
The New York Power Authority: the Organization

While the New York Power Authority has been helping New York business grow, we've been growing, too.

A mere 15 years ago, we operated two hydro projects in upstate New York. Today, with plants in Queens and Westchester as well as in western, northern and central New York, we're not only the state's largest electric utility, but also one of its largest enterprises. With revenues in the billions, we'd rate about 240th on the Fortune 500—and, in terms of capital, even higher up the list.

We now supply about one-third of the electricity in New York State. Our transmission line network is one of the nation's largest. Our power mix runs the full range from hydro to fossil fuel to nuclear. And our customers could be anyone from small public power systems to the state's seven investor-owned utilities.

The New York Power Authority is a hybrid organization. We're a public-purpose enterprise that operates as a business. Our "bottom line" is ratepayer savings on electricity, last year approaching \$1 billion.

We're a well-managed organization. Our bonds carry a double-A rating from Standard & Poors. Our operational efficiency and safety record is among the best in the industry. And unlike many organizations, saddled with large staffs and intractable bureaucracies, our organizational structure reflects our objectives

with few layers of management. We believe such a structure encourages initiative as well as personal accountability.

The leaders of the Power Authority have been a remarkably influential lot. Robert Moses, New York's legendary "master builder," led the fight to license and build our massive Niagara and St. Lawrence-FDR hydro projects.

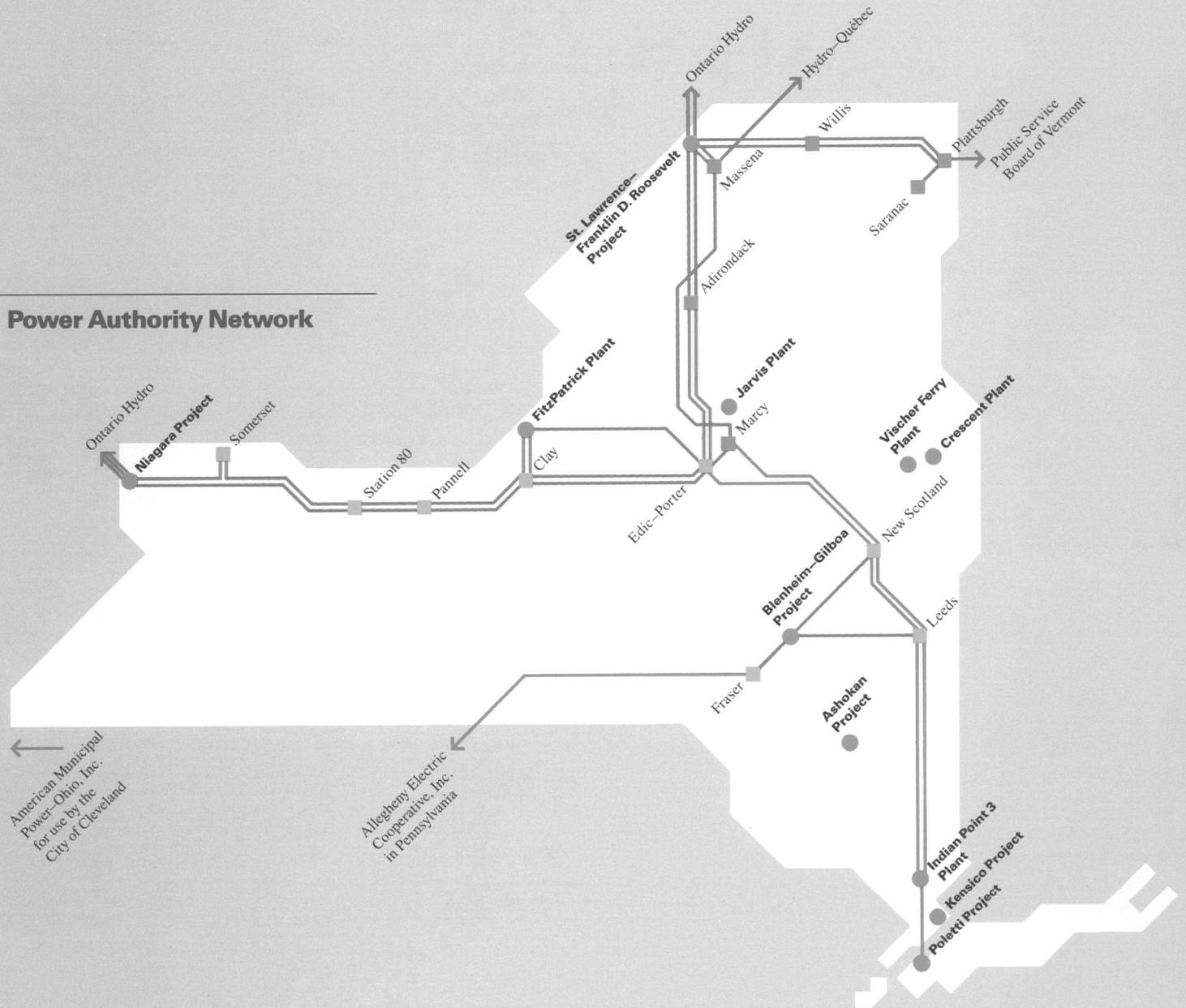
James A. FitzPatrick served as chairman for 14 years. Under his leadership, the Power Authority more than doubled its generating capacity, financed some \$2 billion worth of new facilities and became one of the largest producers of electricity in the country.

Richard Flynn, our current chairman, continues the tradition of leadership. As unemployment edged up in parts of New York State, Mr. Flynn unveiled a bold initiative that provides low-cost power to companies that maintain or expand their work forces. Mr. Flynn also recently emerged as a national figure in electric utility policy. His call to restructure the utility industry along competitive lines promises to be the industry agenda for several years to come.

Although the Power Authority's scope is broad as befits our size and the vision of our top managers, we're a focused organization. We know where we're going, and every year we get a little closer.

- Power Authority Projects
- Power Authority Substations
- ▣ Substations of Others
- Power Authority Lines
- - - Lines of Others Available

Power Authority Network



Highlights of the Year

New Legislation Promotes Jobs

Governor Mario M. Cuomo signed the long-awaited FitzPatrick/expansion power bill into law in April. The legislation allows the Power Authority to allocate electricity in a way that will help create or protect about 43,000 jobs for New Yorkers. The new law:

- Affirms the Power Authority's ability to continue selling expansion power to western New York industries. (Expansion power is the 250,000 kilowatts [kw] of hydropower set aside for Niagara frontier industries.) After the legislation was passed, the Power Authority concluded long-term expansion power contracts that run through 2007 and could be extended through 2013. Seventeen companies covered by the contracts will protect more than 16,000 jobs at 22 facilities.
- Authorizes the Power Authority to negotiate long-term contracts with companies receiving temporary expansion power allocations. At year's end, these allocations went to 17 western New York companies employing about 11,700 workers.
- Permits the sale of nuclear power from the James A. FitzPatrick plant to a wider range of businesses. As a result of the eased restrictions, 15,000 jobs could be created or retained statewide. At least half the FitzPatrick electricity covered under the legislation is reserved for businesses downstate, where electricity costs are highest.

In September, the New York State Economic Development Power Allocation Board convened its first meeting. Governor Cuomo named Power Authority Chairman Richard M. Flynn to head the four-member board, which was created under the FitzPatrick/expansion power legislation. The panel recommends to the Power Authority's trustees those businesses that would provide the most economic benefits for New Yorkers through use of FitzPatrick power.

To encourage businesses with smaller energy requirements to apply for FitzPatrick power, the Power Authority proposed to modify that plant's industrial rate structure. Under the proposed rates, charges would be reduced for businesses with relatively low electricity demand while industries with relatively high use would see a modest increase. Overall Power Authority revenues would not be affected.

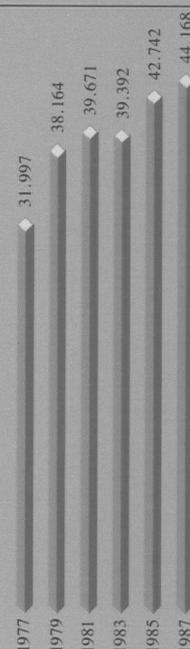
Largest Electricity Supplier

In 1987, the Power Authority provided about 33% of New York State's electricity needs. The 44.2 billion kilowatt-hours (kwh) we provided made us the largest supplier of electricity in the state.

Hydropower represented about 73% of our energy supply mix. Hydroelectric production at our facilities

Electric energy sales

Billions of kwh



totaled 23.8 billion kwh, and we purchased 8.4 billion kwh from Canada.

Nuclear power provided about 20% of our electricity in 1987. The FitzPatrick and Indian Point 3 plants, combined, produced about nine billion kwh despite the fact that each facility was out of service for refueling part of the year.

At our only oil- and natural gas-powered facility, the Charles Poletti project, output was about three billion kwh, or roughly 7% of our total.

New President Named

J. Phillip Bayne was promoted to president and chief operating officer in July. Mr. Bayne joined the Power Authority staff in 1976, bringing an extensive nuclear background from his U.S. Navy service. Among other assignments, he was commanding officer of the Navy Nuclear Power School at Bainbridge, Maryland, reporting to Admiral Hyman Rickover.

At the Power Authority, Mr. Bayne has served as Indian Point 3's first resident manager and held several senior-level corporate positions, including first executive vice president—operations.

Economic Boost for North Country

When St. Lawrence County was rocked by large-scale layoffs at major area plants, the Power Authority assisted by launching a \$1 million economic development fund. Low-cost electricity produced at the St. Lawrence-FDR project is a bulwark of the area's economy, supporting a major share of North Country manufacturing jobs. Further, the Power Authority has been a member of the Massena community for more than 30 years, since

St. Lawrence-FDR construction began in 1954.

The fund is designed to attract industry—and jobs—by offering low-interest loans to businesses that build or expand facilities in the area. In December, Michele Audio Corp., a Massena-based audiocassette manufacturer, became the program's first beneficiary. A \$150,000 loan will enable the company to increase its work force by 21.

Transmission Projects Proceed

By the end of 1987, more than 85% of the 207-mile, 345-kilovolt (kv) Marcy-South transmission line was complete. The \$670 million line will run from Marcy, near Utica, to East Fishkill in Dutchess County.

Landmark legislation signed by Governor Cuomo strengthens the Power Authority's ability to allocate low-cost electricity to create and protect jobs.

In May, the Power Authority energized an 8.5-mile segment from Roseton in Orange County to East Fishkill, including an underwater crossing of the Hudson River. Later in the year, the Authority energized a 46-mile stretch from Coopers Corners in Sullivan County to Rock Tavern in Orange County. When the entire line is energized in mid-1988, it will carry economical hydroelectric power from Canada and electricity from upstate New York, reducing the use of foreign oil for power production and



increasing the reliability of the state's transmission network.

More than \$10 million had been allocated to communities along the transmission line's route by the end of 1987 under the \$12 million Marcy-South grants program. The program provides funds to communities for public purposes. The Power Authority has worked closely with local Citizen Advisory Panels, which recommend grants for projects such as new town halls and new fire equipment.

The Power Authority applied to the New York State Public Service Commission (PSC) and the U.S. Army Corps of Engineers in February for approvals to build the Sound Cable project. The 26.3-mile, 345-kv cable would run from Yonkers in Westchester County to the Town of Hempstead in Nassau County, with an underwater crossing of Long Island Sound. The PSC held public hearings on the route in 1987, and a recommended decision by the administrative law judge was expected early in the new year.

The Sound Cable is scheduled to be in service by October 1991 at a cost of about \$317 million. By carrying about 600,000 kw of lower cost electricity from upstate and Canadian sources, the Sound Cable would improve the reliability of

Long Island's power supply and reduce dependence on oil and natural gas for electricity generation.

The Power Authority will provide more than \$1.2 million in grants for community and environmental projects along the Sound Cable's route. This new fund reflects the Authority's tradition of providing recreational, educational and conservation programs in areas in which it operates.

\$300 Million of Notes Issued

To finance the proposed Sound Cable project, the Power Authority issued \$300 million of Adjustable Rate Tender Notes in November. The issue consists of \$150 million of notes maturing in 2019 and \$150 million of notes maturing in 2020.

Hydroelectric Expansions Planned

In September, the Power Authority amended its plan to expand the Niagara Power Project. The revised plan would cost about \$570 million compared with \$1 billion originally. The new proposal would provide 80% of the original plan's benefits and avoid possible environmental

problems at a former chemical plant site.

Under the new plan, 330,000 kw would be added to the Niagara project's peak generating capacity by upgrading turbine-generators at the Robert Moses Niagara Power Plant and adding two new units at the Lewiston Pump-Generating Plant.

Work is scheduled to begin by 1991 and be completed by 1998.

The Power Authority's small-scale hydroelectric expansion plans moved ahead in 1987. Existing facilities at Crescent and Vischer Ferry Dams on the Mohawk River north of Albany will each get an additional 6,000 kw of generating capacity by the early 1990s.

The Marcy-South line will benefit consumers in New York State and improve New York's transmission network.



Prattsville Suspended

After more than a decade of unresolved environmental issues and capital cost escalation and the recent decline in oil prices, the Power Authority in May suspended efforts to build a pumped-storage hydroelectric project at Prattsville in the northern Catskills. The Authority also notified the Federal Energy Regulatory Commission that it would stop seeking a license for the project.

Conservation

The Power Authority's Watt Busters pilot conservation program expanded to the City of Sherrill and to the Delaware County Electric Cooperative service area in October. The program had begun in 1986 in the Villages of Skaneateles and Groton and has been well received in both communities.

Watt Busters are specialists who provide free home energy audits for residents with all-electric homes. These home owners can get conservation equipment and materials installed at no charge under the program. The program also features low-interest conservation loans and free energy audits for other qualified residential and commercial customers served by the municipal electric systems and cooperatives involved.

In another conservation effort, the Power Authority gave preliminary approval to time-of-day electricity rates for its larger governmental customers in New York City and Westchester County. Under the new rate structure, which will take effect in April 1988, customers such as the Metropolitan Transportation Authority and Westchester County governmental agencies will be charged more

for electricity during peak hours and less during off-peak. Reducing peak demand will help the Power Authority cut reliance on foreign oil for electricity generation.

Nuclear Strengths

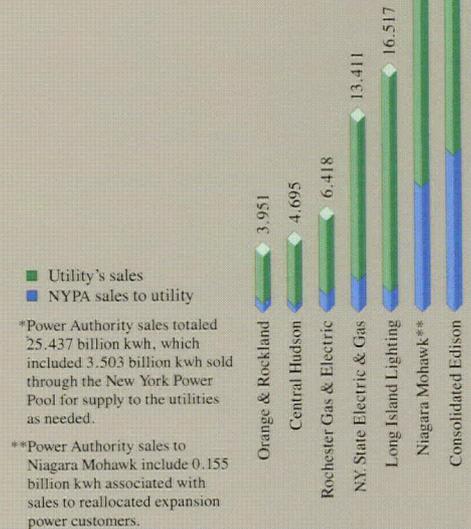
Nuclear plant safety and operations continued to be a source of Power Authority pride in 1987. Both the FitzPatrick and Indian Point 3 facilities received favorable reviews from the Nuclear Regulatory Commission (NRC) as part of the agency's Systematic Assessment of Licensee Performance.

Nuclear training also advanced in 1987 as both the FitzPatrick and Indian Point 3 plants became accredited members of the National Academy for Nuclear Training. The academy is administered by the Institute of Nuclear Power Operations, which sets training standards for the nuclear power industry.

Public safety is another prime Power Authority concern. In December, for the first time, the Authority participated in an off-hours, unannounced nuclear plant emergency response exercise. The exercise began in the middle of the night at the FitzPatrick facility in Oswego County and lasted about eight hours. Power Authority, state and county

1987 electric sales to New York State private utilities in relation to each utility's total sales*

Billions of kwh



efforts were later praised by the NRC and the Federal Emergency Management Agency.

Research and Development

Cogeneration is gaining favor with U.S. utilities, and for good reason. In the cogeneration process, steam used to generate electricity is recaptured and employed for heating or other purposes. In 1987, the Power Authority continued exploring ways of putting this technology to work. In cooperation with New York City's Health and Hospitals Corporation and Department of General Services, the Authority is identifying hospitals where cogeneration would be technically and economically feasible. Detailed designs will be developed later.

Utility Industry: in Transition

Competition. Restructuring. Change. These terms aren't confined to the banking and airline industries anymore. Times are changing in the utility industry, too, as Chairman Flynn noted in several major speeches in 1987.

Speaking before the National Utilities Conference in March, Mr. Flynn showed how the Power Authority could serve as the model for power producers in a restructured utility industry. He pointed out that the Power Authority is a competitive producer operating without a franchise area.

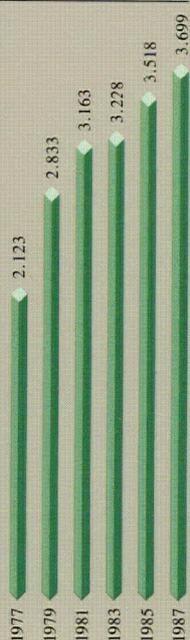
He also used the forum to attack the Tax Reform Act of 1986, which he said would drive up the cost of electricity by disallowing tax exemptions to public power companies that sell to private utilities.

At another national convention, in August, Mr. Flynn called for a new covenant between electric utilities and society to avert possible electricity shortages in the next decade. The covenant's main element would be nationwide competitive bidding among public power agencies, investor-owned utilities and independent power producers for licenses to build and operate new generating projects.

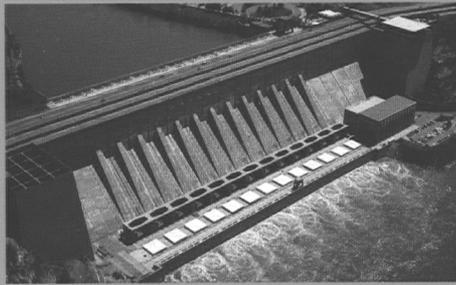
In October, Mr. Flynn was a guest speaker at the Edison Electric Institute's Annual Financial Conference. At the gathering, Mr. Flynn demonstrated how a problem of today's utility industry is similar to one experienced during the industry's formation nearly 100 years ago: a low level of capacity utilization. Mr. Flynn then showed how varying utilization rates around the country caused wide discrepancies in electricity prices and, in turn, led to the industry's restructuring.

Electric sales to New York State municipal systems and rural electric cooperatives

Billions of kwh



Hydro



Niagara Power Project

Location: Lewiston, on the Niagara River

Capability: 2,400,000 kw

Construction Cost: \$737 million

First Power: January 28, 1961

1987 generation: 17.1 billion kwh

Generation through 1987: 397.2 billion kwh

1987 oil savings: 29 million barrels

Oil savings through 1987: 662 million barrels

Principal Features:

Two water intakes on the Niagara River 2½ miles upstream from the Falls.

Two underground conduits, each 46 feet by 66 feet, carry water four miles under the City of Niagara Falls to a forebay connecting the Moses and Lewiston plants.

Robert Moses Niagara Power Plant: 13 turbine-generators, each rated at 150,000 kilowatts. Length, 1,840 feet; height, 389 feet; width, 580 feet. Hydraulic head: 305 feet.

Lewiston Pump-Generating Plant: 12 pump-generators, each rated at 20,000 kw; 1,900-acre storage reservoir.



St. Lawrence-Franklin D. Roosevelt Power Project

Location: Massena, on the St. Lawrence River

Capability: 800,000 kw

Construction Cost: \$650 million, divided between the Power Authority and Ontario Hydro

First Power: July 17, 1958

1987 generation: 7.4 billion kwh

Generation through 1987: 197.4 billion kwh

1987 oil savings: 12 million barrels

Oil savings through 1987: 329 million barrels

Principal Features:

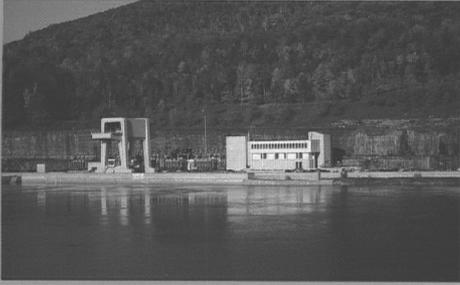
Robert Moses-Robert H. Saunders Power Dam: Runs from Barnhart Island in the United States to Cornwall, Ontario. Thirty-two generators, 16 on each side of the international boundary. Length, 3,300 feet; height, 167 feet; width, 184 feet. Hydraulic head: 81 feet.

Long Sault Dam: Extends 2,960 feet from the New York mainland to Barnhart Island.

Iroquois Dam: 25 miles upstream from Long Sault Dam near Iroquois Point in Canada. Controls outflow from Lake Ontario. Length, 2,335 feet; height, 67 feet; width, 80 feet.

Power Authority Project Profiles

Pumped Storage



Blenheim-Gilboa Pumped Storage Power Project

Location: Towns of Blenheim and Gilboa, Schoharie County, about 40 miles southwest of Albany

Capability: 1,000,000 kw

Construction Cost: \$149 million

First Power: July 5, 1973

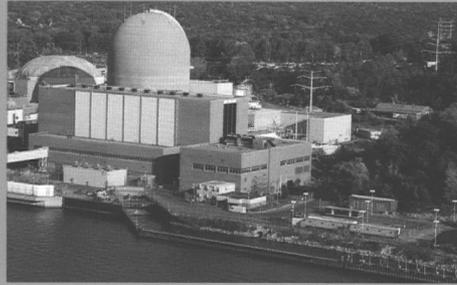
1987 gross generation: 1.6 billion kwh

Gross generation through 1987: 22.1 billion kwh

Principal Features:

Lower Reservoir: 430 acres on Schoharie Creek. Upper Reservoir: 360 acres on Brown Mountain. Connecting Tunnel System: vertical shaft and a horizontal tunnel branching into four penstock tunnels. Powerhouse: four reversible pump-generators, each rated at 250,000 kw.

Nuclear



Indian Point 3 Nuclear Power Plant

Location: Buchanan, on the Hudson River, Westchester County

Capability: 965,000 kw

Construction Cost: \$560 million (including purchase price)

First Power: April 25, 1976

1987 generation: 4.9 billion kwh

Generation through 1987: 47.7 billion kwh

1987 oil savings: 8 million barrels

Oil savings through 1987: 79 million barrels

Principal Features:

Pressurized Water Reactor, weighing 433 tons and holding 111 tons of uranium fuel; operates at temperatures of 547° F. and pressures of 2,250 pounds per square inch. A steam generator transfers the heat to a separate system.

Turbine-generator uses steam from the system to revolve 1,800 times a minute to produce electricity at 22,000 volts.

Condenser Cooling System uses Hudson River water in a separate loop to condense the steam back to water for reuse in the steam generator system. The river water is returned to the Hudson via a discharge canal that limits the maximum river surface temperature increase to 4° F.



James A. FitzPatrick Nuclear Power Plant

Location: Scriba, on the south shore of Lake Ontario, Oswego County

Capability: 800,000 kw

Construction Cost: \$430 million

First Power: February 1, 1975

1987 generation: 4.2 billion kwh

Generation through 1987: 55.3 billion kwh

1987 oil savings: 7 million barrels

Oil savings through 1987: 92 million barrels

Principal Features:

Boiling Water Reactor, weighing 503 tons and holding 115 tons of uranium fuel; operates at a temperature of 545° F. to deliver 10.4 million pounds of steam per hour.

Turbine-generator uses steam produced by the reactor to revolve at 1,800 revolutions per minute to produce electricity at 24,000 volts.

Condenser Cooling System uses Lake Ontario water to cool the steam back to water for recycling through the reactor. None of the cooling water goes through the reactor; it is returned to the lake via an underwater fountain that limits the lake surface temperature rise to less than 3° F.

Oil/Natural Gas



Charles Poletti Power Project

Location: Astoria, New York City, on the East River

Capability: 825,000 kw

Construction Cost: \$420 million (including purchase price)

First Power: February 12, 1977

1987 generation: 3 billion kwh

Generation through 1987: 25.3 billion kwh

1987 oil savings: 3 million barrels

Oil savings through 1987: (through use of natural gas) 16 million barrels

Principal Features:

Balanced-draft boiler, 175 feet high, modified to burn natural gas as well as oil. It delivers 6.6 million pounds of steam per hour to revolve the turbine-generator 3,600 times a minute. Oil storage tank farm with 36-million-gallon capacity. Discharge canal lowers temperature of cooling water returned to East River.

Small Hydro



Ashokan Project

Location: Ashokan Reservoir in the Town of Olive, Ulster County

Capability: 3,000 kw

Construction Cost: \$10.6 million

First Power: October 22, 1982

1987 generation: 24.1 million kwh

Generation through 1987: 101 million kwh

Oil savings through 1987: 168,000 barrels

Principal Features:

Underground powerhouse with two 2,375-kw turbine-generators. A 240-foot-long penstock from the reservoir. Remote-control equipment via telephone lines from the Blenheim-Gilboa project.

Kensico Project

Location: Kensico Reservoir in the Village of Valhalla, Westchester County

Capability: 3,000 kw

Construction Cost: \$5.4 million

First Power: January 20, 1983

1987 generation: 11 million kwh

Generation through 1987: 66.6 million kwh

Oil savings through 1987: 111,000 barrels

Principal Features:

Turbine-generators: three 1,000-kw units installed below ground in the reservoir's lower effluent chamber. Remote-control equipment from the Poletti project.

Crescent Plant

Location: Mohawk River north of Albany, in Albany and Saratoga Counties

Existing Capability: 5,600 kw

Estimated cost of expanding current facility by 6,000 kw: \$40 million

Output first sold by Power Authority: February 1, 1986

1987 generation: 31.2 million kwh

Generation through 1987: 70.5 million kwh

Oil savings through 1987: 117,000 barrels

Principal Features:

Crescent Dam, which forms the impoundment for the hydroelectric plant, is 1,436 feet long. Two 34,500-volt transmission lines link the plant to the state power grid. Overall operations under jurisdiction of Blenheim-Gilboa.



Gregory B. Jarvis Plant

Location: Hinckley Dam and Reservoir north of Utica

Capability: 9,000 kw

Construction Cost: \$23 million

First Power: December 31, 1985

1987 generation: 25.5 million kwh

Generation through 1987: 58.6 million kwh

Oil savings through 1987: 98,000 barrels

Principal Features:

Two 4,500-kw turbine-generators; 280-foot tailrace emptying into West Canada Creek; three-mile, 46,000-volt transmission connection to Niagara Mohawk's Prospect Substation. Operations under jurisdiction of St. Lawrence-FDR; Clark Energy Center responsible for maintenance.

Vischer Ferry Plant

Location: Mohawk River north of Albany, in Saratoga and Schenectady Counties

Existing Capability: 5,600 kw

Estimated cost of expanding current facility by 6,000 kw: \$39 million

Output first sold by Power Authority: February 1, 1986

1987 generation: 25.7 million kwh

Generation through 1987: 59 million kwh

Oil savings through 1987: 98,000 barrels

Principal Features:

Vischer Ferry Dam, which forms the impoundment for the hydroelectric plant, is 1,918 feet long. Two 34,500-volt transmission lines link the plant to the state power grid. Overall operations under jurisdiction of Blenheim-Gilboa.

Trustees and Officers

*Richard M. Flynn
*Chairman and
Chief Executive Officer*

George L. Ingalls
Vice Chairman

Rolland E. Kidder
Trustee

James L. Larocca
Trustee

*J. Phillip Bayne
*President and
Chief Operating Officer*

*John C. Brons
*Executive Vice President
Nuclear Generation*

*John F. English
*Executive Vice President
System Operations*

*Robert A. Hiney
*Executive Vice President
Marketing and Development*

Joseph R. Schmieder
*Executive Vice President and
Chief Engineer*

*Robert G. Schoenberger
*Executive Vice President
Finance and Administration*

*James M. Cunningham
*Senior Vice President
Public Affairs*

*Management Committee

Robert J. Deasy
*Senior Vice President
Power Contracts*

Paul J. Early
*Senior Vice President and
Manager of Projects*

Alfred Klausmann
*Senior Vice President
Appraisal and Compliance
Services*

Robert A. Leopold
*Senior Vice President
Procurement and
Contract Administration*

*Charles M. Pratt
*Senior Vice President and
General Counsel*

Alan J. Weiser
*Senior Vice President
Human Resources*

Robert L. Tscherne
*Vice President
Corporate Finance*

Anne M. Wagner-Findeisen
Secretary

Left to right:
James L. Larocca;
Richard M. Flynn,
Chairman;
Rolland E. Kidder;
George L. Ingalls,
Vice Chairman.



Financial Statements

Power Authority
of the State of New York

Finances

During 1987, the Authority received revenues, on a cash basis, of \$1,238,282,000. Of this total, \$1,162,666,000 resulted from the sale and transmission of power, and \$75,616,000 was earned on investments. Of these revenues, \$858,735,000 was allocated to the Operating Fund for operating, maintenance and fuel expenses, and \$308,547,000 was allocated to the Bond Service and Bond Reserve Accounts to meet debt service requirements, which included the retirement of \$95,450,000 of bonds at a cost of \$89,793,000. The remaining \$71,000,000 was deposited into the General Reserve Account and will be used to fund a portion of the Authority's ongoing capital program.

On November 16, 1987, the Authority sold \$300,000,000 of Adjustable Rate Tender Notes, Second Series, which will ultimately mature on November 1, 2020. The proceeds from this sale have been deposited into the Cable Construction Account and will pay the costs of construction of the underground and underwater transmission cable, which will extend approximately 26.3 miles from Westchester County to Nassau County.

On May 1, 1987, the Authority increased hydroelectric production rates charged for power sold for the benefit of rural and domestic consumers, ranging from about four-tenths to five-tenths of a cent per kwh over a five-year period, subject to certain adjustments.

On July 1, 1987, the Authority increased its rate for interruptible service on its transmission facilities, including its interconnections with Hydro-Québec and Ontario Hydro for importation of nonfirm energy from Canadian sources, from 1.7 mills per kwh to 3.0 mills per kwh. No other formal modifications in rates went into effect in 1987.

During 1987, the Authority suspended its efforts to build the proposed Prattsville pumped storage project. The Authority had previously expended \$19,693,000 of Projects' Study funds for this proposed project. Consequently, the charge to net revenues had no effect on the Authority's 1987 cash flow.

The Authority's financial statements, reported by independent certified public accountants, Arthur Young & Company, follow.

Balance Sheet

December 31, 1987

(In thousands)

Assets

Utility Plant:

Electric plant in service		\$ 3,420,866
Less accumulated depreciation		(1,021,283)

2,399,583

Construction work in progress		639,755
Nuclear fuel less accumulated amortization of \$180,019		178,879

3,218,217

Restricted Funds:

Cash	\$ 25	
Investment in U.S. Government securities, at cost	679,350	679,375

Construction Funds:

Cash	20,639	
Investment in U.S. Government securities, at cost	1,076,583	
Interest receivable on investments	18,468	1,115,690

Current Assets:

Cash	845	
Investment in U.S. Government securities, at cost	517,073	
Interest receivable on investments	27,590	
Receivables—customers	46,559	
Materials and supplies, at average cost:		
Plant and general	45,721	
Fuel	8,207	
Prepayments and other	6,927	652,922

Deferred Charges and Other Assets:

Preliminary investigations	5,751	
Unamortized debt expense	45,684	
Other	15,164	66,599

Total Assets		<u>\$ 5,732,803</u>
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Liabilities and Capital

Long-term debt (Notes F and G)		\$ 3,749,307
Accumulated net revenues employed in the business		1,492,816
		<u>5,242,123</u>

Current Liabilities:

Notes payable (Note H)	\$ 61,250	
Accounts payable and accrued liabilities	143,897	
Customer advance billings	42,563	247,710

Deferred Credits and Other Long-Term Liabilities:

Nuclear fuel disposal and decommissioning (Note I)	153,479	
Deferred revenue	89,491	242,970

Commitments and contingencies (Note J)

Total Liabilities and Capital		<u>\$ 5,732,803</u>
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The accompanying notes are an integral part of these financial statements.

**Statement of Net Revenues
and Accumulated Net Revenues
Employed in the Business**

Year Ended December 31, 1987

(In thousands)

Operating Revenues:	
Power sales	\$ 883,308
Transmission charges	43,086
Wheeling charges	213,308
Total Operating Revenues	<u>1,139,702</u>
Operating Expenses:	
Operations	246,426
Nuclear fuel	66,474
Fuel oil and gas	89,469
Purchased power—Hydro-Québec	154,495
— Others	9,041
Maintenance	88,689
Wheeling	213,308
Depreciation	85,298
Total Operating Expenses	<u>953,200</u>
Net Operating Revenues	<u>186,502</u>
Other Income:	
Interest	83,832
Other	1,007
Total Other Income	<u>84,839</u>
Other Deductions:	
Interest on long-term debt	276,575
Interest—other	2,964
Interest capitalized	(86,397)
Amortization of debt discount and expense	5,628
Total Other Deductions	<u>198,770</u>
Loss on suspension of proposed Prattsville pumped storage project (Note E)	72,571
Revenues, net before bond retirements at less than principal amount	<u>(19,693)</u>
Bond retirements at less than principal amount (Note F)	52,878
	<u>5,657</u>
Net Revenues	58,535
Accumulated net revenues employed in the business at January 1, 1987	1,434,281
Accumulated Net Revenues Employed in the Business at December 31, 1987	<u><u>\$1,492,816</u></u>

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

**Statement of Changes
in Financial Position**

Year Ended December 31, 1987

(In thousands)

Funds Provided by:

Net revenues	\$ 58,535
Items not affecting funds:	
Provision for depreciation	85,298
Amortization of nuclear fuel	52,423
Provision for spent nuclear fuel disposal and nuclear plant decommissioning	27,148
Provision for deferred revenues	13,678
Amortization of debt discount and expense	5,628
Preliminary investigations expensed	5,723
Loss on suspension of proposed Prattsville pumped storage project	19,693
Bond retirements at less than principal amount	(5,657)
	<hr/>
	262,469
Sale of adjustable rate tender notes (\$300,000 principal amount)	298,238
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Total funds provided	560,707

Funds Applied to:

Addition to— Utility plant		327,278
— Nuclear fuel		5,079
Retirement of bonds		89,793
Preliminary investigations		12,572
Nuclear fuel disposal payments		8,813
Increase in restricted funds		17,130
Increase in construction funds:		
Proceeds from sale of adjustable rate tender notes	\$ 298,238	
Other decreases— net	(222,894)	75,344
		<hr/>
Increase (decrease) in working capital (excluding cash and investments):		
Interest receivable on investments	1,898	
Receivables— customers	(12,329)	
Materials and supplies	5,070	
Accounts payable and accrued liabilities	(771)	
Customer advance billings	1,122	
Prepayments and other	3,421	(1,589)
		<hr/>
Other changes— net		(4,965)
		<hr/>
		529,455

Increase in cash and investments	31,252
Cash and investments, January 1, 1987	486,666
	<hr/>
Cash and investments, December 31, 1987	\$517,918

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

Summary of Funds (cash basis)

Year Ended December 31, 1987

(In thousands)

	Revenue	Operating
Available Funds, January 1, 1987	\$ 0	\$ 391,321
Cash Receipts:		
Sale of power, transmission and wheeling	1,162,666	
Earnings on investments	75,616	
Administrative expenses reimbursed from other funds		19,750
Utility plant additions reimbursed from other funds		6,425
Other		
Total Receipts	<u>1,238,282</u>	<u>26,175</u>
Total Available	1,238,282	417,496
Transfer of funds—revenue	(1,238,282)	811,788
	<u>\$ 0</u>	<u>1,229,284</u>
Cash Disbursements:		
Interest on bonds and notes		
Retirement of bonds—(\$95,450 principal amount)		
Utility plant additions		21,076
Nuclear fuel		
Fuel oil and gas		
Operations and maintenance		349,898
Purchased power—Hydro-Québec		161,133
—Others		4,095
Wheeling		217,462
Administrative expenses chargeable to other funds		8,795
Utility plant additions reimbursed to the operating fund		
Preliminary investigations		
Costs transferred to utility plant		
Total Disbursements		<u>762,459</u>
Available Funds, December 31, 1987		<u>\$ 466,825</u>
Distributed as follows:		
Cash		\$ 842
Investments in U.S. Government securities		465,983
Interest purchased		
		<u>\$ 466,825</u>

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

Restricted

Fuel Reserve Account	Projects' Study	General (Held by Trustee)					Note Debt Service Reserve
		Bond Service	Bond Reserve	General Reserve	Temporary Interest Fund		
\$50,097	\$ 45,248	\$ 0	\$383,148	\$212,499	\$46,598	\$20,000	
	3,475						
2,390			3				
2,390	3,475		3				
52,487	48,723		383,151	212,499	46,598	20,000	
46,947		268,301	40,246	71,000			
99,434	48,723	268,301	423,397	283,499	46,598	20,000	
		232,216			33,986		
		36,085	53,708				
5,031							
94,403							
				6,425			
	14,318 (16,688)						
99,434	(2,370)	268,301	53,708	6,425	33,986		
\$ 0	\$ 51,093	\$ 0	\$369,689	\$277,074	\$12,612	\$20,000	
	\$ 3		\$ 6	\$ 7	\$ 3	\$ 9	
	51,090		369,442	276,615	12,609	19,991	
			241	452			
	\$ 51,093		\$369,689	\$277,074	\$12,612	\$20,000	

Summary of Funds (cash basis)

(continued)

Year Ended December 31, 1987

(In thousands)	J.A. FitzPatrick Project Improvement Fund				
	Poletti	J.A. FitzPatrick Blenheim-Gilboa	No. 1	No. 2	No. 3
Available Funds, January 1, 1987	\$18,837	\$6,712	\$33,073	\$47,241	\$89,295
Cash Receipts:					
Earnings on investments	1,313	398	3,085	3,190	7,262
Sale of adjustable rate tender notes, second series					
Revenues during construction					
Other					
Total Receipts	1,313	398	3,085	3,190	7,262
Total Available	20,150	7,110	36,158	50,431	96,557
Transfer of funds—other	7,001				
	27,151	7,110	36,158	50,431	96,557
Cash Disbursements:					
Interest on notes					
Utility plant additions	401	895	12,918	9,750	4,712
Utility plant additions reimbursed to other funds					
Administrative expenses reimbursed to the operating fund	62	25	1,548	764	895
Financing costs					
Total Disbursements	463	920	14,466	10,514	5,607
Available Funds, December 31, 1987	\$26,688	\$6,190	\$21,692	\$39,917	\$90,950
Distributed as follows:					
Cash	\$ 26	\$ 70		\$ 216	
Investment in U.S. Government securities	26,662	6,120	\$21,692	39,701	\$90,950
	\$26,688	\$6,190	\$21,692	\$39,917	\$90,950

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

Construction

Indian Point 3 Project Improvement Fund			Small Hydro	Niagara Project Expansion	Marcy-South Line	Sound Cable Project (Note G)	Total
No. 1	No. 2	No. 3					
\$40,955	\$72,310	\$198,010	\$75,121	\$168,273	\$261,369		\$1,011,196
3,256	5,220	14,818	6,562	14,946	20,145	\$ 449	80,644
			2,912		5,933	300,000	300,000
		1,862			854		8,845
3,256	5,220	16,680	9,474	14,946	26,932	300,449	392,205
44,211	77,530	214,690 (7,001)	84,595	183,219	288,301	300,449	1,403,401
44,211	77,530	207,689	84,595	183,219	288,301	300,449	1,403,401
			2,990		9,788		12,778
16,460	20,894	9,619	2,848	1,012	175,954		255,463
		9,336				7,352	16,688
1,162	2,123	966	929	316	10,960		19,750
						1,500	1,500
17,622	23,017	19,921	6,767	1,328	196,702	8,852	306,179
\$26,589	\$54,513	\$187,768	\$77,828	\$181,891	\$ 91,599	\$291,597	\$1,097,222
			\$ 4,020	\$ 27	\$ 1,179	\$ 15,101	\$ 20,639
\$26,589	\$54,513	\$187,768	73,808	181,864	90,420	276,496	1,076,583
\$26,589	\$54,513	\$187,768	\$77,828	\$181,891	\$ 91,599	\$291,597	\$1,097,222

Notes to Financial Statements

December 31, 1987

Note A – General

The Power Authority of the State of New York is a corporate municipal instrumentality and political subdivision of the State of New York created by the Legislature of the State by Chapter 772 of the Laws of 1931, as last amended by Chapter 32 of the Laws of 1987.

Properties and income of the Authority 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 in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

(2) Utility plant is stated at original cost and consists primarily of amounts expended to license, construct, acquire, complete and place in operation the projects of the Authority. Such expenditures include: labor, materials, services, indirect costs and interest on bonds and notes (net of interest income on unexpended funds), reduced by revenues received for power produced (net of expenditures incurred in operating the projects) prior to the date of completion. The costs of current repairs are charged to operating expenses, and renewals and betterments are capitalized. The cost of utility plant retired and the cost of removal less salvage (exclusive of nuclear plant decommissioning costs) are charged to accumulated depreciation.

(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. The depreciation provision expressed as a percent of average depreciable electric plant approximated 2.6% on an annual basis.

(4) The amortization of nuclear fuel is provided on a unit of production basis. Amortization rates are determined and periodically revised to amortize the cost of nuclear fuel over its estimated useful life. The costs of disposal of spent nuclear fuel will be met from provisions included in operating expenses (see Note I). In addition, the Authority is providing for the decommissioning of its nuclear plants over their estimated useful lives.

(5) Deferred revenues represent certain billings, related to the recovery of costs, which have been deferred and will be amortized over the life of the applicable asset.

(6) Costs incurred by the Projects' Study Fund for preliminary investigations of a project are transferred to utility plant upon the specification of a project under the Authority's General Purpose Bond Resolution (Resolution) (see Note D). 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.

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

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

(9) 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, 1987 no liability is reflected in the accompanying financial statements for January 1, 1988 bond service payments of \$171,438,000.

(10) Investment of the Authority's funds is administered in accordance with the applicable provisions of the General Purpose Bond Resolution and with its investment guidelines adopted pursuant to Section 2925 of the Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. The Authority's investments have been restricted to obligations of the U.S. Government, its agencies and instrumentalities, and to agreements for the repurchase of such obligations. All investments are held by the Authority's designated custodian 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, 1987, the Authority had no investments in repurchase agreements, and the aggregate cost of all investments in the U.S. Government securities approximated market value based upon published bid prices.

(11) Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses.

(12) Revenues are recorded when billed. Customers' meters are read and bills are rendered on a monthly cycle basis. Fuel and purchased power costs above base-rate levels are recovered from customers served by the Poletti and Indian Point 3 plants under an energy adjustment clause. Interest costs incurred on obligations issued to purchase fuel are included as a fuel cost.

Note C – Pension Plan

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 retirement system. The System offers plans and benefits related to years of service and final average salary, and all benefits generally vest after ten years of accredited service. For personnel who became members of the System prior to July 27, 1976 the Authority contributes the entire amounts determined by the System to be payable. Personnel who joined the System after July 27, 1976 are required to contribute three percent of their gross salary, and the Authority contributes the balance payable to the System for these employees. Amounts withheld from employees' paychecks are sent currently to the System. Pension costs for the year ended December 31, 1987 were \$12,695,000. The Authority employees are also covered by Social Security.

The payroll for Authority employees covered by the System for the year ended December 31, 1987 was \$145,250,000; the Authority's total payroll was \$150,350,000. The Authority's contributions payable to the System are billed in May of each year on the basis of salaries paid during the System's fiscal year ending March 31 of the previous year and are made in accordance with funding requirements determined by the actuary of the System.

The Pension Benefits Obligation (PBO) of credited projected benefits is a standardized disclosure measure, prepared in accordance with Statement No. 5 of the Government Accounting Standards Board, of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees' service to date. The PBO is independent of the actuarial funding method used to determine contributions to the System. The System does not make separate measurements for each individual employer.

The PBO of credited projected benefits as reported by the System at March 31, 1987 for the System, as a whole, determined through an actuarial valuation performed as of that date was \$25,815,000,000. The System's net assets available to pay benefits at that date was \$32,398,000,000. The Authority's employer contribution of \$10,789,000 billed in May and paid in June 1987 for the year ended March 31, 1986 was approximately 1.0% of total contributions required of all employers participating in the System. The Authority believes that appropriate provision in the amount of \$20,700,000 for unbilled pension contributions is included in accounts payable and accrued liabilities at December 31, 1987.

For additional detailed information concerning the System, please refer to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ending March 31, 1987.

Note D – General Purpose Bond Resolution

The General Purpose Bond Resolution adopted on November 26, 1974, as amended and supplemented (Resolution), covers all Projects of the Authority. Projects are defined in the Resolution 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 Power Authority 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 to finance preliminary efforts of the Authority to determine appropriate methods to fulfill its purposes under the Power Authority Act was established by the Resolution.

The Authority has convened 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. All revenues from any completed Project of the Authority (after deductions for operating expenses including necessary working capital reserves and for Projects' Study) are applied first to the payment of bond service (interest and principal installments due on outstanding bonds); then a sum equal to fifteen percent of the amount allocated to bond service is set aside in a bond reserve account; any remaining revenues are deposited in a general reserve account. Amounts in the bond reserve account must be applied by the Bond Trustee monthly to meet any deficiency in the bond service account and may be paid to the Authority for emergency repairs or replacements.

The Resolution also provides for the retirement of bonds from amounts in the bond reserve account in excess of the bond reserve requirement. Any excess of principal amount over the cost of bonds retired is to be used for additional bond retirements. The Authority has periodically purchased such bonds when available at favorable prices. (See Note F.)

Amounts in the general reserve account not needed to meet any deficiency in the bond service or bond reserve accounts are deposited in a subaccount to meet the costs of major repairs and replacements, renewals, additions, betterments, improvements and extensions with respect to the Authority's projects and are maintained in such subaccount in amounts necessary or desirable, as determined by the Authority, to keep the projects in good operating condition, to meet regulatory requirements, to expand project capacity or to provide facilities for the transportation of project power and energy to their markets. Amounts in the general reserve account not required for the foregoing purposes shall, at the Authority's direction, be paid to it for any lawful corporate purpose.

Note E – Suspension of Proposed Prattsville Pumped Storage Project

In May 1987 the Authority suspended its efforts to build the proposed Prattsville pumped storage project. The Authority also notified the Federal Energy Regulatory Commission that it would stop seeking a license for the project. As of December 31, 1987, \$19,693,000 expended from Projects' Study for preliminary investigations was charged as an expense to net revenues.

Note F – Long-Term Debt

Long-term debt at December 31, 1987 was composed of:

General Purpose Bonds	\$3,249,307,000
Adjustable Rate Tender Notes	500,000,000
	<u>\$3,749,307,000</u>

A summary of General Purpose Bonds payable at December 31, 1987 follows:	Amount	Maturity January 1	Interest Rate(a)	Earliest Redemption Date Prior to Maturity(b)
Series A				1/1/85
Term Bonds	\$ 99,180,000	2010	7.875%	
Serial Bonds	20,550,000	1989 to 1995	6.65% to 7.30%	
Series B				6/1/85
Term Bonds	84,810,000	2010	8.125%	
Serial Bonds	34,920,000	1989 to 1997	7.00% to 7.90%	
Series E				10/1/86
Term Bonds	104,720,000	2010	7.25%	
Serial Bonds	16,160,000	1989 to 1994	6.20% to 6.90%	
Series F				2/1/87
Term Bonds	145,060,000	2010	6.625%	
Serial Bonds	17,990,000	1989 to 1993	5.60% to 6.10%	
Series G				1/1/88
Term Bonds	42,200,000	1999	6.40%	
Term Bonds	199,120,000	2012	6.75%	
Serial Bonds	53,400,000	1989 to 1995	5.60% to 6.20%	
Series H				1/1/89
Term Bonds	119,530,000	2009	8.00%	
Serial Bonds	22,000,000	1989 to 1999	6.90% to 7.75%	
Series J				1/1/91
Term Bonds	113,000,000	2000	9.60%	
Term Bonds	67,000,000	2006	9.75%	
Term Bonds	60,000,000	2010	8.00%	
Term Bonds	198,775,000	2020	9.875%	
Serial Bonds	42,000,000	1989 to 1995	7.60% to 9.00%	
Series N				1/1/94
Term Bonds	23,415,000	1998	9.00%	
Term Bonds	55,915,000	2003	9.50%	
Term Bonds	47,745,000	2006	9.00%	
Term Bonds	344,810,000	2017	9.75%	
Term Bonds	52,495,000	2018	6.00%	
Serial Bonds	37,570,000	1989 to 1995	7.00% to 8.75%	
Series S				1/1/95
Term Bonds	54,000,000	2003	9.625%	
Term Bonds	50,000,000	2006	9.50%	
Term Bonds	65,000,000	2009	9.75%	
Term Bonds	33,000,000	2010	7.00%	
Serial Bonds	54,855,000	1989 to 1994	6.50% to 8.00%	
Series T				1/1/96
Term Bonds	55,000,000	2006	7.40%	
Term Bonds	75,000,000	2010	7.30%	
Term Bonds	350,000,000	2018	7.375%	
Term Bonds	50,000,000	2019	5.00%	
Serial Bonds	120,000,000	1992 to 2002	5.60% to 7.30%	
Series U				1/1/96
Term Bonds	50,380,000	2005	7.10%	
Term Bonds	194,715,000	2016	7.00%	
Term Bonds	58,070,000	2018	5.75%	
Serial Bonds	93,710,000	1990 to 2001	5.40% to 7.00%	
	3,306,095,000			
Less: Unamortized Discount	56,788,000			
Total	<u>\$3,249,307,000</u>			

- a) Interest is payable semi-annually on January 1 and July 1.
b) The 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 and

sinking fund requirements for the next five calendar years are as follows:
1988, \$37,910,000; 1989, \$45,460,000; 1990, \$48,505,000; 1991, \$58,595,000; and 1992, \$59,140,000.

During 1987 the Authority purchased \$95,450,000 principal amount of Bonds at a cost of \$89,793,000.

Adjustable Rate Tender Notes (Notes) outstanding at December 31, 1987 were:

Series	Amount	Interest Rate at 12/31/87
1985 Notes:		
Due March 1, 2007	\$ 50,000,000	4.70% (a)
Due March 1, 2016	75,000,000	3.875% (a)
Due March 1, 2020	75,000,000	3.875% (a)
	<u>200,000,000</u>	
1987 Notes:		
Due November 1, 2019	150,000,000	5.75% (b)
Due November 1, 2020	150,000,000	5.75% (b)
	<u>300,000,000</u>	
Total Adjustable Rate Tender Notes	<u><u>\$500,000,000</u></u>	

In accordance with the Adjustable Rate Tender Note Resolutions adopted April 30, 1985 and November 16, 1987 (Note Resolutions), the interest rates and dates on which the interest rates may be adjusted can vary based on the recommendations of the Remarketing Agent appointed under each of the Note Resolutions. The Notes may be tendered to the Authority by the holders on any adjustment date.

(a) Pursuant to the Remarketing Agent's recommendation, on September 1, 1987 the interest rate for the 1985 Notes maturing March 1, 2007 was adjusted to 4.70% for an annual adjustment period ending September 2, 1988. Annual adjustment periods for the 1985 Notes maturing March 1, 2016 and March 1, 2020 end March 1, 1988, with an interest rate of 3.875%.

(b) The initial adjustment period for the 1987 Notes maturing November 1, 2019 and November 1, 2020 ended January 15, 1988, with an interest rate of 5.75%. Pursuant to the Remarketing Agent's recommendation, the subsequent adjustment period for these Notes ends May 2, 1988, with an interest rate of 5.50%.

Prior to issuance of the Notes, the Authority entered into revolving credit agreements (Agreements) with banks to provide supporting lines of credit. Under Agreements that terminate on November 2, 1990, and March 1, 1991, respectively, the Authority may borrow up to \$261,500,000 and \$300,000,000, respectively, for purposes including paying the costs of construction of any project as provided for in the Agreements, including the repayment of the Notes or other

obligations issued for any such purposes. The Agreements provide for interest on outstanding borrowings (none outstanding at December 31, 1987) at a percentage of the banks' prime commercial lending rates as in effect from time to time and for a fee on the unused portion of the commitment. The Agreement terminating in 1991 also provides for alternate fixed lending rates for specific terms.

Note G – Sound Cable Project Financing

On November 16, 1987, pursuant to the Note Resolution adopted on that date, the Authority sold for settlement and delivery on November 24, 1987, \$300,000,000 principal amount of Adjustable Rate Tender Notes, Second Series (see Note F). The proceeds of the notes were deposited in the Cable Construction Account and are being used to pay a portion of the cost of cable construction of the Authority's proposed Long Island Sound Cable project, and to the extent not required for such purpose, to pay the similar construction costs of any project now or hereafter designated by the Authority.

Note H – Notes Payable

At December 31, 1987, the Authority had outstanding, under a master note arrangement with a bank renewed in February 1987, \$61,250,000 of short-term notes payable within one month from the date of issuance or on prior demand. The proceeds of the notes may be used to finance the costs of fuel, including the repayment of obligations issued to pay the costs of such fuel, and/or costs of construction of any project designated pursuant to the Resolution. Interest is computed weekly at the greater of a specified percentage of the 13-week United States Treasury Bill rate converted to an annual yield or the rate published by a bank representing an average of short-term tax-exempt debt rates, applied to the daily principal amount outstanding. The revolving credit agreement expiring March 1, 1991, provides credit support for the payment of these notes (see Note F).

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 the United States Department of Energy (DOE), under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. Based on DOE's progress to date, it is likely that the scheduled opening of DOE's first permanent repository will be deferred for at least five years. The contract provides that the Authority will pay quarterly to DOE a fee based on nuclear generation at a specified rate from April 7, 1983. In addition, the contract requires the payment to DOE of a one-time fee relating to spent nuclear fuel discharged prior to April 7, 1983 and for in-core spent fuel on that day. As permitted by the contract, the Authority presently intends to pay this one-time fee of \$58,710,000 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, 1987 the liability to DOE related to the one-time fee, including accrued interest from April 7, 1983, totaled \$84,651,000.

**Report of Independent
Certified Public Accountants**

Note J – Commitments and Contingencies

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately \$130,000,000 at December 31, 1987.

The Indian Point 3 Nuclear Power Plant has been experiencing steam-generator tube corrosion problems, similar to problems experienced by other nuclear generators of pressurized water reactor design. While improvements made by the Authority have reduced the rate of tube degradation, the early replacement of the steam generators is advisable. The economic benefits of replacement, resulting from improved plant availability and reduced maintenance expenses over the remainder of plant life, are believed to exceed significantly the estimated direct construction cost of \$120,000,000 (which was provided from the proceeds of the Series T Bonds issued in May 1986). The replacement is expected to begin in early 1989, with an outage duration of six months.

There are pending before Federal and State courts and agencies actions and proceedings involving several of the Authority's existing or planned projects. The effect of these matters has delayed and may impede the Authority's construction and operation of such projects or planned projects and require the Authority to incur substantial additional costs. While the ultimate outcome of these matters is not presently determinable, the Authority's General Counsel believes that the Authority has meritorious positions that have or will be asserted in these matters.

Under regulations established by the Federal Price-Anderson Act, each licensee of a nuclear plant must currently provide annually to the Nuclear Regulatory Commission a guarantee that assures the ability to pay retrospective premiums of up to \$5,000,000 per nuclear reactor per incident, but not more than \$10,000,000 per reactor in any calendar year. The Authority has submitted to the Nuclear Regulatory Commission such guarantees for its FitzPatrick and Indian Point 3 nuclear plants. Under proposed amendments to the Act currently being considered by Congress, the amount of the potential retrospective premiums could increase substantially.

In addition to the liability insurance required by the Federal Price-Anderson Act, the NRC requires each licensee to carry decontamination liability and excess property damage insurance in the aggregate minimum amount of \$1,060,000,000 for each reactor site. The Authority has such coverage in force. A portion of the insurance is provided by the Nuclear Electric Insurance Limited (a company that provides decontamination and excess property damage insurance to a group of nuclear facilities). In the event there is a covered loss at any of the member group's nuclear facilities that exceeds insurance funds available, the Authority could be subject to retrospective premium assessments for both its reactors during any one policy year, based on a multiple of the annual premium. As of December 31, 1987, the Authority could be liable for a maximum assessment of \$14,500,000.

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

We have examined the accompanying balance sheet of the Power Authority of the State of New York at December 31, 1987, and the statements of net revenues and accumulated net revenues employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of the Power Authority of the State of New York at December 31, 1987, and the results of operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination has been made primarily for the purpose of expressing 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 examination 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.



Arthur Young & Company
New York, New York
February 10, 1988

Additional Data*

*The additional data have been prepared from records and other data of the Authority and have not been examined by the independent auditors.

1987 Sales to Customers (kwh)

Niagara

Investor-Owned Utilities

New York State Electric & Gas	1,852,765,000
Rochester Gas & Electric	902,169,000
Niagara Mohawk	6,976,594,766 ⁽¹⁾

<i>Municipal and Cooperative Systems</i>	2,432,618,153
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Out-of-State

Public Service Board of Vermont	348,306,000
Allegheny Electric Cooperative	262,520,000
City of Cleveland	328,026,000
Connecticut Municipal Electric Cooperative	88,060,000
Massachusetts Department of Public Utilities	403,205,000
New Jersey Board of Public Utilities	76,730,000
Rhode Island Public Utilities Commission	4,810,000

Municipal Utility Service Agencies

Nassau County Public Utility Agency	152,385,000
New York City Public Utility Service	1,011,513,000
Orange County	34,386,000
Rockland County	30,785,000
Suffolk County Electrical Agency	152,242,000
Westchester County Public Utility Agency	113,064,000

Southeast New York

Metropolitan Transportation Authority	163,587,330
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St. Lawrence-FDR

Investor-Owned Utilities⁽²⁾

New York State Electric & Gas	52,884,000
Niagara Mohawk	371,368,000

<i>Municipal and Cooperative Systems</i>	419,959,572
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Out-of-State

Public Service Board of Vermont	437,906,000
Allegheny Electric Cooperative	27,225,000
City of Cleveland	25,192,000
Connecticut Municipal Electric Cooperative	7,556,000
Massachusetts Department of Public Utilities	13,378,000
New Jersey Board of Public Utilities	16,271,000
Rhode Island Public Utilities Commission	2,519,000

Municipal Utility Service Agencies⁽²⁾

Nassau County Public Utility Agency	54,042,000
New York City Public Utility Service	359,816,000
Orange County	12,385,000
Rockland County	11,083,000
Suffolk County Electrical Agency	54,042,000
Westchester County Public Utility Agency	39,763,000

Others

St. Lawrence Seaway	228,725
Parks and Recreation	432,881
Niagara Frontier Transportation Authority	2,643,299

Industrials

Alcoa	1,522,464,000
Reynolds Metals	2,085,269,000
General Motors	60,000,487

Southeast New York

Metropolitan Transportation Authority	42,959,040
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Blenheim-Gilboa

Investor-Owned Utilities

Central Hudson	47,805,000
Con Edison	1,132,000
New York State Electric & Gas	6,537,000
Rochester Gas & Electric	1,007,000
Niagara Mohawk	121,811,000
Orange & Rockland	10,229,000

FitzPatrick

Investor-Owned Utilities

Central Hudson	101,080,000
Con Edison	1,484,197,000
Long Island Lighting	534,590,000
New York State Electric & Gas	84,808,000
Orange & Rockland	238,364,000
Rochester Gas & Electric	176,610,000
Niagara Mohawk	699,717,000

<i>Municipal and Cooperative Systems</i>	846,464,239
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Municipal Utility Service Agencies

Westchester County Public Utility Agency	1,168,972
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Industrials

Alcoa	453,998,000
Occidental	213,096,543 ⁽³⁾
Air Products & Chemicals	93,952,281 ⁽⁴⁾
Reynolds Metals	115,666,000 ⁽⁵⁾
Airco Industrial Gases	118,639,870
SKW Alloys	87,421,393
Grumman Corporation	68,560,878
Associated Universities, Inc.	196,093,521 ⁽⁶⁾
General Motors	55,224,492
Shearson Lehman Hutton	49,536,413
Owens-Corning	21,666,181 ⁽²⁾

Poletti/Indian Point 3

Investor-Owned Utilities

Con Edison 3,180,979,000

Southeast New York

Metropolitan Transportation Authority 2,368,834,470
 N.Y.C. Public Buildings 2,506,307,759
 Port Authority of N.Y. and N.J. 811,116,959
 N.Y.C. Housing Authority 901,143,112
 Jacob K. Javits Convention Center 43,276,800
 Roosevelt Island Operating Corp. 3,964,425
 New York State Office of General Services 258,288,331
 Village of Ardsley 456,879
 Bedford Central School District 440,880
 Village of Briarcliff Manor 1,975,428
 Briarcliff Manor Union Free School District 1,394,520
 Village of Bronxville 1,726,175
 Village of Buchanan 540,092
 Byram Hills Central School District 1,775,372
 Chappaqua Central School District 3,493,729
 Town of Cortlandt 1,335,867
 Croton Harmon Union Free School District 764,604
 Village of Croton-on-Hudson 1,965,399
 Village of Dobbs Ferry 1,100,792
 Town of Eastchester 2,047,610
 Eastchester Union Free School District 1,494,632
 Village of Elmsford 775,913
 Town of Greenburgh 18,809,026
 Greenburgh Housing Authority 796,061
 Town of Harrison 4,895,616
 Village of Hastings-on-Hudson 1,034,596
 Hendrick Hudson School District 1,640,580
 Village of Irvington 1,217,547
 Lakeland Central School District 4,777,639
 Village of Larchmont 937,439
 Town of Mamaroneck 1,309,185
 Village of Mamaroneck 2,246,573
 Mamaroneck Union Free School District 3,566,044
 Montrose Improvement District 1,102,100
 Village of Mount Kisco 2,666,553
 Town of Mount Pleasant 4,115,264
 Mount Pleasant Central School District 1,298,873
 City of Mount Vernon 12,044,792
 Mount Vernon City School District 6,110,819
 Town of New Castle 2,981,222
 City of New Rochelle 17,048,960
 New Rochelle Municipal Housing Authority 3,674,160
 Town of North Castle 1,510,716
 Village of North Tarrytown 1,149,499
 North Tarrytown Housing Authority 405,000
 Town of Ossining 448,397
 Village of Ossining 4,020,262
 Ossining Union Free School District 2,212,560
 City of Peekskill 9,777,462

Village of Pelham 500,511
 Village of Pelham Manor 306,285
 Pelham Union Free School District 1,182,236
 Village of Pleasantville 1,185,548
 Pleasantville Union Free School District 1,078,380
 Village of Port Chester 2,644,917
 Port Chester Housing Authority 1,571,622
 Port Chester-Rye Union Free School District 1,775,542
 City of Rye 3,785,087
 Town of Rye 2,074,527
 Rye Neck Union Free School District 1,169,798
 Village of Scarsdale 3,413,572
 Scarsdale Union Free School District 2,631,226
 Village of Tarrytown 3,173,599
 Union Free School District of Tarrytown 1,339,881
 Thornwood Water District 360,850
 Village of Tuckahoe 1,189,198
 Tuckahoe Housing Authority 639,582
 Tuckahoe Union Free School District 568,200
 Valhalla Union Free School District 529,080
 Westchester County 124,554,100
 Westchester Joint Water Works 1,006,009
 Westchester South Board of Cooperative Education
 Services 3,362,976
 City of White Plains 20,718,321
 White Plains City School District 3,923,130
 White Plains Housing Authority 2,251,920
 City of Yonkers 45,410,323
 Yonkers Housing Authority 8,258,244
 Town of Yorktown 667,429

¹Energy includes 154,694,766 kwh reallocated on a temporary basis

²Total energy received on a temporary basis

³Includes 17,113,677 kwh received on a temporary basis

⁴Includes 13,461,250 kwh received on a temporary basis

⁵Includes 7,297,592 kwh received on a temporary basis

⁶Includes 91,823,929 kwh received on a temporary basis

**Energy Transfers and Purchases
for NYPA Use¹ (kwh)**

**New York Power Authority
Generating Facilities**

Energy Transferred	
St. Lawrence-FDR to:	
Niagara	1,224,564,000 ⁽²⁾
Poletti/IP3	396,027,000
Niagara to:	
Blenheim-Gilboa	1,170,255,000
FitzPatrick	1,415,093,000
Poletti/IP3	652,333,000
Blenheim-Gilboa to:	
FitzPatrick	51,051,000
Poletti/IP3	534,128,000
FitzPatrick to:	
Poletti/IP3	6,116,000
Ashokan to:	
Poletti/IP3	24,109,000
Kensico to:	
Poletti/IP3	11,023,000
Purchased Power for NYPA Use	
Canadian sources to:	
FitzPatrick	12,407,000
Poletti/IP3	1,460,442,000
Investor-owned utilities to:	
FitzPatrick	6,213,000
Poletti/IP3	30,347,000

Facility	Type	Net Rated Output (MW)	1987 Net Generation (MWH)
St. Lawrence-Franklin D.			
Roosevelt ⁽¹⁾	Hydro	800	7,368,620
Niagara	Hydro	2,400	17,126,506 ⁽²⁾
Blenheim-Gilboa	Pumped Storage	1,000	(822,268) ⁽²⁾
FitzPatrick	Nuclear	800	4,198,340
Indian Point 3	Nuclear	965	4,850,586
Poletti ⁽³⁾	Oil/Gas	825	2,995,063
Ashokan	Hydro	3	24,081
Kensico	Hydro	3	11,014
Total Net Generation			35,751,942

- (1) Formerly the St. Lawrence Facility
- (2) Net of Pumping Energy
- (3) Formerly the Astoria 6 Facility

¹Transfers between projects are reported on a net basis and do not reflect transmission losses.

²Includes 196,208,943 kwh sold outside New York State. All other transfers in this table were for sales within the state.

1987 Sales Supplemental Schedule (kwh)

Busbar Prices for Power and Energy Sold to Authority Customers

Municipal and Cooperative Systems	Hydro Energy¹	Incremental Energy²
Akron	34,013,875	10,473,526
Andover	5,804,742	743,903
Angelica	6,354,437	1,119,295
Arcade	94,242,974	23,540,121
Bath	53,276,167	17,969,096
Bergen	7,804,338	10,619,267
Boonville	35,445,739	17,321,398
Brocton	11,530,249	0
Castile	5,682,044	1,489,218
Churchville	9,905,381	5,191,164
Delaware	36,019,728	6,953,762
Endicott	37,803,784	11,251,376
Fairport	215,805,462	114,901,938
Frankfort	14,360,456	4,184,710
Freeport	166,484,893	71,250,480
Greene	19,441,480	11,285,888
Green Island	8,576,555	1,517,540
Greenport	19,367,537	8,644,491
Groton	17,745,340	2,068,314
Hamilton	35,025,598	18,788,507
Holley	17,124,401	3,126,106
Ilion	54,167,054	10,433,320
Jamestown	297,764,000	0
Lake Placid	58,998,336	52,614,636
Little Valley	17,682,085	0
Marathon	11,159,183	3,984,562
Massena	72,652,891	46,142,161
Mayville	18,611,846	4,305,222
Mohawk	16,912,905	4,543,744
Oneida-Madison	12,963,221	2,543,066
Otsego	34,521,505	2,916,297
Penn Yan	40,379,388	16,363,034
Philadelphia	5,491,487	2,952,140
Plattsburgh	400,666,101	105,535,426
Richmondville	8,223,111	2,962,430
Rockville Centre	146,404,855	0
Rouses Point	44,648,126	33,510,171
Salamanca	43,578,253	20,109,360
Sherburne	29,155,079	30,289,796
Sherrill	57,430,908	2,695,730
Silver Springs	3,323,510	962,278
Skaneateles	19,434,130	5,159,747
Solvay	274,191,000	90,133,598
Spencerport	46,478,924	5,264,404
Springville	40,327,210	9,909,895
Steuben	55,683,142	69,594
Theresa	4,589,148	1,599,869
Tupper Lake	45,286,957	26,271,575
Watkins Glen	29,135,141	8,332,964
Wellsville	52,873,795	1,597,763
Westfield	58,029,254	12,821,357
Total	2,852,577,725	846,464,239

Niagara/St. Lawrence-FDR Projects — \$1.00 per kw/month and 1.71 mills/kwh (Jan. 1–April 30); \$1.00 per kw/month and 1.99 mills/kwh (May 1–Dec. 31)

Replacement Power sales of 445,000 kw to Niagara Mohawk and Expansion Power sales of 250,000 kw to Niagara Mohawk and New York State Electric & Gas: \$1.00 per kw/month and 2.67 mills/kwh

Replacement Power Customers

- Airco Carbon, Division of The BOC Group, Inc.
- American Brass Co., L.P.
- Bell Aerospace Textron
- Bethlehem Steel Corporation
- Buffalo Color Corporation
- Buffalo Forge Company
- Carborundum Abrasives Company
- Dunlop Tire Corporation
- E.I. du Pont de Nemours and Company
- Electro Minerals (U.S.), Inc.
- FMC Corporation-Specialty Chemicals Division
- F.N. Burt Company Inc.
- General Abrasive Division, Dresser Industries, Inc.
- General Electric
- General Mills, Inc.
- Great Lakes Carbon Corporation
- Hanna Furnace/LTV Steel
- International Multi-Foods Corporation
- Nabisco, Inc.
- Niacet Corporation
- Niachlor
- Niagara Cold Drawn Corporation
- Niagara Falls Water and Waste Water Treatment Plants
- Niagara Molded Products
- Occidental Chemical Corporation
- Olin Corporation
- The Pillsbury Company
- Republic Steel Corporation
- SKW Alloys, Inc.
- Spaulding Fibre Company
- Standard Oil Engineered Materials Co.
- TAM Ceramics, Inc.
- Union Carbide Corporation

¹Total hydro energy to this class of customer is supplied from the Niagara and St. Lawrence-FDR projects.

²Total incremental energy to this class of customer is supplied from the FitzPatrick plant.

Expansion Power Customers:

Airco Carbon, Division of The BOC Group, Inc.
 Airco Industrial Gases, Division of The BOC Group, Inc.
 Al Tech Specialty Steel Products
 Arcata Graphics Buffalo, An Arcata Graphics Company
 Bethlehem Steel Corporation
 Buffalo Specialty Products, Inc.
 Cascades Niagara Falls, Inc.
 Domtar Industries, Inc.
 Dunlop Tire Corporation
 Dussault Foundry Corporation
 E. I. du Pont de Nemours and Company
 Fisher-Price Toys, Division of The Quaker Oats Company
 F.N. Burt Company Inc.
 Freezer Queen Foods, Inc.
 General Mills, Inc.
 General Motors Corporation, Harrison Radiator Division
 Great Lakes Carbon Corporation
 Hanna Furnace/LTV Steel
 International Multi-Foods Corporation
 Moog Inc.
 O-Cel-O, Division of General Mills
 Occidental Chemical Corporation
 Olin Corporation
 The Pillsbury Company
 Pohlman Foundry Company, Inc.
 Pyron Corporation, A Pacific Tin Company
 Roblin Industries, Inc.
 Republic Steel Corporation
 Russer Foods, Division of Zemco Industries, Inc.
 SKW Alloys, Inc.
 Spaulding Fibre Company
 Standard Oil Engineered Materials Co.
 Steuben Foods Inc.
 TAM Ceramics, Inc.
 Trico Products Corporation
 Union Carbide Corporation
 Westwood Pharmaceuticals

St. Lawrence-FDR Project

Rates to:

Alcoa — \$4.404 per kw/month and 8.704 mills/kwh (Jan. 1–April 30);
 \$4.259 kw/month and 8.418 mills/kwh. (May 1–Dec. 31)

Reynolds Metals Co. — \$4.029 per kw/month and 7.972 mills/kwh
 (Jan. 1–April 30); \$4.329 per kw/month and 8.556 mills/kwh. (May 1–
 Dec. 31)

General Motors — \$1 per kw/month and 2.67 mills/kwh

St. Lawrence Seaway Development Corp. and N.Y.S. Office of Parks and
 Recreation — 10 mills/kwh

Blenheim-Gilboa Project — \$1.90 per kw/month

a) Nonfirm pumped storage energy transfers: 5.5 mills/kwh

b) Economy energy sales: Power Authority and buyer share equally in net savings

James A. FitzPatrick Plant — \$13.40 per kw/month and 9.65 mills/kwh;
 residual energy sales to investor-owned utilities: 9.65 mills/kwh;
 reserve energy sales to investor-owned utilities: rate equal to fuel cost savings

Poletti/Indian Point 3 Projects — Rates for power and energy sales to customers depend on the service provided as follows:

Service Class	\$ per kw/month	Mills/kwh*
General Small		67.93
Commercial and Industrial		
Redistribution	8.40	33.58
Electric Traction Systems	6.82	38.48
Westchester Street Lighting		60.34
Multiple Dwellings-		
Redistribution	7.84	36.43
General Large	6.22	36.68
N.Y.C. Street Lighting	7.42	38.77
N.Y.C. Transit Authority		
Substation	7.37	35.58
N.Y.C. Transit Authority Plant	7.22	39.64
World Trade Center	8.06	36.53
N.Y.C. Public Buildings	6.35	38.67
Con Edison	15.39	20.16

*Subject to a monthly energy charge adjustment: base energy cost is 21.394 mills/kwh.

Reserve energy sales are made to Con Edison at a rate equal to its fuel-cost savings.

Residual energy sales are made to Con Edison at a rate equal to the Authority's cost of fuel and maintenance.

Selected Financial Data^(a)

Project	Operating Revenues (000)	Operating Expenses (000)	Accumulated Depreciation (000)
St. Lawrence — FDR	\$ 81,279	\$ 45,969	\$156,751
Niagara	101,601	91,281	268,761
Blenheim-Gilboa	33,645	21,829	48,718
FitzPatrick	170,195	153,481	149,117
Poletti/IP3	641,223	525,589	337,963
Ashokan/Kensico	(b)	694	1,405
Massena-Marcy	195,299	178,207	52,377

(a) Operating revenues and operating expenses, by project, include interproject sales and purchases of power. They do not include any of the following unallocated items:

	(000)
Other income (principally interest)	\$ 84,839
Other deductions (principally interest on debt)	198,770
Loss on suspension of proposed Prattsville pumped storage project	(19,693)
Bond retirements at less than principal amount	5,657

(b) Available energy is transferred to and sold from Poletti/IP3.

New York Power Authority
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