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NewYorkPower Authority

James Knubel
Senior Vice President and
Chief Nuclear Officer

April 22, 1997
IPN-97-052
JPN-97-017

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

Subject: Indian Point 3 Nuclear Power Plant
Docket No. 50-286
James A. FitzPatrick Nuclear Power Plant
Docket No. 50-333
Annual Financial Report

Dear Sir:

Enclosed are ten copies of the Authority's Annual Report for 1996. This report is being forwarded as required by 10 CFR 50.71(b).

This letter contains no new commitments. If you have any questions, please contact Ms. C. D. Faison.

Very truly yours,

J. Knubel
Senior Vice President and
Chief Nuclear Officer

Enclosures
cc: see next page

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cc: Regional Administrator
U.S. Nuclear Regulatory Commission
475 Allendale Road
King of Prussia, PA 19406

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U.S. Nuclear Regulatory Commission
P.O. Box 337
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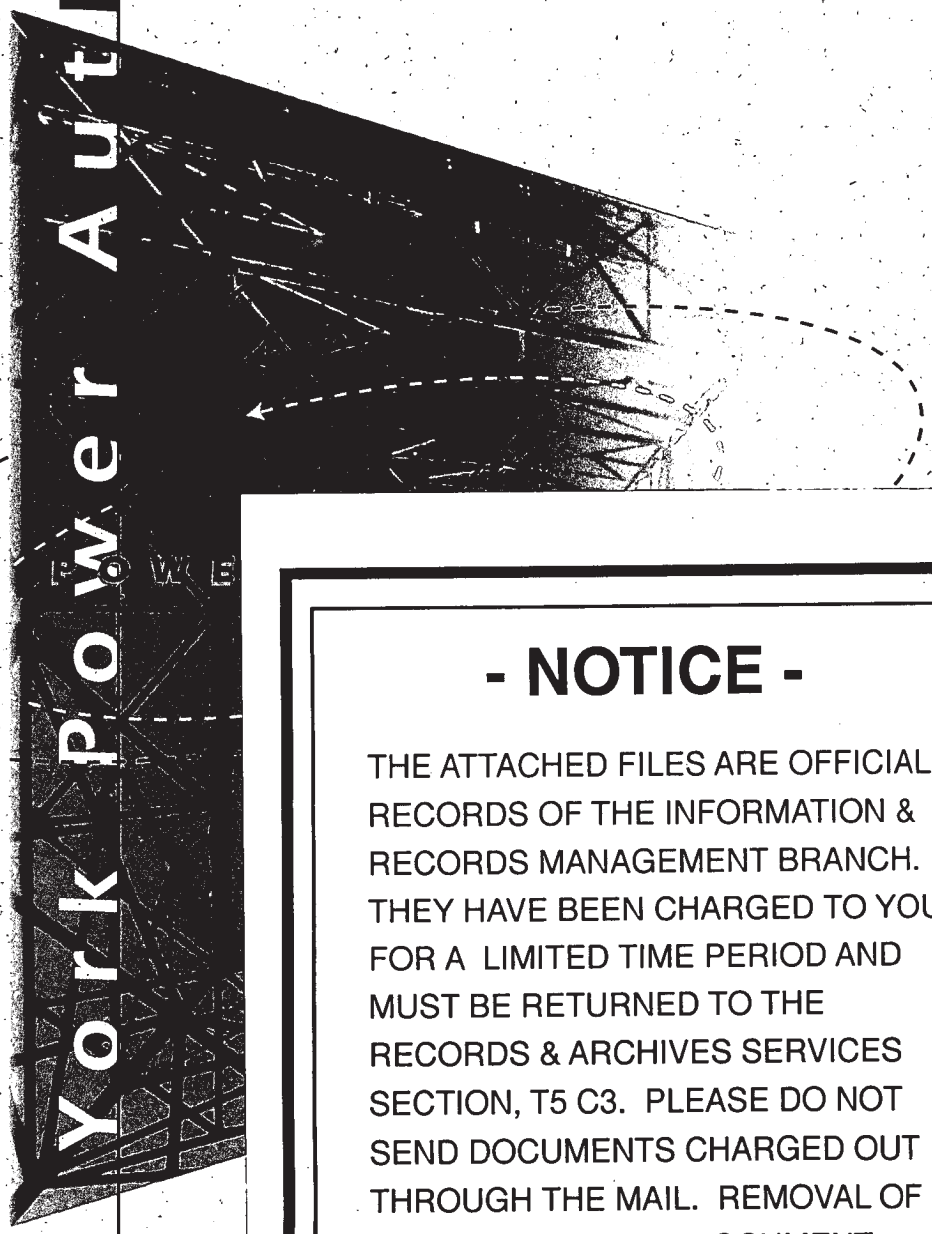
Docket # 50-286
Accession # 9704290099
Date 4/22/97 of Ltr
Regulatory Docket File

New York Power Authority

1996 Annual Report

New York Power Authority

THE POWE



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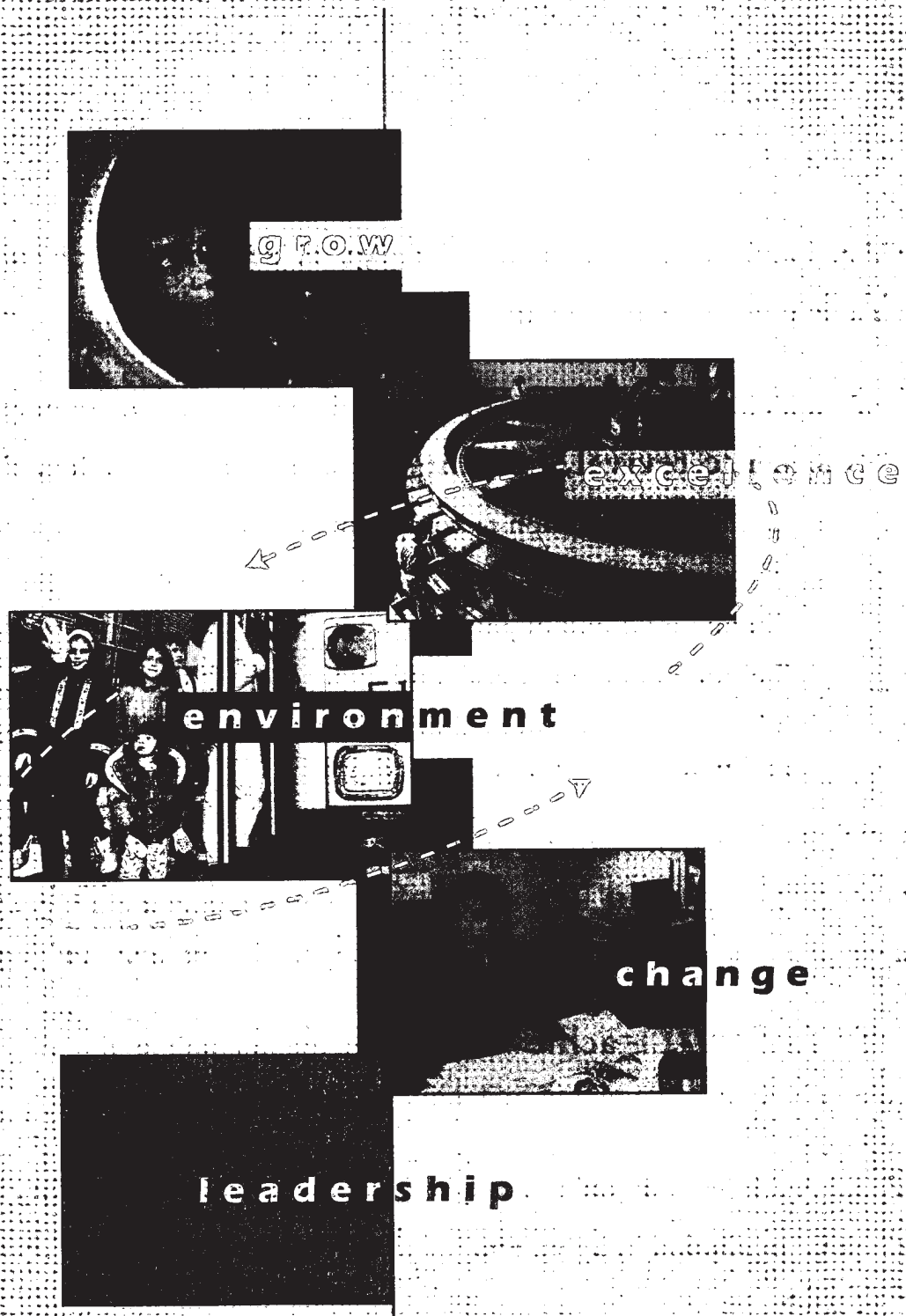
- NOTICE -

NYPA

the Power

The New York Power Authority is the nation's largest state-owned public power organization. Providing a quarter of New York's electricity, the Power Authority operates 12 generating facilities and more than 1,400 circuit-miles of transmission lines. It sells power to government agencies; to community-owned electric systems; to job-producing companies; to private utilities for resale — without profit — to their customers; and to neighboring states, under federal requirements.

A non-profit, public-benefit energy corporation, the Power Authority does not use tax revenues or state credit. It finances construction of its projects through bond sales to private investors and repays the bondholders with proceeds from operations.


grow
excellence
environment
change
leadership

MISSION

AFFORDABLE and reliable energy is one of the cornerstones of New York's economic renaissance.

NYPA WILL be the engine of New York's energy-related economic revival, helping to retain and create jobs by:

- Driving the transition to competitive energy costs,
- Providing consumer access to a supplier of choice,
- Reducing the cost of government at all levels,
- Delivering essential services that others can't do or won't do as well as we do,
- Maintaining our stewardship of New York State's essential hydropower and transmission assets.

OUR TOTAL commitment to performance excellence will prove us to be "best of class" in key areas of our operations. This will ensure we preserve our bedrock financial strength and achieve true customer loyalty.

NYPA WILL achieve these goals consistent with our commitment to the environment.

WE ALL ARE absolutely committed to change the way we think, act, measure ourselves and do business to produce these results.

NYPA WILL be a leader of the radical restructuring of the electric utility industry.

CHAIRMAN'S MESSAGE

As the nation's electric utilities prepare for a competitive future, the Power Authority gives New York an unmatched advantage in shaping an energy marketplace that best serves the people of the Empire State.

The Power Authority is a vital weapon in Governor George Pataki's efforts to revitalize the economy and create new jobs for New Yorkers. In a state where electric rates are 50 percent higher than the national average, NYPA supplies some of the country's lowest-cost energy. Our economical power often makes the difference between jobs *growing* here or *going* elsewhere. By the end of 1996, we were bolstering the competitiveness of more than 200 private-sector-companies statewide, helping to keep more than 150,000 New Yorkers at work.

Governor George E. Pataki and Chairman Clarence D. Rappleyea try out a hybrid electric bus funded in part by NYPA.

The Power Authority is well-positioned to ease the transition to a market-based system and to be a strong competitor within that system.

Our high-voltage transmission network forms the backbone of the state's electric thruway, bringing competing suppliers within reach of customers. We supported the state Public Service Commission's call for full customer choice in electricity supply and urged the commission to set an early date for the start of retail competition. The PSC did just that with a landmark decision in May 1996 calling for competition to begin on the wholesale level in 1997 and for retail customers in 1998.

Self-supporting, using no tax dollars, the Power Authority operates like a business. But we are much more than a business.

NYPA commands the resources and know-how to undertake major initiatives in the public interest. Our history includes numerous instances of such initiatives, and our future may involve even more vigorous efforts to serve the public. These could include buying the transmission lines of the state's investor-owned utilities–with estimated ratepayer savings of $3 billion in the first five years; anchoring Governor Pataki's proposed public-private partnership to bring rate relief to businesses and protect New York jobs; and safeguarding New York's environment by implementing the Governor's clean-school coal-conversion program and sparking the development of an electric-vehicle industry in the state. Each of these activities is discussed in this Annual Report.

The Power Authority's new Mission Statement provides a framework for the report. The plan stakes out a central role for NYPA in New York's economic growth. It sets forth our commitment to become the very best in our industry in key areas, to add value to the state as a leader in the competitive era and to protect and enhance the environment.

NYPA's ability to adapt to changing public needs is one of our greatest strengths. Whatever form the restructured industry takes, it is certain that the Power Authority will continue to play a major role in energizing the economy and communities of New York and building a foundation of prosperity and pride as our state heads into a bright new century.

Clarence D. Rappleyea
Chairman and Chief Executive Officer

General Motors' Powertrain plant in Massena had known hard times, so the good news was even sweeter. On Aug. 6, 1996–10 years to the day after the plant had entered a cycle of layoffs–GM announced a $77 million investment at Massena to produce engine parts for a new-model Saturn car, adding hundreds of jobs.

A key to the decision was an infusion of more low-cost electricity from the Power Authority–one of the state's most valuable assets in efforts to create a more vibrant economy and provide jobs for New Yorkers.

GROWTH

The Authority's economical power attracts new companies to the state and keeps established firms from moving elsewhere. NYPA also offers energy-efficiency assistance and other customized services to help its customers succeed in the face of global competition.

Companies receiving the Power Authority's electricity meet strict requirements for job creation or retention. At the end of 1996, NYPA was providing 210 businesses with a total of 1.6 million kilowatts (kw), supporting more than 150,000 jobs statewide. And it's poised to do much more.

NYPA figured prominently during the year in Governor George Pataki's proposed "Power for Prosperity" program to provide businesses in all parts of the state with 400,000 kw of inexpensive electricity to preserve jobs. The Governor called for an innovative partnership between the Power Authority, which would supply 200,000 kw, and the state's investor-owned utilities (IOUs), which would provide an equal amount.

A credit against the state gross receipts tax would finance the utilities' share of the lower-cost electricity, protecting ratepayers from bearing the costs. The proposal would thus simultaneously address two of the state's most pressing challenges–job retention and tax relief. Although the state Legislature did not complete action on "Power for Prosperity" in 1996, the plan was expected to be reintroduced in 1997.

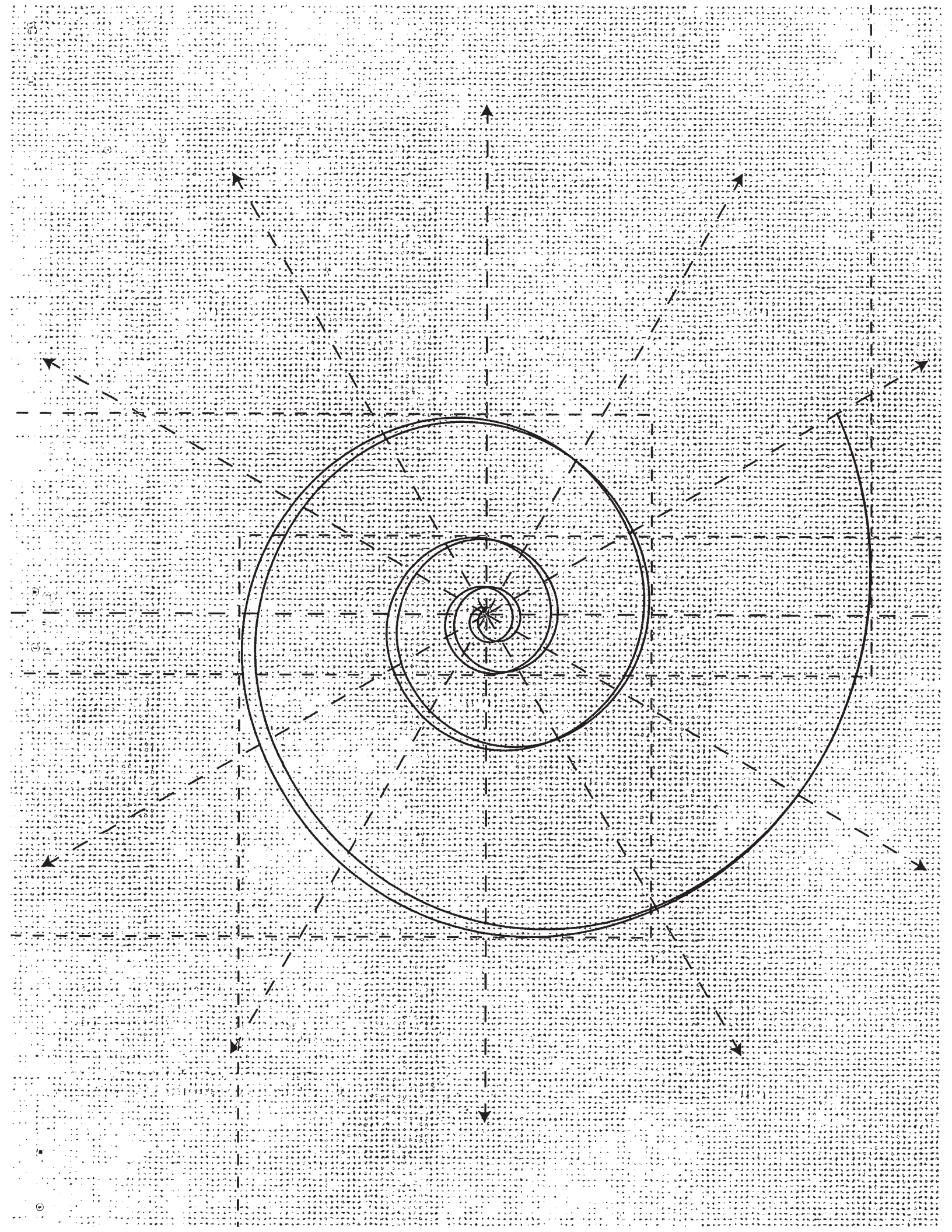
The GM success in 1996 involved two of the company's New York State facilities, both Power Authority customers, as NYPA worked closely with the Governor's office and the Empire State Development Corp. to bring the Saturn deal to New York. The Massena plant will produce cylinder blocks and head castings for the engines of the new "Innovate" sedans, scheduled to roll off production lines by early 1999. GM Powertrain's Tonawanda site will manufacture the engines.

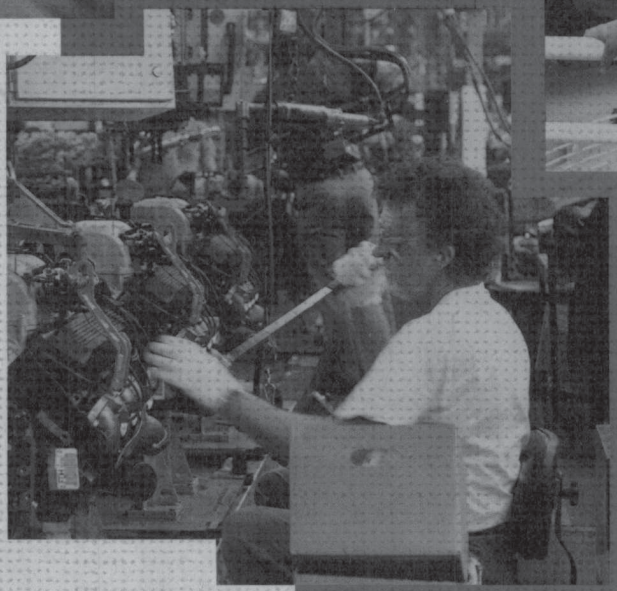
"NYPA's low-cost power was a very significant factor in our being able to get that contract," said Rick Sutton, GM Powertrain's Massena plant manager.

1996 HIGHLIGHT

NEW POWER SALES SUPPORT JOBS

In addition to General Motors, recipients of new allocations of NYPA's low-cost electricity in 1996 included such companies as Carborundum Abrasives Co. of Niagara Falls, BF Goodrich Aerospace Engine Electrical Systems in Chenango County and Kozy Shack Inc. in Nassau County. New power sales were linked to commitments to create or protect more than 3,200 jobs at 17 businesses in various parts of the state.





Brian O'Shaughnessy of Revere Copper Products in Rome, N.Y., (center left) and Abraham Poznanski of Computer Associates in Islandia (center right) are two of the executives who rely on Power Authority electricity to keep their companies competitive. Jobs at General Motors plants in Tonawanda (top and bottom) and Massena also depend on NYPA power.

The Massena plant, which has received 12,000 kw from NYPA since 1959, obtained 8,000 kw more in August. The power sales will create or protect a total of 580 jobs. In Tonawanda, where a 13,800-kw allocation already supported 3,706 positions, authorization of an additional 800 kw in June was linked to another 510 new and existing jobs.

> "NYPA WILL BE THE ENGINE OF NEW YORK'S ENERGY-RELATED ECONOMIC REVIVAL, HELPING TO RETAIN AND CREATE JOBS"

At the other end of the state, Computer Associates, a Long Island-based industry giant, is relying on the Power Authority as it expands its international operations. In today's high-tech environment, many of the world's largest companies look to Computer Associates for their business software. A 12,000-kw allocation approved in 1989 is tied to 2,000 jobs at the company's Islandia headquarters.

"Computer Associates' strength comes from its ability to meet market demands quickly and cost effectively while keeping an eye on the future," said Abraham Poznanski, senior vice president, operations. "NYPA helps us meet those demands by providing us with low-cost electricity, making Long Island and New York State a competitive location for our world headquarters."

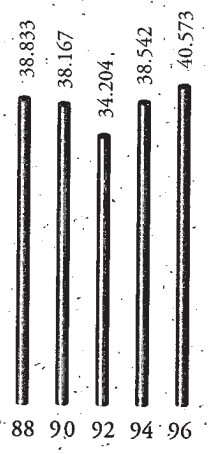
Computers have revolutionized the operation of manufacturing equipment at Revere Copper Products, Inc., although the basic processes have changed little since the company was founded by Revolutionary War hero Paul Revere. Today, electricity supplied by NYPA powers the melting furnaces and rolling mills controlled by highly skilled operators and a growing number of technical-support employees.

Located in the City of Rome, in Central New York, the employee-owned firm depends on 6,000 kw of NYPA electricity to keep 500 workers on the job. Revere is the third largest copper and brass rolling mill in North America. Yet it faces stiff competition.

"We're fighting for survival all the time," said Brian O'Shaughnessy, president and chief executive officer. "NYPA's power is as crucial to our company as Paul Revere was to the Revolution. If NYPA didn't exist, we wouldn't exist."

Energy Sales

(Billions of kwh)



EXCELLENCE

If being the best means producing the most, at the lowest cost, the Power Authority's Niagara Power Project has no equal in New York State. And ongoing improvements at Niagara are making the best even better.

Recognizing that low prices and superior service will be essential to winning and keeping customers in the emerging competitive marketplace, NYPA is also working to bring its nuclear and other facilities into the ranks of the nation's best.

At the Niagara project, the Power Authority in 1996 continued a $293 million, multiyear program to upgrade the 13 turbine-generators of the Robert Moses Niagara Power Plant. The work will increase the output of each unit from 175,000 kilowatts (kw) to 200,000 kw. Major structural improvements at the Moses plant and the companion Lewiston Pump-Generating Plant will also protect against costly breakdowns and extend the life of the equipment, which has been in operation since 1961.

The Moses work is benefiting increasingly from a computerized Maintenance Resource Management (MRM) program, which helps to avoid delays and reduce overtime and other costs by scheduling major tasks, ensuring that parts and materials are available and coordinating staff and contractor efforts. Based on the best practices of top-performing utilities, MRM is taking on an expanding role in maintenance planning for all of NYPA's hydro, fossil-fueled and transmission facilities. The program's success to date reflects the commitment of Authority employees systemwide to increased productivity and teamwork.

With upgrades of three units completed at the Moses plant and work on a fourth in progress, several positive trends attributable to MRM were evident in 1996. Most significantly, each succeeding upgrade has taken less time, with the third turbine-generator returned to service in just nine months–a full six months ahead of the previous unit's pace. Each day saved carried sizable financial benefits, measured in labor savings and the faster resumption of power production.

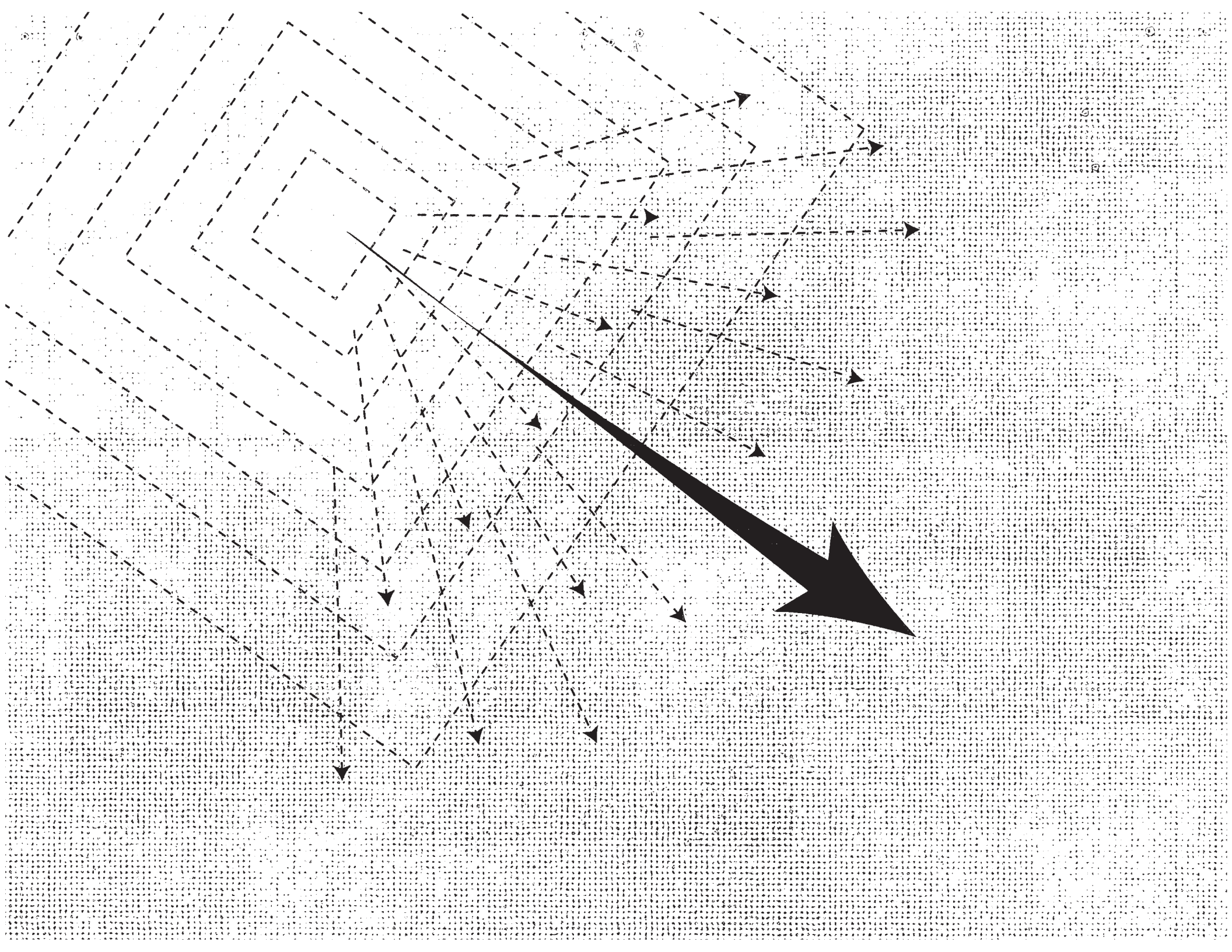
The drive for "best-of-class" status was also evidenced by the NYPA Research and Development Division's broad range of projects aimed at improving the performance of the Authority's generating and transmission facilities. Examples in 1996 included development of monitoring and diagnostic systems for hydroelectric generator components, circuit breakers and power transformers and of a cleaner, more-efficient burner for the oil- and natural gas-fueled Poletti project in Queens.

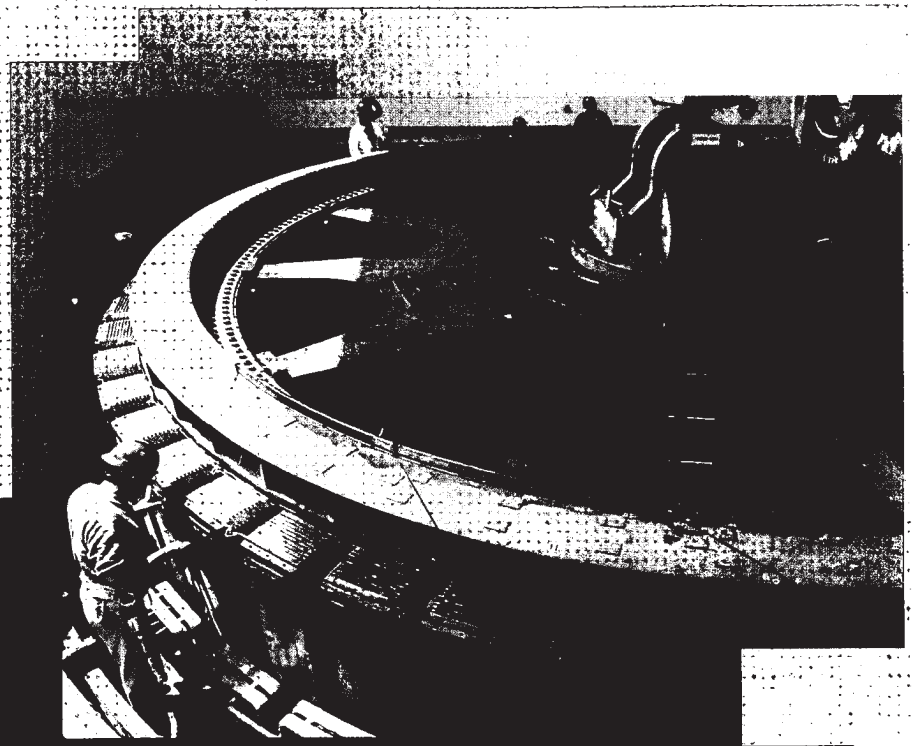
Also in 1996, teams of skilled workers from NYPA nuclear and fossil-fueled plants were inte-

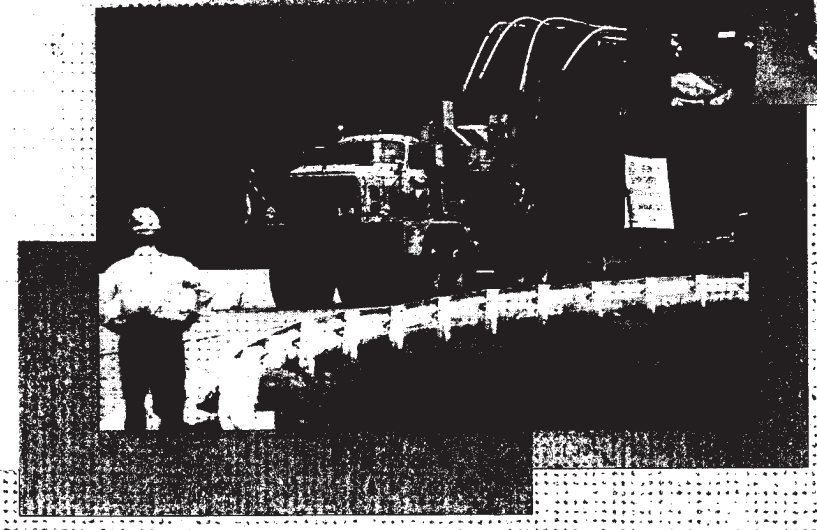
1996 HIGHLIGHT

NYPA SUPPLIES QUARTER OF STATE'S ELECTRICITY

The Power Authority supplied 25 percent of New York State's electricity in 1996, with sales of 40.6 billion kilowatt-hours (kwh), including energy purchased from other sources. NYPA's production totaled 35.1 billion kwh, an increase of more than 13 percent from 1995. Hydropower generation of 21.7 billion kwh accounted for 62 percent of NYPA's output; nuclear power, 11.2 billion kwh, or 32 percent; and natural gas and oil, 2.2 billion kwh, or 6 percent.







NYPA completed a FitzPatrick plant refueling and maintenance outage (center) and upgrade of a Niagara project turbine generator (top and bottom) in record time during 1996.

grated under a pilot program to meet shifting work demands throughout the system. Although the power sources differ, the generating equipment and the skills required to maintain it are frequently similar. The flexible multidisciplinary teams will reduce maintenance backlogs and assume much of the work now accomplished at greater expense by contractors.

> "OUR TOTAL COMMITMENT TO PERFORMANCE EXCELLENCE WILL PROVE US TO BE 'BEST OF CLASS' IN KEY AREAS"

Encouraging trends marked the performance of NYPA's FitzPatrick and Indian Point 3 nuclear power plants in 1996.

The plants produced a total of 11.2 billion kilowatt-hours, their second highest combined annual output.

FitzPatrick compiled a capacity factor of 87 percent through late October, when it was removed from service for a scheduled refueling and maintenance outage that, at 47 days, became the shortest and most successful in the plant's 21-year history. (Capacity factor measures a plant's production in a given period as a percentage of the maximum possible if it ran at full power all the time.) Modifications during the outage increased the plant's 800,000-kw electrical output by up to 30,000 kw.

Indian Point 3 recorded a capacity factor of close to 95 percent after returning to service in April from an outage that had begun the previous September to address equipment and procedural issues. The plant ended the year with a record run of 224 consecutive days, which continued into early 1997. For the three-year period ending in 1996, Indian Point 3 ranked first among nuclear plants nationally in minimizing worker exposure to radiation.

A tentative alliance under which Entergy Corp. of New Orleans would have provided management services at the Power Authority's two nuclear plants did not materialize because the parties couldn't agree on a formula for sharing financial risks. The proposed NYPA-Entergy partnership has spawned plans for a number of similar arrangements around the country. As the year ended, NYPA was assessing three options for assuring excellent performance at its plants–continuing to operate them itself, pursuing another alliance with an outstanding nuclear utility or joining a proposed New York State nuclear operating company.

1996 Generation and Sales
(Billions of kwh)

Superefficient appliances slash public housing costs and electricity use. Vast arrays of silicon panels, with no moving parts, capture the energy of sunlight. Fleets of electric-powered cars, buses and trucks glide noiselessly and emission-free through city and suburban streets.

In supporting these and similar initiatives, the Power Authority is building on its tradition as one of the nation's leading suppliers of electricity from clean, renewable sources. It is also leading New York State into an environmentally compatible and more-efficient energy era.

ENVIRONMENT

Besides improving air quality, NYPA-sponsored projects are cutting costs for government–and taxpayers–for education, health care, housing and other public services.

New gleaming white, energy-efficient refrigerators, to be provided by NYPA over a nine-year period, will save the New York City Housing Authority (NYCHA) about $6 million a year by shaving its annual energy use by 63 million kilowatt-hours, or enough to meet the needs of about 11,000 apartments. In 1996 the Power Authority installed the first 20,000 of more than 180,000 new apartment-sized refrigerators pledged to NYCHA under a long-term contract for supply of NYPA electricity.

"This is what reinventing government is all about," said NYCHA Chairman Ruben Franco. "We are providing for long-term energy needs while saving taxpayers millions of dollars."

The refrigerators delivered in 1996 consume less than half the energy of the original units, which are 15 years old on average. A new model, which will be introduced in response to the Authority's bid for ever-more-efficient equipment, will provide even greater savings.

Other Power Authority customers also benefited from the Authority's energy-efficiency programs. For example, in the Bronx, NYPA installed a 6,000-square-foot refrigeration plant at the 38-acre Hunts Point Cooperative Market, the world's largest food distribution center. The new unit will lower the market's energy costs by $430,000 annually and help ensure retention of more than 2,400 local jobs already protected by NYPA's low-cost electricity.

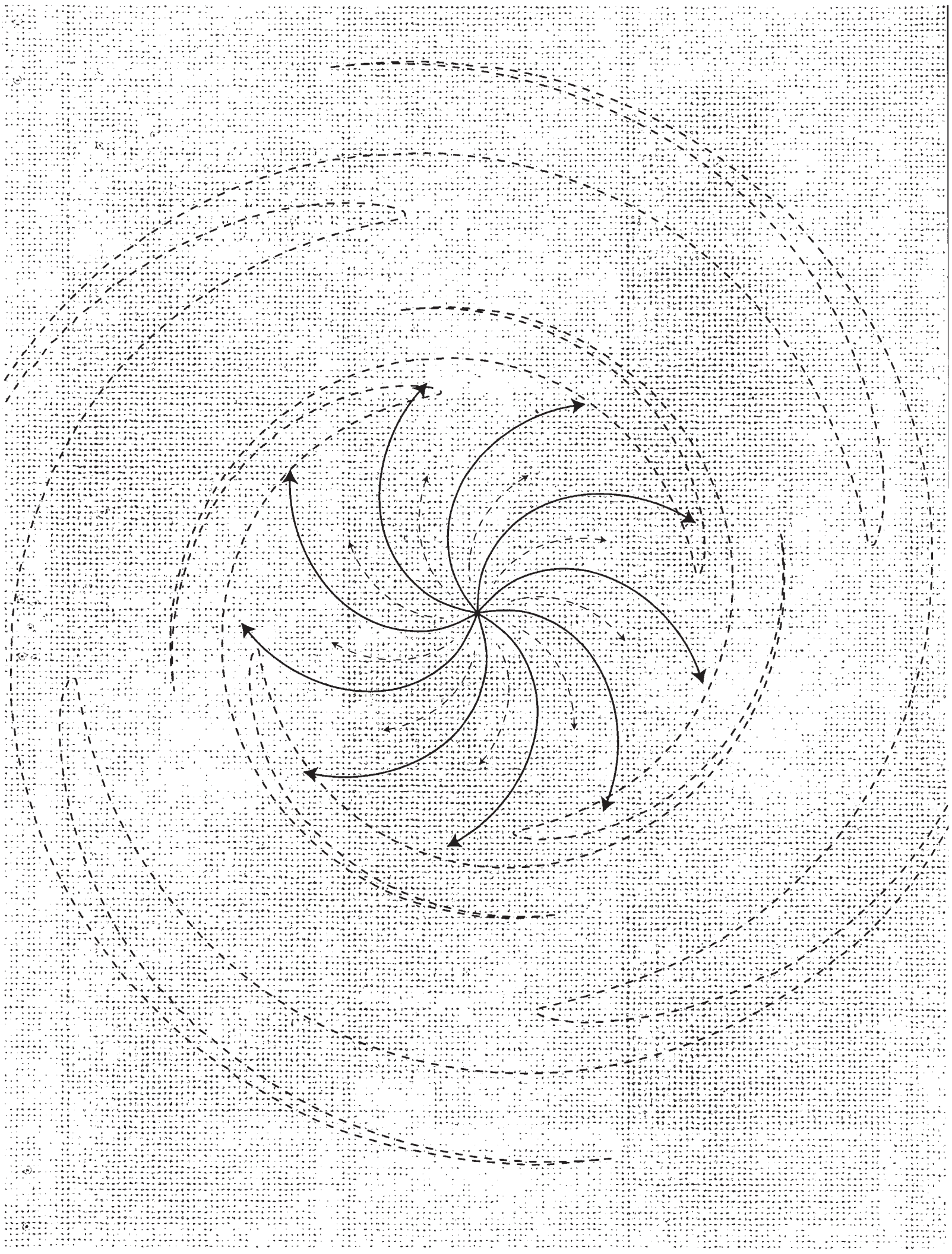
The Authority remained in the forefront of utilities nationally in 1996 in the development of photovoltaic (PV) systems, which convert sunlight directly into electricity. In July it inaugurated one of the nation's largest roof-mounted PV facilities, the size of three football fields, at New York City Transit's Gun Hill Bus Depot in the Bronx. One of seven PV systems that NYPA has supplied to its customers, the 300-kilowatt

1996 HIGHLIGHT

ENERGY-EFFICIENCY PROJECTS ADVANCE

NYPA's nationally recognized High Efficiency Lighting Program (HELP) for public facilities moved ahead in 1996 as the Authority completed 95 energy-saving projects. Work was continuing on another 55 at year's end. Since its inception in 1990, HELP has provided about 360 such installations at local, county and state government facilities, public schools, and community colleges, saving taxpayers $32 million a year and improving air quality. NYPA added $116 million in funding during the year for HELP and other energy-efficiency measures.

Energy-efficient refrigerators... sunlight working silently to meet half the energy needs of a major bus depot... and a quiet, smog-free electric bus for schoolchildren—three visible dimensions of the Power Authority's long-term commitment to the environment.



project will meet about half of the depot's electricity needs.

NYPA's electric transportation program also continued to expand. The Authority had supplied 59 electric vehicles (EVs) to its customers by the end of 1996, an increase of 19 from a year earlier. The EVs include the Northeast's first electric school bus, light-duty three-wheeled vehicles, and shuttle buses in downtown areas and on college campuses. The vehicles help meet air quality standards, reduce fuel and operating costs and create jobs in New York's emerging EV industry.

> "NYPA WILL ACHIEVE THESE GOALS CONSISTENT WITH OUR COMMITMENT TO THE ENVIRONMENT"

The nation's largest supplier of electricity for mass transportation, NYPA in 1996 continued to work with the federal government and various public and private entities in funding development of hybrid electric buses for use by New York City Transit. A prototype of the bus—powered by electric motors and manufactured by Orion Bus Industries of Oriskany, a NYPA customer—was unveiled during the year. Twelve more buses, expected to be produced by New York State companies, are planned in the first phase of the program.

The Power Authority received a major new assignment with voter approval of Governor George Pataki's Environmental Bond Act in November. With $125 million in funding from the bond act, NYPA will launch a full-scale program in 1997 to replace antiquated coal-fired furnaces with clean oil- and gas-burning boilers at public schools in New York City and Buffalo. The funds will expand a coal conversion program that NYPA began in 1994 with the New York City Board of Education. The new boilers will pay for themselves from energy and maintenance savings and will eliminate harmful emissions.

In the first project of its kind nationally, a NYPA-sponsored fuel cell power plant was expected to begin operation in early 1997 at the Westchester County Wastewater Treatment Plant in Yonkers. The plant will generate clean energy through a chemical reaction using waste gases, largely methane, rather than combustion. The gases would otherwise be burned off, contributing to air pollution and global warming.

The Power Authority's energy-efficiency and renewable-energy programs reflect its belief that low costs alone will not be enough to meet society's needs and assure success in the new electricity marketplace. Customers with the power to choose will also demand environmental responsibility and innovative energy services. As a recognized leader in these areas, NYPA will continue to make them a prominent part of its efforts to help create New York's competitive energy future.

The language of strategic planning speaks of movement: Where are we coming from? Where are we going?

So when the Power Authority developed a new Mission Statement in early 1996, its senior managers set their sights on goals that would put NYPA in the top ranks of the utility industry and then charted a course to get there. Critical to this process was the establishment of specific performance measures to track progress in key areas–in recognition of the fact that results, not effort, count.

CHANGE

To meet increased competition in the industry, the Authority saw the need for immediate, dramatic action and the importance of involving a large portion of the work force. It rejected the cautious, traditional path of incremental progress and chose instead a dynamic approach designed to accelerate change.

Momentum built throughout the year as employees at every level and from every location in the NYPA system took an active role in shaping the Authority's future.

Starting in the summer, they gathered for weeklong sessions that emphasized teamwork, creative risk-taking and strategic thinking. Besides encouraging staff members to strive for continuous self-improvement, the program resulted in employee-inspired projects to promote a more efficient and cost-effective organization.

By year's end, employee teams were pursuing some 40 projects aimed, for example, at streamlining work practices, reducing the use of contractors, cutting overtime and enhancing customer service. Potential savings from these projects were expected to total millions of dollars a year.

Every NYPA employee will participate in the program by mid-1998, with additional money-saving projects anticipated.

This new strategic mindset is helping employees such as Bob Salfi, superintendent of general maintenance at the Niagara Power Project, bring a fresh perspective to their jobs. Salfi oversees 54 workers and some 200 pieces of equipment, from cars and trucks to cranes, tugboats and an ice breaker. He looks to his seasoned staff to come up with "better, faster, safer and more efficient" ways to get work done. In one instance, craftspeople devised a method to disassemble a turbine-generator in record time, using fewer workers than ever before.

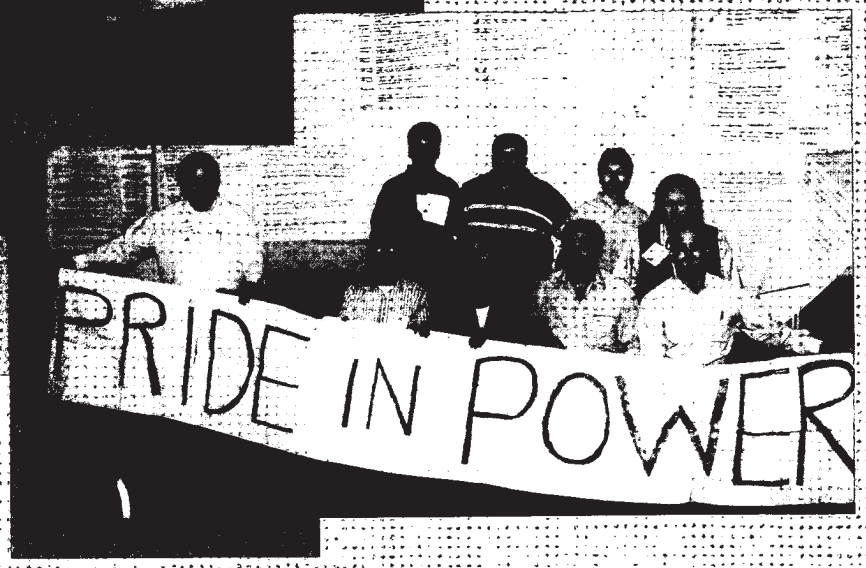
"We need to look at all options to improve the way we do business," Salfi said. "We're attaching high credibility to what the rank-and-file employees have to say. We place an enormous

1996 HIGHLIGHT

PERFORMANCE MEETS OR BEATS GOALS

The Power Authority met or exceeded performance measures in 1996 in areas critical to its competitive success. As a prime example, the average cost of NYPA power fell to 2.6 cents a kilowatt-hour, below the 2.7 cent target and down from 3.2 cents in 1995. The Authority also exceeded its goal for net revenues, and the additional customer savings generated by NYPA's energy-efficiency programs were right on target.

NYPA employees join forces at sessions designed to build teamwork and commitment in pursuit of the Authority's goals. All staff members were expected to participate by the middle of 1998.



amount of value on their expertise. We need to use our people strategically so they can do the best possible job."

> "WE ALL ARE ABSOLUTELY COMMITTED TO CHANGE THE WAY WE THINK, ACT, MEASURE OURSELVES AND DO BUSINESS"

Elsewhere, about 75 "graduates" of the weeklong sessions spent some or all of their time during the fall assigned to teams charged with carrying the change process forward.

A financial team devoted 10 weeks of full-time effort to the search for cost reductions and efficiency improvements in non-nuclear areas. Senior management approved 249, or about 86 percent, of the team's recommendations, with savings projected at $174 million over three years. The measures will also provide annual savings of more than $11 million beyond 1999.

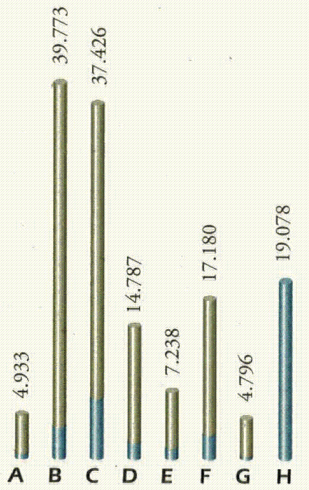
The proposals, large and small, range from taking over management and maintenance of NYPA's White Plains headquarters building and grounds from a contractor, with savings of $1.2 million through 1999, to dropping plans for a $40,000 purchase of a new tractor.

A separate team, looking at NYPA's nuclear operations, began work in early 1997.

Two other employee groups, whose members split their time between their regular jobs and team assignments, were aligning every group within NYPA–and every staff member–with the Authority's overall mission. One team helped develop specialized strategic plans for each of NYPA's business units and departments and for each of the state's regions. The other began a process that will provide each employee with an individual performance plan geared to NYPA's new priorities.

The results of these initiatives will continue to unfold over the next three years, helping every employee to understand how his or her job contributes to the achievement of the Power Authority's goals.

1996 New York Utilities' Total Sales and Power Authority Sales to Utilities
(Billions of kwh)



Utility's total sales [1]
Power Authority sales to utility [2]

A Central Hudson
B Con Edison
C Niagara Mohawk
D New York State Electric & Gas
E Rochester Gas and Electric
F Long Island Lighting Company
G Orange and Rockland
H Total Authority Sales

[1] Power Authority sales totaled 19.078 billion kwh, which excluded .501 billion sold through the New York Power Pool for supply to the utilities as needed.

[2] Includes .010 billion kwh associated with sales to reallocated expansion power customers.

LEADERSHIP

In the era of regulated utility monopolies, now ending, the Power Authority has always been a competitive power supplier. With no franchise area or "captive" customers, NYPA has had to be the low-cost provider to sell its electricity. Now, as the state's utility industry heads into a competitive age, the Authority is at the forefront of the push to ensure that the new structure provides the greatest possible benefits for consumers.

"Industry restructuring is the most important issue facing the Power Authority," said NYPA President and Chief Operating Officer Robert Schoenberger. "It's a time for quick decisions and urgent action. The Power Authority fully supports the state Public Service Commission's [PSC] goals of lower costs to consumers, increased customer choice, continued reliability of service and economic growth."

To help meet these objectives, the Power Authority has proposed that it be the single owner of the state's high-voltage transmission system–with savings to ratepayers of $3 billion in the first five years. NYPA would purchase the large power lines of the state's investor-owned utilities (IOUs) at a premium. The savings would be achieved principally through refinancing the IOUs' transmission facilities at the Authority's lower capital costs and through the utilities' use of the premiums to buy down their expensive contracts with independent power producers (IPPs) at a discount. Additional savings could result through merging transmission maintenance functions.

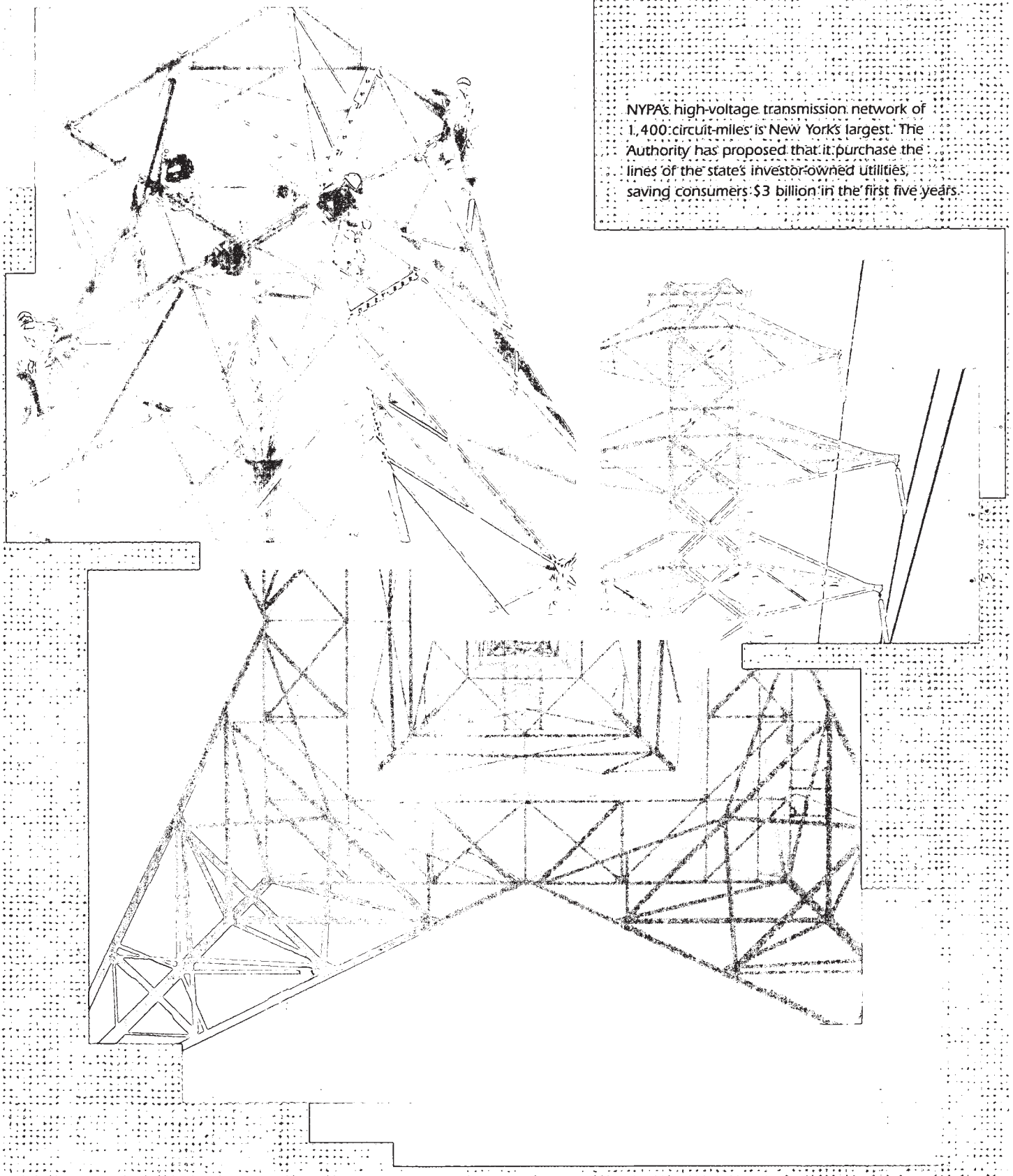
NYPA submitted its restructuring plan to the PSC in 1996 as part of the commission's Competitive Opportunities Proceeding. In addition, the Authority urged the PSC to move promptly to allow customer choice of electricity suppliers in a fully competitive market. The commission issued a far-reaching decision in May that, consistent with the Authority's position, ordered competition in wholesale, or utility-to-utility, transactions in 1997 and at the retail–or consumer–level in 1998.

As owner of the unified transmission system, the Power Authority would assure access to all buyers and sellers of electricity, eliminating barriers that create inefficiencies and increase costs.

1996 HIGHLIGHT

LANDMARK ACCORD ON ST. LAWRENCE-FDR RELICENSING

NYPA broke new ground in 1996 in efforts to relicense its St. Lawrence-FDR Power Project in Massena. The Authority reached a nationally unprecedented accord with federal and state regulators on a joint environmental review that will identify and resolve issues earlier than in previous hydroelectric relicensing cases. To ensure full public participation, NYPA began a cooperative consultation process involving area residents and public officials as well as representatives of regional, state and national public and private interests; about 75 people were taking part by year's end. The project's federal license expires in 2003.



NYPA's high-voltage transmission network of 1,400 circuit-miles is New York's largest. The Authority has proposed that it purchase the lines of the state's investor-owned utilities, saving consumers $3 billion in the first five years.

A non-profit state-owned utility, NYPA has a well-established record of public service and already owns 1,400 circuit miles of high-voltage lines, more than any other utility in the state.

After acquiring the rest in voluntary transactions with the IOUs, NYPA would strengthen system reliability by performing maintenance scheduling and coordination and by using its low-cost financing to meet the need for additional transmission capacity.

> "NYPA WILL BE A LEADER OF THE RADICAL RESTRUCTURING OF THE ELECTRIC UTILITY INDUSTRY"

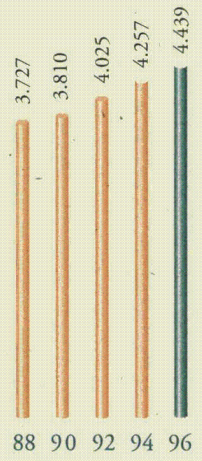
In another move to pave the way to competition, the Power Authority in December 1996 submitted an open-access transmission tariff to the Federal Energy Regulatory Commission (FERC) in voluntary compliance with a FERC order. One month later, NYPA joined New York's IOUs in filing a plan for an Independent System Operator (ISO) for the state's transmission network. (Under its proposal to acquire the IOUs' lines, NYPA could become the ISO if it clearly separated its transmission and generation functions.)

FERC acceptance of the Power Authority's open-access tariff, the joint filing or both would give NYPA reciprocal access to other utilities' transmission lines–a key factor in the Authority's ability to compete in the new era.

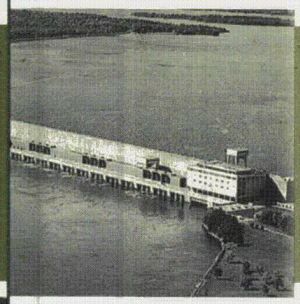
The Power Authority's proposals for the restructured industry are in keeping with its long-standing role of reducing costs for consumers and supporting economic development by taking on energy challenges that others can't or won't meet. That role started with construction of the St. Lawrence-Franklin D. Roosevelt Power Project at Massena in the 1950s. Pursuant to state mandates, NYPA went on to build or acquire other generating plants–hydroelectric, nuclear and fossil-fueled–and since the late 1970s has constructed most of the state's high-voltage transmission lines. The generating and transmission facilities serve as a bulwark of the state's economy and save taxpayers millions of dollars a year through reduced energy bills for government entities.

Purchase of New York's high-voltage transmission network, with open access to all, could represent the next stage in NYPA's evolution, carrying forward the PSC's competitive mandate and guaranteeing consumers freedom of choice, lower costs and reliable operation of the system.

Energy Sales to New York State Municipal Systems and Rural Electric Cooperatives
(Billions of kwh)

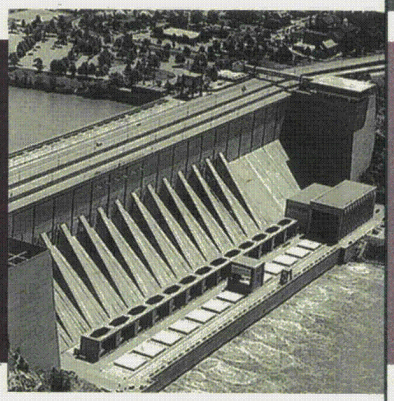


Power Authority Facilities



St. Lawrence-Franklin D. Roosevelt Power Project

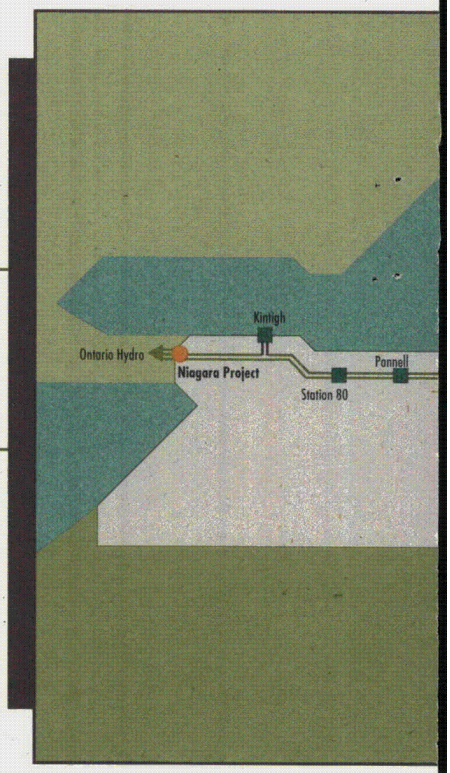
Type: Hydroelectric
Location: Massena, on the St. Lawrence River, St. Lawrence County
Net Dependable Capability: 800,000 kw
First Commercial Power: July 1958
1996 Net Generation: 7.2 billion kwh
Net Generation Through 1996: 259.5 billion kwh

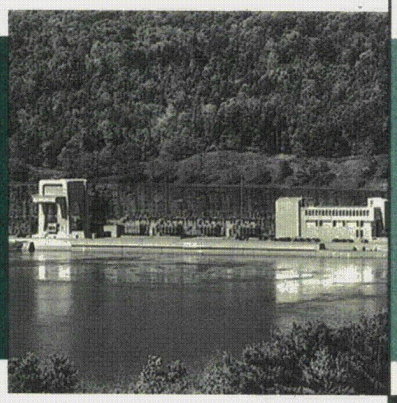


Niagara Power Project

Type: Hydroelectric
Location: Lewiston, on the Niagara River, Niagara County
Net Dependable Capability: 2,400,000 kw
First Commercial Power: January 1961
1996 Net Generation: 15.1 billion kwh
Net Generation Through 1996: 531.8 billion kwh

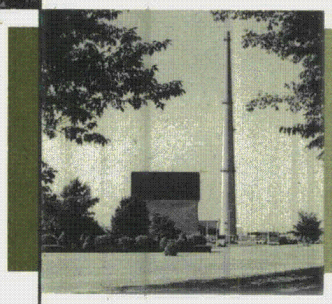
- Power Authority Projects
- Power Authority Substations
- Substations of Others
- Power Authority Lines
- Lines of Others Available as Needed





Blenheim-Gilboa Pumped Storage Power Project

Location: Blenheim and Gilboa, southwest of Albany, in Schoharie County
Net Dependable Capability: 1,040,000 kw
First Commercial Power: July 1973
1996 Gross Generation: 1.7 billion kwh
Gross Generation Through 1996: 35.6 billion kwh

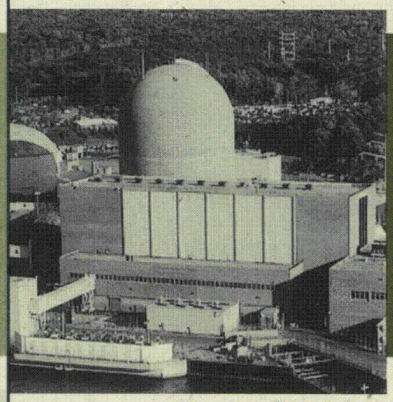


James A. FitzPatrick Nuclear Power Plant

Location: Scriba, on Lake Ontario, Oswego County
Net Dependable Capability: 820,000 kw
First Commercial Power: July 1975
1996 Net Generation: 5.3 billion kwh
Net Generation Through 1996: 93.6 billion kwh

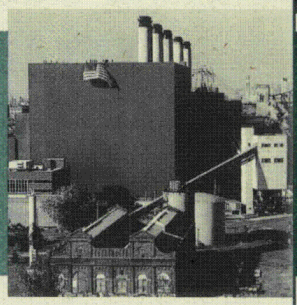
Indian Point 3 Nuclear Power Plant

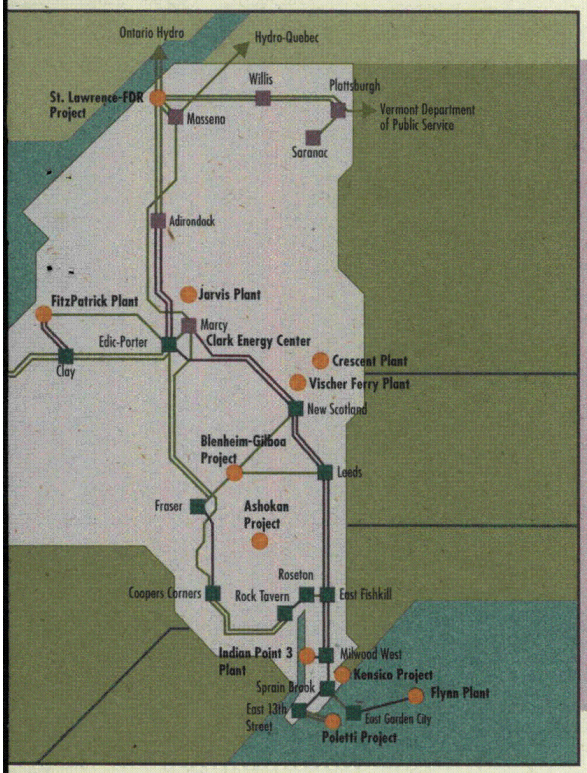
Location: Buchanan, on the Hudson River, Westchester County
Net Dependable Capability: 970,000 kw
First Commercial Power: August 1976
1996 Net Generation: 5.9 billion kwh
Net Generation Through 1996: 85.0 billion kwh



Charles Poletti Power Project

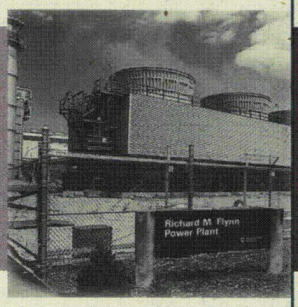
Type: Gas/Oil
Location: New York City, on the East River
Net Dependable Capability: 825,000 kw
First Commercial Power: March 1977
1996 Net Generation: 1.3 billion kwh
Net Generation Through 1996: 47.3 billion kwh





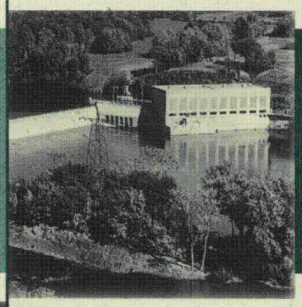
Richard M. Flynn Power Plant

Type: Gas/Oil
Location: Holtsville, Suffolk County
Net Dependable Capability: 135,600 kw
First Commercial Power: May 1994
1996 Net Generation: 0.9 billion kwh
Net Generation Through 1996: 2.8 billion kwh



Small Hydro Facilities

Located on reservoirs and waterways around the state, these facilities include the Ashokan Project, the Kensico Project, the Gregory B. Jarvis Plant, the Crescent Plant and the Vischer Ferry Plant (right), with a combined net dependable capability of 29,596 kw. They produced a total of 190 million kwh in 1996.



Frederick R. Clark Energy Center

Function: Coordinates NYPA system operations
Location: Marcy, north of Utica, Oneida County
Opened: June 1980

Summary Statement of Net Revenues

(In Millions)	1996	1995	Favorable/ (Unfavorable)
Revenues	**$1,430.1**	$1,412.7	$ 17.4
Operating Expenses	**1,229.5**	1,356.2	126.7
Net Operating Revenues	**200.6**	56.5	144.1
Other Income	**85.8**	95.9	(10.1)
Other Deductions	**180.9**	195.3	14.4
Revenues (Deficiency), net before extraordinary items	**105.5**	(42.9)	148.4
Extraordinary items	-	(5.6)	5.6
Net Revenues (Deficiency)	**$ 105.5**	$ (48.5)	$ 154.0

Operating Results

Net revenues reached their highest level in 12 years, increasing by $154 million to $105.5 million from a net deficiency of $48.5 million in the prior year. This dramatic turnaround was primarily due to reductions in operating and other expenses reflecting the return to full service of the Indian Point 3 (IP3) Nuclear Power Plant. Further details are presented in the applicable sections below.

Revenues

Revenues increased by $17.4 million in 1996 due to IP3's return to service and higher generation at the hydroelectric facilities (5.7 percent). Non-firm transmission sales were also higher in 1996.

Operating Expenses

Operating expenses decreased by $127 million (9 percent) to $1.230 billion from $1.356 billion in the prior year, primarily due to reductions in purchased power and operations and maintenance (O&M) expenses. The reduction in purchased power expenditures ($72.6 million) resulted from lower energy requirements due to the return to full service of IP3 on April 10, 1996, and lower Canadian imports. The reduction in O&M expenses ($46 million) resulted from the return to full service of IP3 and the ongoing efforts of the Authority in cost containment and restructuring to prepare for the competitive utility environment.

Other Income

Other income, which consists primarily of investment income, decreased by $10.1 million (11 percent) to $85.8 million from $95.9 million in the prior year. The decrease in investment income was primarily due to lower returns on decommissioning trust fund investments during 1996. During 1995, significant capital gains were realized on the sales of fixed income securities during a period when long-term interest rates were decreasing.

Other Deductions

Other deductions, which primarily consist of interest expense on debt, decreased by $14.4 million (7 percent) to $180.9 million from $195.3 million in the prior year. The decrease in interest expense was due to lower debt levels in 1996 resulting from the defeasance of Series V Bonds in 1995, scheduled maturities and bond retirements.

Extraordinary Items

There were no extraordinary charges or credits in 1996. In 1995, a gain on early bond retirements of $7.5 million was offset by a loss on the Series V Bond defeasance of $13.1 million for a net extraordinary loss of $5.6 million.

Return of IP3 to Full Service

From its return to full service on April 10, 1996, to the end of the year, IP3 operated at close to 95 percent of capacity.

Refueling Outage at JAF

During the second half of 1996, the James A. FitzPatrick Nuclear Power Plant (JAF) completed a refueling and maintenance outage in 47 days, by far the shortest such outage in its 21-year history. The fastest previous refueling, in 1978, took 83 days. JAF operated at about 75 percent of capacity during 1996 despite this outage.

Competition

The Authority continues to prepare for competition. Employees are undergoing intensive training to gain a better understanding of the Authority's mission, strategic plan, strategic result areas and goals. The training sessions also help employees understand the need to adapt their performance to new competitive challenges.

Cost containment and reduction are key elements in a competitive industry. Employee teams have identified opportunities for reducing costs and improving the efficiency of various areas of operation.

To strengthen its competitive position, the Authority signed long-term power supply agreements with substantially all of its Southeast New York (SENY) governmental customers during 1995 and 1996. These contracts will help to stabilize the Authority's revenue base in the future. Contracts signed to date represent approximately 50 percent of the Authority's 1996 revenues.

Net Generation

During 1996, the Authority's total net generation increased by more than 13 percent to 35.1 billion kilowatt-hours (kwh) from 30.9 billion kwh in 1995. The increase was due mainly to the return of IP3 to full service on April 10, 1996.

Financial Condition

The Authority is a fiscally independent public corporation that does not receive state tax revenues or credits. It is self-supporting, using revenues from operations and capital it raises in public markets. The Authority meets its capital requirements through such borrowings or with internal funds.

Capital Structure

(In Millions)	**1996**	1995	Increase/ (Decrease)
Long-term debt			
General purpose bonds	**$2,556.8**	$2,662.6	($105.8)
Adjustable rate tender notes	**194.5**	200.0	(5.5)
Total long-term debt	**2,751.3**	2,862.6	(111.3)
Accumulated net revenues employed in the business	**1,509.4**	1,414.1	95.3
Total Capitalization	**$4,260.7**	$4,276.7	($ 16.0)

Total long-term debt decreased by $111 million to $2.751 billion from $2.863 billion in 1995, due primarily to the scheduled maturities of bonds. Accumulated net revenues employed in the business increased by $95 million to $1.509 billion from $1.414 billion in 1995.

Debt Ratings

	Moody's	Standard & Poor's
Long-term debt	Aa	AA-
Adjustable Rate Tender Notes	A1/VMIG1	A+/A-1
Commercial Paper	P-1	A-1

During 1996, the Authority decreased its line of credit under a revolving credit agreement with a syndicate of banks from $300 million to $200 million, and extended the agreement to July 13, 1999. The Authority also has a revolving credit agreement with a syndicate of banks providing for $200 million, which terminates on September 5, 2001, and another revolving credit agreement with a bank for $50 million, which terminates on March 31, 1997. The Authority does not intend to seek an extension of this third agreement.

Power Authority Reports of Management and Independent Accountants

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements of the New York Power Authority (NYPA) as well as all other information contained in the Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis 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.

NYPA 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 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.

NYPA maintains an internal auditing program that independently assesses the effectiveness of the internal control system and reports findings and recommends possible improvements to management. In addition, as part of its audit of NYPA's financial statements, Coopers & Lybrand L.L.P., the Authority's independent accountants, considers the internal control structure in determining the nature, timing and extent of audit procedures to be applied. Management has considered the recommendations of the internal auditors and Coopers & Lybrand L.L.P. 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. Management believes that, as of December 31, 1996 and 1995, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

Peter W. Delaney
Senior Vice President - Business Services

Report of Independent Accountants

Power Authority of the State of New York
New York, New York

We have audited the accompanying balance sheets of the Power Authority of the State of New York (the "Authority") as of December 31, 1996 and 1995, and the related statements of net revenues and accumulated net revenues employed in the business and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Power Authority of the State of New York as of December 31, 1996 and 1995, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated February 14, 1997, and February 16, 1996, on our consideration of the Authority's internal control structure and reports dated February 14, 1997, and February 16, 1996, on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The summary of funds (cash basis) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
New York, New York
February 14, 1997

BALANCE SHEETS

December 31, 1996 and 1995
(In Thousands)

		1996	1995
Assets			
Utility Plant	Electric plant in service	**$5,222,394**	$5,088,363
	Less accumulated depreciation	**1,997,121**	1,866,964
		3,225,273	3,221,399
	Construction work in progress	**101,880**	201,798
	Nuclear fuel less accumulated amortization	**159,198**	153,139
	Net utility plant	**3,486,351**	3,576,336
Restricted Funds	Cash	**148**	752
	Investment in securities, at fair value (Notes D, J and K)	**910,373**	802,641
	Escrow deposit–Series Z Bonds (Note F)	**54,288**	54,288
		964,809	857,681
Construction Funds	Cash	**144**	151
	Investment in securities, at fair value	**194,594**	200,630
	Interest receivable on investments	**3,052**	2,022
		197,790	202,803
Current Assets	Cash	**282**	1,972
	Investment in securities, at fair value	**298,109**	263,374
	Interest receivable on investments	**17,553**	14,666
	Receivables–customers	**139,675**	138,087
	Materials and supplies, at average cost:		
	Plant and general	**73,422**	71,494
	Fuel	**15,502**	8,164
	Prepayments, miscellaneous receivables and other	**39,760**	23,126
		584,303	520,883
Other Non-current Assets	Unamortized debt expense	**20,618**	22,623
	Deferred charges, long-term receivables and other	**271,893**	231,120
		292,511	253,743
	Total Assets	**$5,525,764**	$5,411,446
Liabilities and Capitalization			
Capitalization	Long-term debt (Notes C, F and G):		
	General purpose bonds	**$2,556,779**	$2,662,637
	Adjustable rate tender notes	**194,520**	197,365
		2,751,299	2,860,002
	Accumulated net revenues employed in the business:		
	Accumulated net revenues	**1,500,942**	1,395,487
	Unrealized holding gains on investments (Note D)	**8,473**	18,635
		1,509,415	1,414,122
	Total Capitalization	**4,260,714**	4,274,124
Current Liabilities	Long-term debt due within one year	**95,775**	82,585
	Short-term debt (Note H)	**219,850**	178,971
	Accounts payable and accrued liabilities	**200,577**	178,033
		516,202	439,589
Other Non-current Liabilities	Nuclear plant decommissioning (Note J)	**447,384**	392,408
	Disposal of spent nuclear fuel (Note I)	**140,081**	134,674
	Deferred revenues and other	**161,383**	170,651
		748,848	697,733
Commitments and Contingencies (Note L)			
	Total Liabilities and Capitalization	**$5,525,764**	$5,411,446

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

STATEMENTS OF NET REVENUES AND ACCUMULATED NET REVENUES EMPLOYED IN THE BUSINESS

Years Ended December 31, 1996 and 1995
(In Thousands)

Statement of Net Revenues		1996	1995
Operating Revenues	Power sales	**$1,042,020**	$1,039,400
	Transmission charges	**118,310**	104,029
	Wheeling charges	**269,820**	269,262
	Total Operating Revenues	**1,430,150**	1,412,691
Operating Expenses	Operations	**418,184**	466,108
	Nuclear fuel	**65,799**	43,184
	Fuel oil and gas	**81,675**	115,131
	Purchased power–Hydro-Québec	**67,255**	114,591
	–Other	**51,056**	76,314
	Maintenance	**136,242**	134,315
	Wheeling	**269,820**	269,262
	Depreciation	**139,514**	137,278
	Total Operating Expenses	**1,229,545**	1,356,183
	Net Operating Revenues	**200,605**	56,508
Other Income	Investment income	**81,517**	92,684
	Other	**4,252**	3,228
	Total Other Income	**85,769**	95,912
Other Deductions	Interest on long-term debt	**170,639**	186,554
	Interest–other	**7,857**	7,589
	Interest capitalized	**(4,310)**	(5,583)
	Amortization of debt discount and expense	**6,706**	6,761
	Total Other Deductions	**180,892**	195,321
	Revenues (Deficiency), net before extraordinary items	**105,482**	(42,901)
	Bond retirements at less than principal amount (Note F)	-	7,605
	Loss on bond defeasance (Note G)	-	(13,158)
	Net Revenues (Deficiency)	**$ 105,482**	$ (48,454)

Statement of Accumulated Net Revenues Employed in the Business		
Accumulated Net Revenues Employed in the Business at January 1	**$1,395,487**	$1,443,941
Adjustments to January 1 Balance:		
Unrealized holding gains (losses) on investment securities held in the operating and general fund on January 1	**18,635**	(41,665)
Accumulated net revenues employed in the business at January 1, as adjusted	**1,414,122**	1,402,276
Net Revenues (Deficiency)	**105,482**	(48,454)
Changes in unrealized holding gains on investments held in the operating and general fund	**(10,189)**	60,300
Accumulated Net Revenues Employed in the Business at December 31	**$1,509,415**	$1,414,122

STATEMENTS OF CASH FLOWS

Years Ended December 31, 1996 and 1995
Increase (Decrease) in Cash
(In Thousands)

		1996	1995
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission, wheeling	**$1,447,629**	$1,423,783
	Earnings received on investments	**48,190**	61,297
	POCR funds received from New York State (Note K)	**34,000**	-
	Paid to suppliers and employees for:		
	Operations and maintenance	**(492,648)**	(533,342)
	Purchased power	**(122,814)**	(200,613)
	Fuel oil and gas	**(91,538)**	(109,518)
	Wheeling of power by other utilities	**(265,975)**	(268,835)
	Energy conservation program costs	**(68,386)**	(45,337)
	Payment to New York State (Note K)	**(34,000)**	-
	Reimbursement to New York State for property tax transition payments (Note L[8])	-	(15,000)
	Interest paid (net of $4,310 and $5,583 capitalized, respectively)	**(173,840)**	(180,135)
	Net cash provided by operating activities	**280,618**	132,300
Cash Flows From Investing Activities	Earnings received on construction fund investments	**10,628**	11,918
	Earnings received on nuclear decommissioning trust fund	**26,760**	38,380
	Construction and acquisition of utility plant:		
	Gross additions to utility plant	**(48,971)**	(48,601)
	Gross additions to nuclear fuel	**(50,667)**	(10,450)
	Construction costs reimbursed by others	-	463
	Paid for preliminary investigations	**(6,291)**	(6,197)
	Paid to nuclear decommissioning trust fund	**(59,245)**	(152,696)
	Purchase of investment securities	**(9,327,220)**	(9,955,128)
	Sale of investment securities	**9,230,593**	10,411,031
	Net cash provided by \ (used in) investing activities	**(224,413)**	288,720
Cash Flows From Financing Activities	Sale of commercial paper	**63,600**	45,000
	Repayment of master notes	**(22,721)**	(46,344)
	Repayment of adjustable rate tender notes	**(2,635)**	-
	Bond defeasance ($251,995 principal amount)	-	(271,225)
	Retirement of bonds	**(96,750)**	(151,230)
	Net cash used in financing activities	**(58,506)**	(423,799)
	Net Decrease in Cash	**(2,301)**	(2,779)
	Cash, January 1	**2,875**	5,654
	Cash, December 31	**$ 574**	$ 2,875
Reconciliation to Net Cash Provided by Operating Activities	Net Revenues (Deficiency)	**$ 105,482**	$ (48,454)
	Adjustments to reconcile net revenues (deficiency) to net cash provided by operating activities:		
	Provision for depreciation	**139,514**	137,278
	Amortization of nuclear fuel	**44,608**	26,095
	Provision for spent fuel disposal and nuclear plant decommissioning	**59,522**	96,881
	Amortization of deferred revenues	**(8,407)**	(8,732)
	Amortization of debt discount and expenses	**6,706**	6,761
	Preliminary investigations expensed	**5,569**	6,740
	DOE decommissioning and decontamination costs charged to expense	**3,674**	3,761
	Energy conservation program payments received from plan participants	**26,323**	22,301
	Net (increase) \ decrease in prepayments and other	**(16,634)**	(3,008)
	Net (increase) \ decrease in receivables and inventory	**(14,770)**	9,902
	Net increase \ (decrease) in accounts payable and accrued liabilities	**23,793**	(23,328)
	Earnings received on nuclear decommissioning trust fund	**(26,760)**	(38,380)
	Deferred costs to be recovered from customers in future periods	**(68,002)**	(55,517)
	Net cash provided by operating activities	**$ 280,618**	$ 132,300

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

SUMMARY OF FUNDS

(CASH BASIS)
Year Ended December 31, 1996
(In Thousands)

	Revenue	Operating	Fuel Reserve Account	Projects Study
Available Funds, January 1, 1996	$ 0	$ 258,089	$ 0	$ 0
Cash Receipts				
Sale of power, transmission and wheeling	1,416,393			
Earnings on investments	46,892			
Sale of commercial paper				
Administrative expenses reimbursed from other funds		6,262		
Construction costs reimbursed by others				
Receipt of POCR funds from New York State (Note K)				
Other	4,913			
Total Receipts	1,468,198	6,262		
Total Available	1,468,198	264,351		
Transfer of funds–revenue	(1,468,198)	918,141	142,205	6,291
–decommissioning				
–other				
	$ 0	1,182,492	142,205	6,291
Cash Disbursements				
Interest on bonds, notes and commercial paper				
Retirement of bonds ($97,580 principal amount)				
Repayment of notes				
Utility plant additions		8,051		
Nuclear fuel			50,667	
Fuel oil and gas			91,538	
Operations and maintenance		484,587		
Purchased power–Hydro-Québec		64,718		
–Other		58,096		
Wheeling		265,975		
Expenditures chargeable to other funds		3,935		
Preliminary investigations				6,291
Energy conservation program costs				
Administrative expenses reimbursed to the operating fund				
Payment to New York State per legislation (Note K)				
Other				
Total Disbursements		885,362	142,205	6,291
Available Funds, December 31, 1996		$ 297,130	$ 0	$ 0
Distributed as follows:				
Cash		$ 282		$ 0
Investments in securities, at cost		296,848		
		$ 297,130		$ 0
Investments in securities, at fair value		$ 298,109		

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

General Fund (Held by Trustee)		Restricted				
Bond Service	Bond Reserve	General Reserve	Nuclear Decommissioning Trust (Note J)	Petroleum Overcharge Restitution (POCR) (Note K)	Note Debt Service Reserve	Note Proceeds
$ 0	$309,661	$ 46,974	$405,689		$20,000	$ 18
			26,760	$ 760	10	
				34,000		
		0	26,760	34,760	10	0
	309,661	46,974	432,449	34,760	20,010	18
243,612	36,792	121,157				
		(32,485)	32,485			
	(6,015)	(4,194)				4,194
243,612	340,438	131,452	464,934	34,760	20,010	4,212
163,662		10,421				4,067
79,950	16,800					
		2,635				
		21,835				
		1,624				
		1,217				
		34,000				
		985		1,517		
243,612	16,800	72,717	0	1,517	0	4,067
$ 0	$323,638	$ 58,735	$464,934	$33,243	$20,010	$ 145
		$ 3				$ 145
	$323,638	58,732			$20,010	
	$323,638	$ 58,735			$20,010	$ 145
	$330,898	$ 58,329	$467,609	$33,649	$19,888	

SUMMARY OF FUNDS

(CASH BASIS)
Year Ended December 31, 1995
(In Thousands)

	Revenue	Operating	Fuel Reserve Account	Projects' Study
Available Funds, January 1, 1995	$ 0	$ 523,132	$ 0	$ 6
Cash Receipts				
Sale of power, transmission and wheeling	1,398,774			
Earnings on investments	59,611			
Sale of commercial paper				
Administrative expenses reimbursed from other funds		3,514		
Construction costs reimbursed by others		463		
Other	2,708			
Total Receipts	1,461,093	3,977		
Total Available	1,461,093	527,109		6
Transfer of funds–revenue	(1,461,093)	736,151	119,968	6,191
–decommissioning				
–other				
	$ 0	1,263,260	119,968	6,197
Cash Disbursements				
Interest on bonds, notes and commercial paper				
Retirement of bonds ($158,835 principal amount)				
Bond defeasance ($251,995 principal amount)				
Repayment of notes				
Utility plant additions		6,619		
Nuclear fuel			10,450	
Fuel oil and gas			109,518	
Operations and maintenance		519,555		
Purchased power–Hydro-Québec		127,968		
–Other		72,645		
Wheeling		268,835		
Expenditures chargeable to other funds		9,549		
Preliminary investigations				6,197
Reimbursement to New York State for property tax transition payments (Note L[8])				
Energy conservation program costs				
Administrative expenses reimbursed to the operating fund				
Other				
Total Disbursements		1,005,171	119,968	6,197
Available Funds, December 31, 1995		$ 258,089	$ 0	$ 0
Distributed as follows:				
Cash		$ 1,972		
Investments in securities, at cost		256,117		
		$ 258,089		
Investments in securities, at fair value		$ 263,374		

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

General Fund (Held by Trustee)		Restricted			
Bond Service	Bond Reserve	General Reserve	Nuclear Decommissioning Trust (Note J)	Note Debt Service Reserve	Note Proceeds
$ 0	$377,420	$146,493	$252,993	$20,000	$ 48
			38,380		
		13,610			
		13,610	38,380		
	377,420	160,103	291,373	20,000	48
259,876	38,972	299,935			
		(114,316)	114,316		
44	(6,540)	209			2,025
259,920	409,852	345,931	405,689	20,000	2,073
169,956		13,707			2,055
81,620	67,310	2,300			
8,344	32,881	230,000			
		13,578			
		19,458			
		15,000			
		3,715			
		676			
		523			
259,920	100,191	298,957			2,055
$ 0	$309,661	$ 46,974	$405,689	$20,000	$ 18
	$ 601	$ 132		$ 1	$ 18
	309,060	46,842		19,999	
	$309,661	$ 46,974		$20,000	$ 18
	$321,147	$ 46,380	$415,342	$19,772	

SUMMARY OF FUNDS

(CASH BASIS) (continued)
Years Ended December 31, 1996 and 1995
(In Thousands)

	Indian Point 3 Project Improvement Fund	
	No.1	No.3
Available Funds, January 1, 1995	$ 9,905	$107,485
Cash Receipts		
Earnings on investments	432	7,868
Sale of commercial paper		
Energy conservation programs		
Total Receipts	432	7,868
Total Available	10,337	115,353
Transfer of funds—other		
	10,337	115,353
Cash Disbursements		
Repayment of notes		
Utility plant additions	572	330
Energy conservation program costs		
Administrative expenses reimbursed to the operating fund	6	79
Total Disbursements	578	409
Available Funds, December 31, 1995	$ 9,759	$114,944
Distributed as follows		
Cash	$ 3	$ 6
Investments in securities, at cost	9,756	114,938
	$ 9,759	$114,944
Investments in securities, at fair value	$ 9,715	$116,240
Available Funds, January 1, 1996	$ 9,759	$114,944
Cash Receipts		
Earnings on investments	504	6,714
Sale of commercial paper		
Energy conservation programs		
Total Receipts	504	6,714
Total Available	10,263	121,658
Transfer of funds—other		
	10,263	121,658
Cash Disbursements		
Repayment of notes		
Utility plant additions	316	843
Energy conservation program costs		
Administrative expenses reimbursed to the operating fund	52	53
Total Disbursements	368	896
Available Funds, December 31, 1996	$ 9,895	$120,762
Distributed as follows		
Cash	$ 40	$ 2
Investments in securities, at cost	9,855	120,760
	$ 9,895	$120,762
Investments in securities, at fair value	$ 9,843	$119,830

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

J.A. FitzPatrick Project Improvement Fund		Construction				
No.2	No.3	Sound Cable Project	Energy Conservation	Flynn Plant	Facilities Improvement	Total
$13,965	$53,271	$ 54	$ 36,343	$ 4,049	$ 135	$225,207
833	2,661	2	1,686	122		13,604
			31,390			31,390
			22,301			22,301
833	2,661	2	55,377	122		67,295
14,798	55,932	56	91,720	4,171	135	292,502
		1,384			2,878	4,262
14,798	55,932	1,440	91,720	4,171	3,013	296,764
			32,766			32,766
709	9,901	1,434		1,095	2,900	16,941
			45,377			45,377
93	678		1,598	299	85	2,838
802	10,579	1,434	79,701	1,394	2,985	97,882
$13,996	$45,353	$ 6	$ 12,019	$ 2,777	$ 28	$198,882
$ 5	$ 87	$ 6	$ 14	$ 2	$ 28	$ 151
13,991	45,266		12,005	2,775		198,731
$13,996	$45,353	$ 6	$ 12,019	$ 2,777	$ 28	$198,882
$14,008	$45,879		$ 12,008	$ 2,780		$200,630
$13,996	$45,353	$ 6	$ 12,019	$ 2,777	$ 28	$198,882
580	2,708		528	122		11,156
			63,600			63,600
			26,323			26,323
580	2,708	0	90,451	122		101,079
14,576	48,061	6	102,470	2,899	28	299,961
		1,650			4,365	6,015
14,576	48,061	1,656	102,470	2,899	4,393	305,976
			22,721			22,721
229	6,844	1,626		828	4,089	14,775
			68,386			68,386
16	435	18	4,013	183	275	5,045
245	7,279	1,644	95,120	1,011	4,364	110,927
$14,331	$40,782	$ 12	$ 7,350	$ 1,888	$ 29	$195,049
$ 2	$ 4	$ 12	$ 4	$ 51	$ 29	$ 144
14,329	40,778		7,346	1,837		194,905
$14,331	$40,782	$ 12	$ 7,350	$ 1,888	$ 29	$195,049
$14,580	$41,088		$ 7,376	$ 1,877		$194,594

Note A - General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State by Chapter 772 of the Laws of 1931, as last amended by Chapter 506 of the Laws of 1995.

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

The Authority's trustees are appointed by the Governor of the State, with the advice and consent of the State Senate, to serve five-year terms. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to private investors and pays related debt service principally 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 Statement No. 14, "The Financial Reporting Entity," the Authority considers its relationship to the State to be that of a related organization.

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

Note B - Accounting Policies

(1) Accounts of the Authority are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority also complies with authoritative pronouncements applicable to non-governmental entities (i.e., Financial Accounting Standards Board statements) that do not conflict with GASB pronouncements.

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

(2) Utility plant is stated at original cost and consists primarily 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 respective project prior to completion thereof. Borrowed funds for a specific construction project are deposited in a construction fund account. Earnings on fund investments are held in the fund to be used for construction purposes.

Earnings on unexpended borrowed funds are credited to the cost of the related project until completion of the project. Utility plant costs are reduced by revenues received for power produced (net of expenditures incurred in operating the projects) prior to the date of completion. The costs of current repairs are charged to operating expenses, and renewals and betterments are capitalized. The cost of utility plant retired and the cost of removal less salvage (exclusive of nuclear plant decommissioning costs [see Note J]) are charged to accumulated depreciation.

Management assesses the operating efficiency and economic value of the Authority's operating facilities on an ongoing basis, in light of increasing competition in the utility industry.

(3) Depreciation is provided on a straight-line basis over the estimated useful lives of the various classes of plant as determined by independent engineers and includes estimated cost of removal, net of estimated salvage value.

(4) Electric plant in service at December 31, 1996 and 1995, and the related depreciation provisions expressed as a percentage of average depreciable electric plant on an annual basis were:

	Electric Plant in Service		Average Depreciation Rate	
Type of Plant	**1996**	1995	**1996**	1995
Production:	($ in millions)			
Steam	**$ 441.9**	$ 437.5	**3.2%**	3.2%
Nuclear	**1,580.9**	1,518.0	**3.3%**	3.3%
Hydro	**1,304.1**	1,288.3	**1.7%**	1.7%
Other	**133.3**	120.7	**2.5%**	2.5%
Transmission	**1,501.1**	1,479.7	**2.5%**	2.6%
General	**261.1**	244.2	**4.9%**	4.8%
	$5,222.4	$5,088.4	**2.7%**	2.7%

(5) The amortization of nuclear fuel is provided on a unit-of-production basis. Amortization rates are determined and periodically revised to amortize the cost of nuclear fuel over its estimated useful life. The estimated costs of disposal of spent nuclear fuel are included in provisions for operating expenses

(see Note I). In addition, the Authority is providing for the decommissioning of its nuclear plants over their estimated useful lives (see Note J).

(6) Deferred revenues for 1996 and 1995 of $127.2 million and $132.9 million, respectively, represent certain billings related to the recovery of costs that have been deferred and are being amortized over the life of the applicable asset.

The national Energy Policy Act of 1992 (Energy Act) provides, among other things, that utilities with nuclear reactors will collectively contribute a total of $150 million annually, based upon an assessment, for a period of 15 years, up to a total of $2.25 billion (in 1992 dollars), for the decommissioning and decontamination of the United States Department of Energy (DOE) nuclear fuel enrichment facilities. As of December 31, 1996 and 1995, the Authority has deferred charges of $18.4 million and $21.0 million, respectively, pertaining to the aforementioned assessment, which will be recovered from customers in the future. The Authority's remaining liability to the DOE for its share of these costs, as of December 31, 1996 and 1995, amounted to $36.2 million and $38.8 million, respectively.

At December 31, 1996 and 1995, deferred charges also included $110.9 million and $93.2 million, respectively, of energy conservation program costs and $17.0 million and $18.0 million, respectively, of fixed gas costs in excess of current recoveries. These deferred costs will be recovered from customers in future periods.

Other non-current assets include $5.7 million and $11.4 million as of December 31, 1996 and 1995, respectively, resulting from the Authority's prepayment to New York State Electric & Gas Corporation for the use of substation facilities related to the Authority's Marcy-South Transmission Line.

(7) Costs incurred by the Projects' Study Fund for preliminary investigations of a project are transferred to utility plant upon the specification of a project under the General Purpose Bond Resolution (Resolution) (see Note C). If the study does not result in a project, the costs are charged as an expense to net revenues in the period such determination is made.

(8) For purposes of reporting cash flows, cash includes cash and cash equivalents and short-term investments with original maturities of three months or less.

(9) Debt discount and expense are amortized over the lives of the related debt issues on a straight-line basis.

(10) In accordance with the Resolution, upon completion or the latest estimated date of completion of each project, whichever is earlier, all revenues received from such project are required to be paid into the Revenue Fund.

(11) Funds required for all bond service payments due under the Resolution are payable on July 1 and January 1 and are made available to the Bond Trustee on the immediately preceding June 30 and December 31, by which dates such amounts are segregated for that purpose.

Accordingly, at December 31, 1996 and 1995, no liability is reflected in the accompanying financial statements for bond service payments of $161.5 million and $166.1 million due on January 1, 1997 and 1996, respectively.

(12) Revenues are recorded when billed. Customers' meters are read, and bills are rendered monthly. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to three SENY governmental customers and three investor-owned utilities operating in the State accounted for approximately 66 and 67 percent of the Authority's operating revenues in 1996 and 1995, respectively. The aforementioned SENY governmental customers have entered into long-term contracts with the Authority through December 31, 2004 (see Note L[4]).

Note C - General Purpose Bond Resolution

The Resolution, adopted on November 26, 1974, as amended and supplemented, covers all of the Authority's projects, which it defines as any project of the Authority directly or indirectly related to power generation or transmission, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest, authorized by the Act and specified in a supplemental resolution adopted at the time a series of bonds is authorized. Before bonds are issued for any new project, a prescribed earnings test must be met based on estimated revenues and operating expenses certified by an independent engineer. A Projects' Study Fund was established by the Resolution to finance preliminary efforts of the Authority to determine appropriate methods to fulfill its purposes under the Act.

The Authority has covenanted with bondholders that at all times rates and charges will be sufficient, together with other monies available therefor, to meet the financial requirements of the Resolution. Revenues from all completed projects of the Authority (after deductions for operating expenses, including necessary working capital reserves, and Projects' Study) are applied first to the payment of bond service (interest and principal installments due on outstanding bonds). Then a sum equal to 15 percent of the amount allocated to bond service is set aside in a bond reserve account, and any remaining revenues are deposited in a general reserve account. Amounts in the bond reserve account are to be used to meet any deficiency in the bond service account and, to the extent not required to make good any such deficiency, may, at the direction of the Authority, be paid to it for application to the cost of construction of any project.

The Resolution also provides for the retirement of bonds from amounts in the bond reserve account in excess of the bond reserve requirement. The Authority has periodically purchased such bonds when available at favorable prices.

Amounts in the general reserve account not needed to meet any deficiency in the bond service or bond reserve accounts may be applied to specific Authority purposes, including emergency repairs and replacements, project improvements and extensions,

and reserves for the retirement, decommissioning or disposal of project facilities. Amounts in the general reserve account not required for such purposes shall, at the Authority's direction, be paid to it for any lawful corporate purpose.

The Authority makes open-market purchases of its general purpose bonds from available general reserve account funds paid to it for that purpose. These bonds are acquired, to the extent necessary to meet bond reserve fund call requirements, by the Bond Trustee by November 15 of each year with monies available in the bond reserve account. During 1996 and 1995, $7.2 million and $0.6 million, respectively, in general purpose bonds were purchased by the general reserve account to meet such call requirements.

Note D - Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Resolution and with the Authority's investment guidelines adopted pursuant to Section 2925 of the New York Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. The Authority's investments have been restricted to (a) collateralized certificates of deposit, (b) obligations of the United States Government, its agencies and instrumentalities and agreements for the repurchase of such obligations, and (c) direct and general obligations of any state or political subdivision, provided that such obligations were rated in either of the two highest rating categories by two nationally recognized bond-rating agencies. All investments are held by designated custodians in the name of the Authority. Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment, and the agreements are limited to a maximum fixed term of five business days. At December 31, 1996 and 1995, the Authority had investments in repurchase agreements of $2.1 million and $31.6 million, respectively. At December 31, 1996 and 1995, the Balance Sheet reflected cash in the restricted funds, construction funds and current assets of $0.6 million and $2.9 million, respectively. The bank balances were $2.3 million and $5.1 million, respectively, of which $195,000 and $292,000, respectively, were covered by Federal depository insurance and $2.1 million and $4.8 million, respectively, were uninsured. The uninsured balance related primarily to amounts in checking accounts for which checks had been issued but had not yet cleared.

The Authority follows the provisions of Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and, in accordance with this Statement, the Authority's investments have been classified as "available-for-sale." A summary of securities ("Investment Summary") included in current assets, restricted funds and unexpended funds on completed projects within the construction fund at December 31, 1996 and 1995, respectively, is on the next page of this Annual Report.

A summary of unexpended borrowed funds for projects in progress included in the construction fund at December 31, 1996 and 1995, respectively, is in the Investment Summary.

The Authority holds a small position in securities that are considered derivatives under Governmental Accounting Standards Board Technical Bulletin 94-1. All such holdings have been purchased subject to and in accordance with Section 2925 of the New York Public Authorities Law and as allowed under the Resolution. These holdings include Collateralized Mortgage Obligations (CMOs) and floating rate securities that were purchased to meet cash flow requirements. The Authority does not engage in securities lending or reverse repurchase agreements.

The Authority's holdings of CMOs and floating rate securities were as follows:

	December 31, 1996		December 31, 1995	
(In Thousands)	**Par Value**	**Estimated Fair Value**	Par Value	Estimated Fair Value
CMOs	**$ 4,688**	**$ 4,668**	$ 6,829	$ 6,969
(In Thousands)	**Rates**	**Estimated Fair Value**	Rates	Estimated Fair Value
Floating rate	**2.32-5.94%**	**$36,691**	2.02-6.06%	$51,185

All securities in these categories are backed by the full faith and credit of the United States Government or its agencies.

CMOs are subject to prepayment risk generally caused by a decline in interest rates; and floating rate securities are reset periodically based on changes in interest rates. None of these holdings are needed to meet current liquidity requirements.

INVESTMENT SUMMARY

(In Thousands)

	1996				1995			
	Cost	Gross Unrealized Gains(1)	Gross Unrealized Losses (1)	Estimated Fair Value	Cost	Gross Unrealized Gains(1)	Gross Unrealized Losses (1)	Estimated Fair Value
SECTION Ia:								
Securities included in current assets, restricted funds and unexpended funds on completed projects within the construction fund								
U.S. Treasuries	$ 137,447	$ 6,758	($ 410)	$ 143,795	$ 61,137	$ 6,895	($ 314)	$ 67,718
Municipal securities	51,048	2,718		53,766	50,808	3,399		54,207
GNMA	19,268	426	(17)	19,677	10,846	509	(22)	11,333
Project loans	56,676	1,810	(1,435)	57,051	65,790	4,254	(1,378)	68,666
U.S. Government Agencies	434,319	2,881	(4,462)	432,738	416,605	7,572	(2,083)	422,094
Repurchase agreements	2,100			2,100	31,600			31,600
Shipping bonds	7,554		(202)	7,352	10,012		(170)	9,842
	$ 708,412	$14,593	($ 6,526)	$ 716,479	$ 646,798	$ 22,629	($3,967)	$ 665,460
SECTION Ib:								
Unexpended borrowed funds for projects in progress included in the construction fund								
U.S. Treasuries	$ 55,027	$ 822	($ 30)	$ 55,819	$ 59,446	$ 1,324	($ 102)	$ 60,668
Municipal securities				-	2,379			2,379
U.S. Government Agencies	130,694	336	(1,509)	129,521	122,126	776	(106)	122,796
	$ 185,721	$ 1,158	($ 1,539)	$ 185,340	$ 183,951	$ 2,100	($ 208)	$ 185,843
Section I Totals	$ 894,133	$15,751	($ 8,065)	$ 901,819	$ 830,749	$ 24,729	($4,175)	$ 851,303
SECTION II:								
Decommissioning Trust Funds								
Corporate Bonds	$ 147,674	$ 1,734	($ 1,234)	$ 148,174	$ 110,510	$ 4,228	($ 80)	$ 114,658
U.S. Treasuries	96,544	333	(424)	96,453	89,604	2,327		91,931
U.S. Government Agencies	131,653	1,623	(268)	133,008	83,400	2,416	(256)	85,560
Foreign bonds	40,938	453	(423)	40,968	33,247	868	(423)	33,692
Private placements	16,560	507	(30)	17,037	16,176	771	(211)	16,736
Short-term, cash and cash equivalents	31,565	865	(461)	31,969	72,753	12		72,765
	$ 464,934	$ 5,515	($ 2,840)	$ 467,609	$ 405,690	$ 10,622	($ 970)	$ 415,342
SECTION III:								
Petroleum Overcharge Restitution Funds								
U.S. Treasuries	$ 32,721	$ 406		$ 33,127				
Short-term cash and cash equivalents	521			521				
	$ 33,242	$ 406		$ 33,648				
Totals for Sections I, II & III	$1,392,309	$21,672	($10,905)	$1,403,076	$1,236,439	$35,351	($5,145)	$1,266,645

Reconciliation to Balance Sheet Amounts:

1. Restricted Funds: Investment in nuclear decommissioning trust fund	$ 467,609	$ 415,342
2. Restricted Funds: Investment in Petroleum Overcharge Restitution Funds	33,648	
3. Restricted Funds: General Fund and other	409,116	387,299
4. Restricted Funds: Investment in securities	$ 910,373	$ 802,641
5. Construction Funds: Investment in securities	194,594	200,630
6. Current Assets: Investment in securities	298,109	263,374
7. Sum of lines 3, 5 & 6	901,819	851,303
8. Sum of lines 4, 5 & 6	$ 1,403,076	$ 1,266,645

Realized Gains and Losses (2)	SECTION Ia	SECTION Ib	SECTION II	SECTION III	SECTION Ia	SECTION Ib	SECTION II
Realized Gains	$ 472	$ 231	$ 27,677	0	$ 5,400	$ 328	$ 23,046
Realized Losses	(1,639)	(413)	(27,708)	0	(10,400)	(449)	(5,859)

(1) Unrealized gains and losses on investments in these funds were recognized as follows:
Section Ia - included as an adjustment to Accumulated Net Revenues Employed in the Business.
Section Ib - reflected as an adjustment to construction in progress.
Section II - reflected as adjustments to liability for nuclear plant decommissioning.
Section III - included as an adjustment to Accumulated Net Revenues Employed in the Business.

(2) Realized gains and losses on the sale of investments in these funds were recognized as follows:
Section Ia - recognized as investment income.
Section Ib - reflected as an adjustment to construction in progress.
Section II - reflected as adjustments to liability for nuclear plant decommissioning.
Section III - recognized as investment income.

Summary of Maturities (3):

(In Thousands)

		1996						1995			
		SECTION I		SECTION II		SECTION III		SECTION I		SECTION II	
From More Than	To	Cost	Estimated Fair Value	Cost	Estimated Fair Value	Cost	Estimated Fair Value	Cost	Estimated Fair Value	Cost	Estimated Fair Value
0	1 year	$162,225	$162,506	$ 21,890	$ 22,294	$25,272	$25,630	$213,589	$213,295	$ 85,922	$ 85,651
1 year	5 years	405,347	410,375	59,476	59,619	7,970	8,018	277,161	286,891	53,840	54,603
5 years	10 years	229,810	230,032	130,949	126,576			250,665	258,428	107,301	109,651
10 years	onward	96,751	98,906	252,619	259,120			89,334	92,689	158,627	165,437
		$894,133	$901,819	$464,934	$467,609	$33,242	$33,648	$830,749	$851,303	$405,690	$415,342

(3) The cost and estimated fair value of these investments, by stated maturities, are shown in this schedule. Actual maturities are likely to differ from stated maturities since the issuers of certain securities have the right to prepay obligations without penalty.

Note E - Pension Plans, Other Retirement Benefits, Deferred Compensation and Savings Plans

Pension Plans:

Substantially all employees of the Authority are members of the New York State and Local Employees Retirement System (System), which is a cost-sharing, multiple-public-employer defined benefit pension plan. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average salary, and all benefits generally vest after 10 years of accredited service.

For personnel who became members of the System prior to July 27, 1976, the Authority contributes the entire amount determined by the System to be payable. Gross salaries, for Federal income tax purposes, of personnel who joined the System after July 27, 1976, are reduced by 3 percent. The aggregate amount of these reductions, together with any balance payable to the System, is contributed to the System by the Authority.

The Authority's contributions to the System are paid in December of each year on the basis of the Authority's estimated salaries for the System's fiscal year ending the following March 31. Contributions are made in accordance with funding requirements determined by the actuary of the System.

Legislation enacted in 1990 amending the New York State Retirement and Social Security Law required changes in the actuarial calculations made by the System, including the adoption of a modified projected unit credit method effective for the System's fiscal year ended March 31, 1991. In 1993, the New York State Court of Appeals affirmed a decision by the New York State Supreme Court indicating that this legislation was an unconstitutional attempt to divest public employees of a contractual right to an independent trustee. The State Comptroller has implemented a plan that restored the aggregate cost method commencing with the fiscal year ended March 31, 1995, with a cap on contribution rates for the first four years. Under this plan, the Authority's required contribution to the System was $6.0 million, $6.7 million and $2.6 million for the years ended March 31, 1997, 1996 and 1995 (paid on or about December 15, 1996, 1995 and 1994), respectively. Contributions are expected to increase each year through March 31, 1999, at which time the aggregate cost method will be applied without a cap. On December 15, 1995, the Authority elected to pay the remaining balance of unpaid contributions for the years ended March 31, 1988, and 1989 ($13 million), which had been deferred as permitted by legislation enacted in 1989.

For detailed information concerning the System, refer to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 1996.

Post-retirement Benefits:

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents. Employees and their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working for the Authority. Approximately 500 participants were eligible to receive these benefits at December 31, 1996. The cost of these benefits is charged to expense as paid, and totaled $2.9 million and $2.8 million for the years ended December 31, 1996 and 1995, respectively. The Authority accrues the cost of unused sick leave payable upon retirement in accordance with GASB Statement No. 16, "Accounting for Compensated Absences."

Deferred Compensation and Savings Plans:

The Authority offers 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. Amounts of compensation deferred and the related income remain the property of the Authority, with participants' rights equal to those of general creditors in an amount equal to the fair market value of the deferred account of each participant. The fair market value of plan assets at December 31, 1996 and 1995, of $16.3 million and $11.0 million, respectively, is included in "Other Noncurrent Assets" on the Balance Sheet.

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401K. An independent trustee is responsible for the investment and management of plan assets under the direction of a committee of employees. The Authority matches contributions of employees with a minimum of one year's service up to limits specified in the plan, and such matching contributions totaled $3.4 million for 1996 and $3.2 million for 1995.

Note F - Long-Term Debt

A summary of general purpose bonds payable at December 31, 1996 and 1995, follows:

		1996 Amount	1995 Amount	Maturity January 1	Interest Rate[a]	Earliest Redemption Date Prior to Maturity[b]
Series N	Term Bonds	**$ 48,200,000**	$ 49,090,000	2018	6.00%	1/1/1994
Series T	Term Bonds	**46,615,000**	49,870,000	2019	5.00%	1/1/1996
	Serial Bonds		7,225,000	1997	6.90%	
Series U	Term Bonds	**53,350,000**	56,400,000	2018	5.75%	1/1/1996
	Serial Bonds		5,260,000	1997	6.80%	
Series V	Term Bonds	**32,630,000**	32,630,000	2004	7.00%	1/1/1998
	Term Bonds	**72,560,000**	72,560,000	2006	7.80%	
	Term Bonds	**40,330,000**	40,330,000	2007	7.875%	
	Term Bonds	**90,060,000**	90,060,000	2009	7.00%	
	Serial Bonds	**137,280,000**	150,530,000	1998 to 2003	6.90% to 7.60%	
Series W	Term Bonds	**82,110,000**	82,110,000	2008	6.50%	
	Serial Bonds	**177,710,000**	191,195,000	1998 to 2005	6.10% to 6.70%	
Series X	Serial Bonds	**895,000**	1,300,000	1998 to 1999	6.60% to 6.70%	1/1/1998
Series Y	Term Bonds	**47,775,000**	47,775,000	2011	6.50%	1/1/2001
	Term Bonds	**119,770,000**	119,770,000	2018	6.75%	
	Term Bonds	**45,385,000**	45,385,000	2020	6.00%	
	Serial Bonds	**78,825,000**	84,435,000	1998 to 2007	5.90% to 6.25%	
Series Z[c]	Term Bonds	**25,540,000**	25,540,000	2012	6.625%	1/1/2002
	Term Bonds	**117,240,000**	117,240,000	2019	6.50%	
	Term Bonds	**21,385,000**	21,385,000	2020	5.50%	
	Serial Bonds	**129,950,000**	131,280,000	1998 to 2007	5.50% to 6.50%	
Series AA	Term Bonds	**62,135,000**	62,135,000	2012	6.375%	1/1/2002
	Term Bonds	**81,360,000**	81,360,000	2023	6.25%	
	Serial Bonds	**80,180,000**	86,035,000	1998 to 2007	5.20% to 6.30%	
Series BB	Serial Bonds	**99,965,000**	107,520,000	1998 to 2007	5.20% to 6.30%	1/1/2002
Series CC[d]	Term Bonds	**121,800,000**	121,800,000	2014	5.00%	1/1/2003
	Term Bonds	**146,050,000**	156,485,000	2018	5.25%	
	Serial Bonds	**743,505,000**	763,480,000	1998 to 2011	3.60% to 5.125%	
		2,702,605,000[e]	2,800,185,000[e]			
Less: unamortized discount		**52,896,000**	57,598,000			
		2,649,709,000	2,742,587,000			
Less: due within one year		**92,930,000**	79,950,000			
		$2,556,779,000	$2,662,637,000			

(a) Interest is payable semiannually on January 1 and July 1.

(b) Bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date. Annual maturities for the next five calendar years are as follows: 1997, $92.9 million; 1998, $100.6 million; 1999, $154.7 million; 2000, $128.8 million; and 2001, $136.2 million.

(c) In December 1991, in order to achieve debt service savings, the Authority issued $298.8 million principal amount of General Purpose Bonds, Series Z, to refund previously issued bonds. A portion of the proceeds of this issue was used to establish an irrevocable escrow deposit in the amount of $54.3 million, which was invested in non-interest-bearing direct obligations of the United States of America and will be used to pay a portion of the principal and interest on Series Z Bonds maturing January 1, 2000.

(d) During 1995, the Authority purchased $68.6 million principal amount of Series CC Bonds at a cost of $61.1 million. The difference ($7.5 million) between the principal amount and the cash paid has been included as an extraordinary item in the 1995 Statement of Net Revenues.

(e) At December 31, 1996 and 1995, the current market value of these bonds was approximately $2.78 billion and $2.92 billion, respectively. Market values were obtained from a third party pricing service that utilized a matrix pricing model.

In prior years, the Authority defeased certain general purpose bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 1996 and 1995, $.97 billion and $1.03 billion, respectively, of bonds outstanding were considered defeased.

Adjustable rate tender notes (Notes) outstanding at December 31 were:

Notes			Interest Rate at	
(In thousands)	**1996**	1995	**12/31/96**	12/31/95
Due March 1, 2007	**$ 47,365**	$ 50,000	**3.70%**	3.85%
Due March 1, 2016	**75,000**	75,000	**3.70%**	3.85%
Due March 1, 2020	**75,000**	75,000	**3.70%**	3.85%
	197,365	200,000		
Less: due within one year	**2,845**	2,635		
	$194,520	$197,365		

Annual maturities for the next five calendar years are as follows: 1997, $2.8 million; 1998, $3.1 million; 1999, $3.3 million; 2000, $3.6 million; and 2001, $3.9 million.

In accordance with the Adjustable Rate Tender Note Resolution adopted April 30, 1985 (Note Resolution), the Authority may designate a rate period of different duration, effective on any rate adjustment date. The Remarketing Agent appointed under the Note Resolution determines the rate for each rate period, which in the agent's opinion is the minimum rate necessary to remarket the Notes at par. The Notes may be tendered to the Authority by the holders on any adjustment date. The next rate adjustment date is March 1, 1997.

The Authority has entered into a revolving credit agreement (Agreement) with a syndicate of banks to provide a supporting line of credit. Under the Agreement, which terminates on September 5, 2001, the Authority may borrow up to $200 million for the purpose of repaying, redeeming or purchasing the Notes or other bonds or notes of the Authority specified by the Authority from time to time by notice to the banks. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 1996 and 1995) at the agent bank's prime commercial lending rate as in effect from time to time or the Federal Funds Rate plus a percentage, whichever is higher, and for a fee on the unused portion of the commitment.

In accordance with the Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million.

Note G - Bond Defeasance

In order to achieve debt service savings, on May 2, 1995, the Authority transferred $230 million from the general reserve account, $32.9 million from the bond reserve account and $8.3 million from the bond service account to an irrevocable escrow deposit account to be invested in direct obligations of the United States of America. The maturing principal of and interest on such securities will be sufficient to pay the principal, interest and applicable call premium on January 1, 1998, on $107 million principal amount of Series V Bonds, 7.875 percent due January 1, 2013, and $145 million principal amount of Series V Bonds, 8.00 percent due January 1, 2017.

As a result of the defeasance and the escrow deposit, the Series V Bonds that were defeased are deemed to have been paid pursuant to the Resolution, and they cease to be a liability of the Authority. Therefore, the defeased Series V Bonds and the related escrow deposit have been excluded from the Balance Sheet.

The Authority expects to realize approximately $370 million in gross debt service savings from this transaction. However, since the total cash transferred to the escrow deposit account exceeds the principal amount of the refunded bonds, together with the unamortized discount and expense pertaining to the refunded bonds, a loss of $13.2 million results from this transaction and has been reflected as an extraordinary item in the 1995 Statement of Net Revenues.

Note H - Short-Term Debt

Master Notes

Under a $150 million master note arrangement expiring February 1, 2000, the Authority had outstanding with a bank, at December 31, 1996 and 1995, $61.3 million and $84 million, respectively, of short-term notes, payable on demand. Under the arrangement, the proceeds of the notes may be used to finance the costs of fuel and energy conservation programs and of construction of any project designated pursuant to the Resolution and the repayment of any obligations issued for such purposes. Interest is computed based on a rate adjusted weekly and applied to the daily principal amount outstanding.

At December 31, 1995, the Authority had $22.7 million of master notes outstanding, which were being used in connection with the implementation and financing of the Authority's energy conservation programs. The remaining $61.3 million of master notes that were outstanding at December 31, 1996 and 1995, were issued in prior years to fund a portion of the construction cost of the Authority's small hydroelectric facilities. During 1996 and 1995, the Authority repaid $22.7 million and $46.3 million, respectively, of these notes.

The Authority has a revolving credit agreement with a bank, terminating on March 31, 1997, providing a line of credit whereby the Authority may borrow up to $50 million (none outstanding December 31, 1996 and 1995) for corporate purposes, at the interest rate option specified by the Authority and for a fee on the unused portion of the commitment. This line will not be extended because the Authority has sufficient financial flexibility.

Commercial Paper

Under the Commercial Paper Note Resolution adopted June 28, 1994, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the dates of issue, up to a maximum amount outstanding at any time of $300 million. The proceeds of these notes shall be used to finance the Authority's current and future energy conservation programs and for other corporate purposes, including refunding short-term notes. During 1996 and 1995, the Authority issued

and sold $63.6 million and $45 million, respectively, of commercial paper notes and had $158.6 million and $95 million of commercial paper notes outstanding at December 31, 1996 and 1995, respectively.

The Authority has entered into a revolving credit agreement with a syndicate of banks, terminating on July 13, 1999, to provide a line of credit. Under the revolving credit agreement, the Authority may borrow up to $200 million (none outstanding December 31, 1996 and 1995).

Note I - Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, the Authority in June 1983 entered into a contract with DOE, under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. However, it appears unlikely that DOE will accept any Authority spent nuclear fuel before 2010. The contract provides that the Authority will pay quarterly to DOE a fee based on nuclear generation and sales of electricity at a specified rate from April 7, 1983.

In addition, the contract requires the payment to DOE of a one-time fee relating to spent nuclear fuel discharged prior to April 7, 1983, and for in-core spent fuel on that day. As permitted by the contract, the Authority presently intends to pay this one-time fee of $58.7 million, together with interest accrued thereon from April 7, 1983, when the Authority first ships spent nuclear fuel to an approved DOE disposal facility. As of December 31, 1996 and 1995, the liability to DOE related to the one-time fee, including accrued interest from April 7, 1983, totaled $140.1 million and $133.0 million, respectively.

Note J - Nuclear Plant Decommissioning

The Authority has established a decommissioning trust fund for each of its nuclear plants in accordance with Nuclear Regulatory Commission (NRC) rules requiring reactor operators to certify that sufficient funds, in amounts not less than certain prescribed minimums, will be available for decommissioning. These minimum amounts, which represent only the decontamination portion of the total cost, were $400 million and $430 million, in 1995 dollars, for the Indian Point 3 and FitzPatrick nuclear plants, respectively. These funds must be segregated from the licensee's assets and outside of its administrative control. The Authority anticipates that sufficient funds (estimated at $545 million and $560 million, in 1995 dollars, for the Indian Point 3 and FitzPatrick nuclear plants, respectively) will be available to decommission the plants at the end of their useful lives. The annual provision for decommissioning ($60.4 million and $72.1 million for 1996 and 1995, respectively) included in the Statement of Net Revenues is based on the estimated total cost of decommissioning, including decontamination, demolition and site restoration, adjusted for the actual yield on segregated funds. The Balance Sheet includes liabilities of $447.4 million and $394.1 million, respectively, as of December 31, 1996 and 1995, representing cumulative provisions recorded to date.

The nuclear decommissioning funds are held in trust and are managed by two professional investment management firms. The trust allows for investment in a broad range of government, corporate and foreign securities rated AA or better and permits the use of futures and foreign currency contracts.

The allowable investments include a number of different types of derivative securities that may be purchased to increase yield, control risk and hedge currency fluctuations. At December 31, 1996 and 1995, respectively, the decommissioning trust funds had approximately 12 and 11 percent of their holdings in CMOs; and the fair value of such investments was $56 million and $46.6 million, respectively. The par value of the CMOs at December 31, 1996 and 1995, was $57.1 million and $46.5 million, respectively. During these years, the funds held amounts up to 5 percent of their value in forward foreign currency contracts. The investment managers may use Treasury Bond Futures to increase or decrease the duration of the portfolio and their use is limited to 10 percent of the market value of the portfolio. The trust funds may invest up to 20 percent of their market value in foreign currency denominated bonds. The trust fund managers are required to use forward foreign currency contracts to lock in the expected yield on the amounts that exceed 5 percent of the market value of the fund. Foreign currency exchange contracts at December 31, 1996 and 1995 were valued at $351,000 and $229,000, respectively.

Investments, classified as available-for-sale, in the decommissioning trust funds at December 31, 1996 and 1995, are summarized in the Investment Summary in Note D.

Note K - Petroleum Overcharge Restitution (POCR) Funds

In June 1995, legislation was enacted by the State Legislature which contains provisions that authorize the Authority to utilize $34 million in Petroleum Overcharge Restitution (POCR) 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 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. In addition, the June 1995 legislation directed the Authority to pay $34 million to the State. On September 27, 1995, the Authority's trustees authorized the payment of funds to the State upon the execution of an agreement acceptable to the State and the Authority. This payment was made in May 1996. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account and the Authority invests the funds until they are utilized.

In July 1996, legislation was enacted by the State Legislature which contains provisions that authorize the Authority to utilize an additional $9 million in POCR funds, to be made available to the Authority by the State pursuant to the legislation, for similar and new energy-related purposes with certain funding limitations. The legislation also directs the Authority to pay $9 million to New York State prior to March 31, 1997. On December 17, 1996, the Authority's trustees authorized the payment to the State upon execution of an agreement acceptable to the State and the Authority. The payment is expected to be made in early 1997.

Investments, classified as available-for-sale, in the POCR funds at December 31, 1996, are summarized in the Investment Summary.

Note L - Commitments and Contingencies

(1) *Competition*

The Energy Act, coupled with increasing customer demand for lower-priced electricity, is expected to stimulate greater competition in both the wholesale and retail electricity markets. These competitive pressures may create opportunities to compete for new customers and revenues, as well as increase risk that could lead to loss of customers. The Authority and other New York utilities are currently examining various proposals designed to restructure the New York electric industry so as to create a competitive wholesale and retail market for electricity sales in the future.

Further, some large customers are considering self-generation or alternative power sources. This trend has been accentuated by the efforts of FERC to produce a competitive bulk power market by implementing non-discriminatory open-access transmission service to wholesale sellers and purchasers of electricity.

On April 24, 1996, FERC issued a ruling on open-access transmission. It ordered all investor-owned utilities to file, by July 9, 1996, a pro forma open-access non-discriminatory tariff. In this ruling, FERC also instituted a "reciprocity" provision in the pro forma tariff that would obligate non-jurisdictional utilities receiving open-access transmission from an investor-owned utility to provide comparable transmission service to the investor-owned utility. FERC also stated that Section 211 of the Federal Power Act, applied on a case-by-case basis, provides FERC the authority to require the same quality of open-access service from non-jurisdictional utilities.

Although the Authority was not required to do so, in response to FERC's ruling and consistent with developments in the changing electric utility industry, the Authority voluntarily submitted an open-access tariff to FERC on December 27, 1996.

(2) *Public Service Commission Competitive Opportunities Proceeding*

On March 19, 1993, the New York State Public Service Commission (PSC) commenced a proceeding to investigate issues related to a future regulatory regime for New York's electric industry in light of increasing competitive opportunities. The second phase of this proceeding, which commenced in August 1994, concerns issues related to potential restructuring of the industry from a regulated monopoly service to a more competitive framework. Restructuring may involve a change in the Authority's role in the State's electric industry.

Although not under the regulatory oversight of the PSC, on October 1, 1996, the Authority submitted to the PSC the Authority's proposal for restructuring New York's electric utility industry. The Authority proposed the establishment of a single owner/operator of the transmission system in New York, with the Authority to become the owner/operator of all of the State's high voltage transmission lines to provide ratepayer savings, improve reliability of service and facilitate the move to customer choice. To accomplish this, the Authority proposed to purchase the transmission facilities at a price above the facilities' book value, with the increment to be used to alleviate the utilities' stranded investment problem arising from restructuring. The Authority would issue taxable bonds, the principal amount not to exceed $4.4 billion, to effectuate the purchase. The Authority would also undergo a functional separation, but not divestiture, of the transmission aspects from the other aspects of its business to be consistent with FERC open-access guidelines.

(3) *Statewide ISO Proposal*

In addition to the Authority's PSC proposal, discussed above, the Authority has also cooperated with the investor-owned electric utilities in the State to fashion an arrangement whereby the electric transmission facilities in the State, including the Authority's transmission facilities, would be operated by an independent system operator (ISO), which would be a not-for-profit corporation, under a statewide FERC-approved open-access tariff so as to facilitate the competitive market envisioned by the PSC and FERC. The Authority would, however, retain ownership of its transmission system under the arrangement. On January 28, 1997, the Authority's trustees approved the Authority entering into agreements which would implement the ISO arrangement, with such agreements being contingent upon, among other things, approval of the arrangement by FERC and the Authority receiving sufficient compensation from the arrangement to meet its transmission system costs, which, under the terms of the arrangement, would be subject to FERC approval. Such agreements also provide for withdrawal by the Authority from the arrangement upon the satisfaction of certain conditions.

The ISO proposal and related agreements and tariffs were submitted to FERC for approval on January 31, 1997. If approved, the arrangement may be partially implemented in mid-1997, with full implementation possible by mid-1998.

there is a covered loss at any of the member groups' (i.e., owners of domestic nuclear power plants who are also covered by the insurance companies that insure the Authority) nuclear facilities that exceeds insurance funds available, the Authority could be subject to retrospective premium assessments for both its reactors during any one policy year, based on a multiple of the annual premium. As of December 31, 1996, the Authority could be liable for a maximum assessment of approximately $22.4 million during any one policy year.

(10) *Long Island Matters*

The Authority's Flynn combined-cycle generating plant (Flynn) and Long Island Sound Cable transmission facility (LISC) were constructed to provide utility services on Long Island. Currently, the Long Island Lighting Company (LILCO) is the sole customer with contracts to purchase electricity and transmission services provided by these facilities, which represented $88.2 million of the Authority's 1996 operating revenues. The net book values of these facilities at December 31, 1996, were $132.5 million for Flynn and $248.9 million for the LISC.

On December 6, 1995, Governor George E. Pataki announced a proposal to reduce electric rates on Long Island by dismantling LILCO. The proposal provides for the acquisition of LILCO's transmission and distribution system by the Long Island Power Authority and the sale of LILCO's power-generating units.

On December 29, 1996, the boards of Brooklyn Union Gas Co. and LILCO approved a merger of the two companies.

The Authority cannot predict the outcome of the Governor's proposal or the merger transaction, or the effect, if any, that they will have on the Authority's operations or revenues.

(11) *Indian Point 3 Return to Service*

The Indian Point 3 nuclear plant returned to full service on April 10, 1996. It had been removed from service on September 14, 1995, to repair the electric generator cooling system and remained out of service to perform other maintenance work and to correct performance weaknesses. After returning to full service, the plant operated at more than 90 percent of capacity for the remainder of 1996.

The plant remained on the NRC's "watch list" of facilities requiring increased NRC attention as of the commission's review in January 1997. The plant had a net book value of $552.9 million at December 31, 1996. Realization of the full value of this asset is dependent on the Authority's ability to operate the facility throughout the remainder of its license period (2015) at an average capacity factor higher than the plant has attained during its lifetime (1976 to 1996).

(12) *Low-Level Radioactive Waste*

The Federal Low-Level Radioactive Waste Policy Act, as amended in 1985, requires states to join compacts or to individually develop their own low-level radioactive waste disposal site. In response to the Federal law, the State had decided to develop its own site because of the large volume of such waste generated in New York, and had committed to develop a plan for the management of the low-level radioactive waste in New York State during the interim period until the disposal facility was available. The State expected the disposal facility would begin operations in 2001. It does not appear likely that a disposal facility will be available to begin operations in 2001.

The Authority presently ships the low-level radioactive waste generated at its two nuclear power plant sites to a disposal facility in Barnwell, South Carolina. During the period July 1, 1994, to June 30, 1995, the legislature of South Carolina denied access to the facility to out-of-region low-level radioactive waste generators, including New York State. The Authority cannot predict whether the Barnwell facility will be closed again to out-of-region low-level radioactive waste generators at some future date before the New York State disposal facility becomes available, and is developing low-level radioactive waste management programs, including compaction and on-site storage capability.

(4) *Long-term Contracts*

The Authority has negotiated long-term contracts with substantially all of its SENY governmental customers. The revenues from these customers were approximately 50 percent of the Authority's 1996 Operating Revenues.

The agreements extend through at least December 31, 2004. They provide stabilized rate features through 2001 or 2002, depending upon the contract, with rates thereafter adjusted based upon, in the case of some contracts, changes in the cost to provide service or, in the case of other contracts, a market index. Certain of the contracts provide for shared savings beginning in 1998 contingent upon reducing the cost of service. In other instances, rate rebates and economic development incentives are provided. Customers have the right to terminate service if the Authority increases baseline demand and energy charges to meet bond covenant requirements. Customers may also reduce service by limited amounts under certain specified conditions and, under certain contracts, may terminate service if rate increases exceed specified amounts at specified times.

Pursuant to these contracts with the majority of the SENY governmental customers, the Authority has agreed to undertake up to $401 million in energy efficiency projects over the term of the contracts. Such projects must be approved by Authority management before being undertaken, and agreements covering these projects providing for full repayment of costs from customers must be in place.

(5) *Payment for Use of Certain Substations*

In return for the use of certain substation facilities related to the Authority's Marcy-South Transmission Line, the Authority is committed to pay three New York utilities approximately $17 million in 1997, and $7 million in 1998.

(6) *Natural Gas Contract*

The Authority has entered into a long-term contract under which it is obligated to purchase approximately 10.75 billion cubic feet of natural gas annually through the year 2014, or pay a penalty on the unused volumes. Based on minimum payment obligations in the contract, the Authority will pay an average annual amount for gas purchased under the contract of approximately $41.1 million through the year 2002. Thereafter, the price for gas under the contract will be set at 10 percent above the spot market price.

(7) *Legal and Related Matters*

By letter dated November 6, 1996, Consolidated Edison Company of New York, Inc. (Con Edison) informed the Authority that it intends to seek damages in connection with the recent periods when the Authority's Indian Point 3 nuclear plant was not in service. Con Edison has stated that it "intends to seek recovery of capacity charge payments" associated with certain periods which "could include some or all of the approximately $29 million paid by Con Edison for periods when Indian Point No. 3 was not in service occurring after the commencement of the outage on February 27, 1993," as well as the cost of replacement energy purchased during this period for prices exceeding those which Con Edison would have paid the Authority. Con Edison stated that the "order of magnitude estimate for these [replacement energy] costs is approximately $40 million."

The eight municipalities which are the petitioners in *Village of Bergen v. Power Authority* object to the Authority's apportionment of indirect overhead costs in determining rates charged for service provided from the Authority's hydroelectric facilities. These municipalities claim that the Authority's apportionment methodology resulted in overcharges (their alleged damages) totaling approximately $6.2 million for the period May 1, 1992, through April 30, 1996. While eight municipal customers are involved in this proceeding, an adverse decision could impact a portion of the revenue collected from all preference power recipients during that time. Revenues from preference power recipients accounted for 5.8 percent of the Authority's 1996 operating revenues.

There are actions, proceedings and matters pending before Federal and State courts and agencies involving certain Authority projects, the title to land occupied by such projects and rates for the sale of power that may result in impeding the operations of such projects and may require the Authority to incur substantial additional costs or revenue reductions.

While the ultimate outcome of these matters is not presently determinable, the Authority's general counsel believes that the Authority has meritorious positions, which have been or will be asserted in these matters.

(8) *Recent New York State-Related Financial Matter*

In 1992 the Authority paid $35 million to the State to reimburse it for a portion of statutorily required real property tax transition payments made to local taxing jurisdictions as a result of the Authority's acquisition of the Indian Point 3 properties from Con Edison in 1975. During 1995, pursuant to a request by the State, the Authority paid an additional $15 million to meet the claimed remaining portion of such reimbursement. This charge is included as an operating expense in the 1995 Statement of Net Revenues.

(9) *Nuclear Liability Insurance*

Under provisions of the Federal Price-Anderson Act, the overall maximum public liability for a single nuclear incident is limited to approximately $8.9 billion. Coverage for the first $200 million of such liability is provided by private insurance. In the event that public liability from an insured nuclear incident were to exceed $200 million, the Authority would be subject to a pro rata assessment of up to $79.3 million, in addition to inflation adjustments thereon, for each reactor owned, with a yearly assessment no greater than $10 million per incident per reactor owned.

In addition to the liability insurance required by the Federal Price-Anderson Act, the NRC requires each licensee to carry decontamination liability and excess property damage insurance in the aggregate minimum amount of $1.06 billion for each reactor site. The Authority has such coverage in force. In the event

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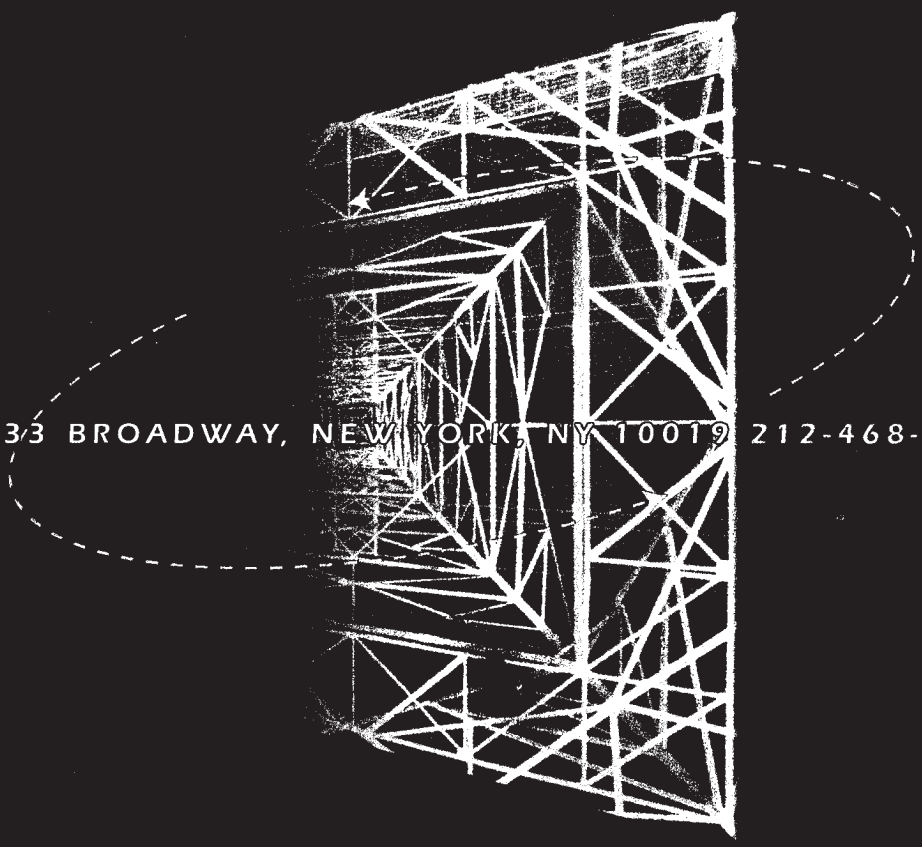

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