123 Main Street
White Plains, New York 10601
914 681.6840
914 287.3309 (FAX)

New York Power Authority

James Knubel
Senior Vice President and
Chief Nuclear Officer

April 24, 1998
IPN-98-046
JPN-98-014

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 1997. 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

300015

Enclosures
cc: see next page

M004

1/10

9804300175 971231
PDR ADOCK 05000286
I PDR

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

Resident Inspector's Office
Indian Point 3
U.S. Nuclear Regulatory Commission
P.O. Box 337
Buchanan, NY 10511

Office of the Resident Inspector
James A. FitzPatrick
U.S. Nuclear Regulatory Commission
P.O. Box 136
Lycoming, NY 13093

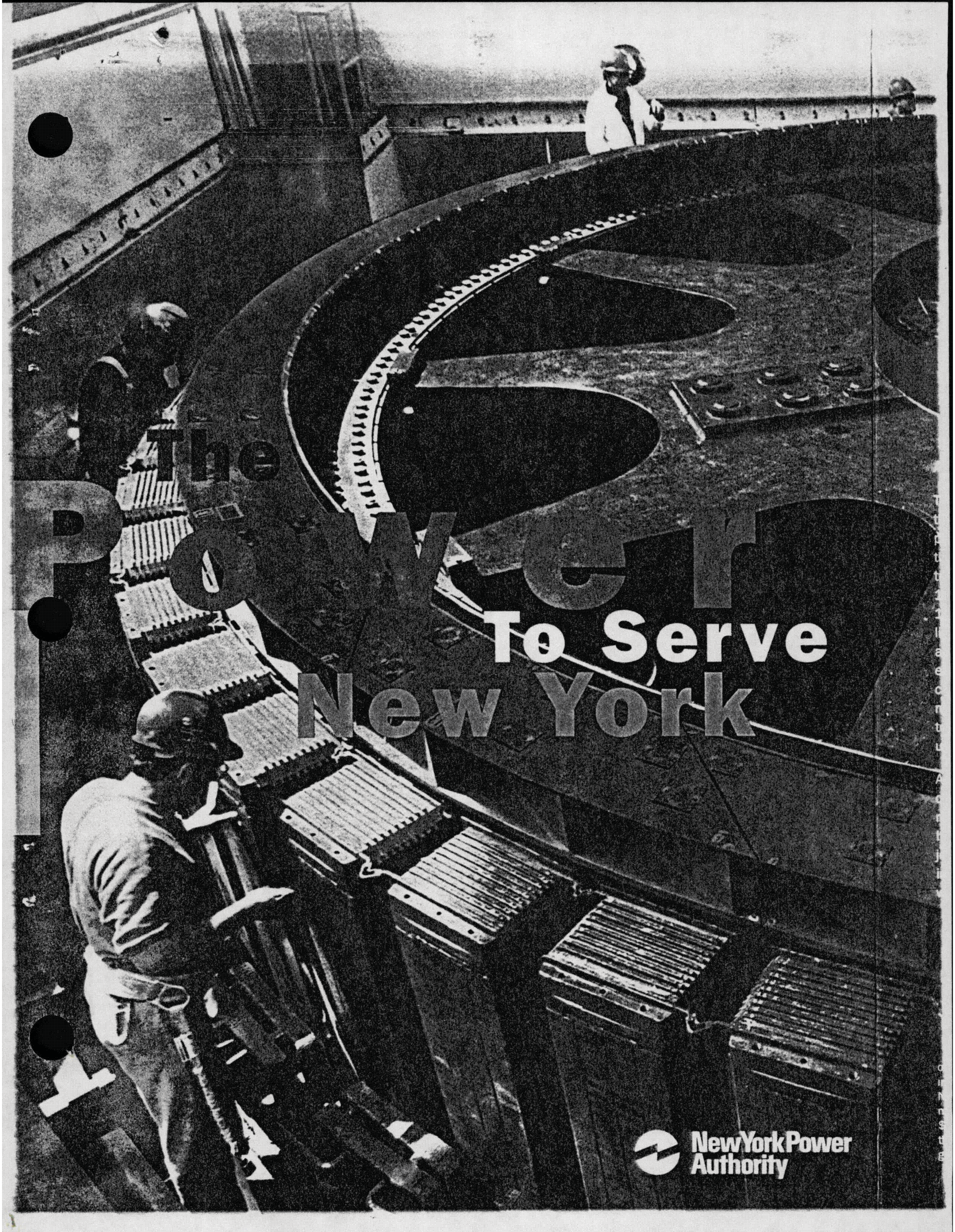
Mr. George F. Wunder, Project Manager
Project Directorate I-1
Division of Reactor Projects I/II
U.S. Nuclear Regulatory Commission
Mail Stop 14B2
Washington, DC 20555

Mr. Joseph F. Williams, Project Manager
Project Directorate I-1
Division of Reactor Projects - I/II
U.S. Nuclear Regulatory Commission
Mail Stop OWFN 14E21
Washington, DC 20555

50-286 NYPA INDIAN POINT 3

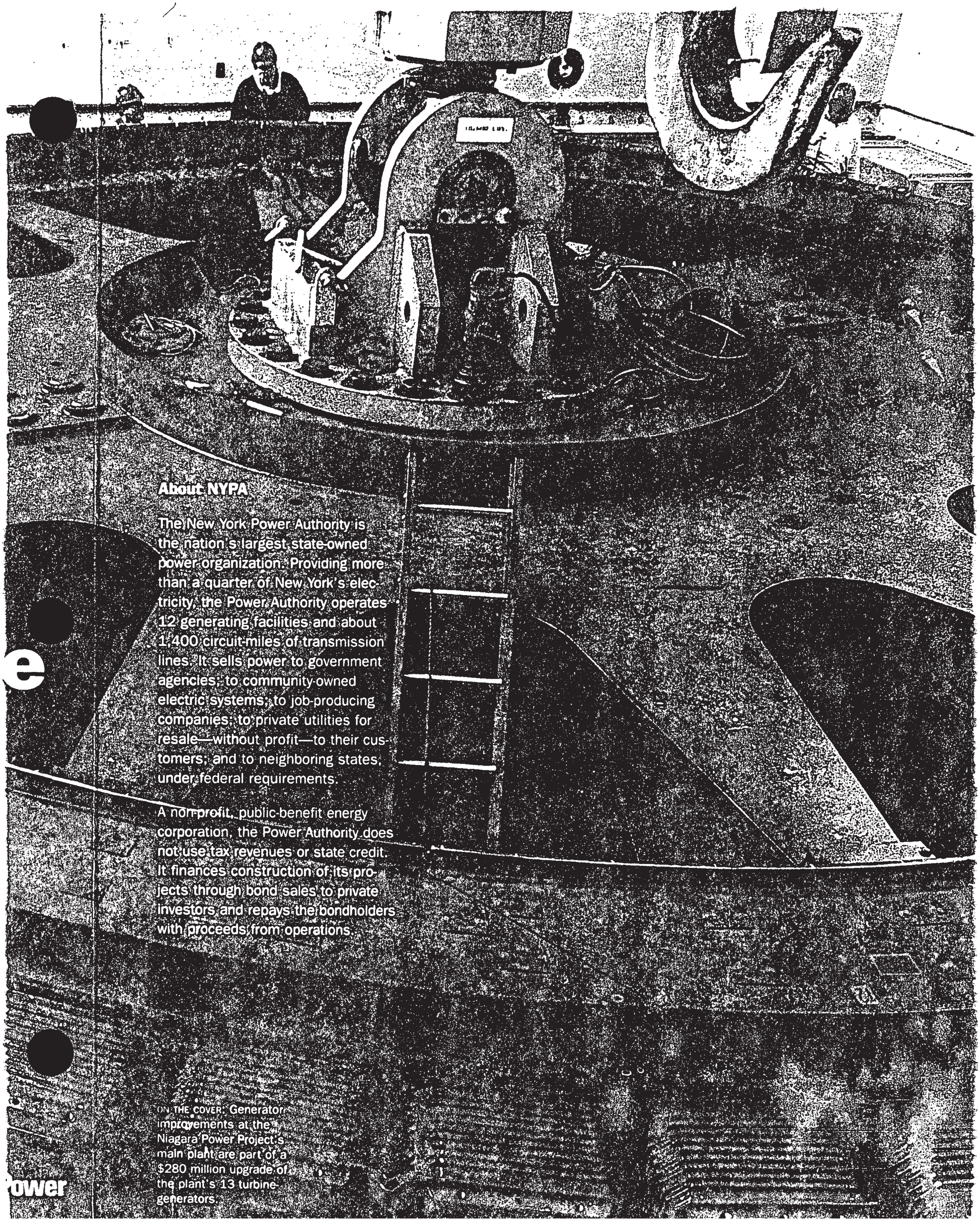
AUTHORITY'S ANNUAL FINANCIAL REPORT FOR 1997.

REC'D W/LTR DTD 04/24/98....9804300175



The Power To Serve New York

NewYorkPower Authority



About NYPA

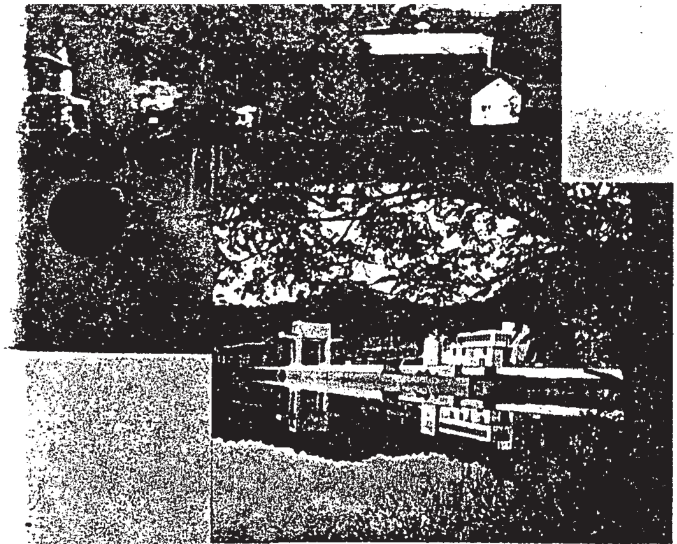
The New York Power Authority is the nation's largest state-owned power organization. Providing more than a quarter of New York's electricity, the Power Authority operates 12 generating facilities and about 1,400 circuit-miles of transmission lines. It sells power to government agencies; to community-owned 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.

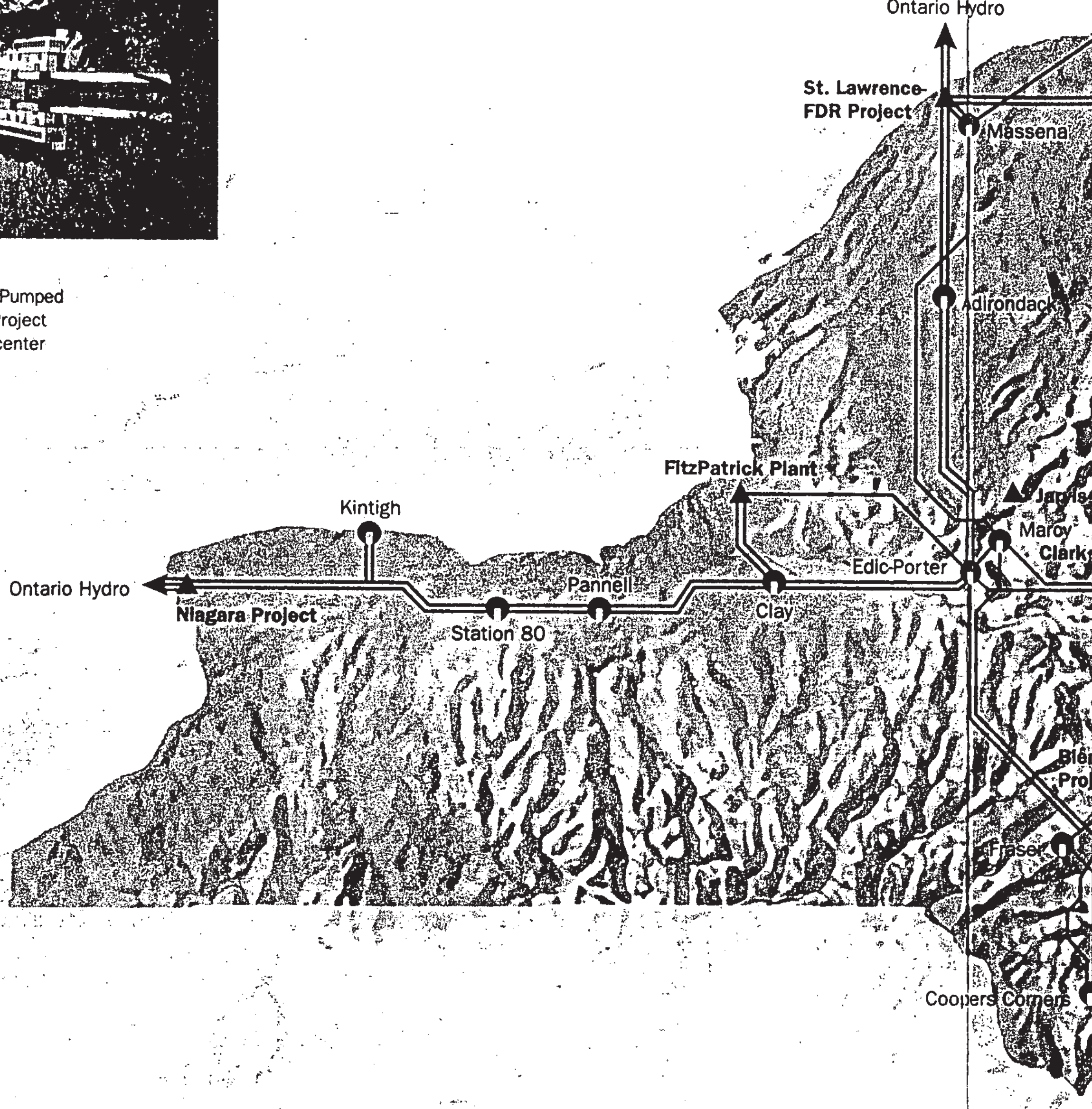
ON THE COVER: Generator improvements at the Niagara Power Project's main plant are part of a $280 million upgrade of the plant's 13 turbine-generators.

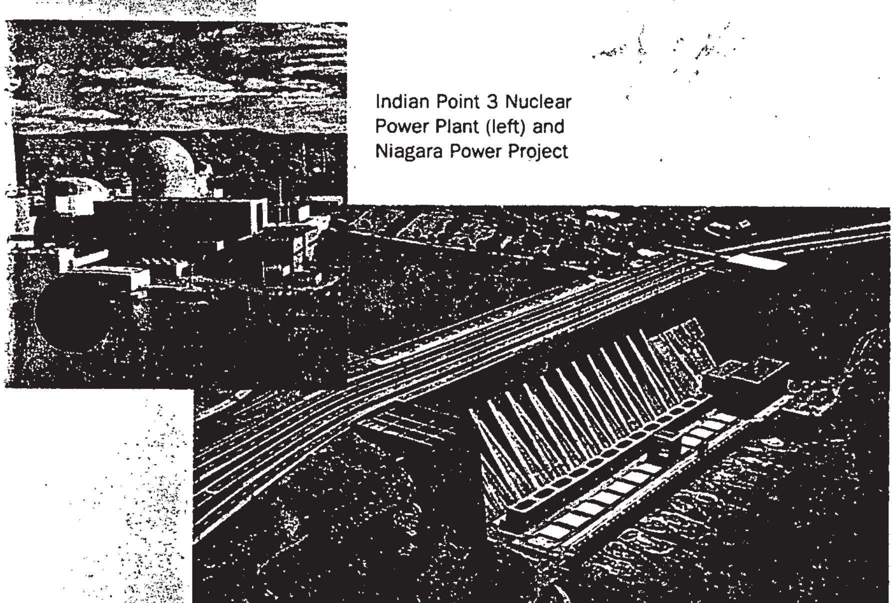
e

Power

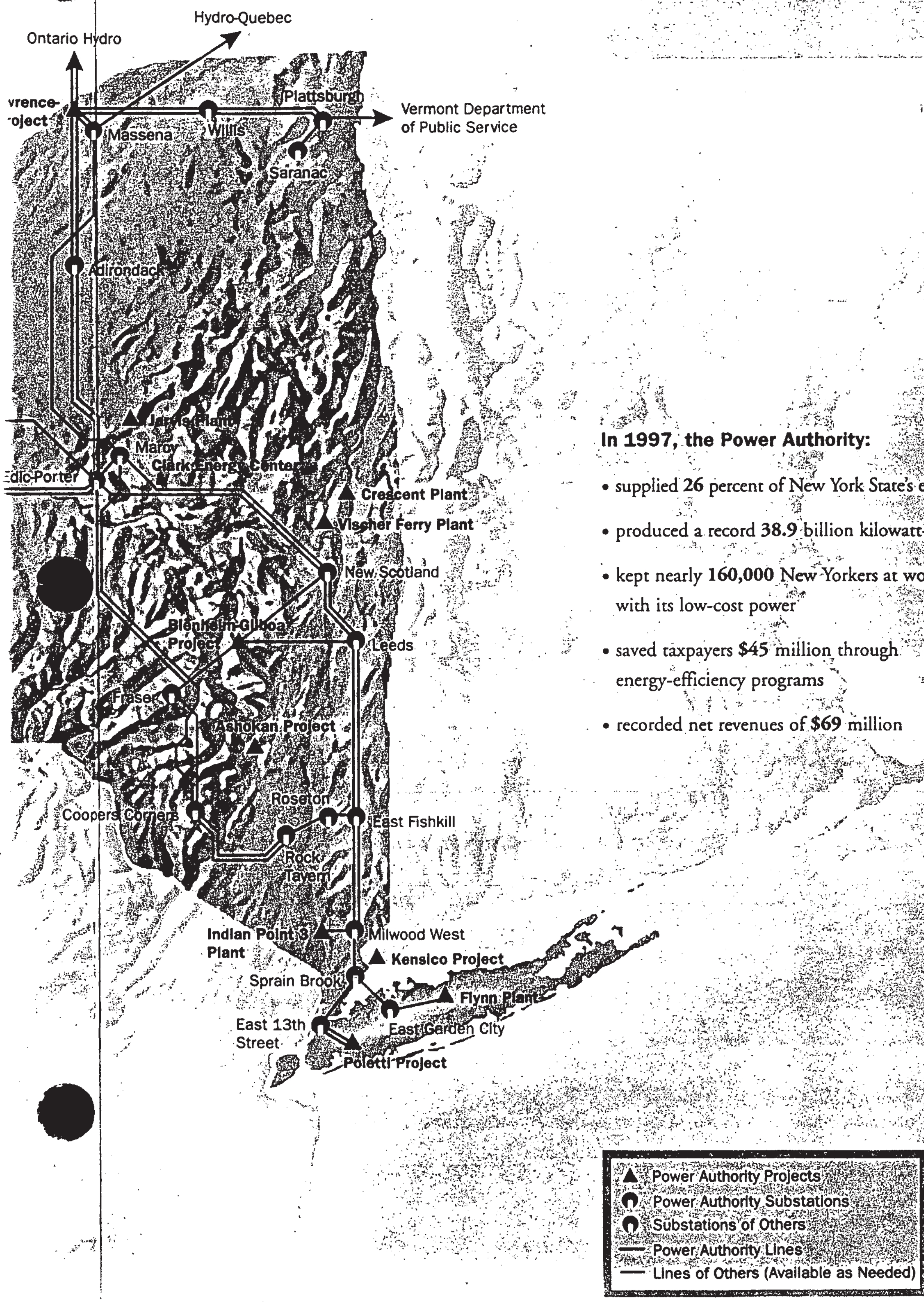


Blenheim-Gilboa Pumped
Storage Power Project
and its visitors center





Indian Point 3 Nuclear
Power Plant (left) and
Niagara Power Project



In 1997, the Power Authority:

- supplied **26** percent of New York State's electricity
- produced a record **38.9** billion kilowatt-hours
- kept nearly **160,000** New Yorkers at work with its low-cost power
- saved taxpayers **$45** million through energy-efficiency programs
- recorded net revenues of **$69** million

The Power To Serve New York

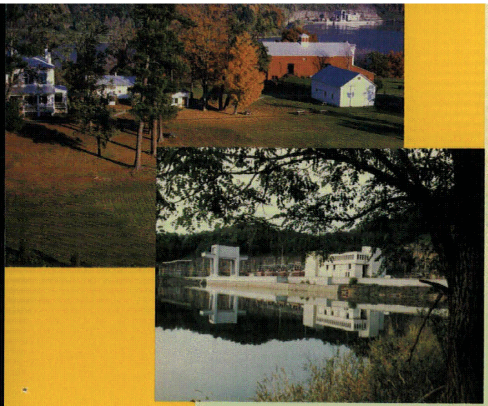
About NYPA

The New York Power Authority is the nation's largest state-owned power organization. Providing more than a quarter of New York's electricity, the Power Authority operates 12 generating facilities and about 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.

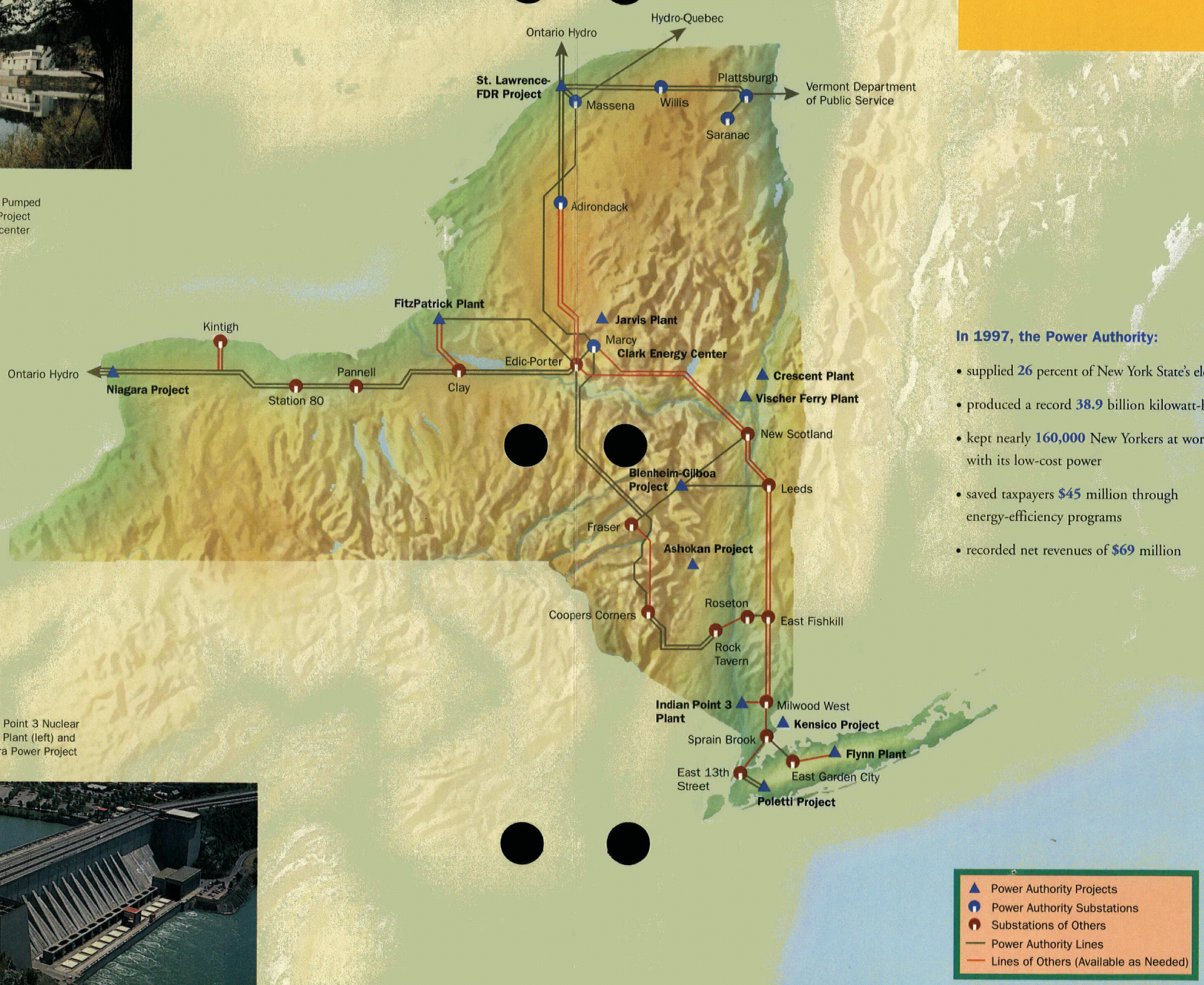
A non-profit, public-benefit energy corporation, the Power Authority does not use tax revenues or state credit. It finances construction of its projects through bond sales to private investors and repays the bondholders with proceeds from operations.

ON THE COVER: Generator improvements at the Niagara Power Project's main plant are part of a $280 million upgrade of the plant's 13 turbine-generators.

New York Power Authority

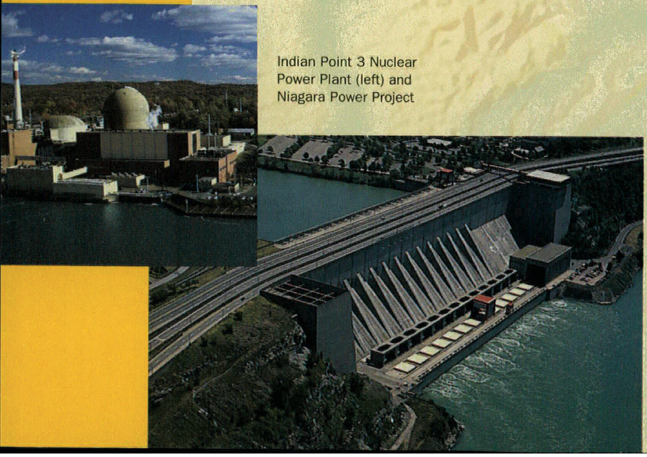


Blenheim-Gilboa Pumped Storage Power Project and its visitors center



In 1997, the Power Authority:

- supplied **26** percent of New York State's electricity
- produced a record **38.9** billion kilowatt-hours
- kept nearly **160,000** New Yorkers at work with its low-cost power
- saved taxpayers **$45** million through energy-efficiency programs
- recorded net revenues of **$69** million



Indian Point 3 Nuclear Power Plant (left) and Niagara Power Project

Meeting New York's Energy Challenges

The New York Power Authority is working to facilitate the state's transition to a competitive electricity industry. It is NYPA's goal to provide maximum benefit to its customers and the general public, during the transition and beyond, by continuing to provide excellent service and by taking on assignments that best use its strengths as a state-owned utility and reflect its mandates from the Legislature. This Annual Report focuses on several areas in which the Power Authority is making significant and, in some cases, unique contributions as it serves New York.


Governor George E. Pataki


Chairman Clarence D. Rappleyea

GOVERNOR'S MESSAGE

Cutting electricity costs is key to saving and creating jobs in our state, and the New York Power Authority, more than ever, is playing a pivotal role in this effort.

The Power Authority is at the heart of the Power for Jobs program that I signed into law last July to supply low-cost electricity to businesses and non-profit groups that pledge to retain or add jobs. New York has gained a quarter-million private-sector jobs in the last three years, and this historic initiative will help maintain that momentum, benefiting tens of thousands of our families.

In December, I traveled to the East Syracuse plant of New Venture Gear, an automotive parts manufacturer with New York roots dating to the last century, to announce that the company and four others were the first to receive Power for Jobs allocations. The excitement, and the hope, were palpable. And that story was repeated time and again as NYPA trustees approved a raft of additional allocations in early 1998.

Along with reducing taxes, workers compensation costs and red tape, providing economical electricity is vital to our strategy for enabling businesses to grow and prosper in the Empire State. The Power Authority's contribution, though essential, is hardly surprising. Power for Jobs is only the latest example of NYPA's ability to respond to pressing public needs, whether by harnessing the vast power of New York's rivers, building most of the state's new transmission lines over the past two decades, protecting our environment through improving energy efficiency in schools and other public buildings, or advancing New York's national leadership in promoting non-polluting electric vehicles.

NYPA's tradition of public service—and its potential for taking on additional challenges—demonstrate what a valuable resource New York has in its Power Authority. As the nation's electricity industry moves toward a competitive future, I expect NYPA to play a crucial role in the transition to competition in New York State.

George E. Pataki

George E. Pataki
Governor

The Power Authority has served New York in many ways since its first project, on the St. Lawrence River, began operating 40 years ago.

Our original mission, to produce economical hydroelectric power for homes, farms and factories, has grown dramatically, and with it the benefits we bring to New Yorkers.

As consumers gain the freedom to choose their power suppliers in a deregulated, competitive electricity industry, the Power Authority faces important questions. How can we facilitate the shift to a competitive market? How should our low-cost power be used to help drive New York's economic resurgence? How can we best serve the public in the new era?

Answers are starting to emerge.

Under Governor Pataki's Power for Jobs program, NYPA is leading an innovative public-private alliance to lower electricity costs for businesses in the transition to full competition. The early results have been little short of spectacular. When we began Power for Jobs in 1997, we hoped to save or create about 40,000 jobs over the full three years of the program. After just the first two months' allocations, the jobs commitment stood at about 26,000. That was in addition to the more than 150,000 private-sector jobs already protected by our power at upwards of 200 New York businesses.

We're also forging ahead with a nationally unprecedented public outreach program as we seek a new federal license for the St. Lawrence project. The relicensing of the Niagara Power Project is also on the horizon. The Authority's stewardship of these hydroelectric resources—which may be New York's most valuable man-made assets—is critical to maintaining the supply of some of the nation's least expensive and cleanest power to the homes and businesses that rely on it.

Other priorities for NYPA include expanded use of our acknowledged expertise in energy conservation and the development of new, environmentally friendly energy technologies and various forms of electric transportation. Through such initiatives, we'll help lead New York into a cleaner, more energy-efficient 21st century.

These are some of the tasks for which the Power Authority, as the state's utility, is especially suited as the age of competition nears. They're featured in this Annual Report and in our Mission Statement, which appears opposite the inside back cover.

In these and other areas, we intend to be a key part of the team that's solving New York's energy problems. This means pursuing a policy of cooperation with the state's investor-owned utilities and others in our rapidly changing industry. Power for Jobs has vividly demonstrated the value of this approach.

On the brink of a new era for electric utilities and their customers, the Power Authority pledges to the people we work for—the people of New York—that we will carry out our assignments with the skill, ingenuity and commitment to excellence that have been hallmarks of our history. NYPA will continue to demonstrate that it has the power to serve New York.

Clarence D. Rappleyea

Clarence D. Rappleyea
Chairman and Chief Executive Officer

Energy Solutions

For a Stronger Economy...

Power for Jobs™ Helps Fuel State's Economic Revival

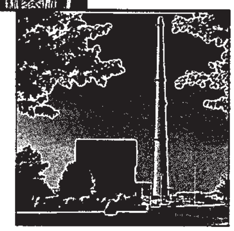
New Venture Gear, a manufacturer of products for four-wheel-drive vehicles, has changed with the times during its 110 years in the Syracuse area.

From its origins as a maker of rawhide gears in the horse-and-buggy era, the company moved into production of steel, brass and cast-iron gears for the fledgling automotive industry and is currently a major supplier for the light-truck market, including sport utility vehicles and pickups.

To keep pace with rising demand, the firm had invested $425 million in its East Syracuse plant earlier this decade. More recently, however, high operating costs and competitive pressures jeopardized a further expansion as well as several thousand existing jobs.

But today, New Venture Gear and a growing list of other companies are looking ahead to a more secure future in New York State, thanks to the landmark Power for Jobs program, signed into law by Governor George E. Pataki in July 1997. The program teams the Power Authority with private power suppliers to make available 400,000 kilowatts (kw) of low-cost electricity over the next three years in return for commitments to save or create jobs.

The program's striking early success has exceeded all expectations. Initial projections called for Power for Jobs allocations to support about 40,000 jobs. [illegible], just the first two rounds of allocations produced commitments by businesses to protect or create about 26,000 jobs in various parts of the state. Overall, the recipients are expected to save up to 25 percent on their electric bills during their three-year contracts.



Five companies, including New Venture Gear, will save or add a total of about 4,600 jobs in return for the first allocations, announced by Governor Pataki in December.

Following up on this auspicious start, the Governor in January 1998 announced allocations to about 25 more businesses that agreed to protect or create a total of nearly 21,400 jobs.

Power for Jobs allocations are recommended by the state Economic Development Power Allocation Board for approval by Power Authority trustees. Recipients include businesses in danger of curtailing their New York operations because of high energy costs or firms that need the power to grow in New York or relocate to the state. Small businesses and non-profit institutions are also eligible; 75,000 kw of the total of 400,000 kw will be set aside for them during the life of the program.

NYPA's James A. FitzPatrick Nuclear Power Plant near Oswego will supply half the power, with the Authority obtaining the remainder through competitive bids. The state's investor-owned utilities will distribute the electricity to customers in their respective service areas.

A landmark program makes more low-cost electricity available for job-producing companies throughout New York State.

Power for Jobs is intended to provide relief from New York's high electricity prices—at least 50 percent above the national average—during the electricity industry's transition to competition

TOP: Governor Pataki announces first Power for Jobs allocations at New Venture Gear with state Assemblyman Harold Brown, left, and Onondaga County Executive Nicholas Pirro.

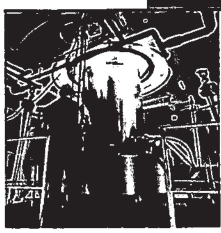
ABOVE: NYPA's FitzPatrick plant will supply half the electricity for Power for Jobs.

LEFT: New Venture Gear worker inspects gear case.

OPPOSITE PAGE: Four-wheel-drive-vehicle gears are ready for shipment at New Venture Gear.

OPPOSITE PAGE, INSET: A Power for Jobs allocation will anchor 3,200 jobs at New Venture Gear.

A Cleaner



TOP: Barnhart Island Marina is among the recreational features that NYPA developed in the St. Lawrence-FDR area.

ABOVE: This turbine shaft drives a generator at the Niagara project.

RIGHT: NYPA's fishing pier at the Niagara project is a prime attraction.

OPPOSITE PAGE: The power of the Niagara River, on display at the majestic Falls, is harnessed at the Niagara project.

OPPOSITE PAGE, INSET: The power dam at the St. Lawrence-FDR project extends from Massena, N.Y., to Cornwall, Ontario.

and lower rates. And life at a number of the participating companies has already taken a turn for the better.

New Venture Gear is planning an expansion estimated at more than $200 million in the next three years, anchoring 3,200 jobs.

Another member of the initial group, Cooper Hand Tools of Cortland, had considered an out-of-state move but instead committed to stay and grow in New York. An allocation was also decisive in protecting jobs at ILC Data Device Corp. of Bohemia, on Long Island.

The pattern was much the same for the second group of recipients, which ranged from corporate giants to family-owned businesses. Heading the list in terms of job commitments was IBM, which pledged to retain 5,500 jobs in Endicott, Broome County, and about 5,000 more in Westchester County and New York City.

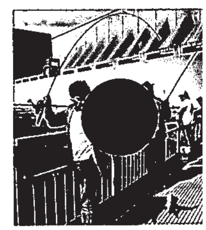
The Power Authority's large hydroelectric facilities on the St. Lawrence and Niagara rivers supply some of the nation's cleanest and least-expensive electricity.

Before Power for Jobs, the Power Authority's low-cost electricity was supporting more than 150,000 jobs at some 200 companies around the state. But most of the available electricity was fully allocated. Now, NYPA's economic development efforts have received new impetus, with the promise of even greater benefits to come.

Public Outreach Is Key To Relicensing Effort

In the 1950s, New York State stretched a hand of friendship across the St. Lawrence River to Canada for an undertaking of epic proportions. Today, the massive power dam built jointly by the Power Authority and Ontario Hydro stands as a symbol of international cooperation and is a major source of low-cost power for people on both sides of the border.

The spirit of cooperation is continuing on the domestic level as the Power Authority works with other agencies and the public in an innovative process to renew the federal license for its portion of the facilities, the St. Lawrence-Franklin D. Roosevelt Power Project in Massena. The license, issued in 1953, expires in 2003. NYPA is also planning for the relicensing of its Niagara Power Project in Lewiston, whose license extends through 2007.

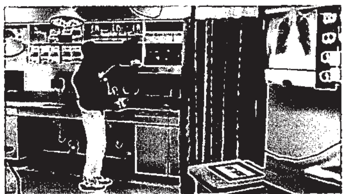


The two NYPA projects—among the nation's largest hydroelectric facilities—together meet about 15 percent of the state's power needs with some of the cleanest and least expensive electricity in the country. Based on their capacity factors, measuring their actual production as a percentage of the maximum possible, they are also tops in efficiency among the biggest hydroelectric plants.

Charged by the state Legislature to serve as the steward of New York's major hydroelectric assets, the Power Authority has maintained the St. Lawrence-FDR and Niagara projects in prime condition. Upgrades and modernizations under way at the facilities will further improve their efficiency and extend their operating lives, ensuring an abundant supply of low-cost, non-polluting electricity well into the next century.

Environment...

Greater



Emergent Care

TOP: Bellevue is one of the nation's only hospitals with an intensive care unit attached to its emergency department.

ABOVE: About 80,000 patients pass through Bellevue's emergency department each year.

RIGHT: Bellevue staff members serve a diverse population speaking more than a hundred languages.

OPPOSITE PAGE: A 5,000-kilowatt electrical upgrade enabled Bellevue to install a magnetic resonance imaging facility.

OPPOSITE PAGE, INSET: The Power Authority provided two energy-efficient chillers to meet Bellevue's air-conditioning needs.

Stewardship also involves protecting the environment and providing recreational facilities. Starting at St. Lawrence-FDR, the parks, wildlife areas and other conservation and recreational features provided by the Authority have set the standard for hydroelectric development throughout the United States.

In keeping with this record, the Power Authority is focusing on relicensing the St. Lawrence-FDR project, with an unprecedented public outreach that has drawn national attention. Approximately 100 individuals—representing state and federal resource agencies, local governments, organizations, hydropower customers and area residents—spent hundreds of hours in 1997 working together in a Cooperative Consultation Process. Participants helped define the issues, considered each other's sometimes conflicting positions and formed coalitions to address areas of mutual concern.

In 1997, the Federal Energy Regulatory Commission, which grants licenses for U.S. hydroelectric projects, cited NYPA's cooperative process when it issued new relicensing regulations. The commission found the new approach a practical alternative to its traditional procedures.

NYPA's wide-ranging energy-efficiency programs help taxpayers breathe easier in more ways than one.

As the relicensing effort continued, Power Authority trustees in November 1997 approved the first phase of a $254 million life-extension and modernization program for the St. Lawrence-itself through improved operational and maintenance efficiency and keep the facility running smoothly for the next 50 years.

NYPA began similar improvements at Niagara in 1989. The $280 million program, scheduled for completion in 2006, calls for upgrading the 13 turbine-generators at the main generating plant. This is expected to add an average of 400 million kilowatt-hours a year to the project's output at times of greatest consumer demand for electricity.

In improving the two projects and seeking new licenses, the Power Authority aims to continue its responsible management of the state's priceless hydroelectric resources to assure that their economic and environmental benefits keep flowing to future generations of New Yorkers.

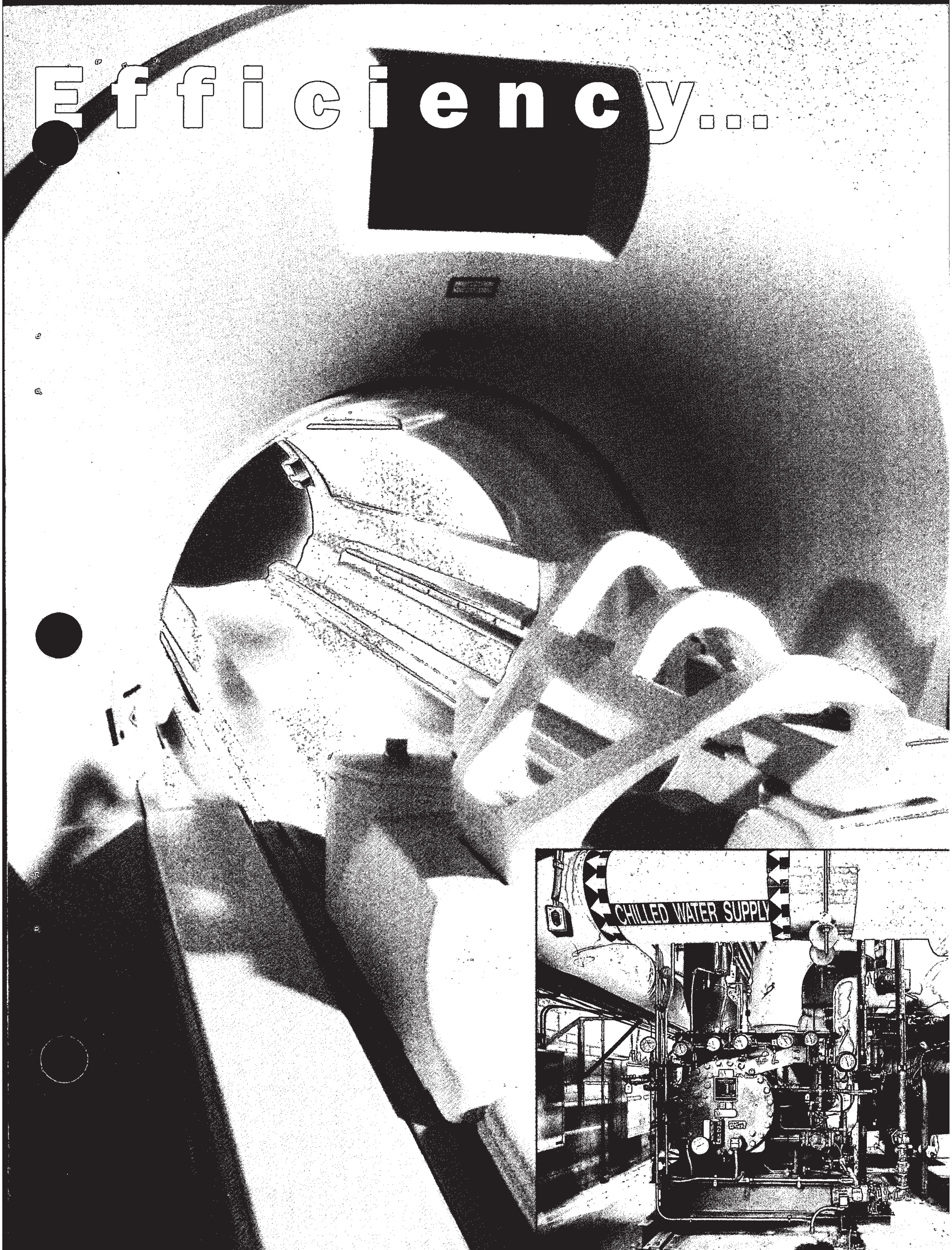
Conservation Measures Improve Air, Cut Costs

As the debate continues over ways to reverse the buildup of greenhouse gases and the threat of global warming, the Power Authority is stepping up its efforts to conserve energy and develop new power sources.

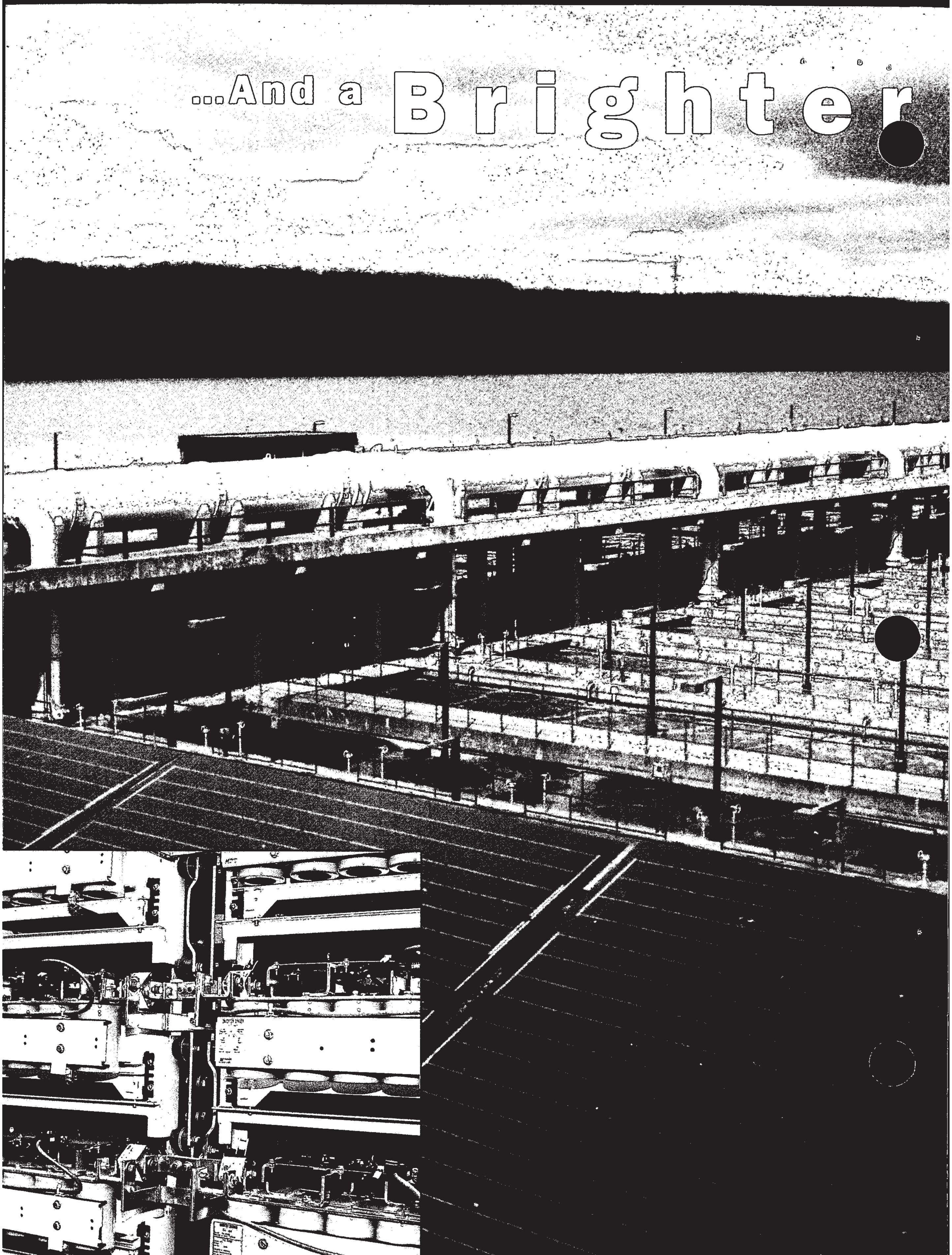
With hydroelectric and nuclear power accounting for about 90 percent of its annual generation, the Authority ranked as the cleanest of the 50 largest electric utilities in the 37 easternmost states in a study released in 1997 by the Natural Resources Defense Council. (Viewed separately, NYPA's two natural gas- and oil-fueled plants were also among the cleanest in their categories.)

And NYPA is further improving New York's air through its wide-ranging energy-efficiency measures. In addition to the environmental benefits, these endeavors are cutting government costs for

Efficiency...



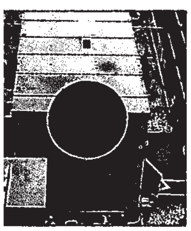
...And a Brighter



education, health care, housing and other public services, helping taxpayers breathe easier in more ways than one.

Bellevue Hospital Center, one of New York City's largest public hospitals, is a major beneficiary. Founded in 1736, Bellevue is America's oldest public hospital and treats some of the city's neediest patients. It operates the world's second largest emergency department, including a Level One Trauma Center that serves rich and poor alike in times of crisis.

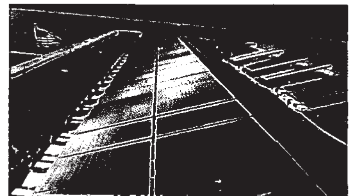
A $7 million project that NYPA completed at Bellevue in 1997 provided the hospital with two new electric chillers—each about the size of a New York City bus and weighing more than 100,000 pounds—that will meet its considerable air conditioning needs and reduce its energy costs by $850,000 a year.



Equally important, a 5,000-kw electrical upgrade that was part of the chiller project allowed Bellevue to install a magnetic resonance imaging (MRI) facility, making it New York City's first public hospital to offer this vital diagnostic tool.

"This is a very necessary part of our diagnosis in cases of stroke, multiple sclerosis and certain cancers," said Dr. Albert Keegan, director of radiology, noting that the hospital waited 10 years to acquire MRI capability. Anticipating a heavy demand for the service, Bellevue has added an MRI suite to its radiology unit.

The New York City Health and Hospitals Corporation, which owns and operates Bellevue and more than 90 other medical facilities in the city, saves more than $8 million a year on its electric bill by buying NYPA power. It will realize additional savings as the Power Authority completes some $28 million in energy-efficiency improvements.



The Authority broadened its statewide commitment to energy conservation in 1997 by investing $75 million—about double its expenditures of just three years earlier—in its nationally recognized High Efficiency Lighting Program (HELP) and other conservation measures. Major ongoing projects include installation of energy-saving refrigerators for public housing and replacement of coal-fired boilers at public schools with funding from Governor Pataki's Clean Water/Clean Air Bond Act.

Fuel Cell Generates Power While Curbing Pollution

The Power Authority is also contributing to cleaner air by adapting Space Age technology for earthbound use at the Westchester County Wastewater Treatment Plant in Yonkers.

In 1997, NYPA installed a fuel-cell power plant—the first of its kind in the world—to generate economical electricity without combustion at the treatment plant.

Though invented about 160 years ago, fuel cells first demonstrated their practical value as an in-flight source of electricity and heat in the space program.

The 10-foot-high, 200-kw Yonkers fuel cell—three 15-kw fuel cells power the space shuttle—is the first that runs on anaerobic digester gas (ADG), a byproduct of wastewater treatment. Processing ADG—consisting largely of methane and carbon dioxide—

TOP: NYPA-installed photovoltaic panels transform sunlight into electricity atop the Westchester County Wastewater Treatment Plant in Yonkers.

ABOVE: Rooftop tanks store anaerobic digester gas used to run NYPA's fuel cell at the wastewater treatment plant.

LEFT: A view of the room-sized fuel cell adjacent to the wastewater treatment plant.

OPPOSITE PAGE: NYPA's solar project (foreground), with the wastewater treatment plant and the Hudson River beyond.

OPPOSITE PAGE, INSET: An inverter system converts direct-current electricity produced by the fuel cell into alternating current for plant use.

NYPA's fuel-cell power plant—the first of its kind in the world—generates economical electricity without combustion.

TOP: NYPD helped introduce the Northeast's first electric-powered school bus, now in operation in the Bronx.

ABOVE: Nine electric three-wheeled utility vehicles provided by the Authority are on duty with the New York City police.

yields hydrogen, which is combined with oxygen from air through a chemical reaction to produce electricity, heat and water.

Because methane traps 10 times more heat than carbon dioxide does, contributing significantly to the greenhouse effect, the ADG is normally burned off, or "flared," in flame towers. However, combustion does not eliminate all pollutants. By reducing emissions by up to 40,000 pounds a year, the fuel cell will help Westchester County meet requirements of the federal Clean Air Act.

The Power Authority, meanwhile, is gaining experience in generating electricity at or close to a customer site. (NYPA supplies electricity to the Yonkers plant, where it also operates a 100-kw solar photovoltaic project.) In the emerging deregulated electricity marketplace, such "distributed" generation technologies are likely to find a niche in remote locations beyond the reach of the transmission system, as well as in urban areas with air-quality concerns.

Through the end of 1997, the Authority had put in service more than 70 electric vehicles of various types.

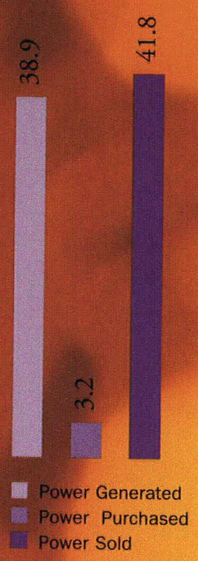
The Power Authority received a U.S. Department of Energy (DOE) grant for the Yonkers fuel cell, with additional funds provided by NYPA and other sources. The Authority's precedent-setting project prompted the DOE in July 1997 to award grants for fuel cells in California, Connecticut and Oregon, using the ADG technology.

NYPA plans to install fuel cells in other areas of the state as part of its multifaceted effort to spur energy efficiency and a cleaner environment through innovative technologies.

In 1997, the Authority installed atop its White Plains office building one of the world's first systems to convert sunlight directly into alternating current electricity. NYPA also moved ahead with development of devices to improve transmission. And it continued to expand the use of electric vehicles (EVs) of various types.

Through the end of 1997, the Power Authority had put in service more than 70 electric cars, light trucks and other vehicles for use by its government customers or in its own operations. By promoting electric vehicles and supporting efforts to increase production of EVs and components in the state, the Authority is simultaneously advancing two its top priorities—creating a sound environment and generating jobs for New Yorkers.

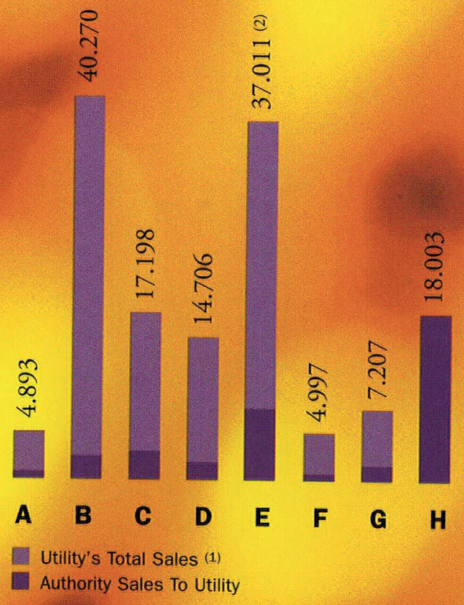
1997 Generation and Sales
(billions of kwh)



Energy Sales
(billions of kwh)

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

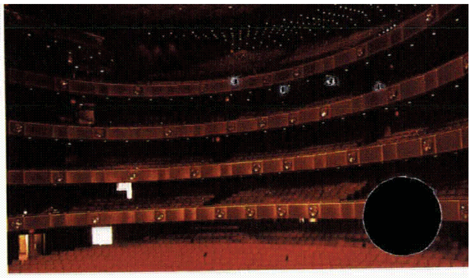
1997 New York Utilities' Total Sales and Power Authority Sales To Utilities
(billions of kwh)



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

(1) Power Authority sales totaled 18,003 billion kwh, which excluded .874 billion kwh sold through the New York Power Pool for supply to the utilities as needed.

(2) Includes .008 billion kwh associated with sales to reallocated expansion power customers.



NYPA Sets Production Record

The Power Authority produced more electricity in 1997—38.9 billion kilowatt-hours (kwh)—than in any other year in its history. The total eclipsed the previous annual record of 38.3 billion kwh, set in 1986, and was up nearly 11 percent from 1996. NYPA supplied 26 percent of New York State's electricity in 1997, with sales of 41.8 billion kwh, including energy purchased from other sources. Hydropower generation of 24 billion kwh accounted for 62 percent of the Authority's output; nuclear power, 11 billion kwh, or 28 percent; and natural gas and oil, 3.9 billion kwh, or 10 percent. In addition, NYPA's solar and fuel-cell projects in 1997 together produced about 1 million kwh, more than 50 percent greater than the total from such new sources a year earlier.

Zeltmann Named President and Chief Operating Officer

Power Authority trustees in September appointed Eugene W. Zeltmann, former deputy chairman of the state Public Service Commission (PSC), as NYPA's president and chief operating officer. Zeltmann had been selected by Governor George E. Pataki to serve as a PSC commissioner in December 1995 and was named deputy chairman in May 1996. He previously was a senior executive at the General Electric Company.

David E. Blabey, named secretary and general counsel in September, was also appointed an executive vice president in February 1998. Blabey had been an attorney in private practice and previously served as an assistant counsel to Governors Nelson A. Rockefeller and Malcolm Wilson and as counsel to the state Senate Energy Committee and to the PSC.

Also in September, Robert A. Hiney, who had been senior vice president–power generation, was promoted to executive vice president for project operations. In that position, Hiney oversees all aspects of NYPA's generating and transmission operations.

Peter W. Delaney, NYPA's senior vice president–business services and a former commissioner of the state Office of General Services, was promoted in November to executive vice president and chief financial officer of the Authority.

FitzPatrick Plant Logs Most-Productive Year

NYPA's James A. FitzPatrick Nuclear Power Plant in Scriba, Oswego County, established a new annual generating record with production of 6.6 billion kwh in 1997, surpassing the previ[ous] mark of 6.2 billion kwh, set in 1989. FitzPatri[ck] achieved a capacity factor of about 95 percent in 1997, putting it among the nation's top-performing nuclear plants. Capacity factor is the amount of electricity produced compared with the maximum amount that could have been produced in a given time period. Also in 1997, the plant again received good ratings from the U.S. Nuclear Regulatory Commission (NRC) in a periodic assessment of its operations, with improvements noted in some areas.

Indian Point 3 Improvements Recognized by NRC

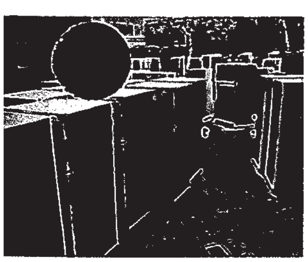
The NRC in June removed the Authority's Indian Point 3 Nuclear Power Plant in Buchanan, Westchester County, from its "watch list" [of] plants requiring increased regulatory attent[ion]. In notifying the Authority of the move, the NRC said NYPA "management has established high standards of performance, implemented improved self-assessment and corrective action programs, and upgraded the material condition of the plant to enhance equipment reliability." The commission had placed Indian Point 3 on the watch list in June 1993. The NRC also noted improvement at the plant in its periodic assessment.

NYPA Allocations Support Nearly 160,000 Jobs

In addition to businesses receiving low-cost electricity through the new Power for Jobs program, nine companies in various parts of the state were awarded allocations of Power Authority electricity in 1997 under other NYPA economic development programs. The allocations, totaling about 24,000 kw, were tied to commitments to protect or create more than 3,300 jobs. Overall, NYPA allocations at the end of 1997 were helping to support nearly 160,000 private-sector jobs.

Energy-Efficiency Projects Move Ahead

The Power Authority in 1997 continued to expand its High Efficiency Lighting Program (HELP), which provides improved lighting and other conservation measures for state and local government facilities and public schools and colleges. NYPA completed 93 HELP projects during the year, and work was under way on another 116 at year's end. Also in 1997, the Power Authority installed 20,000 more energy-saving refrigerators at New York City public housing facilities as part of a long-term program and completed cooling-system improvements at various public buildings in the city. All told, NYPA energy-efficiency initiatives saved taxpayers $45 million in 1997.



Electric Transportation Program Registers Gains

New York City Transit ordered 10 hybrid-electric buses in 1997, following successful testing of a prototype that had been developed with Power Authority assistance. The prototype was produced at Orion Bus Industries, a NYPA customer, in Oriskany. Governor Pataki's Clean Water/Clean Air Bond Act of 1996 will provide part of the funding for the buses.

In September, the Power Authority announced a joint program with Israel-based Electric Fuel Corporation to study the feasibility of a new zinc-air battery system that could increase the range of electric vehicles (EVs) and reduce the time needed for refueling. The program will include an assessment of the technical and financial viability of building a zinc regeneration facility in New York City.

Elsewhere, the Authority and IBM in 1997 renewed for a third year a station car program that provides EVs to transport rail commuters to IBM facilities in Westchester County. The program provides an "all-electric" commute, since the trains run on NYPA electricity.

Also during the year, the Power Authority helped obtain an agreement by a Virginia-based EV manufacturer to lease space at the Alternative Fuels Technology Center at the former Griffiss Air Force Base in Rome, N.Y. The company, Baker Electromotive, plans to establish a facility to convert post office vehicles to run on electricity, with the potential creation of more than 100 jobs. NYPA administers funding for the center.

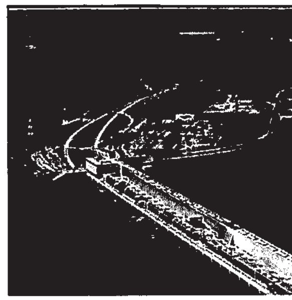
ABOVE: A NYPA-supplied Solectria electric vehicle contributes to an "all-electric" commute for IBM employees in Westchester County.

BOTTOM: The Power Authority is installing 20,000 energy-saving refrigerators a year in New York City Housing Authority apartments.

OPPOSITE PAGE, LEFT: Eugene W. Zeltmann was named NYPA's president and chief operating officer in 1997.

OPPOSITE PAGE,TOP: NYPA's energy-efficient lighting helps cut costs for the New York State Theater at Lincoln Center.

ST. LAWRENCE-FRANKLIN D. ROOSEVELT POWER PROJECT



Type: Hydroelectric

Location: Massena, on the St. Lawrence River, St. Lawrence County

Net Dependable Capability: 800,000 k

First Commercial Power: July 1958

1997 Net Generation: 7.5 billion kwh

Net Generation Through 1997: 267.0 billion kwh

NIAGARA POWER PROJECT

Type: Hydroelectric

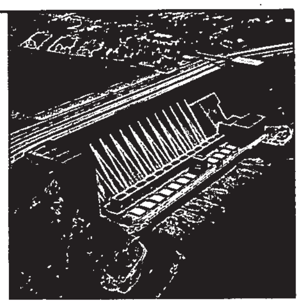
Location: Lewiston, on the Niagara River, Niagara County

Net Dependable Capability: 2,400,000 kw

First Commercial Power: January 1961

1997 Net Generation: 17.2 billion kwh

Net Generation Through 1997: 549.0 billion kwh



BLENHEIM-GILBOA PUMPED STORAGE POWER PROJECT

Location: Blenheim and Gilboa, southwest of Albany, in Schoharie County

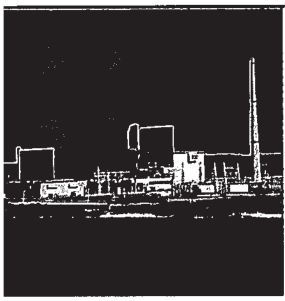
Net Dependable Capability: 1,040,000 kw

First Commercial Power: July 1973

1997 Gross Generation: 1.7 billion kwh

Gross Generation Through 1997: 37.3 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

1997 Net Generation: 6.6 billion kwh

Net Generation Through 1997: 100.3 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 197

1997 Net Generation: 4.3 billion kwh

Net Generation Through 1997: 89.3 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

1997 Net Generation: 2.8 billion kwh

Net Generation Through 1997: 50.1 billion kwh

RICHARD M. FLYNN POWER PLANT

Type: Gas/Oil

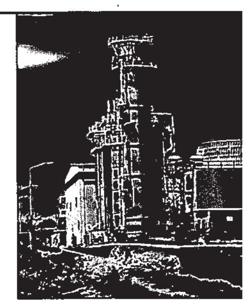
Location: Holtsville, Suffolk County

Net Dependable Capability: 135,600 kw

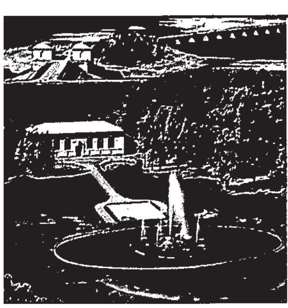
First Commercial Power: May 1994

1997 Net Generation: 1.1 billion kwh

Net Generation Through 1997: 3.9 billion kwh



SMALL HYDRO FACILITIES



Located on reservoirs and waterways around the state, these facilities include the Ashokan Project (left), the Kensico Project, the Gregory B. Jarvis Plant, the Crescent Plant and the Vischer Ferry Plant, with a combined net dependable capability of 29,596 kw. They produced a total of 174 million kwh in 1997.

FREDERICK R. CLARK ENERGY CENTER

Function: Coordinates NYPA system operations

Location: Marcy, north of Utica, Oneida County

Opened: June 1980

FINANCIAL REPORT

Table of Contents

Summary Statement of Net Revenues

(In Millions)

	1997	1996	Favorable/ (Unfavorable)
Operating Revenues	**$1,480.8**	$1,430.1	$ 50.7
Operating Expenses	**1,335.6**	1,229.5	(106.1)
Net Operating Revenues	**145.2**	200.6	(55.4)
Other Income	**99.6**	85.8	13.8
Other Deductions	**173.1**	180.9	7.8
Revenues, net before extraordinary item	**$ 71.7**	$ 105.5	($ 33.8)
Debt refinancing charge	**3.0**	-	($ 3.0)
Net Revenues	**$ 68.7**	$ 105.5	($ 36.8)

Operating Results

Net revenues decreased by $36.8 million to $68.7 million from $105.5 million in the prior year. This decrease was primarily due to increased operations and maintenance (O&M) expenses related to the refueling and maintenance outage at the Indian Point 3 (IP3) Nuclear Power Plant. Further details are presented in the applicable sections below.

Revenues

Revenues increased by $50.7 million in 1997 due to higher generation at all of the Authority's principal hydroelectric, nuclear and fossil fuel facilities with the exception of IP3. This increase in generation resulted in higher non-firm sales to power marketers and increased sales of power from the Charles Poletti Power Project (Poletti) to the New York Power Pool (NYPP) and Consolidated Edison Company of New York, Inc. (Con Ed).

Operating Expenses

Operating expenses increased by $106.1 million (9 percent) to $1.336 billion from $1.230 billion in the prior year, primarily due to increases in O&M and fossil fuel costs, which were offset by a decrease in purchased power.

The increase in operating expenses was primarily due to IP3's refueling and maintenance outage ($97.9 million) and additional fossil fuel costs due to increased generation at the Poletti power project ($41.7 million). The decrease in purchased power expenditures ($34.4 million) resulted primarily from lower Canadian imports due to decreased purchases for resale to Con Ed and increases in net generation.

Other Income

Other income, which primarily consists of investment income, increased by $13.8 million due to higher returns on decommissioning trust fund investments during 1997.

Other Deductions

Other deductions, which primarily consist of interest expense on debt, decreased by $7.8 million (4 percent) to $173.1 million from $180.9 million in the prior year. The lower level of interest expense in both 1997 and 1996 reflects a 19 percent reduction in total debt during the last three years.

Refueling and Maintenance Outage at IP3

During 1997, IP3 completed a refueling and maintenance outage in 121 days (May 14 to September 12). This outage was longer than anticipated, principally because of an increase of approximately 33 percent in the work scope. During 1997 and 1996, IP3 operated at about 51 percent and 69 percent, respectively, of Maximum Dependable Capacity (MDC).

During the second half of the prior year, the James A. FitzPatrick (JAF) Nuclear Power Plant completed its refueling and maintenance outage in 47 days, by far the shortest such outage in its 22-year history. JAF operated at about 79 percent of MDC during 1996 despite this outage. During 1997, JAF operated at about 95 percent of MDC.

NRC Cites IP3 Plant Improvements

In June 1997, the U.S. Nuclear Regulatory Commission (NRC) removed IP3 from its list of plants requiring increased regulatory attention. IP3 was placed on the list in June 1993.

In a letter to the Authority, the NRC noted, "Management has established high standards of performance, implemented improved self-assessment and corrective action programs, and upgraded the material condition of the plant to enhance equipment reliability." With respect to engineering, the report noted that steps taken in a number of [illegible] were beginning to show positive results, but said "continued management attention is needed to reduce the backlog of engineering work and strengthen support of material condition improvements." It said IP3 "has demonstrated sustained improvement sufficient to warrant removal" from the "watch list."

NYNOC

During 1997, the Authority, Con Ed, Niagara Mohawk Power Corporation and Rochester Gas and Electric Corporation, the four utilities operating nuclear generating facilities in the State, jointly announced their desire to move forward with plans to form the New York Nuclear Operating Company (NYNOC) to operate the six nuclear plants currently operated by the four entities to achieve economies of scale and increased cost effectiveness. The plants would continue to be owned, and the output of the plants marketed, by the respective owners of the plants.

Competition

The Authority continues to prepare for a competitive environment. Employees are undergoing intensive training to gain a detailed understanding of the Authority's mis[illegible] goals and strategic plan. The training sessions also h[illegible] employees understand the need to adapt their performance to new competitive challenges.

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

The Authority has also signed agreements with substantially all of its Southeastern New York (SENY) governmental customers, resulting in existing power sales agreements with customers extending to either 2004 or 2005, depending upon the agreement. These contracts will help to stabilize the Authority's revenue base in the future. The contracts represent approximately 37 percent of the Authority's 1997 operating revenues (excluding wheeling charges).

Net Generation

During 1997, the Authority's total net generation increased by 11 percent to 38.9 billion kilowatt-hours (kwh) from 35.1 billion kwh in 1996. The 1997 figure was a record for the Authority, surpassing the previous annual high of 38.3 billion kwh, achieved in 1986. The increase reflected higher generation at all of the Authority's principal hydroelectric, nuclear and fossil fuel facilities with the exception of IP3. Lower generation at IP3 was due to its longer-than-expected refueling and maintenance outage and two unscheduled outages during the year.

JAF established an annual record with production of 6.6 billion kwh, up by 25 percent from its 1996 total, and eclipsed its previous 1989 record by about 470 million kwh.

After year-end, on January 14, 1998, JAF achieved a lifetime generation milestone of 100 billion kwh of electricity. That is enough energy to supply all the electric needs of the city of Syracuse for more than 75 years or every household in New York State for two years.

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.

Financing Cost Reduction and Containment Strategy

The Authority is aggressively pursuing its financing cost reduction and containment strategy by reducing debt; refinancing outstanding debt at more attractive rates; and managing the mix of fixed-rate and floating-rate debt.

During the last three years, the Authority has reduced long-term debt by $725 million, or 22 percent, and total debt by $661 million, or 19 percent.

Debt Restructuring

In the last quarter of 1997, the Authority began the first phase of its long-term debt restructuring program by refunding $603.1 million of its General Purpose Bonds. The remaining balance of $1.9 billion of General Purpose Bonds is forecast to be refunded in the second quarter of 1998, subject to the approval of the Authority's Trustees.

The refundings are being and are expected to be accomplished with both short-term and long-term, tax-exempt and taxable, debt. The objectives of the debt restructuring are to replace the current General Purpose Bond Resolution with a new one that will give the Authority the flexibility it needs to function in the competitive environment, to achieve debt service savings, and to manage the mix between fixed- and floating-rate debt.

Capital Structure

(In Millions)

	1997	1996	Increase/ (Decrease)
Long-term debt			
General purpose bonds	**$1,813.9**	$2,556.8	($ 742.9)
Adjustable rate tender notes	**191.5**	194.5	(3.0)
Commercial paper	**536.6**	-	536.6
Total long-term debt	**2,542.0**	2,751.3	(209.3)
Accumulated net revenues employed in the business	**1,582.0**	1,509.4	72.6
Total Capitalization	**$4,124.0**	$4,260.7	($ 136.7)

Total long-term debt, net of current maturities, decreased by $209 million to $2.542 billion from $2.751 billion in 1996, as a result of the refunding of debt and the scheduled maturities of bonds. Accumulated net revenues employed in the business increased by $73 million to $1.582 billion from $1.509 billion in 1996.

Debt Ratings

	Moody's	Standard & Poor's
Long-term debt	Aa2	AA-
Adjustable Rate Tender Notes	A1/VMIG1	A+/A-1
Commercial Paper	P-1	A-1

The Authority's long-term debt rating was refined to Aa2 by Moody's Investors Service, Inc. in September 1997. The Authority has three lines of credit under revolving credit agreements with three syndicates of banks for $200 million, $200 million and $650 million. These agreements extend to July 13, 1999, September 5, 2001, and December 3, 1998, respectively. The $650 million line was put in place during 1997 to support the Authority's commercial paper program.

The Year 2000

The date functions of many software programs currently used by businesses were written utilizing two digits to abbreviate the year. The two-digit "98" is recognized by such programs as the year 1998. The digits "00" may be recognized as the year 1900 but will not be recognized as the year 2000. Therein lies a potentially enormous calculation problem for businesses in general. The NRC has notified all nuclear plant operators to confirm by July 1, 1999, that their facilities will be Year 2000 (Y2K) ready, as that term is defined in the applicable NRC regulation. This nuclear plant requirement, along with other Authority operations utilizing computer systems and software which must be Y2K ready, presents significant tasks. The Authority has established a Year 2000 Program Management Office to assure Y2K readiness. While the costs of such preparation cannot be estimated, the Authority expects to be fully Y2K ready as required by applicable business and regulatory necessity.

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, Price Waterhouse LLP, 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 the previous independent accountants 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, 1997 and 1996, 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.

During 1997, the Authority's Board of Trustees formed an Audit Committee composed of Trustees who are not employees of the Authority. The Audit Committee meets with the Authority's management, its Director of Internal Audits and its independent accountants several times a year to discuss internal controls and accounting matters, the Authority's financial statements, and the scope and results of the audit by the independent accountants and of the audit programs of the Authority's internal auditing department. The independent accountants and Director of Internal Audits have direct access to the Audit Committee.

Peter W. Delaney
Executive Vice President and Chief Financial Officer

Report of Independent Accountants

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

In our opinion, the accompanying balance sheets and the related statements of net revenues and accumulated net revenues employed in the business and of cash flows present fairly, in all material respects the financial position of the Power Authority of the State of New York at December 31, 1997 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles. 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 audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. The financial statements of the Power Authority of the State of New York for the year ended December 31, 1996 were audited by other independent accountants whose report dated February 14, 1997 expressed an unqualified opinion on those statements.

Our audit was 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.

Price Waterhouse LLP
1177 Avenue of the Americas
New York, N.Y. 10036

February 12, 1998

BALANCE SHEETS

December 31, 1997 and 1996 *(In Thousands)*

Assets		1997	1996
Utility Plant	Electric plant in service	**$5,284,160**	$5,222,394
	Less accumulated depreciation	**2,132,355**	1,997,121
		3,151,805	3,225,273
	Construction work in progress	**112,026**	101,880
	Nuclear fuel less accumulated amortization of $199,439 ($157,879 in 1996)	**145,750**	159,198
	Net utility plant	**3,409,581**	3,486,351
Restricted Funds	Cash	**180**	148
	Investment in securities, at fair value (Notes D, J and K)	**939,212**	910,373
	Escrow deposit–Series Z Bonds (Note F)	**54,288**	54,288
		993,680	964,809
Construction Funds	Cash	**307**	144
	Investment in securities, at fair value	**186,716**	194,594
	Interest receivable on investments	**3,359**	3,052
		190,382	197,790
Current Assets	Cash	**195**	282
	Investment in securities, at fair value	**307,928**	298,109
	Interest receivable on investments	**18,572**	17,553
	Receivables–customers	**148,638**	139,675
	Materials and supplies, at average cost:		
	Plant and general	**79,488**	73,422
	Fuel	**12,437**	15,502
	Prepayments, miscellaneous receivables and other	**26,606**	31,503
		593,864	576,046
Non-current Assets	Unamortized debt expense	**14,760**	20,618
	Deferred charges, long-term receivables and other	**311,098**	280,150
		325,858	300,768
	Total Assets	**$5,513,365**	$5,525,764

Liabilities and Capitalization			
Capitalization	Long-term debt (Notes C, F, G and H):		
	General purpose bonds	**$1,813,911**	$2,556,779
	Adjustable rate tender notes	**191,445**	194,520
	Commercial paper	**536,600**	-
		2,541,956	2,751,299
	Accumulated net revenues employed in the business:		
	Accumulated net revenues	**1,569,655**	1,500,942
	Unrealized holding gains on investments (Note D)	**12,366**	8,473
		1,582,021	1,509,415
	Total Capitalization	**4,123,977**	4,260,714
Current Liabilities	Long-term debt due within one year	**76,900**	95,775
	Short-term debt (Note H)	**249,050**	219,850
	Accounts payable and accrued liabilities	**190,676**	184,310
		516,626	499,935
Non-current Liabilities	Nuclear plant decommissioning (Note J)	**529,387**	447,384
	Disposal of spent nuclear fuel (Note I)	**147,530**	140,081
	Deferred revenues and other	**195,845**	177,650
		872,762	765,115
Commitments and Contingencies (Note L)			
	Total Liabilities and Capitalization	**$5,513,365**	$5,525,764

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, 1997 and 1996 *(In Thousands)*

Statement of Net Revenues		1997	1996
Operating Revenues	Power sales	$1,076,755	$1,042,020
	Transmission charges	132,724	118,310
	Wheeling charges	271,324	269,820
	Total Operating Revenues	1,480,803	1,430,150
Operating Expenses	Operations	489,759	418,184
	Nuclear fuel	61,677	65,799
	Fuel oil and gas	132,852	81,675
	Purchased power – Hydro-Québec	42,958	67,255
	– Other	40,922	51,056
	Maintenance	154,436	136,242
	Wheeling	271,324	269,820
	Depreciation	141,686	139,514
	Total Operating Expenses	1,335,614	1,229,545
	Net Operating Revenues	145,189	200,605
Other Income	Investment income	96,443	81,517
	Other	3,153	4,252
	Total Other Income	99,596	85,769
Other Deductions	Interest on long-term debt	164,901	170,639
	Interest–other, net	1,459	3,547
	Amortization of debt discount and expense	6,706	6,706
	Total Other Deductions	173,066	180,892
	Revenues, net before extraordinary item	$ 71,719	$ 105,482
	Debt refinancing charge (Note G)	3,006	-
	Net Revenues	$ 68,713	$ 105,482

Statement of Accumulated Net Revenues Employed in the Business	1997	1996
Accumulated Net Revenues Employed in the Business at January 1	$1,500,942	$1,395,487
Adjustments to January 1 Balance:		
Unrealized holding gains on investment securities held in the operating and general fund on January 1	8,473	18,635
Accumulated net revenues employed in the business at January 1, as adjusted	1,509,415	1,414,122
Net Revenues	68,713	105,482
Changes in unrealized holding gains (losses) on investments held in the operating and general fund	3,893	(10,189)
Accumulated Net Revenues Employed in the Business at December 31	$1,582,021	$1,509,415

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

STATEMENTS OF CASH FLOWS

Years Ended December 31, 1997 and 1996

Increase (Decrease) in Cash *(In Thousands)*

		1997	1996
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission, wheeling	**$1,474,170**	$1,421,306
	Earnings received on nuclear decommissioning trust fund	**38,632**	26,760
	Paid to suppliers and employees for:		
	Operations and maintenance	**(596,215)**	(492,648)
	Purchased power	**(79,520)**	(122,814)
	Fuel oil and gas	**(133,354)**	(91,538)
	Wheeling of power by other utilities	**(267,495)**	(265,975)
	Paid to nuclear decommissioning trust fund	**(71,117)**	(59,245)
	Net cash provided by operating activities	**365,101**	415,846
Cash Flows From Capital and Related Financing Activities	Earnings received on construction fund investments	**11,624**	10,628
	Sale of commercial paper	**536,600**	-
	Repayment of adjustable rate tender notes	**(2,845)**	(2,635)
	Refunding of bonds ($602,880 principal amount)	**(613,274)**	-
	Retirement of bonds ($152,170 principal amount)	**(153,573)**	(96,750)
	Construction and acquisition of utility plant:		
	Gross additions to utility plant	**(73,093)**	(48,971)
	Gross additions to nuclear fuel	**(26,457)**	(50,667)
	Paid for preliminary investigations	**(8,946)**	(6,291)
	Interest paid, net	**(158,542)**	(169,734)
	Net cash used in capital and related financing activities	**(488,506)**	(364,420)
Cash Flows From Noncapital-Related Financing Activities	Energy conservation program payments received from plan participants	**30,889**	26,323
	Energy conservation program costs	**(56,945)**	(68,386)
	Sale of commercial paper	**60,000**	63,600
	Repayment of master notes	**(30,800)**	(22,721)
	Interest paid on commercial paper	**(6,138)**	(4,106)
	POCR funds received from New York State (Note K)	**9,000**	34,000
	CAS funds received from New York State (Note K)	**22,000**	-
	Payment to New York State (Note K)	**(9,000)**	(34,000)
	Transfer to LIPA [Note L(10)]	**(9,000)**	-
	Net cash provided \ (used) by noncapital-related activities	**10,006**	(5,290)
Cash Flows From Investing Activities	Earnings received on investments	**57,521**	48,190
	Purchase of investment securities	**(7,863,584)**	(9,327,220)
	Sale of investment securities	**7,919,570**	9,230,593
	Net cash provided \ (used) by investing activities	**113,507**	(48,437)
	Net Increase \ (Decrease) in Cash	**108**	(2,301)
	Cash, January 1	**574**	2,875
	Cash, December 31	**$ 682**	$ 574

Reconciliation to Net Cash Provided by Operating Activities	Net Revenues	**$ 68,713**	$ 105,482
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Earnings received on investments	**(57,521)**	(48,190)
	Provision for depreciation	**141,686**	139,514
	Amortization of nuclear fuel	**41,560**	44,608
	Provision for spent fuel disposal and nuclear plant decommissioning	**89,453**	59,522
	Amortization of deferred revenues	**(8,679)**	(8,407)
	Amortization of debt discount and expenses	**6,706**	6,706
	Preliminary investigations expensed	**6,327**	5,569
	DOE decommissioning and decontamination costs charged to expense	**2,362**	3,674
	Nuclear decommissioning trust fund	**(71,117)**	(59,245)
	Interest paid, net	**164,680**	173,840
	Debt refinancing charge	**3,006**	-
	Net (increase) \ decrease in prepayments and other	**4,897**	(16,634)
	Net increase in receivables and inventory	**(13,291)**	(14,770)
	Net increase \ (decrease) in accounts payable and accrued liabilities	**(23,267)**	23,793
	Transfer to LIPA	**9,000**	-
	Other	**586**	384
	Net cash provided by operating activities	**$ 365,101**	$ 415,846

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

Note A - General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State by Chapter 772 of the Laws of 1931, as last amended by Chapter 316 of the Laws of 1997.

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 rural cooperative electric systems, investor-owned utilities, high-load-factor industries and other businesses, various public corporations located within the metropolitan area of New York City, including The City of New York, and certain out-of-state customers.

The Authority's trustees are appointed by the Governor of the State, with the advice and consent of the State Senate, 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 investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. Under the criteria set forth in Governmental Accounting Standards Board 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 all authoritative pronouncements applicable to nongovernmental entities (i.e., Financial Accounting Standards Board (FASB) 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 of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project prior to completion. Borrowed funds for a specific construction project are deposited in a construction fund account. Earnings on fund investments are held in this fund to be used for construction purposes.

Earnings on unexpended borrowed funds are credited to the cost of the related project until completion of that 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 expense, and renewals and betterments are capitalized. The cost of utility plant retired and the cost of removal less salvage 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 i 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, 1997 and 1996, 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	**1997**	1996	1997 & 1996
Production: *($ in millions)*			
Steam	**$ 441.9**	$ 441.9	**3.2%**
Nuclear	**1,601.3**	1,580.9	**3.3%**
Hydro	**1,323.7**	1,304.1	**1.7%**
Other	**133.3**	133.3	**2.5%**
Transmission	**1,508.2**	1,501.1	**2.5%**
General	**275.7**	261.1	**4.9%**
	$5,284.1	$5,222.4	**2.7%**

(5) The amortization of nuclear fuel is provided units-of-production basis. Amortization rates are dete 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). The Authority is providing for the decommissioning of its nuclear plants over their estimated useful lives (see Note J).

(6) FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of," requires long-lived and certain other assets be reviewed for impairment if the carrying amount of an asset may not be recoverable. The application of FASB No. 121 had no effect on the Authority's financial position or results of operations in 1997.

(7) Deferred revenues for 1997 and 1996 of $121.4 and $127.2 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, 1997 and 1996, the Authority has deferred charges of $16.9 million and $18.4 million, respectively, pertaining to the aforementioned assessment, which are being recovered from customers. The Authority's remaining liability to the DOE for its share of these costs, as of December 31, 1997 and 1996, amounted to $33.3 million and $36.2 million, respectively.

At December 31, 1997 and 1996, deferred charges also included $94.5 million and $110.9 million, respectively, of energy conservation program costs and $16.2 million and $17.0 million, respectively, of fixed gas costs in excess of current recoveries. These deferred costs are being recovered from customers.

(8) Costs incurred for preliminary investigations of a project are transferred to utility plant upon completion of that 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.

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

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

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

(12) 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 projects are required to be paid into the Revenue Fund.

(13) 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, 1997 and 1996, no liability is reflected in the accompanying financial statements for bond service payments of $150.8 million and $161.5 million due on January 1, 1998 and 1997, respectively.

(14) Revenues are recorded when billed. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to three Southeast New York (SENY) governmental customers and three investor-owned utilities operating in the State accounted for approximately 64 and 66 percent of the Authority's operating revenues in 1997 and 1996, respectively. The aforementioned SENY governmental customers have entered into long-term contracts with the Authority through December 31, 2004 (see Note L[5]).

(15) Certain prior year amounts have been reclassified to conform with the current year's presentation.

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 1997 and 1996, $13.1 million and $7.2 million, respectively, in general purpose bonds were purchased by the general reserve account to meet such call requirements.

The Authority has initiated a long-term debt restructuring program which commenced in the last quarter of 1997 and is forecast to be completed in the second quarter of 1998. As part of this program, in December 1997, the Authority issued $300 million of tax exempt commercial paper to refund the Authority's General Purpose Bonds, Series V, and issued $236 million of Federally taxable commercial paper to refund other General Purpose Bonds so as to increase its flexibility in marketing the output of its James A. FitzPatrick (JAF) Nuclear Power Plant and Blenheim-Gilboa project. The second aspect of the program, if approved by the Authority's Trustees, would be the refunding of all of the Authority's General Purpose Bonds and the replacement of the Resolution with a new resolution which would give the Authority greater flexibility in the restructured electric utility industry in New York State.

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. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law. 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, 1997 and 1996, the Authority had investments in repurchase agreements of $8.3 million and $2.1 million, respectively. The bank balances were $4.2 million and $2.3 million, respectively, of which $0.2 million was covered by Federal depository insurance and $4.0 million and $2.1 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 FASB 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, 1997 and 1996, respectively, is on the next page of these Financial Statements.

GASB Statement No. 31, "Accounting and Financ Reporting for Certain Investments and for External Investment Pools," will be implemented in 1998. The statement generally requires that investments should be reported in the balance sheet at fair value and that realized and unrealized gains and losses on investments flow through the statement of net revenues. Implementation of this statement will result in unrealized gains and losses on investments being reported in the statement of net revenues and may result in additional volatility in the reporting of the Authority's net revenues.

A summary of unexpended borrowed funds for projects in progress included in the construction fund at December 31, 1997 and 1996, respectively, is in the Investment Summary.

The Authority holds a small position in securities that are considered derivatives under GASB 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, 1997		December 31,	
(In Thousands)	Cost	Estimated Fair Value	Cost	Estimated Fair Value
CMOs	**$ 2,452**	**$ 2,397**	$ 4,815	$ 4,668
Rates	**6.0-8.0%**		6.0-8.0%	
(In Thousands)	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Floating rate	**$30,000**	**$29,842**	$37,740	$36,691
Rates	**3.8-6.1%**		2.3-5.9%	

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)

	1997 Cost	1997 Gross Unrealized Gains (1)	1997 Gross Unrealized Losses (1)	1997 Estimated Fair Value	1996 Cost	1996 Gross Unrealized Gains (1)	1996 Gross Unrealized Losses (1)	1996 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	$ 100,399	$ 8,871	($ 90)	$ 109,180	$ 137,447	$ 6,758	($ 410)	$ 143,795
Municipal securities	19,005	-	-	19,005	51,048	2,718	-	53,766
GNMA	15,751	475	(15)	16,211	19,268	426	(17)	19,677
Project loans	54,236	2,609	(2,285)	54,560	56,676	1,810	(1,435)	57,051
U.S. Government Agencies	437,629	4,386	(2,060)	439,955	434,319	2,881	(4,462)	432,738
Repurchase agreements	8,300	-	-	8,300	2,100	-	-	2,100
Shipping bonds	5,580	-	(80)	5,500	7,554	-	(202)	7,352
	$ 640,900	$ 16,341	($4,530)	$ 652,711	$ 708,412	$14,593	($ 6,526)	$ 716,479
SECTION Ib:								
Unexpended borrowed funds for projects in progress included in the construction fund								
U.S. Treasuries	$ 37,828	$ 593	-	$ 38,421	$ 55,027	$ 822	($ 30)	$ 55,819
U.S. Government Agencies	140,174	943	($ 565)	140,552	130,694	336	(1,509)	129,521
	$ 178,002	$ 1,536	($ 565)	$ 178,973	$ 185,721	$ 1,158	($ 1,539)	$ 185,340
Section I Totals	$ 818,902	$ 17,877	($5,095)	$ 831,684	$ 894,133	$15,751	($ 8,065)	$ 901,819
SECTION II:								
Decommissioning Trust Funds (Note J)								
Corporate Bonds	$ 208,400	$ 6,785	-	$ 215,185	$ 147,674	$ 1,734	($ 1,234)	$ 148,174
U.S. Treasuries	55,504	489	-	55,993	96,544	333	(424)	96,453
U.S. Government Agencies	130,179	1,192	($ 24)	131,347	131,653	1,623	(268)	133,008
Foreign bonds	3,670	141	-	3,811	40,938	453	(423)	40,968
Private placements	2,331	189	-	2,520	16,560	507	(30)	17,037
[illegible]rt-term, cash and [illegible] equivalents	22,481	63	-	22,544	31,565	865	(461)	31,969
[illegible]on stocks	113,486	3,736	-	117,222	-	-	-	-
	$ 536,051	$ 12,595	($ 24)	$ 548,622	$ 464,934	$ 5,515	($ 2,840)	$ 467,609
SECTION III:								
Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds (Note K)								
U.S. Treasuries	$ 52,190	$ 1,063**	($ 1)	$ 53,252	$ 32,721	$ 406	-	$ 33,127
U.S. Government Agencies	296	1	-	297	-	-	-	-
Short-term cash and cash equivalents	1	-	-	1	521	-	-	521
	$ 52,487	$ 1,064	($ 1)	$ 53,550	$ 33,242	$ 406	-	$ 33,648
Totals for Sections I, II & III	$1,407,440	$ 31,536	($5,120)	$1,433,856	$1,392,309	$21,672	($10,905)	$1,403,076

Reconciliation to Balance Sheet Amounts*:

	1997	1996
1. Restricted Funds: Investment in nuclear decommissioning trust fund (Section II)	$ 548,622	$ 467,609
2. Restricted Funds: Investment in POCR Funds and CAS Projects Funds (Sect. III)	53,550	33,648
3. Restricted Funds: General Fund and other	337,040	409,116
4. *Restricted Funds: Investment in securities	$ 939,212	$ 910,373
5. *Construction Funds: Investment in securities	186,716	194,594
6. *Current Assets: Investment in securities	307,928	298,109
7. Sum of lines 3, 5 & 6: Total of Section I	831,684	901,819
8. Sum of lines 4, 5 & 6: Total of Balance Sheet Amounts	$1,433,856	$1,403,076

Re[illegible]lized Gains and Losses (2)	SECTION Ia	SECTION Ib	SECTION II	SECTION III	SECTION Ia	SECTION Ib	SECTION II	SECTION III
[illegible] Gains	$ 2,722	$ 86	$21,090	$ 11	$ 472	$ 231	$27,677	-
[illegible] Losses	(997)	(213)	(13,898)	(6)	(1,639)	(413)	(27,708)	-

(1) Unrealized gains and losses on investments in these funds were recognized as follows:
Section Ia & III** - 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.

(2) Realized gains and losses on the sale of investments in these funds were recognized as follows:
Section Ia & III - 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.

** An unrealized net gain on investments of $508 in the CAS Project Funds was reflected as an adjustment to the CAS Projects liability account.

Summary of Maturities (3):

(In Thousands)

		1997						1996					
		SECTION I		SECTION II		SECTION III		SECTION I		SECTION II		SECTION III	
From More Than	To	Fair Cost	Estimated Value	Fair Cost	Estimated Value	Fair Cost	Estimated Value	Fair Cost	Estimated Value	Fair Cost	Estimated Value	Fair Cost	Estimated Value
0	1 year	$245,708	$246,349	$ 16,818	$ 16,818	$52,487	$53,550	$162,225	$162,506	$ 21,890	$ 22,294	$25,272	$25,630
1 year	5 years	216,502	221,923	81,753	82,362	-	-	405,347	410,375	59,476	59,619	7,970	8,018
5 years	10 years	286,791	289,099	26,172	26,708	-	-	229,810	230,032	130,949	126,576	-	-
10 years	onward	69,901	74,313	308,041	315,731	-	-	96,751	98,906	252,619	259,120	-	-
Common Stock		-	-	103,267	107,003	-	-	-	-	-	-	-	-
		$818,902	$831,684	$536,051	$548,622	$52,487	$53,550	$894,133	$901,819	$464,934	$467,609	$33,242	$33,648

(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.

After a 1990 State law that required changes in the actuarial calculations made by the System was ruled unconstitutional, the State Comptroller implemented a plan that restored the aggregate cost method with a cap on contribution rates for the four years ending March 31, 1998. Under this plan, the Authority's required contributions to the System were $2.6 million, $6.0 million and $6.7 million for the years ended March 31, 1998, 1997 and 1996 (100% paid on or about December 15, 1997, 1996 and 1995), respectively. After March 31, 1998, the aggregate cost method will be applied without a cap.

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, 1997.

Post-retirement Benefits:

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents. Employees and/or 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 585 participants were eligible to receive these benefits at December 31, 1997. The cost of these benefits is charged to expense as paid and totaled $3.2 million and $2.9 million for the years ended December 31, 1997 and 1996, respectively. The Authority accrues the cost of unused sick leave payable upon retirement.

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, 1997 and 1996, of $22.7 million and $16.3 million, respectively, is included in "Other Non-current Assets" and "Other Non-current Liabilities" 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 each year for 1997 and 1996.

Note F - Long-Term Debt

A summary of General Purpose Bonds payable at December 31, 1997 and 1996, follows:

		1997 Amount	1996 Amount	Maturity January 1	Interest Rate(a)	Earliest Redemption Date Prior to Maturity(b)
Series N	Term Bonds	**$ 47,485,000**	$ 48,200,000	2018	6.000%	1/1/1994
Series T	Term Bonds	**35,005,000**	46,615,000	2019	5.000%	1/1/1996
Series U	Term Bonds	**44,310,000**	53,350,000	2018	5.750%	1/1/1996
Series V	Term Bonds	-	32,630,000	2004	7.000%	1/1/1998
	Term Bonds	-	72,560,000	2006	7.800%	
	Term Bonds	-	40,330,000	2007	7.875%	
	Term Bonds	-	90,060,000	2009	7.000%	
	Serial Bonds	-	137,280,000	1999 to 2003	6.900% to 7.600%	
Series W	Term Bonds	**82,110,000**	82,110,000	2008	6.500%	
	Serial Bonds	**163,785,000**	177,710,000	1999 to 2005	6.100% to 6.700%	
Series X	Serial Bonds	**340,000**	895,000	1999	6.600% to 6.700%	1/1/1998
Series Y	Term Bonds	**47,775,000**	47,775,000	2011	6.500%	1/1/2001
	Term Bonds	**119,770,000**	119,770,000	2018	6.750%	
	Term Bonds	**45,385,000**	45,385,000	2020	6.000%	
	Serial Bonds	**72,885,000**	78,825,000	1999 to 2007	5.900% to 6.250%	
Series Z(c)	Term Bonds	**8,970,000**	25,540,000	2012	6.625%	1/1/2002
	Term Bonds	**41,175,000**	117,240,000	2019	6.500%	
	Term Bonds	**7,515,000**	21,385,000	2020	5.500%	
	Serial Bonds	**75,975,000**	129,950,000	1999 to 2007	5.500% to 6.500%	
Series AA	Term Bonds	**56,785,000**	62,135,000	2012	6.375%	1/1/2002
	Term Bonds	**81,155,000**	81,360,000	2023	6.250%	
	Serial Bonds	**68,330,000**	80,180,000	1999 to 2007	5.200% to 6.300%	
Series BB	Serial Bonds	**92,450,000**	99,965,000	1999 to 2007	5.200% to 6.300%	1/1/2002
Series CC	Term Bonds	**117,385,000**	117,385,000	2014	5.000%	1/1/2003
	Term Bonds	**149,375,000**	150,465,000	2018	5.250%	
	Serial Bonds	**589,590,000**	743,505,000	1999 to 2011	3.600% to 5.125%	
		1,947,555,000(d)	2,702,605,000(d)			
Less: Unamortized discount		**38,360,000**	52,896,000			
Deferred refinancing costs		**21,459,000**	-			
		1,887,736,000	2,649,709,000			
Less: Due within one year		**73,825,000**	92,930,000			
		$1,813,911,000	$2,556,779,000			

(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: 1998, $73.8 million; 1999, $128.2 million; 2000, $88.5 million; 2001, $94.7 million; and 2002, $99.8 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) At December 31, 1997 and 1996, the current market value of these bonds was approximately $2.04 billion and $2.78 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, 1997 and 1996, $1.23 billion and $.97 billion, respectively, of bonds outstanding were considered defeased.

Summary of Commercial Paper (Long-term portion*)
(In Millions)

	Taxability	Maturity	**December 31, 1997** Availability	Outstanding
CP (Series 2)	**	2003 to 2008	$300.0	$300.0
CP (Series 3)	***	1999 to 2002	350.0	236.6
			$650.0	$536.6

* Issued in 1997.
** Interest excluded from gross income for federal income tax purpose.
*** Interest not excluded from gross income for federal income tax purposes.

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

Notes *(In thousands)*	**1997**	1996	**Interest Rate at** **12/31/97**	12/31/96
Due March 1, 2007	**$ 44,520**	$ 47,365	3.75%	3.70%
Due March 1, 2016	**75,000**	75,000	3.75%	3.70%
Due March 1, 2020	**75,000**	75,000	3.75%	3.70%
	194,520	197,365		
Less: due within one year	**3,075**	2,845		
	$191,445	$194,520		

Annual maturities for the next five calendar years are as follows: 1998, $3.1 million; 1999, $3.3 million; 2000, $3.6 million; 2001, $3.9 million; and 2002, $4.2 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, 1998.

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. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 1997 and 1996) at either (i) a rate based on the London Interbank Offered Rate or (ii) 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.

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

With the objective of restructuring its debt (see Note C), the Authority began the first phase of a two-phase refunding program during the last quarter of 1997 by issuing $536.6 million in commercial paper and transferring such proceeds, along with $75.2 million from the bond reserve account and $20.1 million from the bond service account, to an irrevocable escrow deposit account to be invested in the direct obligations of the United States of America. The maturing principal of and interest on such securities were and will be sufficient to pay the principal, interest and applicable call premium on $6.4 million principal amount of Series T Bonds ; $347.3 million principal amount of Series V Bonds; $157.1 million principal amount of Series Z Bo[illegible] and $92.0 million principal amount of Series CC Bonds.

As a result of the refunding and the deposit with the Escrow Agent, the Series T, V, Z, and CC Bonds that were refunded are deemed to have been paid pursuant to the Resolution, and they cease to be a liability of the Authority. Accordingly, the refunded Series T, V, Z and CC Bonds (and the related deposit with the Escrow Agent) are excluded from the Balance Sheet.

The Authority expects to realize gross debt service savings from this refunding transaction of approximately $291 million over the life of the bonds. The refunding produced an economic gain (the present value of the debt service savings, adjusted for additional cash paid) of approximately $51 million.

A debt refinancing charge of $24.5 million resulted from this transaction because of the difference ($10.4 million) between the total cash deposited with the Escrow Agent and the principal amount of the refunded Series T, V, Z and CC Bonds, plus the unamortized discount and expense pertaining to the refunded bonds ($14.1 million). In accordance with the provisions of GASB No. 23, $21.5 million has been deferred and is shown in the Balance Sheet as Debt Refinancing Charges and will be amortized. The remaining $3.0 million, attributable to the cash contributed from the bond reserve account to the escrow deposit account, is presented as an extraordinary item in the Statement of Net Revenues.

Note H - Short-term Debt

Master notes and commercial paper (CP) outstanding were as follows:

(In Millions)	**December 31, 1997** Availability	Outstanding	December 31, 1996 Availability	Outstanding
Master Notes	**$150.0**	**$ 61.3**	$150.0	$ 61.3
CP (Series 1)	**300.0**	**187.8**	300.0	158.6
	$450.0	**$249.1**	$450.0	$219.9

Master Notes

Under a $150 million master note arrangement with a bank, expiring February 1, 2000, the Authority can issue 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.

These master notes were issued in prior years to fund a portion of the construction cost of the Authority's [illegible] hydroelectric facilities.

Commercial Paper

Under the Commercial Paper Note Resolution adopted June 28, 1994, as amended and restated on November 25, 1997, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $300 million (Series 1); $300 million (Series 2); and $350 million (Series 3). The proceeds of the Series 1 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.

The proceeds of the Series 2 and 3 notes shall be used to refund General Purpose Bonds and for other corporate purposes. During the last quarter of 1997, proceeds of the Series 2 and 3 notes were used to refund and defease General Purpose Bonds (see Note G). It is the Authority's intention to refinance Series 2 and 3 notes as they mature so that their ultimate maturity dates will range from 1999 to 2008 as indicated in Summary of Commercial Paper in Note F.

During 1997 and 1996, the Authority issued $29.2 million and $63.6 million, respectively, of commercial paper notes and had $187.8 million and $158.6 million of commercial paper notes outstanding, and classified as short-term debt, at December 31, 1997 and 1996, respectively.

The Authority has two lines of credit under revolving credit agreements to provide liquidity support for the commercial paper notes, with two syndicates of banks for $200 million, for the Series 1 commercial paper notes, and $650 million, for the Series 2 and Series 3 commercial paper notes. These agreements extend to July 13, 1999 and December 3, 1998, respectively. As of December 31, 1997 and 1996, no borrowings have been made under these revolving credit agreements.

Master note, commercial paper and Adjustable Rate Tender Note obligations are subordinated to General Purpose Bond obligations.

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 spent nuclear fuel from the Authority or others 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 currently 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, 1997 and 1996, the liability to DOE related to the one-time fee, including accrued interest from April 7, 1983, totaled $147.5 million and $140.1 million, respectively.

In December 1997, 27 utilities petitioned DOE to suspend their future payments to the Nuclear Waste Fund until DOE moves spent nuclear fuel. This petition followed a November 1997 Federal court ruling that reaffirmed DOE's "unconditional obligation" to begin taking commercial spent nuclear fuel by January 31, 1998, even in the absence of an operational repository or interim storage facility. However, this ruling did not order DOE to begin physically moving spent fuel by 1998, which the utilities sought.

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 $404 million and $432 million, in 1996 dollars, for the Indian Point 3 (IP3) Nuclear Power Plant and JAF nuclear plant, respectively. These funds must be segregated from the licensee's assets and outside of its administrative control. Current projections indicate that the amounts deposited in its decommissioning trust through December 31, 1997, will be sufficient to meet current NRC-required minimum amounts at the end of their useful lives. If such NRC-required minimums should increase, the Authority expects to deposit additional funds into the decommissioning trust to meet the revised requirements. The Authority currently expects decommissioning to commence in 2021 for IP3 and 2032 for JAF. The annual provision for decommissioning ($70.5 million and $60.4 million for 1997 and 1996, 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 $529.4 million and $447.4 million, respectively, as of December 31, 1997 and 1996, representing cumulative provisions recorded to date.

The nuclear decommissioning funds (Section II, Investment Summary in Note D) 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 and permits the use of futures and foreign currency contracts. Securities rated A are limited to 20% of the total fixed income portfolio; however, the overall rating of the fixed income portion of the portfolio must be AA. Up to 25% of the assets (at cost) may be invested in a diversified portfolio of equity securities.

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, 1997 and 1996, respectively, the decommissioning trust funds had approximately 14 and 12 percent of their holdings in CMOs; and the fair value of such investments was $78 million and $56 million, respectively. The par value of the CMOs at December 31, 1997 and 1996, was $79.5 million and $57.1 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, but 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, 1997 and 1996, were valued at $0.2 million and $0.4 million, respectively.

Investments in the decommissioning trust funds at December 31, 1997 and 1996, are summarized in the Investment Summary in Note D.

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

Legislation enacted into State law from 1995 to 1997 authorizes the Authority to utilize $51 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 legislation also states that the Authority "shall transfer" equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects, and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds to implement various energy conservation programs that have received all necessary approvals.

The disbursements of the POCR funds to the Authority, and the Authority's transfers totaling $43 million from its General Reserve Account to the State, took place in May 1996 and April 1997. In December 1997, the Authority's Trustees authorized the transfer of $8 million from the General Reserve Account to the State in exchange for POCR funds and $600,000 of other State Funds to be made available to the Authority by the State pursuant to the legislation, conditioned upon the execution of an agreement between the Authority and the State governing the transfer. 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.

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. In March 1997, $22 million was transferred to the Authority and held in an escrow account (Section III, Investment Summary in Note D), for initial implementation of the CAS Projects program.

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. The Authority and other New York utilities are currently engaged in the restructuring of the New York electricity industry so as to create a competitive wholesale and retail market for electricity in the future. Currently, the Authority is a low-cost provider of energy in New York State. To maintain its position in this changing environment, the Authority is taking a variety of actions including restructuring debt, taking steps to improve nuclear performance, entering into long-term agreements with customers and implementing restructuring and cost containment programs. However, there can be no assurance that the Authority would not lose customers in the future as a result of the restructuring of the New York State electric utility industry and the emergence of new competitors or increased competition from existing competitors.

The power market in the State has experienced significant changes in the past few years. The proliferation of independent power producers, combined with an economic slowdown from 1988 through 1993 and the success of utility demand side management (DSM) programs, has created a surplus of generating capacity in New York. This has led to lower wholesale prices of electricity. With less revenues from wholesale customers to cover fixed costs, utilities are faced with raising rates for retail customers or with seeking to reduce costs, including examining the economics of their power supply contracts with other producers, such as the Authority. 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 for wholesale sellers and purchasers of electricity.

(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 electricity 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 electricity industry. Each of the State's investor-owned utilities was required, as a part of this proceeding, to negotiate with the PSC staff and other interested parties a plan for the movement to a competitive market for the generation of electricity. These negotiations include the sale of at least part of the fossil-fueled electric generation facilities of each of the investor-owned utilities.

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 becoming 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 from other utilities at a price in excess of the facilities' book value, with the increment to be used to alleviate the utilities' potential stranded investment 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. In light of changed circumstances in the Authority's participation in the development of the statewide

Independent System Operator (ISO) (see (4) below), the Authority is reviewing all aspects of the transmission system ...ase proposal.

While not under the regulatory oversight of the PSC, the Authority has significant interest in the outcomes of the Consolidated Edison Company of New York, Inc. (Con Ed), Niagara Mohawk Power Corporation (NIMO), New York State Electric & Gas Corporation (NYSEG), and other PSC restructuring proceedings. Any decision by the PSC relating to the future competitive structure of New York's electric industry could affect the manner in which the Authority markets its power and energy.

On September 10, 1997, the PSC approved a settlement agreement in the Con Ed restructuring proceeding. Authority-related issues include Con Ed's delivery service rate (Delivery Rate) to the Authority's customers, stranded cost charges, and an in-city capacity requirement.

The Delivery Rate charged to the Authority for the Authority's governmental customers in the Con Ed service territory will be increased by $9 million per year. At this time, the Authority does not intend to pass this increase on to its customers. The Delivery Rate for the Authority's business customers in the Con Ed service territory will remain unchanged. The Authority's Economic Development Power (EDP) customers in the Con Ed service territory will be exempt from Con Ed stranded cost charges up to a maximum of 185 mw of allocations. Existing Authority governmental customers as of October 1, 1996, and their load growth, will be exempt from Con Ed stranded cost charges. The Authority will not be subject to an in-city generation requirement until one is established by the ISO.

On January 27, 1998, the PSC approved NYSEG's settlement agreement subject to certain modifications and conditions. Authority-related issues include NYSEG's Delivery Rate to the Authority's customers and stranded cost charges.

The order extended to five years the proposed three-year moratorium on increases in the rates for delivery of Authority power by NYSEG to EDP customers. NYSEG's stranded costs recovery will not apply to the existing level of customer load served by the Authority in NYSEG's service territory.

A final decision by the PSC on NIMO's settlement agreement is expected in early 1998.

(3) Indian Point 3 Nuclear Power Plant

IP3 was removed from the NRC's "watch list" of facilities requiring increased NRC attention as of the commission's review in June 1997. The plant had a net book value of $530.9 million at December 31, 1997. 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 (through 2015) at an average capacity factor higher than the plant has attained during its lifetime (1976 to 1997).

(4) Statewide ISO Proposal

In addition to the Authority's PSC proposal, discussed above, pursuant to a FERC Order applicable to the seven investor-owned electric utilities (the "IOUs") in New York, which, along with the Authority, constitute the New York Power Pool (NYPP), the IOUs undertook, with the Authority, to develop an arrangement for providing non-discriminatory open-access transmission over all of the electric transmission lines in New York. As a result of this effort, the IOUs and the Authority filed a revised proposal (as revised, the "Proposal") with FERC in December 1997, expanding on and in some respects modifying a proposal filed with FERC in January 1997, to provide open access to their transmission lines. Under the Proposal, the seven IOUs and the Authority would form a not-for-profit corporation, ISO, that would have responsibility for the operation of most of the transmission lines of the participants, including all of the transmission lines of the Authority. The ISO would be responsible for scheduling the use of the lines by the seven IOUs, the Authority and others that wished to use the lines for transmission of electricity and would be responsible for collecting fees from transmission customers. Each IOU and the Authority would retain ownership and would be responsible for maintenance of their respective transmission lines.

The customers of the ISO, including the IOUs and the Authority, would pay fees to the ISO. Each transmission customer of the ISO would also pay a separate fee for the benefit of the Authority that would be designed to assure that the Authority will recover its entire annual transmission revenue requirement. The Authority's annual transmission revenue requirement would be subject to review by FERC. If the ISO does not maintain a FERC-accepted tariff that provides for full recovery by the Authority of its annual transmission revenue requirement, the Authority would be permitted to withdraw from the ISO and the arrangement contemplated by the Proposal on 90 days notice to the other parties to the arrangement. In addition, any of the IOUs and the Authority may withdraw from the arrangement contemplated by the Proposal on 90 days notice to the Board of Directors of the ISO but, in the case of an IOU, such withdrawal is conditioned upon the effectiveness of an "open access" transmission facilities tariff on file with FERC.

The effectiveness of the Proposal is conditioned, among other things, upon approval of the Proposal by FERC, including the full recovery of the Authority's annual transmission revenue requirement, and a determination by the United States Internal Revenue Service (IRS) that participation in the arrangement contemplated by the Proposal will not adversely affect the Federal-tax-exempt status of any obligations issued by the IOUs and the Authority nor adversely affect their ability to issue future Federal-tax-exempt obligations. The Proposal is further premised on each of the seven IOUs being able to fully recover the compensation paid to the Authority from the IOUs' transmission and retail customers and that any necessary regulatory approvals for such full recovery will be granted by the PSC and FERC. As of January 31, 1998, FERC has taken no action with respect to the filing. On January 22, 1998, new temporary rules were published by the IRS that may facilitate the Authority's participation in the ISO. These rules are under review by the Authority.

(5) Long-term Contracts

The Authority has negotiated agreements with substantially all of its SENY governmental customers resulting in existing power sales agreements with such customers extending to either 2004 or 2005, depending upon the agreement. The revenues from these customers were approximately 37 percent of the Authority's 1997 Operating Revenues (excluding wheeling charges).

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-based electric price index. Certain of the contracts provide for shared savings, beginning in 1998, contingent upon the Authority reducing the cost of service in the Southeastern New York service area. 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 exercise their right to transfer load not already transferred pursuant to the agreements to another supplier, if rate increases exceed specified amounts at specified times.

Pursuant to these contracts, 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. Through December 31, 1997, $33.1 million has been expended.

(6) Power for Jobs

On July 29, 1997, State legislation was enacted into law that created the Power for Jobs Program (the "Program") to make available low-cost electric power to businesses, small businesses and not-for-profit corporations. Under the Program, the New York State Economic Development Power Allocation Board (EDPAB) will recommend to the Authority's Trustees allocations to eligible recipients of power from the Authority's JAF nuclear power plant and of power purchased by the Authority. A total of 400 megawatts (mw) of power will be allocated under the Program, and not less than 200 mw of the 400 mw will be obtained from the competitive procurement process. The Program power will be sold to eligible recipients at a rate that will be an amalgamation of the rate for JAF power and the cost of the competitive procurement power, plus a charge for the transmission of such power. Pursuant to the Program legislation, the Authority is authorized, as deemed feasible and advisable by the Authority's Trustees, to utilize any revenues from the sale of Program power from JAF in excess of the amount of revenues obtained from sale of a comparable amount of JAF power in 1996 to make a voluntary contribution to the State Treasury. The Authority is not currently able to project the amount of such excess, if any.

(7) Natural Gas Contract

The Authority has entered into a long-term contract with Enron Gas Marketing, Inc. (Enron) under which it is obligated to purchase approximately 10.75 billion cubic feet of natural gas annually until April 30, 2014, or pay a penalty on the unused volumes. Based on minimum purchase obligations in the contract, the Authority estimates that it will pay an average annual amount for gas purchased under the contract of approximately $42 million during the term of the agreement. Under the agreement, the price paid for gas by the Authority would be market based, with a 10 percent demand charge to be paid on the 90 percent "take-or-pay" quantity and, until December 31, 2002, with a "floor" imposed on the price, which floor escalates 3.5 percen year. The floor exceeds the market price of natural gas December 31, 1997. Given the terms of the Enron contract and the capacity supply agreement for the Authority's Richard M. Flynn combined-cycle generating plant (Flynn), there is no assurance that in any given year payments from the Long Island Lighting Company (LILCO) to the Authority in compensation for Enron gas costs will fully compensate the Authority for payments for such gas under the Enron contract.

(8) Legal and Related Matters

By letter dated November 6, 1996, Con Ed informed the Authority that it intends to seek damages in connection with the recent periods when the Authority's IP3 nuclear plant was not in service. Con Ed has stated that it "intends to seek recovery of capacity charge payments" associated with certain periods that "could include some or all of the approximately $29 million paid by Con Ed for periods when IP3 was not in service occurring after the commencement of the outage on February 27, 1993," as well as for the cost of replacement energy purchased during this period for prices exceeding those which Con Ed would have paid the Authority. Con Ed stated that the "order of magnitude estimate for these [replacement energy] costs is approximately $40 million." The Authority and Con Ed are in the process of selecting an arbitrator to decide the matter.

The eight municipalities which are the petitioners in *Village of Bergen v. Power Authority* object to the Autho apportionment of indirect overhead costs in determi 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 $7.4 million during the period May 1, 1992, through December 31, 1997. 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 period. Revenues from preference power recipients accounted for 5.6 percent of the Authority's 1997 operating revenues.

Several groups of Mohawk Indians have filed lawsuits against the State, the Governor of the State, St. Lawrence and Franklin Counties, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin Counties and to Barnhart, Long Sault and Croil Islands. These islands are within the boundary of the St. Lawrence-FDR Project. Settlement discussions have been held periodically, with the most recent being in late 1997.

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 p (including that discussed above) and rates for the sa power that may result in impeding the operations of s 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 Secretary and General Counsel believes that the Authority has meritorious positions, which have been or will be asserted in these matters.

(9) Nuclear Liability Insurance

Under provisions of the Federal Price-Anderson Act, the [illegible] maximum public liability for a single nuclear incident [illegible]ited 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 at least $1.06 billion for each reactor site. The Authority has such coverage in force. In the event 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, 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, 1997, the Authority could be liable for a maximum assessment of approximately $20.9 million during any one policy year.

(10) Long Island Matters

The Authority's Flynn plant and Long Island Sound Cable transmission facility (LISC) were constructed to provide [illegible] services on Long Island. Currently, LILCO is the sole [illegible]er with contracts to purchase electricity and transmission services provided by these facilities, which represented $92.9 million of the Authority's 1997 operating revenues. The net book values of these facilities at December 31, 1997, were $129.0 million for Flynn and $239.1 million for the LISC.

On June 26, 1997, LILCO and the Long Island Power Authority (LIPA) entered into various agreements that would result in the acquisition of LILCO's transmission and distribution system by LIPA. Independent of this arrangement, LILCO and the Brooklyn Union Gas Company have received PSC and FERC approvals of their merger plan involving a combination of the two companies under the control of a holding company.

LILCO would remain obligated to the New York Power Authority under its power purchase contract relating to the output of the Authority's Flynn plant and under its contract for utilization of the transmission capacity of the Authority's Sound Cable Project transmission line.

The Authority cannot predict the future of the LIPA proposal or the effect, if any, it would have on the Authority's operations or revenues.

On August 5, 1997, the Authority transferred $9 million [illegible] as interim financial assistance to help fund LIPA's [illegible]ment and implementation of its proposed acquisition of the transmission and distribution facilities of LILCO. In a memorandum of understanding executed by the Authority and LIPA, LIPA expressed its intent to repay, without interest, such monies to the Authority from the proceeds of bonds expected to be issued by LIPA to finance the acquisition of the LILCO facilities. LIPA also agreed to include a provision for such repayment in a plan of finance for the acquisition of such facilities, and, subject to the approval of the trustees of LIPA, to take such other steps as may be necessary to assure that such monies are repaid from LIPA bond proceeds.

(11) 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 at that time.

The Authority currently 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. It does not appear likely that a New York disposal facility will be available in the foreseeable future.

(12) New York Nuclear Operating Company

On August 28, 1997, the Authority, Con Ed, NIMO and Rochester Gas and Electric Corporation, the four utilities operating nuclear generating facilities in the State, jointly announced their desire to move forward with plans to form the New York Nuclear Operating Company (NYNOC) to operate the six nuclear plants currently operated by the four entities to achieve economies of scale and increased cost effectiveness. The plants would continue to be owned, and the output of the plants marketed, by the respective owners of the plants. It is contemplated that NYNOC would obtain the NRC operating licenses for the plants while other aspects of the NRC licenses would remain with the owners of the plants.

The Authority cannot predict whether such an arrangement will come to fruition; the effect on such an arrangement of a proposal by PSC staff to have the nuclear plants owned by New York investor-owned utilities sold to investors as part of a New York electricity industry restructuring plan; or, if the Authority participates in such an arrangement, what effect such arrangement will ultimately have on the Authority's operations and financial condition.

SUMMARY OF FUNDS

(CASH BASIS)

Year Ended December 31, 1997 *(In Thousands)*

	Revenue	Operating	Fuel Reserve Account	Projects' Study
Available Funds, January 1, 1997	$ 0	$ 297,130	$ 0	$ 0
Cash Receipts				
Sale of power, transmission and wheeling	1,468,232			
Earnings on investments	52,182			
Sale of commercial paper				
Administrative expenses reimbursed from other funds		5,446		
Receipts from New York State per legislation (Note K)				
Other	5,938			
Total Receipts	1,526,352	5,446	-	-
Total Available	1,526,352	302,576	0	0
Transfer of funds–revenue	(1,526,352)	939,957	159,811	8,946
–decommissioning				
–other				
	$ 0	$1,242,533	$159,811	$8,946
Cash Disbursements				
Interest on bonds, notes and commercial paper				
Retirement of bonds ($152,170 principal amount)				
Bond defeasance ($602,880 principal amount)				
Repayment of notes				
Utility plant additions		9,776		
Nuclear fuel			26,457	
Fuel oil and gas			133,354	
Operations and maintenance		570,683		
Purchased power–Hydro-Québec		45,203		
–Other		34,317		
Wheeling		267,495		
Expenditures chargeable to other funds		10,790		
Preliminary investigations				8,946
Energy conservation program costs				
Administrative expenses reimbursed to the operating fund				
Payment to New York State per legislation (Note K)				
Transfer to LIPA (Note L(10))				
Other				
Total Disbursements	-	938,264	159,811	8,946
Available Funds, December 31, 1997	$ 0	$ 304,269	$ 0	$ 0
Distributed as follows:				
Cash		$ 195		
Investments in securities, at cost		304,074		
	-	$ 304,269	-	-
Investments in securities, at fair value	-	$ 307,928	-	

General Fund (Held by Trustee)						Restricted		
Bond Service	Bond Reserve	General Reserve	Nuclear Decommissioning Trust (Note J)	Petroleum Overcharge Restitution (POCR)	Clean Air for Schools (CAS) Projects	Note Debt Service Reserve	Advance Bond Refunding (Note G)	Note Proceeds
$ 0	$323,638	$ 58,735	$464,934	$ 33,243	-	$ 20,010	-	$ 145
	1,614		38,632	1,731	416	1,166		
							536,600	
				9,000	22,000			
-	1,614	-	38,632	10,731	22,416	1,166	536,600	-
0	325,252	58,735	503,566	43,974	22,416	21,176	536,600	145
249,753	36,686	132,375				(1,176)		
		(32,485)	32,485					
	(14,094)	(2,964)		31	(1,109)	153		5,993
$249,753	$347,844	$155,661	$536,051	$ 44,005	$ 21,307	$ 20,153	$536,600	$ 6,138
153,866		10,670						6,137
92,930	46,455	14,188						
2,957	75,163						535,154	
		2,845						
		25,914						
		184		12,825				
		651						
		9,000						
		9,000						
		287					1,446	
249,753	121,618	72,739	-	12,825	-	-	536,600	6,137
$ 0	$226,226	$ 82,922	$536,051	$ 31,180	$ 21,307	$ 20,153	$ 0	$ 1
	$ 20	$ 1		$ 1		$ 157		$ 1
	226,206	82,921		31,179	$ 21,307	19,996		
-	$226,226	$ 82,922	-	$ 31,180	$ 21,307	$ 20,153	-	$ 1
-	$233,563	$ 83,367	$548,622	$ 31,735	$ 21,814	$ 20,111	-	-

SUMMARY OF FUNDS

(CASH BASIS) (continued)
Year Ended December 31, 1997 *(In Thousands)*

	Indian Point 3 Project Improvement Fund	
	No.1	No.3
Available Funds, January 1, 1997	$ 9,895	$120,762
Cash Receipts		
Earnings on investments	519	7,568
Sale of commercial paper		
Energy conservation programs		
Total Receipts	519	7,568
Total Available	10,414	128,330
Transfer of funds—other		
	$10,414	$128,330
Cash Disbursements		
Repayment of notes and commercial paper		
Utility plant additions	914	11,028
Energy conservation program costs		
Administrative expenses reimbursed to the operating fund	36	831
Total Disbursements	950	11,859
Available Funds, December 31, 1997	$ 9,464	$116,471
Distributed as follows		
Cash	$ 3	$ 3
Investments in securities, at cost	9,461	116,468
	$ 9,464	$116[illegible]
Investments in securities, at fair value	$ 9,494	$116,[illegible]

Construction						
J.A. FitzPatrick Project Improvement Fund						
No.2	No.3	Sound Cable Project	Energy Conservation	Flynn Plant	Facilities Improvement	Total
$14,331	$40,782	$ 12	$ 7,350	$ 1,888	$ 29	$195,049
909	2,553		412	75		12,036
			60,000			60,000
			30,889			30,889
909	2,553	-	91,301	75	-	102,925
15,240	43,335	12	98,651	1,963	29	297,974
		65	96		11,829	11,990
$15,240	$43,335	$ 77	$98,747	$ 1,963	$11,858	$309,964
			30,800			30,800
38	6,111	43		1,607	11,669	31,410
			56,945			56.945
	346	1	3,281	137	163	4,795
38	6,457	44	91,026	1,744	11,832	123,950
$15,202	$36,878	$ 33	$ 7,721	$ 219	$ 26	$186,014
$ 5	$ 2	$ 33	$ 230	$ 5	$ 26	$ 307
15,197	36,876	-	7,491	214		185,707
$15,202	$36,878	$ 33	$ 7,721	$ 219	$ 26	$186,014
$15,316	$37,313	-	$ 7,527	$ 215	-	$186,716

Affordable and reliable energy is one of the cornerstones of New York's economic renaissance. NYPA has the resources and talent to play a leadership role in meeting the challenges presented by our changing industry.

- We will retain and create jobs in New York State by:
  - Facilitating the transition to competitive energy costs,
  - Reducing the cost of energy to business, to government and to consumers throughout the State,
  - Delivering essential utility services that others can't or won't provide as well as we do,
  - Promoting the development and use of electric transportation and other energy-related innovative technologies.
- 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 satisfaction and loyalty.
- We recognize that a talented, skilled and motivated work force, committed to the highest standards of integrity, is an essential factor in meeting our goals.
- Our stewardship of our hydroelectric, nuclear and fossil generating assets and our transmission facilities will help to assure a robust, diverse and economically beneficial energy mix in New York State.
- 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 execute our business to produce these positive results.

Our customers and the people of New York State will be the beneficiaries of all that we accomplish.

George E. Pataki
Governor

Clarence D. Rappleyea
Chairman and Chief Executive Officer

Thomas R. Frey
Vice Chairman

Louis P. Ciminelli
Trustee

Frank S. McCullough, Jr.
Trustee

Hyman M. Miller
Trustee

Executive Committee

Clarence D. Rappleyea
Chairman and Chief Executive Officer

Eugene W. Zeltmann
President and Chief Operating Officer

[illegible] E. Blabey
[illegible]ve Vice President, Secretary and General Counsel

Peter W. Delaney
Executive Vice President and Chief Financial Officer

Robert A. Hiney
Executive Vice President for Project Operations

Vincent C. Vesce
Vice President Human Resources

John F. English
Senior Vice President Corporate Planning

James Knubel
Senior Vice President and Chief Nuclear Officer

Louise M. Morman
Senior Vice President Marketing and Economic Development

Philip J. Pellegrino
Senior Vice President Transmission

Robert L. Tscherne
Senior Vice President Energy Services and Technology

Arnold M. Bellis
Vice President - Controller

Daniel P. Berical
Vice President Policy and Government Affairs

Robert J. Deasy
Vice President Appraisal and Compliance Services

George W. Collins
Treasurer

This Annual Report is printed on recycled paper.
Design by Glazer and Kalayjian, Inc.
Photographs of chairman and trustees by Marianne Russell

New York Power Authority

1633 Broadway
New York, NY 10019
212.468.6000

www.nypa.gov

New York Power Authority