s Trustees approved an overall allocation of up to \$250 million to be used through 2025 for an electric vehicle acceleration initiative and authorized \$40 million for the first phase of the initiative.

Large-Scale Renewable Program

In support of the Clean Energy Standard goal for the State to achieve 50% renewable energy by 2030, the Authority issued a request for proposals in June 2017 to solicit renewable energy credits, energy and capacity from eligible large-scale renewable projects with a minimum size of 5MW, 10MW or 20MW, depending on the underlying technology. In February 2019, the Authority executed a 20-year power purchase agreement

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with Canisteo Wind Energy LLC for energy, capacity and renewable energy credits to be generated from a to-be-constructed 290 MW wind project. The agreement requires the project to be in-service by December 31, 2020, subject to limited extensions. The Authority intends to seek recovery of costs associated with the agreement through sales of energy and capacity through the NYISO and sales of RECs to the Authority's customers.

(14) Canal Corporation

The Canal Transfer Legislation enacted April 4, 2016, authorized, 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.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. The Canal Corporation's 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. Certain expenses eligible for reimbursement are expected to be reimbursed to the Authority by moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance. For the year ended December 31, 2019, the Canal Corporation recognized \$2 million in revenues, \$86 million in operations and maintenance expenses and \$25 million in depreciation expense. For the year ended December 31, 2018, the Canal Corporation recognized \$2 million in revenues, \$101 million in operations and maintenance expenses and \$23 million in depreciation expense.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of Changes in the New York Power Authority's Net OPEB Liability and Related Ratios

(\$ in millions, expect percentages)

	2019	2018
<u>Total OPEB liability</u>		
Service cost	\$ 15	\$ 13
Interest	40	37
Change of benefit terms	—	—
Differences between expected and actual experience	—	—
Change of assumptions	—	—
Benefit payments	(25)	(25)
Net change in total OPEB liability	30	25
Total OPEB liability - beginning	560	535
Total OPEB liability – ending	\$ 590	\$ 560
<u>Plan fiduciary net position</u>		
Contributions – employer	25	25
Net investment income	123	(36)
Benefit payments	(25)	(25)
Administrative expense	(2)	(2)
Net change in plan fiduciary net position	121	(38)
Plan fiduciary net position – beginning	565	603
Plan fiduciary net position - ending	\$ 686	\$ 565
Net OPEB liability / (asset) - ending	\$ (96)	\$ (5)
Plan fiduciary net position as a percentage of the total OPEB liability	116%	101%
Covered-employee payroll	\$ 188	\$ 182
Total OPEB liability as a percentage of covered-employee payroll	314%	307%
Net OPEB liability / (asset) as a percentage of covered-employee payroll	(51)%	(3)%

Notes to schedule:

The amounts presented for 2019 were determined based on a no gain loss roll-forward of the Power Authority OPEB Plan's December 31, 2017 biennial actuarial valuation.

This schedule is intended to present 10 years of data. Additional years will be presented prospectively.

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of the New York Power Authority's OPEB Contributions

(\$ in millions, except percentages)

<u>Year Ending December 31,</u>	<u>(a) Contractually / Actuarially determined contribution</u>	<u>(b) Contributions made</u>	<u>Contribution deficiency / (excess)</u>	<u>(c) Covered employee payroll</u>	<u>Contributions as a percent of covered employee payroll column (b ÷ c)</u>
2019	\$ 25	\$ 25	\$ –	\$ 188	13%
2018	25	25	–	177	14%
2017	40	22	18	166	13%
2016	39	24	15	161	15%
2015	38	38	–	149	25%
2014	33	39	(1)	145	27%
2013	41	42	(1)	147	29%
2012	41	41	–	143	29%
2011	35	60	(25)	144	42%
2010	32	17	15	140	12%

Notes to schedule:

Contributions: The Power Authority made contributions on a pay as you go basis in 2019 and 2018 and did not contribute any amount beyond the contractually / actuarially required amounts.

Valuation date: 12/31/2017

Methods and assumptions used to determine contributions:

Actuarial cost method: Entry Age Normal, Level Percent of Salary

Amortization period: Five-year period for differences between the expected earnings on plan investments and actual returns. Differences in assumptions and experience are recognized over the average remaining service lives of all employees that are provided with benefits through the plan.

Asset Valuation: Market Value.

Per Capita Claims: Developed using 2018 projected funding rates using NYPA claims experience from January 1, 2016 through July 1, 2017.

Salary increases: Varies by service, average of 4.5 percent for 1-5 years of service, 3.8 percent for 6-10 years of service, 3.3 percent for 11-15 years of service, and 3.0 percent for 20 years or more of service.

General inflation: Consumer Price Index 2.5%

Participation rates: Assumed 100% of future retirees who meet the eligibility requirements will participate in the OPEB plan.

Discount rate: 7.0%

Mortality: Gender distinct pre- and post-commencement rates based on experience under the New York State Local Retirement System. Base rates reflect a 2014 base year, and the MP-2017 Projection Scale is applied to the base rates.

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of Investment Returns for the New York Power Authority OPEB Trust

Schedule of Investment Returns

<u>Year Ending December 31,</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2019	21.42%
2018	(6.30)%
2017	16.70%
2016	7.00%
2015	0.41%
2014	3.99%
2013	20.41%
2012	12.57%
2011	1.43%
2010	9.85%

Note:

This schedule is intended to present 10 years of data.

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of Changes in the Canal Corporation's Total OPEB Liability and Related Ratios

(\$ in millions, except percentages)

	2019	2018
<u>Total OPEB liability</u>		
Service cost	\$ 9	\$ 7
Interest	7	8
Change of benefit terms	—	—
Differences between expected and actual experience	—	—
Change of assumptions	(18)	20
Benefit payments	(6)	(6)
Net change in total OPEB liability	(8)	29
Total OPEB liability - beginning	234	205
Total OPEB liability – ending	\$ 226	\$ 234
Total OPEB liability - ending	\$ 226	\$ 234
Covered-employee payroll	\$ 25	\$ 24
Total OPEB liability as a percentage of covered-employee payroll	904%	975%

Notes to Schedule:

Changes of assumptions: Changes of assumptions reflect the effect of changes in the S&P Municipal Bond 20 Year High Grade Rate index. The discount rate, based on this index, changed from 3.16% at December 31, 2017 to 3.64% at December 31, 2018.

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedules Relating to the Employees' Retirement System Pension Plan

(\$ in millions, except percentages)

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>
2019	0.76%	\$ 53	\$214	25.0%	96.3%
2018	0.72	23	205	11.3	98.2
2017	0.72	67	193	35.0	94.7
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>
2019	29	29	—	214	14%
2018	28	28	—	205	14
2017	28	28	—	193	14
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



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*

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

We have audited, in accordance with the 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, the consolidated financial statements of the business-type activities and fiduciary funds of the Power Authority of the State of New York, (the Authority) and its blended component unit, as of December 31, 2019 and 2018, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents, and have issued our report thereon dated **March 27, 2020**.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, 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 opinions on the consolidated 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 consolidated 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 consolidated 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 under *Government Auditing Standards*.

Purpose of this Report

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

 (signed) KPMG LLP

New York, New York

March 27, 2020



New York Power Authority

Audit results

Consolidated financial statements for the year ended December 31, 2019

March 26, 2020

Prepared – March 17, 2020

Introduction

To the Audit Committee of New York Power Authority

We are pleased to have the opportunity to meet with you on March 26, 2020 to discuss the results of our audit of the consolidated financial statements of New York Power Authority (the Authority) as of and for the year ended December 31, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated November 22, 2019.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This document should be read in conjunction with our audit plan, presented on December 11, 2019. We will be pleased to elaborate on the matters covered in this document when we meet.

Our audit is substantially complete. Subject to the Board's approval, we expect to be in a position to complete our audit of the Authority's consolidated financial statements on or near March 27, 2020.

Content

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Significant audit areas and our audit response	9

Audit results required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the consolidated financial statements of the New York Power Authority (the Authority) as of December 31, 2019 and for the two-year period ended December 31, 2019, was performed 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 of the United States.
Other deliverables	Other planned audit deliverables include: <ul style="list-style-type: none"> - Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards - Report on Investment Compliance
Outstanding matters	Outstanding matters as of March 26, 2020 <ul style="list-style-type: none"> - Management representation letter - Finalize audit report and sign opinion
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Financial presentation and disclosure omissions	No matters to report.
Control deficiencies	No matters to report.
Auditors' report	We expect to issue an unmodified opinion on the consolidated financial statements of the New York Power Authority. No other findings were identified in connection with the other reports to be issued.
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on December 11, 2019.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Significant accounting policies	<p>Significant accounting policies and practices are discussed within note 2 of New York Power Authority's consolidated financial statements.</p> <p>We have reviewed the accounting policies utilized by management in preparation of the consolidated financial statements and found such policies to be appropriate.</p>
New Accounting Pronouncements	<p>The following new accounting pronouncements were adopted by the Authority in 2019.</p> <ul style="list-style-type: none"> - GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements
Significant accounting estimates	No matters to report.
Significant financial statement disclosures	No matters to report.
Significant risks and other significant audit matters	<p>Significant risks and other significant audit matters relate to</p> <ul style="list-style-type: none"> - Fraud risk related to management override of controls <ul style="list-style-type: none"> - This risk is present in all entities - Refer to slides 8 – 12 for further detail and our response.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Related parties	We performed an evaluation of the Authority's identification of, accounting for, and disclosure of its relationships and transactions with related parties. As a result of such procedures we have no matters to report.
Other information in documents containing audited financial statements	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the consolidated financial statements. As a result of our consideration of the other information, no material inconsistencies or material misstatements of facts were identified related to other information.
Conduit Financing	We have been in discussions with management regarding the accounting impact for potential Conduit Financing transactions.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Going concern	No matters to report.
Non-GAAP	No significant matters to report.
Subsequent events	No matters to report.
Other findings or issues	No matters to report.

Communication topic	Response
Significant difficulties encountered during the audit	No matters to report.
Disagreements with management	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Material written communications	Engagement letter, management representation letter.

Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the consolidated financial statements.
- Our audit included consideration of internal control over financial reporting 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 internal control.
- We are not expressing an opinion on the effectiveness of internal control.
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

No significant deficiencies or material weaknesses were identified during our audit.

Significant risks and other significant audit matters

Our audit response and findings

Significant risks	Our audit response and findings
<p>Management override of controls</p>	<p>Internal controls</p> <ul style="list-style-type: none"> - Assessed management's design and implementation of controls and the operating effectiveness of those controls over manual journal entries (during the year and at the end of the reporting period) and post-closing adjustments <p>Substantive procedures</p> <ul style="list-style-type: none"> - Examined journal entries and other adjustments - Reviewed accounting estimates for bias - Evaluated the business purpose for any significant unusual transactions that may have occurred throughout the year - The engagement team considered the risk of management override of controls related to revenue and the Authority's revenue process is routine and not complex. Additionally, the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue. <p>Our findings</p> <ul style="list-style-type: none"> - The engagement team determined that there are no matters to report related to the internal controls over management override as of December 31, 2019. - The engagement team did not identify instances of fraud as a result of our substantive procedures.

Significant risks and other significant audit matters (continued)

Our audit response and findings

Significant audit areas	Our audit response and findings
Revenue Recognition	<p>Substantive Procedures</p> <ul style="list-style-type: none"> - Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2019 - Detail tested SENY/Wholesale revenue by agreeing recorded amounts to invoices and cash receipts - Agreed SENY/Wholesale billed rates to the approved tariffs - Performed volume reconciliations for delivery to customers during 2019 - Confirmed and detailed tested revenue with the NYISO throughout the year - Detail tested wheeling charges <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to revenue recognition as of December 31, 2019.</p>
Long term debt	<p>Substantive Procedures</p> <ul style="list-style-type: none"> - Confirmed outstanding long term debt obligations and short term borrowing program with third parties - Recalculated interest expense throughout the year - Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2019 <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to long term debt as of December 31, 2019.</p>
Investments	<p>Substantive Procedures</p> <ul style="list-style-type: none"> - Tested the fair market value of the complete portfolio of investments utilizing the KPMG National Pricing Deck - Reviewed a sample of investments for compliance with Board approved policies - Confirmed investment balances with the respective banks at December 31, 2019 - Review of consolidated financial statements for completeness and accuracy of trust assets and obligations <p>Our findings</p> <p>The engagement team determined that there are no matters to report related to investments as of December 31, 2019.</p>

Significant risks and other significant audit matters (continued)

Our audit response and findings

Significant audit areas	Our audit response and findings
Capital Assets	<p>Substantive Procedures</p> <ul style="list-style-type: none"> - Performed a rollforward of Construction Work in Process (CWIP) and Plant-in-Service (EPIS) from December 31, 2018 to December 31, 2019 - Tested the additions to CWIP and the additions and retirements to EPIS - Performed substantive analytical procedures to determine appropriate depreciation expense during the period - Ensured proper classification as capital or operating lease - Tested amounts determined to be capitalized - Ensured proper impairment disclosure within the financial <p>Our findings The engagement team determined that there are no matters to report related to Capital Assets as of December 31, 2019.</p>
Other post-employment benefits other than pensions (OPEB)	<p>Substantive Procedures</p> <ul style="list-style-type: none"> - Confirmed with actuarial specialists utilized by NYPA (Buck Consultants) and determined the appropriate liability amount - 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, 2019. <p>Our findings The engagement team determined that there are no matters to report related to OPEB as of December 31, 2019.</p>



Questions?

For additional information and Audit Committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

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**NY Power
Authority**

**Canal
Corporation**

Audit Committee

Internal Audit Update – NYPA and Canals

3/26/2020

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Executive Summary







- Internal Audit Scorecard
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- CAE Required Communications to the Audit Committee





Appendix

- Appendix A – 2020 Internal Audit Plan
- Appendix B – Changes to 2020 Internal Audit Plan
- Appendix C – Metrics Definitions

Executive Summary

Internal Audit Scorecard

Operational Excellence	*Metric	Progress		Bench- mark	Internal Target	Status
		2018	2019			
	Internal Audit Performance					
	Audit Plan Percentage Complete	100%	100%	88%		
	Audit Deliverables with Opinions	66% (35/53)	62% (31/50)	N/A	50% Opinions Issued	
	Fieldwork to Report Issuance (weeks)	4.0	3.1	5.1		
	Audit Utilization Rate	Not available	65% (1)	75%		
	IA Average Project Cycle Time (weeks - Excludes ongoing projects)	12	12	12		
	Audit Standards					
	External Quality Assessment Remediation Status	Ongoing		N/A		

Value and Impact	*Metric	Observations by Year Identified		Bench- mark	Internal Target	Status
		2018	2019			
	% of High-Risk Observations Identified	14% (14/102)	12% (11/90)	N/A	Information Purposes	
	% of High-Risk Observations Implemented	100% (14/14)	89% (2) (8/9)	N/A	100% for each year	
	% of All Observations Implemented by Original Action Plan Due Date	85% (87/102)	80% (2) (56/70)	91%	See Note (3)	
	% of Observations Extended	15% (15/102)	20% (14/68)	9%	See Note (3)	
	% of Observations Extended and Implemented	67% (10/15)	100% (2) (10/10)	N/A	100% for each year	

Key

Achieved or Exceeded Benchmark/On Track



Benchmark/Initiative Achievement at Risk



Benchmark/Initiative Not Achieved



N/A - Benchmark Not Available

Note:

(1) Lower than benchmark due to 34% of hours charged to IA reinvestment for workstreams/activities (GRC, Data Analytics, QAIP) and internal administration.

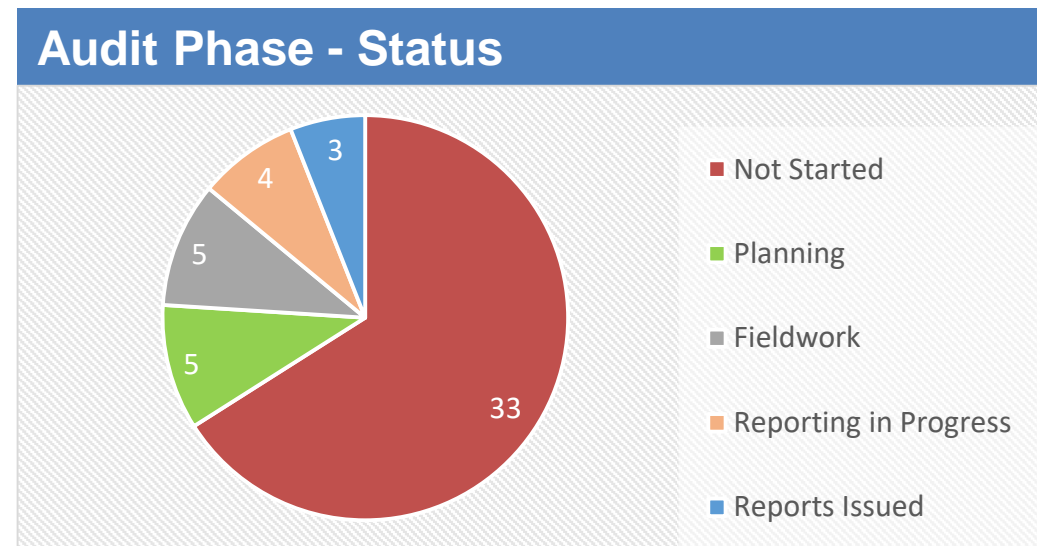
(2) Includes only observations that had an original due date prior to 3/13/20.

(3) Observations are open/extended due to new technology implementations, limited resources, org changes, process restructuring.

***See Appendix C for Metric Definitions**

2020 Audit Plan Status

- 2020 Plan Status*:
 - 50 audits are included in the NYPA and Canals Audit Plan.
 - Three audit reports have been issued to date. Four audits have moved to the reporting stage and are expected to be issued by the end of Q1.
 - Five audits are in fieldwork and are expected to be issued by the end of Q1 or mid-April. Planning for five Q2 audits has begun.



NOTE: * See Appendix A for details

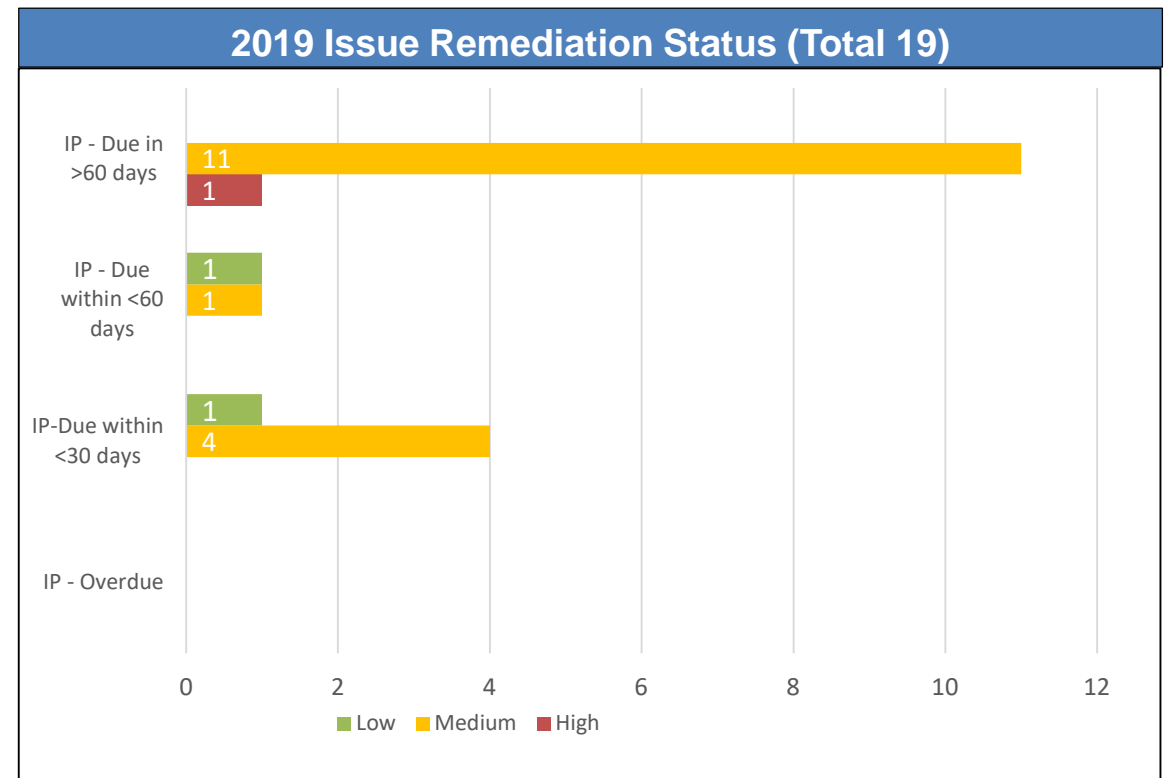
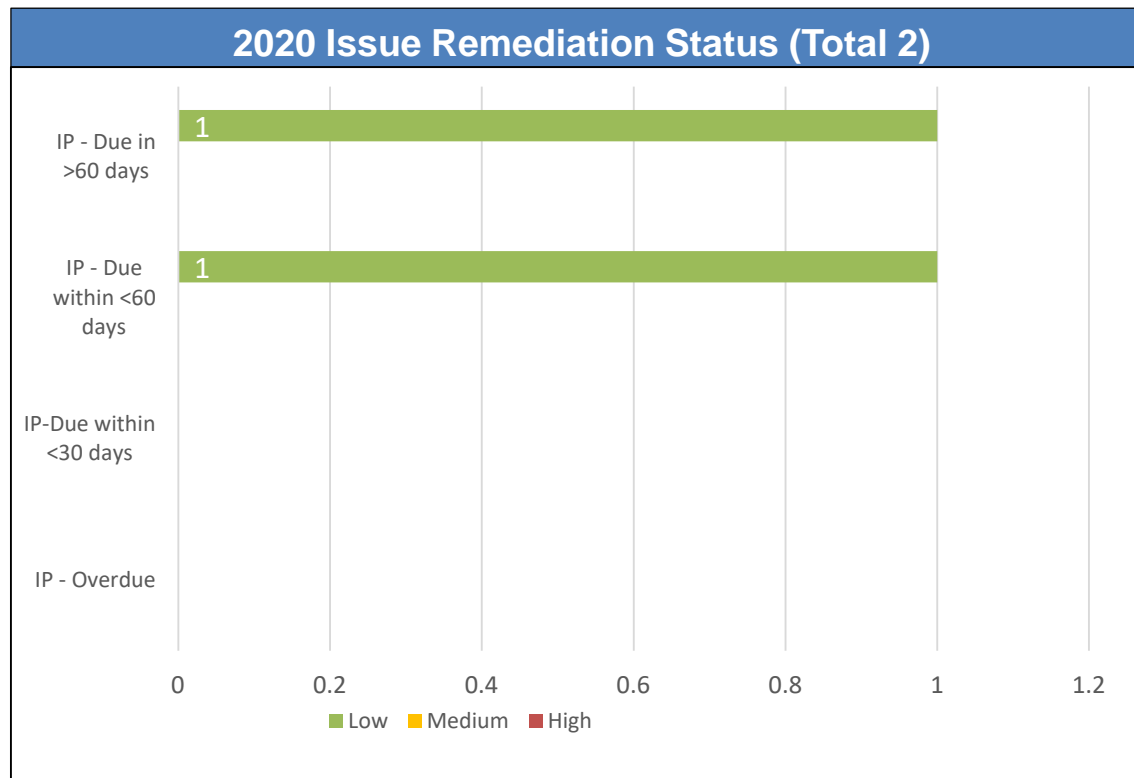
Changes to 2020 Internal Audit Plan

- Operational, Strategic, Compliance, Finance and IT audits are continuously evaluated for emerging risks through participation in work streams, committees and discussions with leadership. There have been no project additions, deletions or combinations to the 2020 Internal Audit Plan to-date.

2020 Audit Status	3/17/20
Open 2020 Internal Audit Plan	50
Audits Added to 2020 Internal Audit Plan NYPA: None Canals: None	0
Audits Removed from 2020 Internal Audit Plan NYPA: None Canals: None	0
➤ Total 2020 Audits	50

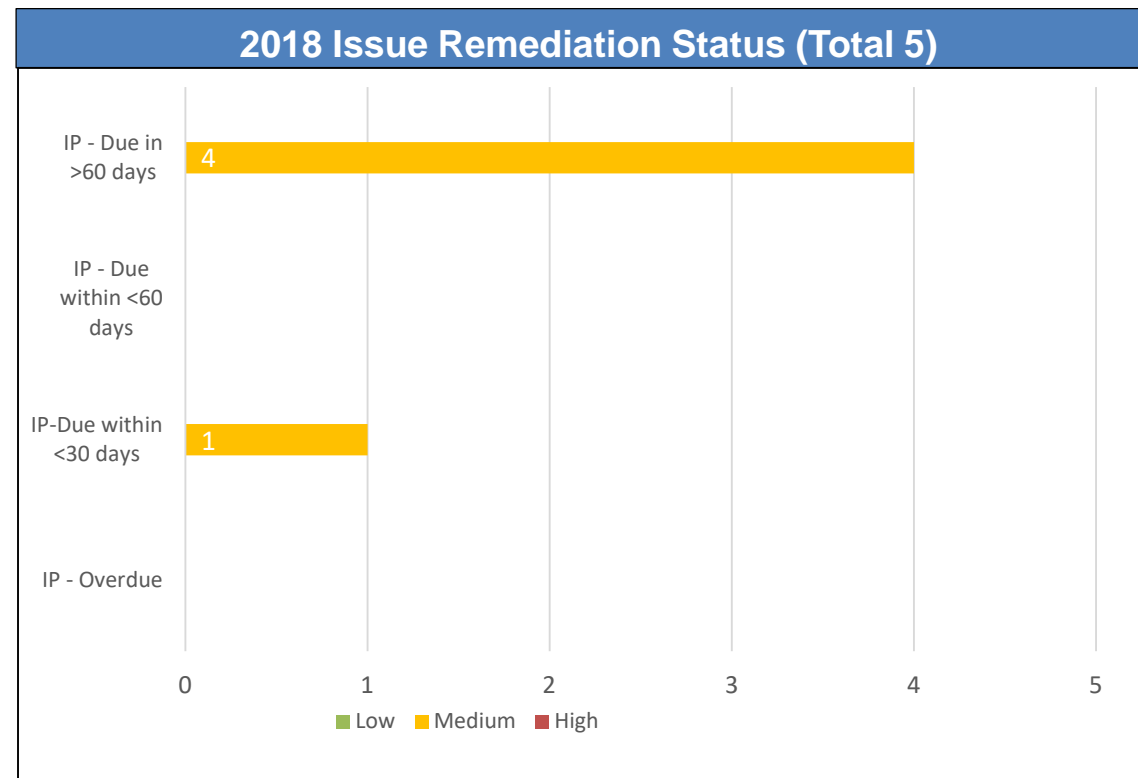
Internal Audit Remediation Status – NYPA

- As of March 17, 2020, two 2020 and 19 2019 recommendations remained open for NYPA.
- Internal Audit continues to assist management by providing monthly reporting to the EMC on open recommendation status and is monitoring remediation efforts for 2018-2019 issues, with the priority on High-risk issues.



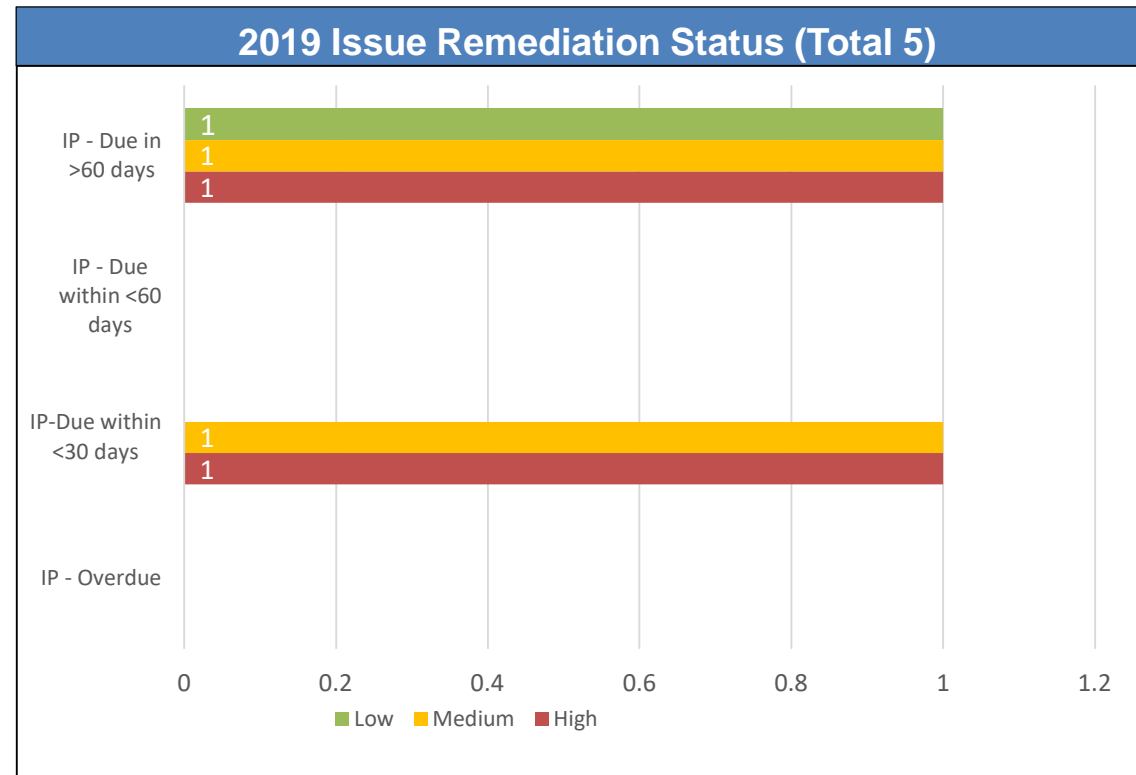
Internal Audit Remediation Status – NYPA

- As of March 17, 2020, five 2018 recommendations remained open for NYPA. Closure of the medium-rated 2018 open recommendations are on track to close by their 2020 due dates. See slide 11 for details.



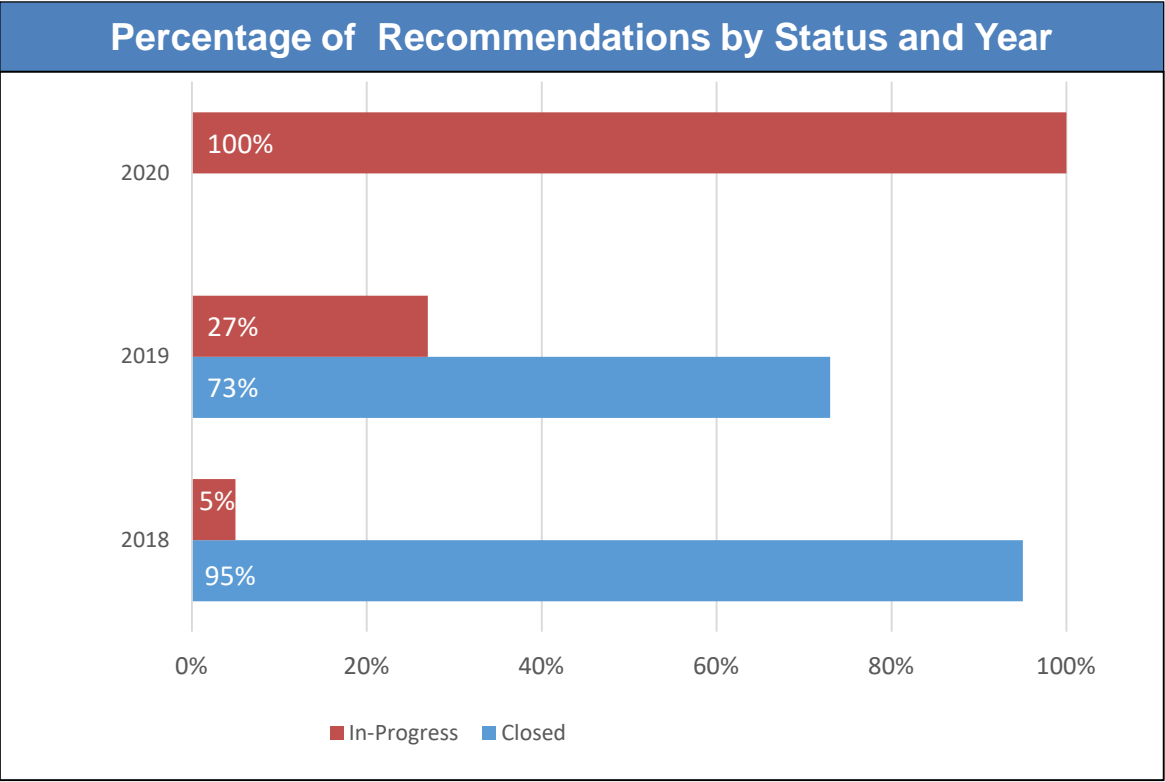
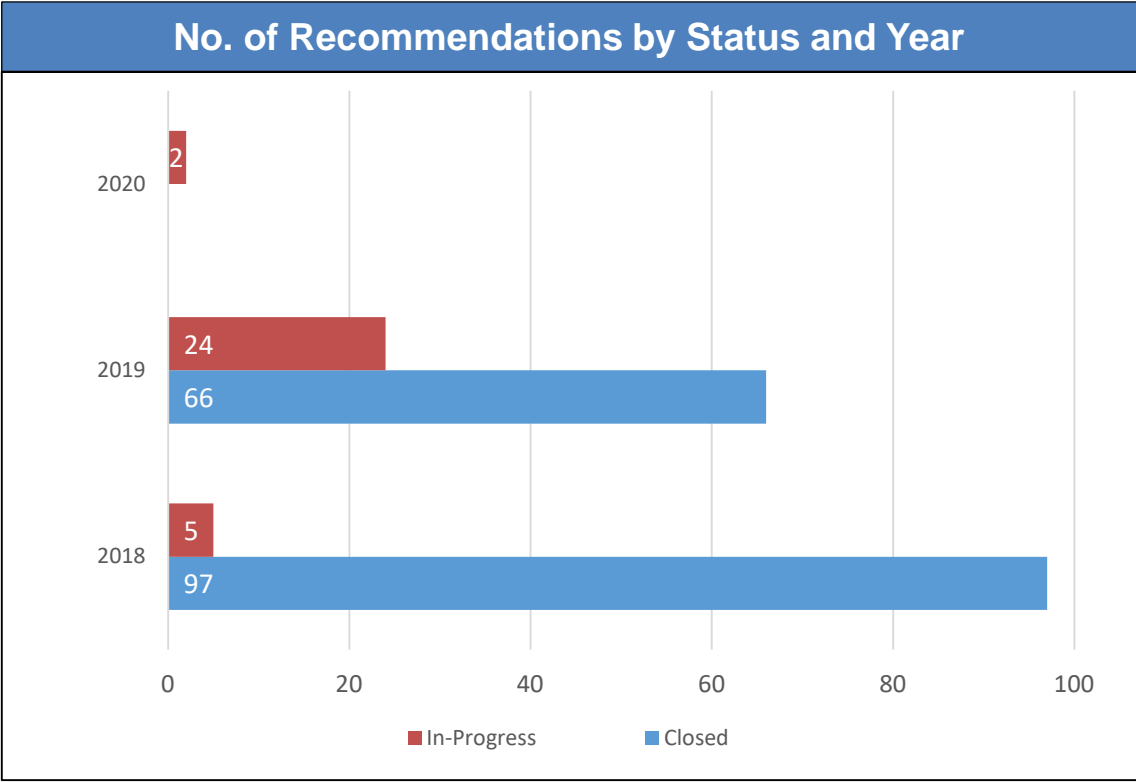
Internal Audit Remediation Status – Canals

- As of March 17, 2020, five 2019 recommendations remain open for Canals. There are no open 2018 recommendations for Canals.



Internal Audit Remediation Status

➤ Below is the number and percentage of NYPA and Canals open and closed recommendations by year 2018-2020:



Status of Audit Recommendations – 2018

2018 Open Recommendations - NYPA	Remediation Status
Treasury Operations (one recommendation)	<p>Procedures to address specific Treasury processes are in progress. Internal Audit review for some of these processes are underway. On track for closure by extended due date.</p> <p>Due Date: 3/31/2020</p>
Fleet Management Operations (four recommendations)	<ol style="list-style-type: none"> 1. Remediation ties to the Maximo transportation module transition. Working to align fleet assets with the strategy used to define all other NYPA assets per asset management guidelines. On track to be addressed by the extended due date. Due Date: 12/1/2020 2. Inventory inspections were completed at all sites including Niagara. Compiling evidence to support completion at each site is in progress for Internal Audit's review. On track to be addressed by the extended due date. Due Date: 5/1/2020 3. Completion of Maximo transportation module transition for fleet maintenance practices in progress and working on recruiting a Fleet Supervisor. On track to be addressed by the extended due date. Due Date: 12/31/2020 4. Full remediation for fleet management reporting will take place upon the Maximo transportation module migration in 2020. On track to be addressed by the extended due date. Due Date: 9/1/2020

Internal Audit Transformation Highlights

BRANDING

- Development of video clip with key stakeholders is in progress.
- Held first site visit to Syracuse for the Canals staff meeting on March 5, 2020 to communicate an overview of the Internal Audit function and its brand.
- Site visits to St. Lawrence, Blenheim-Gilboa, Niagara, CEC and SENY are on hold due to travel restrictions.

DELIVERY

Agile Project Methodology

- Audit plan is 72% (36 audit projects) using the Agile methodology. The remaining 28% (14 projects) will use the Traditional methodology since these projects comprise of ongoing system implementations, one advisory engagement and six Canals audit projects.
- As part of the Agile process maturity, applied Agile process to managing the audit project portfolio, in addition to application at the project level.
- Managers have been trained as Agile Coaches; Senior Auditors are filling in as Scrum Masters and managing audits on their own.

Internal Audit Transformation Highlights – cont'd

GRC Automation

- Audit Engagement functionality underwent enhancements and is in production. The Audit Universe, Audit Plan, and Observations Management modules went into production on March 4, 2020. All Q2 audits will be executed in the GRC Audit System and observations from 2015 – Q1 2020 will be uploaded.
- Configuration for timekeeping and design for reporting is underway. Targeting production for these items by mid-April.

Data Analytics

- To date, 31 out of 50 (62%) of 2020 audit projects have been identified where data analytics could be applied. Eight out of 14 (57%) of Q1 projects have applied data analytics to date.
- Internal Audit is pursuing a new data analytics tool. The Data Analytics team held a design requirements session with audit staff to develop requirements for selected vendors to demonstrate using their tools. Five vendors have been selected; three demos are scheduled within the next few weeks. Scheduling for the remaining two vendors is underway.
- Conducted a data analytics skill survey to determine the current staff skill level and training needs. The results of survey showed:
 - 20% increase in the use of Tableau from 2018.
 - 40% increase using Excel intermediate level proficiency.
 - 43% increase in the use of data visualization and scripting tools to evaluate controls.
- The Data Analytics team is facilitating lunch and learns to further enhance staff Tableau skills.

Internal Audit Transformation Highlights – cont'd

Quality Assurance Improvement Program

- The QAIP team continues to work through the remediation of recommendations from the 2019 external quality assessment. To date, we have achieved 68% completion and are tracking to complete all items by year-end. See slide 15 for the standards where remediation items were cited.
- One of the recommendation items was to add language to Internal Audit's reports that states we are in conformance with IIA standards and the report is proprietary and confidential. This has been completed.
- Another recommendation item was to incorporate the "Required Communications to the Audit Committee" list. This list states specific standards required of the CAE to communicate with the Audit Committee as per IIA Standard 1000 and 2060. See slide 16 for details.
- Revision of Internal Audit report format is underway.

TALENT (STAFF EXCELLENCE)

- Specific training geared to the electric utility industry is scheduled for April to enhance staff knowledge of the industry. This training will be delivered virtually.
- Staff have met with their Directors to update their individual development plans to discuss training and areas for development.
- Several staff continue to pursue various certifications such as the CIA, CPA and CISA or advanced degrees.

2019 External Quality Assurance Assessment Remediation Status

IIA Standard #	Standard Description	GAP/ Improvement Opportunity	GAP OR Improvement Opportunity Description	Status
1311	Internal Assessments	GAP	Conduct an Internal Quality Assessment (QA) annually.	Completed
1312	External Assessments	GAP	Conduct an external QA every five years.	Completed
1320 1311	Reporting on the QAIP	GAP	Communicate internal and external assessment results.	Completed
1311	Internal Assessments	GAP	Develop a balanced scorecard and report results during the periodic reporting process to the Audit Committee.	Completed
1000	Purpose, Authority and Responsibility	Improvement Opportunity	Update the IA Charter and obtain CAE and Audit Committee approvals.	In Progress
1000 2060	Purpose, Authority and Responsibility Reporting to Senior Management and the Board	Improvement Opportunity	Implement a checklist including Required Communications of the CAE to the Audit Committee.	Completed
1210	Proficiency	Improvement Opportunity	Consider developing IA staff in specialized areas of the energy industry.	In Progress
1210	Proficiency	Improvement Opportunity	Consider use of technology-based audit.	In Progress
1210	Proficiency	Improvement Opportunity	Consider other data analysis techniques and Computer Assisted Audit Techniques (CAATS) to better evaluate data and identify problems.	In Progress
2240	Engagement Work Program	Improvement Opportunity	Document supervisory review of the Audit Program to evidence approvals.	In Progress
2410 2411	Criteria for Communicating	Improvement Opportunity	Incorporate limitations on the distribution of deliverables in the report.	Completed
2450	Overall Opinions	Improvement Opportunity	Include a section in the report for description of any scope limitations.	In Progress
1300	Quality Assurance and Improvement Program	Improvement Opportunity	Update QAIP documentation in policy. Develop the QAIP program. Perform the 2020 Internal QA. Present final 2020 Internal Annual QAIP report to the Audit Committee.	In Progress
2050	Coordination and Reliance	Improvement Opportunity	Provide an Assurance Map that describes coverage of risk between IA and other providers of assurance for NYPA.	In Progress

CAE Required Communications to the Audit Committee

Internal Audit - NYPA and Canal Corporation CAE Required Communications to the Audit Committee 2020

Standard	Communication Requirement	Form	Audit Communication
1110	The CAE must confirm to the Audit Committee, at least annually, the organizational independence of the internal auditing activity.	Annual Plan Executive Summary	As the CAE, I hereby confirm the organizational independence of the internal audit activity as of March 26, 2020.
1111	The CAE must communicate and interact directly with the Audit Committee.	Audit Committee Meetings and Private Sessions	As the CAE, I confirm that an appropriate level of communication and interaction has taken place between myself and the Audit Committee.
1312	The CAE must discuss with the board the: - form and frequency of the external assessment - the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest.	External Quality Assessment Presentation	Discussions were held at the July 16, 2019 Audit Committee Meeting related to the form and frequency of the external assessment. We also discussed the qualifications and independence of the external assessment team, including any potential conflicts of interest.
1320	The CAE must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include: - The scope and frequency of both the internal and external assessments. - The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. - Conclusions of assessors. - Corrective action plans.	Internal & External Quality Assessment Presentation Monthly Activity Report & IA Scorecard	Results of ongoing monitoring of performance were reported to the Audit Committee as a component of the internal activity reports on December 11, 2019. Results of the external assessment were reported to the Audit Committee on September 16, 2019. All communications included the required disclosures.

Appendix

Appendix A – 2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued
Deliverable Issued: 3							
1	NYPA	2020-AU-01	Recharge NY Customer Compliance Audit (D&M)	Commercial Operations	Audit	N/A	2/27/20
2	NYPA	2020-AU-15	Intrusion Detection/Intrusion Protection Management	Information Technology	Audit	Satisfactory	3/11/20
3	NYPA	2020-AU-39	FEMA Reimbursement	Utility Operations	Audit	Good	3/16/20
Reporting – Fieldwork Complete: 4							
4	NYPA	2020-AU-04	Clean Energy Solutions Pricing	Commercial Operations	Audit		
5	NYPA	2020-AU-19	Active Directory Review	Information Technology	Audit		
6	NYPA	2020-AU-27	Payroll (NYPA and Canals)	Business Services	Audit		
7	NYPA	2020-AU-43	Inventory & Warehousing: NIA, STL, BG, SENY	Utility Operations	Audit		
Fieldwork in Progress: 5							
8	NYPA	2020-AU-11	Ariba Application Review	Human Resources & Administration	Audit		
9	NYPA	2020-AU-26	Accounts Payable	Business Services	Audit		
10	NYPA	2020-AU-20	Microsoft Office 365	Information Technology	Audit		
11	Canals	2020-AU-45	Canals Budgeting and Forecasting	Administrative Services	Audit		
12	Canals	2020-AU-46	Canals Vendor Payment Accruals Follow-up	Administrative Services	Audit		
Audit Planning in Progress: 5							
13	NYPA	2020-AU-05	Customer Credit (Customer Financing)	Commercial Operations	Audit		
14	NYPA	2020-AU-24	Treasury Workstation System Implementation	Business Services	Audit		
15	NYPA	2020-AU-31	Energy Commodity Risk Management System Implementation	Business Services	Audit		
16	NYPA	2020-AU-28	Non-Work Time Benefits	Business Services	Audit		
17	NYPA	2020-AU-35	Communications Backbone Program	Utility Operations	Audit		
Planning Not Started: 33							
18	NYPA	2020-AU-02	Western NY Customer Compliance Audit (D&M)	Commercial Operations	Audit		
19	NYPA	2020-AU-03	Customer Digital Experience (CDEx)	Commercial Operations	Audit		
20	NYPA	2020-AU-06	Bid to Bill System Implementation	Commercial Operations	Audit		
21	NYPA	2020-AU-07	Unforced Capacity (UCAP) & Transmission Congestion Charge (TCC) Services & Trading	Commercial Operations	Audit		
22	NYPA	2020-AU-08	New York Energy Manager Strategy, Customer and Management Reporting	Commercial Operations	Audit		
23	NYPA	2020-AS-09	Evolve Program	Commercial Operations	Assessment		
24	NYPA	2020-AS-10	Supply Chain Management (NYPA and Canals)	Human Resources & Administration	Assessment		
25	NYPA	2020-AU-12	Succession Planning (NYPA and Canals)	Human Resources & Administration	Audit		
26	NYPA	2020-AU-13	Pension Plan Management	Human Resources & Administration	Audit		
27	NYPA	2020-AU-14	Threat and Vulnerability Management	Information Technology	Audit		

Appendix A – 2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued
28	NYPA	2020-AU-16	Software License Management	Information Technology	Audit		
29	NYPA	2020-AU-17	Database Security (NYPA and Canals)	Information Technology	Audit		
30	NYPA	2020-AU-18	Network Administration (NYPA and Canals)	Information Technology	Audit		
31	NYPA	2020-AV-21	IT Disaster Recovery Tests	Information Technology	Advisory		
32	NYPA	2020-AS-22	Data Governance & Protection Program	Information Technology	Assessment		
33	NYPA	2020-AS-23	Enterprise Program Management	Executive Office	Assessment		
34	NYPA	2020-AU-25	Credit Profile Management	Business Services	Audit		
35	NYPA	2020-AU-29	Finance & Administration (NIA, STL, CEC, WPO)	Business Services	Audit		
36	NYPA	2020-AU-30	Generation & Transmission Customer Rate Development	Business Services	Audit		
37	NYPA	2020-AU-32	Insurance Risk Management (NYPA and Canals)	Business Services	Audit		
38	NYPA	2020-AS-33	Environmental Health & Safety Program (NYPA and Canals)	Utility Operations	Assessment		
39	NYPA	2020-AU-34	Utility Operations Construction Projects (Non-LEM)	Utility Operations	Audit		
40	NYPA	2020-AU-36	Transmission LEM	Utility Operations	Audit		
41	NYPA	2020-AU-37	GE Asset Performance Management Implementation (APM)	Utility Operations	Audit		
42	NYPA	2020-AU-38	Data Splice Post Implementation	Utility Operations	Audit		
43	NYPA	2020-AU-40	Digital Worker	Utility Operations	Audit		
44	NYPA	2020-AU-41	ISO 55001 Audit Remediation Follow-up	Utility Operations	Audit		
45	NYPA	2020-AU-42	Site SCADA Systems (NIA, BG, STL, SENY)	Utility Operations	Audit		
46	NYPA	2020-AU-44	Operations Technology Operating System Security	Utility Operations	Audit		
47	Canals	2020-AU-47	Canals Real Property	Administrative Services	Audit		
48	Canals	2020-AU-48	Canals Vendor Management	Administrative Services	Audit		
49	Canals	2020-AS-49	Canals Fleet Management Operations	Administrative Services	Assessment		
50	Canals	2020-AU-50	Canals Maximo System Implementation	Technical Services	Audit		

Appendix B – Changes to 2020 Internal Audit Plan

NYPA:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Utility Operations	Environmental Health & Safety Program (NYPA and Canals)	Audit Type	Change from audit to an assessment to allow Internal Audit to review the GAP analysis underway by a third party and to ensure areas of deficiencies are identified and remediation plans address the risk and are developed on a timely basis.	Ongoing	0

CANALS:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Administrative Services	Canals Fleet Management Operations	Audit Type	Change from an audit to an assessment since procedures will be changed to align the governance structure with NYPA as a result of the reorganization of Canals Fleet Operations to NYPA Utility Operations.	Q2	0

Appendix C - Metric Definitions

Operational Excellence	
Audit Plan Percentage Complete	Measures effectiveness at completing the audit plan.
Audit Deliverables have Opinions	Measures the level of opinions provided to management.
Fieldwork to Report Issuance	Measures time to issue an audit report from the end of fieldwork.
Audit Utilization Rate	Measures the percentage of time staff charge to audit work (audit projects, remediation follow-up, risk assessment, client support).
IA Average Project Cycle Time (Excludes Ongoing Projects)	Measures audit cycle from Audit Start to Report Issuance.

Value and Impact	
Percentage of High-Risk Observations Identified	Measures valuable insights for high-risk areas provided to management.
Percentage of High-Risk Observations Implemented	Measures closure of high-risk observations by year.
Percentage of Observations Implemented by Original Action Plan Due Date	Measures timeliness of closing open observations.
Percentage of Observations Extended	Measures the level of observation due date extensions.
Percentage of Observations Extended and Implemented	Measures the timeliness of closing extended observations.



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