



**NY Power
Authority**

**Canal
Corporation**

PROPOSED AGENDA

JOINT AUTHORITY AND CANAL AUDIT COMMITTEE MEETING Via Videoconference

March 18, 2021 – 8:30 a.m.

- 1. Adoption of the March 18, 2021 Proposed Meeting Agenda**
- 2. Motion to Conduct an Executive Session**
- 3. Motion to Resume Meeting in Open Session**
- 4. DISCUSSION AGENDA:**
 - a. New York Power Authority Year-end 2020 Financial Report (Adam Barsky/Sundeep Thakur)**
 - b. New York Power Authority 2020 Annual Audit Results (KPMG)**
 - c. New York Power Authority and Canal Corporation Internal Audit Update (Angela Gonzalez)**
- 5. CONSENT AGENDA:**
 - a. Approval of the Joint Minutes of the Regular Meeting held on December 9, 2020.**
- 6. Next Meeting**



**NY Power
Authority**

**Canal
Corporation**

March 18, 2021

Motion to Conduct an Executive Session

I move that the Committee conduct an executive session to discuss the financial and credit history of a particular corporation (pursuant to §105f of the Public Officers Law).



**NY Power
Authority**

**Canal
Corporation**

March 18, 2021

Motion to Resume Meeting in Open Session

Mr. Chairman, I move to resume the meeting in Open Session.



Date: March 18, 2021

To: THE AUDIT COMMITTEE

From: CONTROLLER

Subject: New York Power Authority Year-end 2020 Financial Report
(Consolidated)

Pursuant to Section 2800 of the Public Authorities Law, as amended by the Public Authorities Accountability Act of 2005 ("PAAA"), the Authority is required to file its financial report (consolidated) for the year ended December 31, 2020 and submit this report to the Governor, legislative leaders, the State Comptroller and the Authorities Budget Office. The PAAA reflects the State's commitment to maintaining public confidence in public authorities by ensuring that the essential governance principles of accountability, transparency and integrity and followed at all times.

This year-end 2020 financial report (consolidated) includes financial statements that present the consolidated financial position and result of operations of the Authority as of December 31, 2020 under generally accepted accounting principles. The report is prepared by staff and the consolidated financial statements are audited by independent accountants from KPMG LLP. As required by the PAAA, the financial report (consolidated) has been certified by the Authority's chief executive officer and chief financial officer. After audit committee review, the 2020 financial report (consolidated) is scheduled to be presented for approval by the Authority's Trustees at their meeting on March 30, 2021. Changes of particular significance have been highlighted in the attached draft to facilitate the Audit Committee's review.

REQUIRED ACTION

It is requested that the Audit Committee recommend that the Authority's Trustees approve the consolidated financial statements for the year ended December 31, 2020.

NEW YORK POWER AUTHORITY

**Financial Report
December 31, 2020 and 2019**

NEW YORK POWER AUTHORITY
Financial Report
December 31, 2020 and 2019

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

Independent Auditors' Report

Board of Trustees
New York Power Authority

We have audited the accompanying consolidated financial statements of the business-type activities and fiduciary funds of the Power Authority of the State of New York (the Authority) and its blended component unit, as of and for the year ended December 31, 2020 and 2019, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary funds of the Authority and its blended component unit, as of December 31st, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 16 and Required Supplementary Information on pages 74 through 78 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

New York, New York
March 30, 2021

Management Report

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements of the Authority, as well as all other information contained in the Annual Report. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the Annual Report is consistent with the financial statements.

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with U.S. generally accepted accounting principles and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's consolidated financial statements, KPMG LLP, the Authority's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of its internal auditors, the Office of the State Comptroller (OSC), and the independent auditors concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Based on its structure and related processes, management believes that, as of December 31, 2020, the Authority's system of internal controls provides reasonable assurance related to material items, as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

The members of the Authority's Board of Trustees (the Authority's Trustees), appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Authority's Trustees' Audit Committee meets with the Authority's management, its Sr. Vice President of Internal Audit and its independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, the scope and results of the audit by the independent auditors and the periodic audits by the OSC, and the audit programs of the Authority's internal auditing department. The independent auditors, the Sr. Vice President of Internal Audit and the Vice President & Chief Ethics and Compliance Officer have direct access to the Audit Committee.

Adam Barsky
Executive Vice President and Chief Financial Officer

[March 30, 2021]

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Overview of the Consolidated Financial Statements

The New York Power Authority (the "Power Authority") is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. Effective January 1, 2017, the New York State Canal Corporation (the "Canal Corporation") became a subsidiary of the Power Authority, and the Power Authority assumed certain powers and duties relating to the Canal System to be exercised through the Canal Corporation. The Canal Corporation is responsible for a 524-mile canal system consisting of the Erie, Champlain, Oswego, and Cayuga-Seneca canals (the "Canal System"). The Power Authority and its subsidiary (collectively "the Authority") follow financial reporting for enterprise funds. The consolidated financial statements of the Authority are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standard (GAS) No. 39, *Determining Whether Certain Organizations Are Component Units* and GAS No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*, the Authority considers its relationship to the State to be that of a related organization. The Power Authority and its subsidiary the Canal Corporation are referred to collectively as the "Authority" in the consolidated financial statements, except where noted.

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

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

Forward Looking Statements

The statements in this management's discussion and analysis (MD&A) that are not purely historical facts are forward-looking statements based on current expectations of future events. Such forward-looking statements are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes to or development in various important factors. Accordingly, actual results may vary from those we presently expect and such variations may be material. We therefore caution against placing undue reliance on the forward-looking statements contained in this MD&A. All forward-looking statements included in this MD&A are made only as of the date of this MD&A and we assume no obligation to update any such forward-looking statements as a result of new information, future events or other factors.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Summary of Consolidated Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's consolidated financial information for 2020, 2019, and 2018:

	2020	2019	2018	2020 vs. 2019 favorable (unfavorable)	2019 vs. 2018 favorable (unfavorable)
		(\$ In millions)		(In Percentages)	
Operating revenues	\$ 2,265	\$ 2,370	\$ 2,689	(4)%	(12)%
Operating expenses:					
Purchased power	484	529	710	9	25
Fuel oil & gas	109	140	189	22	26
Wheeling	650	647	654	—	1
Operations and maintenance	683	692	679	1	(2)
Depreciation	258	250	235	(3)	(6)
Total operating expenses	2,184	2,258	2,467	3	8
Operating income	81	112	222	(28)	(50)
Nonoperating revenues	26	46	23	(43)	100
Nonoperating expenses	124	135	143	8	(6)
Net income before contributed capital	(17)	23	102	(174)	(77)
Contributed capital	—	3	—		
Net loss and change in net position	(17)	26	102		
Net position – beginning, as restated	4,760	4,734	4,632		
Net position – ending	\$ 4,743	\$ 4,760	\$ 4,734		

The following summarizes the Authority's consolidated financial performance for the years 2020 and 2019:

The Authority had a net loss of \$17 million for the year ended December 31, 2020 compared to \$23 million net income million in 2019, a decrease of \$40 million (174%). The 2020 decrease in net income compared to 2019 was primarily due to lower operating income of \$31 million (28%), lower nonoperating revenues of \$20 million (43%), partially offset by lower operating expenses of \$74 million (3%) and non-operating expenses of \$11 million (8%). The decrease in operating income resulted from lower market-based energy sales due to lower market prices and the pass through of lower power costs to customers as well as lower customer consumption. The decrease in operating expenses was primarily due to lower purchase power costs and lower fuel prices attributable to lower customer consumption, partially offset by Regional Transmission Expansion Plan ("RTEP") charges allocated to the Hudson Transmission line ("HTP") of \$27 million. The operations and maintenance expenses were \$9 million (1%) lower compared to 2019 primarily due to lower direct operating costs associated with the decline in operating revenue and cost containment measures initiated by management across broad categories of expenses, partially offset by incremental expenses of \$20 million, net related to COVID-19 pandemic.

The change in net position was attributable to the 2020 net loss of \$17 million.

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Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

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

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

Operating Revenues

Operating revenues of \$2,265 million in 2020 were \$105 million, or 4%, lower than the \$2,370 million in 2019, primarily due to lower market-based energy sales resulting from lower market prices and the pass through of lower power costs to customers as well as lower customer consumption attributable to the COVID-19 pandemic environment, partially offset by higher generation at both our hydro and fossil fuel plants resulting in a higher volume sold in the market.

Purchased Power and Fuel

Purchased power costs decreased by \$45 million or 9% in 2020 to \$484 million from \$529 million in 2019, primarily due to lower prices in 2020 compared to 2019 resulting from lower energy and capacity costs, partially offset by HTP RTEP expense of \$27 million retroactive to 2018 (see note 13 "Commitments and Contingencies-(b) Governmental Customers in the New York City Metropolitan Area - HTP Transmission Line" of the notes to the financial statements), as well as lower volume due to lower customer consumption. Fuel costs were \$31 million (22%) lower during 2020, primarily due to lower fuel prices (\$44 million) and partially offset by higher generation volume (\$13 million).

Operations and Maintenance (O&M)

O&M expenses decreased by \$9 million or 1% in 2020 compared to 2019 primarily due to \$29 million (4%) of lower direct operating costs associated with the decline in operating revenue and cost containment measures initiated by management across broad categories of expenses to offset lower operating margins, partially offset by incremental expenses of \$20 million related to COVID-19 pandemic.

Nonoperating Revenues

Nonoperating revenues decreased by \$20 million, or 43% to \$26 million from \$46 million in 2019, primarily due to lower investment income and decreased market value on the Authority's investment portfolio.

Nonoperating Expenses

Nonoperating expenses decreased by \$11 million, or 8%, primarily attributable to capitalization of interest related to increased construction work in progress and lower debt related costs.

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Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

Net (loss) income before non-recurring charges

	2020	2019
	(In millions)	
Net (loss) income	\$ (17)	\$ 23
Add: RTEP (HTP line related charges)	27	—
Incremental COVID-19 expenses, net (1)	20	—
Other (2)	15	4
Net income before non-recurring	<u>\$ 45</u>	<u>\$ 27</u>

(1) See note 15 “Impact of COVID-19 Pandemic” of the notes to the financial statements.

(2) Reflects \$13 million of costs related to Hurricane Relief assistance in Puerto Rico and the Virgin Islands and \$2 million of other charges.

EBIDA

Reconciliation of Net (Loss) Income to EBIDA and EBIDA after certain non-cash charges

	2020	2019	2018
	(In millions)		
Net (loss) income	\$ (17)	\$ 23	\$ 102
Add: Interest	124	135	143
Depreciation	258	250	235
EBIDA	<u>365</u>	<u>408</u>	<u>480</u>
Non-cash charges:			
Add: Pension expense	40	4	—
Other	15	4	—
EBIDA after certain non-cash charges	<u>\$ 420</u>	<u>\$ 416</u>	<u>\$ 480</u>

EBIDA represents net income (loss) before interest expense, depreciation and amortization and is a non-GAAP financial measure. EBIDA does not represent net income (loss), as that term is defined under Generally Accepted Accounting Principles (GAAP) and should not be considered as an alternative to net income (loss) as an indicator of the Authority’s operating performance or any other measure of performance derived in accordance with GAAP. EBIDA is not intended to be a measure of cash flows, as depicted on the statement of cash flows, available for management or discretionary use as such measures do not consider certain cash requirements such as capital expenditures and debt service requirements. EBIDA as presented herein is not necessarily comparable to similarly titled measures presented by the Authority.

Cash Flows

Net cash flows provided by operating activities decreased by \$6 million in 2020 compared to 2019 due to the timing of payments and receipts.

Net Generation

Net generation was 31.5 million megawatt-hours (MWh) in 2020 and 30.1 million MWh in 2019. Net generation from the Niagara and St. Lawrence hydroelectric plants in 2020 (25.0 million MWh) was 3% higher than 2019

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(Unaudited)

(24.3 million MWh) due to the average river flow for both Niagara and St. Lawrence being higher in 2020 than in 2019 resulting in higher water flow to the Niagara and St. Lawrence hydroelectric plants. For 2020, net hydro generation was approximately 123% of long-term average and above 2019, which was 120%. Combined net generation of the fossil fuel plants for 2020 was 6.4 million MWh, or 10% higher than 2019 (5.8 million MWh).

Summary of Consolidated Statements of Net Position

The following is a summary of the Authority's consolidated statements of net position for 2020, 2019, and 2018:

	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
	(\$ In millions)			(In Percentage)	
Current assets	\$ 1,101	\$ 1,303	\$ 1,434	(16) %	(9) %
Capital assets	6,032	5,783	5,519	4	5
Other noncurrent assets	2,667	1,670	1,798	60	(7)
Deferred outflows of resources	261	185	137	41	35
Total assets and deferred outflows	<u>\$ 10,061</u>	<u>\$ 8,941</u>	<u>\$ 8,888</u>	13	1
Current liabilities	\$ 1,037	\$ 1,293	\$ 1,051	(20)	23
Noncurrent liabilities	3,690	2,456	2,631	50	(7)
Total liabilities	<u>4,727</u>	<u>3,749</u>	<u>3,682</u>	26	2
Deferred inflows of resources	591	432	472	37	(8)
Net position	<u>4,743</u>	<u>4,760</u>	<u>4,734</u>	0	1
Total liabilities, deferred inflows and net position	<u>\$ 10,061</u>	<u>\$ 8,941</u>	<u>\$ 8,888</u>	13	1

The following summarizes the Authority's consolidated statements of net position variances for the years 2020 and 2019:

In 2020, current assets decreased by \$202 million (16%) to \$1,101 million due to use of investments to fund capital projects. Capital assets increased by \$249 million (4%) to \$6,032 million, compared to last year, as a result of continuing investments in generating assets at existing facilities and transmission upgrades necessary to maintain reliability. Other noncurrent assets, increased by \$997 million (60%), compared to last year, as a result of bond proceeds allocation for planned capital investments and energy efficiency program and an increase in postemployment benefits other than pension (OPEB) asset as a result of the current valuation. Deferred outflows increased by \$76 million (41%) primarily due to changes in deferral of pension resources and a reclassification related to asset retirement obligations, partially offset by changes in deferral of OPEB resources. Current liabilities decreased by \$256 million (20%) to \$1,037 million compared to last year. This decrease is attributable primarily to the decrease in short-term debt by \$190 million, long-term debt due in one year by \$30 million and the timing of accounts payable payments. Noncurrent liabilities were higher by \$1,234 million (50%), primarily due to the issuance of the \$1,235 million of Series 2020A and Series 2020B Revenue Bonds, partially offset by the redemption of Series 2003A Revenue Bonds and defeasance of Series 2007B Revenue Bonds, Series 2011A Revenue Bonds and Series 2015A Revenue Bonds. Deferred inflows increased by \$159 million (37%) compared to last year, primarily due to the changes in the deferral of OPEB resources. The changes in net position for 2020 and 2019 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2020 and 2019

(Unaudited)

In 2019, current assets decreased by \$131 million (9%) to \$1,303 million due to use of investments to fund capital projects. Capital assets increased by \$264 million (5%) to \$5,783 million, compared to last year, as a result of continuing investments in generating assets at existing facilities and transmission upgrades necessary to maintain reliability. Other noncurrent assets, decreased by \$128 million (7%), primarily due to decreased energy efficiency program work in progress and OPEB assets. Deferred outflows increased by \$48 million (35%) primarily due to changes in deferral of OPEB resources and a reclassification related to asset retirement obligations, partially offset by changes in deferral of pension resources. Current liabilities increased by \$242 million (23%) to \$1,293 million compared to last year. This increase is attributable primarily to the increase in short-term debt due to issuance of commercial paper to refund \$156 million of the Authority's Series 2007 A and Series 2007 C Revenue Bonds and the timing of accounts payable payments. Noncurrent liabilities were lower by \$175 million (7%), primarily due to the decrease in long-term debt resulting from refunding of \$156 million of Series 2007 A and Series 2007 C Revenue Bonds and scheduled maturities. Deferred inflows decreased by \$40 million (8%) compared to last year, primarily due to the changes in the deferral of pension resources. The changes in net position for 2019 and 2018 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately \$5.0 billion (\$3.4 billion for various capital improvements and \$1.6 billion for energy services projects) over the five-year period 2021-2025. The Authority anticipates that these expenditures will be funded using existing construction funds, internally generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of commercial paper notes and/or the issuance of long-term fixed rate debt.

On January 29, 2020, the Authority's Trustees authorized an investment of \$300 million over five years for the Reimagine the Canals Initiative ("Initiative") and approved \$30 million to fund the Initiative in 2020 and spent \$2.1 million during 2020. The Initiative encompasses three prongs: (1) \$100 million of funding for projects in communities along the Canal system, (2) \$65 million of funding for projects that will help prevent ice jams and related flooding, and (3) \$135 million of funding for projects recommended by the Reimagine the Erie Canal Task Force and approved by the Authority for projects related to mitigation of drought impacts on agriculture, expansion of fishing opportunities, flood mitigation, invasive species prevention, and ecosystem restoration.

The Authority's capital plan includes the provision of approximately \$1.6 billion, the amount of which will be reimbursed subsequently back to the Authority, in financing for Energy Services projects to be undertaken by the Authority's governmental customers and other public entities in the State. It should also be noted that due to projects currently under review as well as energy initiatives announced in the Governor's State of the State address, there is a potential for significant increases in the capital expenditures indicated in the table below. Such additional capital expenditures would be subject to evaluation and Trustee approval.

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Management's Discussion and Analysis

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(Unaudited)

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

Transmission Development	\$ 606
Ma1 & Ma2 Transmission Line Upgrade	308
Marcy-Scott Yard Transmission Upgrade	257
RM Mechanical & Electrical LEM	143
Strategic EV Charging Stations Installs	102
Communications Backbone	102
Transmission LEM (Nia, Massena)	97
RM Controls LEM	65
Replacement of Superstructure Bridges At RMNPP	51
Lewiston Pump Gener. Plant LEM	44
Cyber Resilience	40
T-LEM: Std Remote Substations	38
Reimagine Western Irrigation	38
Mohawk River Channel Modification	36
L33P & L34P Phase Shifter	29
RM Penstock LEM	28
Garage - Centroplex Upgrade (WPO)	28
Common Application LEM	28
CR Iconic Lighting Movable Dam	27
Core IT Infrastructure LEM	25
Transmission Power Flow Control	24
T-LEM Tower Coating Upgrades (CNY, WNY)	40
Breaker & Relay Replacement (STL)	21
Canal Corporation	201
All Other (Projects Below \$20.0 Million)	1,001
	<u>\$ 3,379</u>

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

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a Notice to Proceed. The Authority estimates a project cost of \$484 million through project completion in 2023. As of December 31, 2020, the Authority has spent approximately \$124 million on the Moses Adirondack project, which commenced in 2020.

In 2012, the Authority's Trustees approved a \$726 million Transmission Life Extension and Modernization Program (Transmission LEM Program) on the Authority's Transmission system through 2025. As of December 31, 2020, the Authority has spent approximately \$396 million. The Transmission LEM Program encompasses transmission assets in the Central, Northern and Western regions of New York and will include work to be done such as upgrades, refurbishments and replacements associated with switchyards and substations, transmission line structures or towers and associated hardware and replacement of the submarine cable on the PV-20 line. Reinvestment in this strategic component of the Authority's overall mission supports the repair, upgrade and/or expansion of the transmission infrastructure. The Transmission LEM Program will be financed with internal funds and proceeds from debt obligations issued by the Authority. The work on the Transmission LEM Program is underway and is expected to continue through 2025.

The Authority's Trustees approved a \$460 million Life Extension and Modernization Program at the Niagara project's Lewiston Pump-Generating Plant, (Lewiston LEM Program) of which approximately \$357 million has been spent as of December 31, 2020. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The Lewiston LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara project. The Authority filed an application with the Federal Energy Regulatory Commission (FERC) for a non-capacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Lewiston LEM Program will be financed with internal funds and proceeds from debt obligations issued by the Authority. The unit work began in late 2012 and is on-going, with the final unit expected to be completed in 2022.

More detailed information about the Authority's capital assets is presented in note 2 "Summary of Significant Accounting Policies" and note 5 "Capital Assets" of the notes to the consolidated financial statements.

Capital Structure

	<u>2020</u>	<u>2019</u>	<u>2018</u>
		(In millions)	
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	\$ 1,629	\$ 465	\$ 653
Subordinated:			
Subordinated Notes, Series 2017 and 2012 (1)	40	42	43
Commercial paper	<u>5</u>	<u>5</u>	<u>5</u>
Total long-term debt, net of current maturities	1,674	512	701
Net position	<u>4,743</u>	<u>4,760</u>	<u>4,734</u>
Total capitalization	<u>\$ 6,417</u>	<u>\$ 5,272</u>	<u>\$ 5,435</u>

(1) The Subordinated Notes, Series 2017 and 2012, which were issued in 2017 and 2012, respectively, are

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subordinate to the Series 2003A Revenue Bonds, the Series 2007B Revenue Bonds, the Series 2020A Revenue Bonds and 2020B Revenue Bonds.

During 2020, long-term debt, net of current maturities, increased by \$1,162 million, primarily due to the issuance of 2020A and 2020B Revenue Bond partially offset by the redemption of the 2003A Revenue Bond and defeasance of 2011A Revenue Bonds, 2007B Revenue Bonds, and 2015A Revenue Bonds.

In November 2016, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2017 (Subordinated Notes Series 2017) in a principal amount not to exceed \$30 million to accelerate additional funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation in connection with the Niagara Project's relicensing. The Authority issued the subordinate notes on February 24, 2017 in the amount of \$25.2 million.

Long-term debt to equity (long-term debt/net position) ratio as of December 31, 2020, was at .35-to-1 when compared to .11-to-1 as of December 31, 2019. Short Term debt of \$502 million, consisting of the Series 1 CP Notes and certain Series 2 and Series 3 CP Notes, is excluded from the long-term debt to equity ratio, as it is used by the Authority to finance the Authority's current and future energy efficiency programs and for other corporate purposes.

Debt Ratings

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa2	AA	AA
Subordinate debt:			
Subordinate Notes, Series 2017	N/A	AA-	N/A
Subordinate Notes, Series 2012	N/A	N/A	AA
Commercial paper	P-1	A-1+	F1+

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

In April 2020, Standard & Poor's Ratings Service affirmed the Authority's commercial paper rating, senior debt rating and Subordinated Notes rating (Series 2017). In October 2020, Moody's Investors Service affirmed the Authority's commercial paper rating and downgraded the Authority's senior debt rating to Aa2 from Aa1 (Moody's did not reconfirm or review the Authority's Subordinated Notes, Series 2017 or Series 2012). In April 2020, Fitch Ratings affirmed the Authority's commercial paper rating, senior debt rating and Subordinated Notes (Series 2012).

The Authority has a line of credit under a 2019 revolving credit agreement (the 2019 RCA), with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to \$700 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1-3 CP Notes. The 2019 RCA expires January 14, 2022. There are no outstanding borrowings under the 2019 RCA.

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In April 2020, the Authority entered into a hybrid revolving line of credit (the 2020 RCA) with a single bank under an agreement to provide liquidity support for the Series 3 and Series 4 CP Notes and/or to borrow directly. The Authority may borrow up to \$250 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of Commercial Paper or for general corporate purposes. The 2020 RCA expires April 21, 2021. There are no outstanding borrowings under the 2020 RCA.

Economic Conditions

In December 2020, the Authority's Board of Trustees approved its strategic plan, VISION2030, which focuses on preserving the value of its hydropower assets; leading the transition away from natural gas while ensuring system reliability; rapidly developing new transmission assets to meet market needs; partner with customers' and the state to help meet energy goals; and reimagine the New York State Canals System. The Authority's strategic plan will also ensure the continuation of its evolution to a digital utility; ensure long-term environmental, social, and governance (ESG) performance; the commitment to Diversity, Equity and Inclusion (DE&I); the incorporation of resiliency into all of NYPA; and the on-going focus on employee development through Resource Alignment initiatives. The costs and revenues with respect to the plan are reflected in the Authority's 2021-2024 financial plan.

Climate Leadership and Community Protection Act (CLCPA)

VISION2030 is anchored in helping achieve the greenhouse gas reduction targets in New York State's Climate Leadership and Community Protection Act (CLCPA), which was passed in 2019 and is the most ambitious climate change legislation in the country. CLCPA's targets for decarbonizing power generation include bringing 28 GW (16 GW of land-based renewables, 6 GW of offshore wind, and 6 GW of distributed solar) of renewables to market by 2030; accelerating transmission network investment to integrate renewables and alleviate load pockets; and ensuring grid reliability and flexibility through an integrated set of solutions including 3 GW of storage, dispatchable clean generation, and demand-side solutions. Targets for decarbonizing beyond the power sector include reduction of statewide energy use by 185 Tbtu; electrification of transportation; and coordinated electrification of building heating and industrial processes. Fundamental to the CLCPA and NYPA's participation in achieving its goals is ensuring an equitable transition to a thriving clean energy.

Transmission Congestion and System Operation Issues

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

In 2020, New York State passed the Accelerated Renewable Energy Growth and Community Benefit Act ("Renewable Energy Act"), the purpose of which is to help prioritize the planning, investment, and responsible development of a state-of-the-art grid infrastructure the Renewable Energy Act focuses on grid planning and energy delivery constraint relief and calls for a comprehensive study to identify cost-effective distribution,

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local and bulk electric system upgrades and a bulk transmission investment program that draws upon NYPA's capability to expeditiously construct new transmission (Renewable Energy Act discussed herein).

Regional Greenhouse Gas Initiative

The Regional Greenhouse Gas Initiative (the "RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states, including New York, to reduce carbon dioxide emission levels. Participating states have established a regional carbon dioxide emissions cap from the power sector (fossil fuel-fired power plants 25MW or greater). RGGI States will make an adjustment to the RGGI cap to account for banked CO2 allowances accumulated through the third control period. The size of the adjustment will be calculated in March 2021 and the adjustment will be made over a five-year period (2021-2025), as specified in the 2017 Model Rule. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the three-year compliance period. The Authority's Flynn plant, the SCPPs, and 500-MW Plant are subject to the RGGI requirements as is the Astoria Energy II plant. The Authority has participated in program auctions to acquire carbon dioxide allowances and expects to recover RGGI costs through its power sales revenues. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

Competitive Environment

The Authority's new mission statement that was ratified by the Trustees in December 2020, is to "Lead the transition to a carbon-free, economically vibrant New York through customer partnerships, innovative energy solutions, and the responsible supply of affordable, clean, and reliable electricity."

The new mission statement adheres to maintaining NYPA's core operating businesses while also moving to support the energy goals of New York State, codified in the Clean Energy Standard, New York State Climate Leadership and Community Protection Act, our Enhanced Authority under changes to the Power Authority Act enacted in 2019, and the Accelerated Renewable Energy Growth and Community Benefit Act.

The Authority's financial performance goal is to maintain a strong financial position to have the resources necessary to achieve its mission.

To maintain its position as a reliable provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara, St. Lawrence-FDR, and Blenheim-Gilboa ("BG") projects; (b) long-term supplemental electricity supply agreements with NYPA's governmental customers located in Southeastern New York (NYC and Westchester Governmental Customers); (c) construction and operation of the Eugene W. Zeltmann Power Project (NYPA's 500 MW combined cycle electric generating plant) located at the Authority's Poletti plant site; (d) a long-term electricity supply contract with Astoria Energy II LLC for the purchase of the output of a 550-MW power plant in Astoria, Queens, ("AEII"), in which the Authority's net costs associated with the AEII power purchase agreement are recovered under a separate contract with the NYC Governmental Customers who are served by the output; (e) a firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC ("HTP") for a portion of the output of the 660 MW, seven mile, underground and underwater transmission line connecting into the transmission system operated by PJM Interconnection LLC; (f) construction and maintenance of new transmission lines to relieve congestion and increase transfer capability from central to eastern New York addressing NYISO's AC Transmission Public Policy Need ("AC Proceeding"); (g) refinancing outstanding callable bonds to lower the overall cost of debt; (h) implementation of an enterprise-wide risk management program; and (i) implementation of an enterprise-wide resiliency program to embed resilience culture and to prepare for a more uncertain operating environment. As a component of the Authority's strategic plan, efforts to modernize the Authority's generation and transmission infrastructure are being developed and implemented to increase flexibility and resiliency, and to serve customers' needs in an increasingly dynamic energy marketplace.

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

The Authority operates in a competitive and sometimes volatile energy market environment. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy prices, fuel prices and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate downside effects, many of the Authority's customer contracts provide for the complete or partial pass-through of these costs.

To moderate cost impacts to the Authority and its customers, the Authority, at times, hedges market risks through the use of financial instruments and physical contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and to mitigate geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, capacity, congestion costs and aluminum associated with the supply of electricity. Any such actions are taken pursuant to policies approved by the Authority's Trustees and under the oversight of an Executive Risk Management Committee.

The Authority can give no assurance that, even with these measures, it will retain its competitive status in the marketplace in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants.

Rate Actions

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to municipal electric systems, rural electric cooperatives, industrial and other business customers, certain public bodies, investor-owned utilities, out-of-state customers, and into the wholesale market. The charges for firm and/or firm peaking power and associated energy sold by the Authority, as applicable, to the fifty-one municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, two investor-owned utilities for the benefit of rural and domestic customers, nine host communities and seven out-of-state public customers have been established on the basis of the hydroelectric project costs.

Expansion and Replacement Power commercial and industrial customers supplied from the Niagara facility and Preservation Power industrial customers supplied from the St. Lawrence-FDR facility are allocated over 35% of the combined firm contracted demand of the plants. Their rates are subject to annual adjustment based on the average of three contractually agreed-upon economic indices reflecting changes in industrial energy prices. In addition, one of the customers served by the St. Lawrence-FDR facility has an energy rate partially tied to market prices of aluminum.

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

The Authority has supplied electric power to its governmental customers located within New York City and Westchester County since 1976. New long-term agreements have been executed with the New York City

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governmental customers, incorporating recent shifts in the electricity business, New York State's clean energy goals, and continuing changes in the Authority's supply portfolio, all in an effort to continue to provide value for, and serve this customer group.

In an order issued January 27, 1999, FERC approved the use of a \$165.4 million transmission system revenue requirement in developing rates for use of NYPA's transmission facilities in the NYISO market. FERC also approved, among other things, the imposition of a NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements established to achieve full recovery of the Authority's annual transmission revenue requirement ("ATRR"). In July 2012, the Authority filed for its first requested increase in the revenue requirement with FERC since the implementation of the NYISO. This filing resulted in FERC's October 4, 2013 order accepting an uncontested settlement agreement establishing a new \$175.5 million revenue requirement. In January 2016, the Authority filed to convert from a Stated Rate to a Formula Rate to ensure full recovery of its revenue requirement based upon operating and maintenance expenses as well as the capital spending necessary to maintain the reliability of its transmission system, such as the Life Extension and Modernization program. The Authority filed an unopposed Offer of Settlement on September 30, 2016 that fully resolved the issues raised by interested parties in settlement negotiations concerning the formula rate. The settlement was approved by FERC on January 19, 2017. Separately, the ATRR under the formula of \$190 million initially made effective April 1, 2016 was updated on July 1, 2016 to \$198.2 million pursuant to the formula rate annual update process. The ATRR is updated annually prior to the start of each rate year (July 1st - June 30th). The ATRR effective July 1, 2020 is \$278.7 million and includes the revenue requirements for NTAC, the Marcy South Series Compensation, and AC Transmission projects.

Certain New Legislation Affecting the Authority

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

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

On July 18, 2019, the State enacted the "New York State Climate Leadership and Community Protection Act" as Chapter 106 of the Laws of 2019 ("CLCPA"). CLCPA directs the New York State Department of Environmental Conservation (the "NYSDEC") to develop regulations to reduce statewide greenhouse gas emissions ("GHG") to

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60% of 1990 levels by 2030 and 15% of 1990 levels by 2050. NYSDEC is currently drafting regulations that would implement these and other related goals.

Several provisions of CLCPA could potentially impact the Authority's business and operations, such as the following: (1) a requirement that specified State entities, including the Authority, adopt regulations to contribute to achieving statewide GHG emissions; (2) a requirement that State entities, including the Authority, assess and implement strategies to reduce GHG emissions; (3) consideration of whether actions that the Authority would undertake in the course of its operations are consistent with State GHG emission limits that will be established pursuant to the enactment; and (4) potential allocation or realignment of resources to support State clean energy and energy efficiency goals for disadvantaged communities.

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

As part of the 2020-2021 Enacted State Budget, legislation was enacted that is expected to expedite the siting and construction of clean energy projects to combat climate change in an effort to improve the State's economic recovery from the COVID-19 health crisis. The Accelerated Renewable Energy Growth and Community Benefit Act ("Renewable Energy Act") will create an Office of Renewable Energy Siting to improve and streamline the process for environmentally responsible and cost-effective siting of large-scale renewable energy projects across the State while delivering significant benefits to local communities. The Renewable Energy Act, which will be implemented by the Authority and New York State Department of State, NYSERDA, the Department of Public Service (DPS), NYSDEC and the Empire State Development Corporation, will accelerate progress towards the State's clean energy and climate goals, including the goal to obtain 70% of the State's electricity from renewable sources by 2030.

Accelerated Renewable Energy Growth and Community Benefit Act

The Accelerated Renewable Energy Growth and Community Benefit Act (the "Renewable Energy Act") was enacted as part of the 2020-21 Enacted State Budget. In summary, the Renewable Energy Act:

- Establishes a new Office of Renewable Energy Siting, through which the State will consolidate the environmental review of major renewable energy facilities.
- Provides accelerated timetables for review of applications for major utility transmission facilities.
- Authorizes NYSERDA to undertake several "host community benefit" programs to provide benefits to residents of local communities where new renewable general projects are slated for development.
- Directs the Department of Public Service ("DPS"), in consultation with NYSERDA, the Authority, the Long Island Power Authority, the New York Independent System Operator ("NYISO"), and the state's regulated utilities, to undertake a comprehensive study of the power delivery system in the state, for the purpose of identifying investor-owned utility distribution and local transmission upgrades, and bulk transmission system investments necessary to help the State meet the environmental goals of the Climate Leadership and Community Protection Act ("CLCPA").
- Requires the PSC to identify bulk transmission projects that need to be developed expeditiously to meet CLCPA goals ("Priority Transmission Project(s)" or "PTP(s)").
- Declares that it is appropriate for the Authority, by itself or in collaboration with other parties to develop those bulk transmission investments designated as PTPs that are needed expeditiously to achieve CLCPA targets.
- Authorizes the Authority, through a public process, to solicit interest from potential co-participants in each PTP it has agreed to develop and assess whether any joint development would provide for

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significant additional benefits in achieving the CLCPA targets, and thereafter determine to undertake the development of the PTP on its own, or undertake the PTP jointly with one or more other parties and enter into such agreements and take such other actions the Authority determines to be necessary in order to develop the PTP. For PTPs substantially within the Authority's existing rights of way, the Renewable Energy Act authorizes the Authority to select private sector participants through a competitive bidding process.

Large-Scale Renewable Program

The current Clean Energy Standard set by the PSC requires that 50% of the State's electricity come from renewable sources by 2030. In support of the Clean Energy Standard goal for the State, the Authority issued a request for proposals in July 2020 to solicit renewable energy credits, energy and capacity from eligible large-scale renewable projects which includes wind, solar and battery storage technology. The Authority expects to award project(s) with long-term agreements for the purchase of renewable energy credits that will be generated from the projects. The Authority intends to seek recovery of costs associated with the agreements through sales of renewable energy credits by the Authority to the Authority's customers. The Authority anticipates it will undertake future procurements of large-scale renewable projects in order to fully support its customers and the State-wide Clean Energy Standard.

Commitments and contingencies

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

Canal Corporation

The Canal Transfer Legislation enacted April 4, 2016, authorized, but does not require, the Authority, to the extent that the Authority's Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. The Canal Corporation's expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority's Board of Trustees and compliance with the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Certain expenses eligible for reimbursement are expected to be reimbursed to the Authority by moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance. For the year ended December 31, 2020, the Canal Corporation recognized \$1.8 million in revenues, \$83 million in operations and maintenance expenses and \$27 million in depreciation expense. For the year ended December 31, 2019, the Canal Corporation recognized \$2 million in revenues, \$86 million in operations and maintenance expenses and \$25 million in depreciation expense.

By resolution adopted December 9, 2020, the Canal Corporation's Board of Directors adopted a budget for 2021-2024 that consisted of expenditures for operations and maintenance expenses, for capital expenses. The Authority's budget and financial plan for 2021-2024 includes Canal-related operating expenditures of approximately \$80-\$90 million per year and capital expenditures of approximately \$40 million per year and \$1.5 million per year for Canal Development Fund expenses.

In 2020, the Authority's Trustees authorized an investment of \$300 million over five years for the Reimagine the Canals Initiative ("Initiative") and approved \$30 million to fund the Initiative in 2020 (see herein – "Capital Asset and Long-Term Debt Activity").

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Contacting the Authority

This financial report is designed to provide our customers and other interested parties with a general overview of the Authority's finances. If you have any questions about this report or need additional financial information, contact the New York Power Authority, 123 Main Street, White Plains, New York 10601-3107. Email: info@nypa.gov

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

	December 31,	
	2020	2019
Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	\$ 219	\$ 66
Investment in securities	349	695
Receivables - customers	219	183
Materials and supplies, at average cost:		
Plant and general	90	86
Fuel	29	30
Miscellaneous receivables and other	195	243
Total current assets	1,101	1,303
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	51	52
Investment in securities	16	16
Total restricted assets	67	68
Restricted capital funds:		
Cash and cash equivalents	677	16
Investment in securities	192	10
Total restricted capital funds	869	26
Capital Assets:		
Capital assets not being depreciated	984	931
Capital assets, net of accumulated depreciation	5,048	4,852
Total capital assets	6,032	5,783
Other Noncurrent Assets:		
Receivable - New York State	86	86
Other long-term assets	1,645	1,490
Total other noncurrent assets	1,731	1,576
Total noncurrent assets	8,699	7,453
Total assets	9,800	8,756
Deferred outflows of resources:		
Asset retirement obligation	17	17
Accumulated decrease in fair value of derivative hedging	2	5
Pensions	154	58
Postemployment benefits other than pensions	88	105
Total assets and deferred outflows of resources	\$ 10,061	\$ 8,941

See accompanying notes to the consolidated financial statements.

(Continued)

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Consolidated Statements of Net Position
(In millions)

	December 31,	
	2020	2019
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 484	\$ 527
Short-term debt	502	692
Long-term debt due within one year	1	31
Capital lease obligation due within one year	50	43
Total current liabilities	1,037	1,293
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	1,629	465
Subordinated:		
Subordinated Notes	40	42
Commercial paper	5	5
Total long-term debt	1,674	512
Other noncurrent liabilities:		
Capital lease obligation	984	1,034
Disposal of spent nuclear fuel	229	228
Relicensing	251	256
Postemployment benefits other than pensions	198	226
Other long-term liabilities	354	200
Total other noncurrent liabilities	2,016	1,944
Total noncurrent liabilities	3,690	2,456
Total liabilities	4,727	3,749
Deferred inflows of resources:		
Cost of removal obligations	383	365
Accumulated increase in fair value of derivative hedging	13	1
Pensions	7	20
Postemployment benefits other than pensions	188	46
Net position:		
Net investment in capital assets	3,238	3,647
Restricted	869	45
Unrestricted	636	1,068
Total net position	4,743	4,760
Total liabilities, deferred inflows of resources and net position	\$ 10,061	\$ 8,941

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	Year Ended December 31,	
	2020	2019
Operating revenues:		
Power sales	\$ 1,360	\$ 1,481
Transmission charges	237	214
Wheeling charges	649	647
Other	19	28
Total operating revenues	2,265	2,370
Operating Expenses:		
Purchased power	484	529
Fuel oil and gas	109	140
Wheeling	650	647
Operations	555	562
Maintenance	128	130
Depreciation	258	250
Total operating expenses	2,184	2,258
Operating income	81	112
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	23	44
Other	3	2
Total nonoperating revenues	26	46
Nonoperating expenses		
Interest on long-term debt	42	45
Interest - other	109	115
Interest capitalized	(27)	(23)
Amortization of debt premium	–	(2)
Total nonoperating expenses	124	135
Net income before contributed capital	(17)	23
Contributed capital- Wind farm transmission assets	–	3
Net loss and change in net position	(17)	26
Net position, January 1	4,760	4,734
Net position, December 31	\$ 4,743	\$ 4,760

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Cash Flows

(In millions)

	Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 2,206	\$ 2,356
Disbursements for:		
Purchased power	(478)	(529)
Fuel, oil and gas	(102)	(145)
Wheeling of power by other utilities	(638)	(640)
Operations and maintenance	(792)	(840)
Net cash provided by operating activities	<u>196</u>	<u>202</u>
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(489)	(414)
Issuance of commercial paper	140	156
Repayment of commercial paper	(231)	—
Proceeds from issuance of Series 2020A revenue bonds	1,192	—
Proceeds from issuance of 2020B revenue bonds	114	—
Redemption of bonds	(32)	(219)
Defeasance of bonds	(131)	—
Repayment of notes	(1)	(1)
Bonds issuance costs	(18)	—
Earning on investments	1	—
Interest paid, net	(30)	(42)
Net cash provided by (used in) capital and related financing activities	<u>515</u>	<u>(520)</u>
Cash flows from noncapital-related financing activities:		
Energy conservation program payments received from participants	280	193
Energy conservation program costs	(246)	(153)
Issuance of commercial paper	80	138
Repayment of commercial paper	(179)	(128)
Interest paid on commercial paper	(6)	(10)
Payment received from New York State	—	43
Empire State Trailways and other	57	—
Margin deposits	(18)	15
NYISO collateral	—	8
Net cash (used in) provided by noncapital-related financing activities	<u>(32)</u>	<u>106</u>
Cash flows from investing activities:		
Earnings received on investments	29	17
Purchase of investment securities	(3,462)	(4,385)
Sale of investment securities	3,567	4,674
Net cash provided by investing activities	<u>134</u>	<u>306</u>
Net increase in cash	<u>813</u>	<u>94</u>
Cash and cash equivalents, January 1	<u>134</u>	<u>40</u>
Cash and cash equivalents, December 31	<u>\$ 947</u>	<u>\$ 134</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 81	\$ 112
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	258	250
Net increase in miscellaneous payments and other	(102)	(235)
Net increase in receivables and materials and supplies	(18)	(50)
Net decrease in accounts payable/accrued liabilities and other	(23)	125
Net cash provided by operating activities	<u>\$ 196</u>	<u>\$ 202</u>

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Statements of Fiduciary Net Position

(In millions)

	December 31,	
	2020	2019
Assets		
Assets:		
Cash and cash equivalents	\$ 142	\$ 24
Receivables:		
Due from broker for investments sold	—	—
Investment income	1	1
Total receivables	1	1
Investments at fair value:		
Domestic equity	92	130
International equity	93	46
Index Fund	195	297
Real Estate (REIT)	39	39
Fixed Income	169	152
Total investments	588	664
Total assets	731	689
Liabilities:		
Payables:		
Accrued liability	3	-
Due to broker for investments purchased	-	3
Total liabilities	3	3
Net position available for postemployment benefits other than pensions	\$ 728	\$ 686

See accompanying notes to the consolidated financial statements

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

	Year Ended December 31,	
	2020	2019
Additions:		
Employer contributions	\$ 25	\$ 25
Investment income:		
Net increase / (decrease) in fair value of investments	41	112
Interest and dividend income	5	11
Less: investment expense	(1)	(2)
Net investment income / (loss)	45	121
Total additions	70	146
Deductions:		
Management expense	3	-
Benefits payments	25	25
Total deductions	28	25
Changes in net position	42	121
Net position available for postemployment benefits other than pensions – beginning of year	686	565
Net position available for postemployment benefits other than pensions – end of year	<u>\$ 728</u>	<u>\$ 686</u>

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(1) General

The Power Authority of the State of New York (the Power Authority), doing business as The New York Power Authority, is a corporate municipal instrumentality and political subdivision of the State of New York (State) created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended (Power Authority Act or Act).

The Power Authority's mission is to lead the transition to a carbon-free, economically vibrant New York through customer partnerships, innovative energy solutions, and the responsible supply of affordable, clean, and reliable electricity. The mission statement adheres to maintaining the Power Authority's core operating businesses while also moving to support the energy goals of New York State, codified in the Clean Energy Standard, New York State Climate Leadership and Community Protection Act, our enhanced authority under changes to the Power Authority Act enacted in 2019, and the Accelerated Renewable Energy Growth and Community Benefit Act. The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

The Power Authority is authorized by the Power Authority Act to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Power Authority generates, transmits and sells electricity principally at wholesale. The Power Authority's primary customers are municipal and investor-owned utilities, rural electric cooperatives, high load factor industries and other businesses located throughout New York State, various public corporations located in Southeastern New York within the metropolitan area of New York City (SENY Governmental Customers), and certain out-of-state customers. In addition to contractual sales to customers, the Power Authority also sells power into an electricity market operated by the NYISO.

To provide electric service, the Power Authority owns and operates five major generating facilities, eleven small gas-fired electric generating facilities, and four small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The Power Authority's five major generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), the combined cycle electric generating plant located in Queens, New York (500-MW Plant) and the Richard M. Flynn combined cycle plant located on Long Island (Flynn). To provide additional electric generation capacity to the Authority's NYC Governmental Customers, the Authority entered into a long-term electricity supply agreement with Astoria Energy II LLC in 2008 for the purchase of the output of an Astoria, Queens based natural-gas fueled 550-MW generating plant, which entered service in the summer of 2011.

The Power Authority acts through a Board of Trustees. The Power Authority's Trustees are appointed by the Governor of the State of New York, with the advice and consent of the State Senate. The Power Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through a combination of internally generated funds and sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. Under the criteria set forth in Governmental Accounting Standards Board (GASB) the Authority considers its relationship to the State to be that of a related organization.

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

Article XV of the New York State Constitution provides, in part, that the barge canal, the divisions of which are the Erie canal, the Oswego canal, the Champlain canal, and the Cayuga-Seneca canal, and the terminals

NEW YORK POWER AUTHORITY

Notes to the Consolidated Financial Statements

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

Legislation was enacted on April 4, 2016 (the “Canal Transfer Legislation”) which provided for (1) the transfer, effective January 1, 2017, of the New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Power Authority and (2) as of January 1, 2017, the Power Authority’s assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Power Authority is authorized to exercise through the Canal Corporation. The Canal Corporation is responsible for a 524-mile Canal System consisting of the Erie, Champlain, Oswego and Cayuga-Seneca canals and the terminals constructed as part of the barge canal system (the “Canal System”).

(2) Summary of Significant Accounting Policies

Significant accounting policies include the following:

(a) **Basis of Reporting**

The operations of the Power Authority and its subsidiary, the Canal Corporation, are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Accordingly, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The accounts and transactions of the Canal Corporation are included in the consolidated financial statements and notes to the consolidated financial statements. All significant transactions between the Power Authority and the Canal Corporation have been eliminated. The Power Authority and its blended component unit are referred to collectively as the “Authority” in the consolidated financial statements, except where noted.

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with Governmental Accounting Standards (GAS) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, (GAS No. 62) the Authority applies all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

(b) **Regulatory Accounting**

The Power Authority’s Board of Trustees has broad rate setting authority for its power sales agreements with customers. The sale of transmission service over the Power Authority’s facilities is provided pursuant to New York Independent System Operator (NYISO) tariffs and under contracts that pre-dated existence of the NYISO. The Power Authority files its transmission system revenue requirement with the Federal Energy Regulatory Commission (FERC) for inclusion in the NYISO’s open access tariff.

The Authority accounts for its regulated operations under the provisions of GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500. These provisions recognize the economic ability of regulators,

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through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent amounts that are collected from customers through the ratemaking process associated with costs to be incurred in future periods. Based on the action of the Board of Trustees, the Authority believes the future collection of the costs held over through regulatory assets is probable. For regulatory assets see Note 2(l) "Summary of Accounting Policies – Other Long-Term Assets" of the notes to the consolidated financial statements.

(c) Estimates

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

(d) Capital Assets

Capital assets are recorded at original cost and consist of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project prior to completion. Borrowed funds for a specific construction project are deposited in a capital fund account. Earnings on fund investments are held in this fund to be used for construction. Earnings on unexpended funds are credited to the cost of the related project (construction work in progress) until completion of that project. The costs of current repairs are charged to operating expense, and renewals and betterments are capitalized. The cost of capital assets retired less salvage is charged to accumulated depreciation. Depreciation of capital assets is generally provided on a straight-line basis over the estimated lives of the various classes of capital assets.

The related depreciation provisions at December 31, 2020 and 2019 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2020	2019
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	2.0	2.0
Transmission	1.9	1.9
General	3.8	3.9
Canal system	3.4	3.4
	2.6%	2.6%

(e) Asset Retirement and Cost of Removal Obligations

The Authority has recorded a liability at fair value to recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority determined that it had legal liabilities for the retirement of certain Small Clean Power Plants (SCPPs) in New York City and, accordingly, has recorded a liability for the retirement of these assets. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process. Accordingly, at December 31, 2020

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and 2019, the Authority has reclassified \$17 million from capital assets to deferred outflows of resources to reflect the application of GAS Statement No. 83 (GAS No. 83), *Accounting for Certain Asset Retirement Obligations*.

The Authority also applies GAS No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*, to asset retirement obligations involving pollution remediation obligations, which upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. At December 31, 2020 and 2019, the Authority had approximately \$35 million and \$25 million, respectively, of liabilities recorded under GASB 49.

In addition to asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers and accounted for under the provisions of GAS Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500. These cost of removal obligations are reflected in deferred inflows of resources in the statements of net position.

Asset retirement obligations (ARO) amounts included in other noncurrent liabilities and cost of removal obligation amounts included in deferred inflows are as follows:

	ARO amounts	Cost of removal obligation (In millions)
Balance – December 31, 2019	\$ 17	\$ 365
Depreciation Expense	–	14
Other expense	–	4
Settlements		–
Balance – December 31, 2020	\$ 17	\$ 383

(f) Long-Lived Assets

The Authority applies GAS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which states that asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.

GAS No. 42 states that asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairments.

(g) Cash, Cash Equivalents and Investments

Cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less. The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes changes in the fair value of these investments. Realized and unrealized gains and losses on investments are recognized as investment income in accordance with GAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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(h) Derivative Instruments

The Authority uses financial derivative instruments to manage the impact of energy and capacity price, fuel cost changes and interest rate when applicable, on its earnings and cash flows. The Authority recognizes the fair value of all financial derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or deferred charges. The Authority applies GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and reporting requirements for derivative instruments (see Note 8 “Risk Management and Hedging Activities” of the notes to the consolidated financial statements).

(i) Accounts Receivable

Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible amounts.

(j) Materials and Supply Inventory

Material and supplies are valued at weighted average cost and are charged to expense during the period in which the material or supplies are used.

(k) Debt Refinancing Charges

Debt refinancing charges, representing the difference between the reacquisition price and the net carrying value of the debt refinanced, are amortized using the interest method over the life of the new debt or the old debt, whichever is shorter, in accordance with GAS No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. See note 6 “Long-Term Debt” of the notes to the consolidated financial statements.

(l) Other Long-Term Assets

Other long-term assets at December 31, 2020 and 2019 consist of the following:

	December 31,	
	2020	2019
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	\$ 383	\$ 364
Other regulatory assets	33	12
Total regulatory assets	416	376
Energy efficiency program costs (b)	287	286
Other long-term receivables	438	443
Transmission line interconnection costs	220	238
Other postemployment employee benefits	168	—
Other	116	147
Total other long-term assets	<u>\$ 1,645</u>	<u>\$ 1,490</u>

(a) Regulatory assets reflect previously incurred costs that are expected to be recovered from customers through the ratemaking process.

(b) Energy efficiency program costs will be recovered from certain customers through the terms of contracts.

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In 2017, a Memorandum of Understanding was entered between the Authority and five investor-owned utility companies to provide Hurricane Relief assistance in Puerto Rico. The Authority's deployment cost associated with the assistance efforts are subject to reimbursement by the Emergency Management Assistant Compact (EMAC) program. As of December 31, 2020, the related costs are included in other long-term assets in the consolidated statements of net position.

(m) *Compensated Absences*

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The Authority has accrued \$44 million and \$35 million in other non-current liabilities at December 31, 2020 and 2019, respectively, and \$6 million at December 31, 2020 and 2019, in current liabilities on the statements of net position. The current year's cost is accounted for as a current operating expense in the statements of revenues, expenses, and changes in net position.

(n) *Net Position*

Net Position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows and is classified into three components:

- a. Net investment in capital assets – This consists of capital assets, net of depreciation reduced by related outstanding debt and accounts. This indicates that these assets are not accessible for other purposes.
- b. Restricted – This represents restricted assets reduced by related liabilities and deferred inflows of resources that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- c. Unrestricted – This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the components noted above and that are available for general use.

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

The Power Authority is a member and a customer of the New York Independent System Operator (NYISO). The NYISO schedules the use of the bulk transmission system in the State, which normally includes all the Power Authority's transmission facilities, and collects ancillary services, losses and congestion fees from customers. In addition, the Power Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State.

Based upon the Power Authority's scheduled customer power needs and available electricity generated by the Power Authority's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. A significant amount of the Power Authority's energy and capacity revenues result from sales of the Power Authority's generation into the NYISO market. A significant amount of the Power Authority's operating expenses consist of various NYISO purchased power charges in combination with generation related fuel expenses.

(p) *Operating Revenues*

The customers served by the Power Authority and the rates paid by such customers vary with the Power Authority facilities designated to serve such loads. These customers are served under contracts and tariffs approved by the Trustees.

The principal operating revenues are generated from the sale, transmission, and wheeling of power. Revenues are recorded when power is delivered or service is provided. Customers' meters are read, and bills

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are rendered, monthly. Wheeling charges are for costs the Authority incurred for the transmission and/or delivery of power and energy to customers over transmission lines owned by other utilities. Sales to the Authority's five largest customers operating in the State accounted for approximately 49% and 52% of the Authority's operating revenues in 2020 and 2019, respectively.

In addition to contractual sales to customers, the Power Authority also sells power into an electricity market operated by the NYISO. These sales are affected by market prices and are not subject to rate regulation by the Power Authority's Board of Trustees or other regulatory bodies. Accordingly, the Power Authority does not apply the provisions of GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500 to these transactions.

(q) Operating Expenses

The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. Energy costs are charged to expense as incurred.

Purchased power costs include capacity, energy and ancillary service purchases made in the wholesale market on behalf of its customers (except for those made through previously approved purchased power agreements). Wheeling expenses are based on contractual and/or tariff rates of the service provider and are recovered through pass-through provisions in customer contracts.

(r) Pension Plans

The Authority is a cost-sharing employer that participates in the New York State and Local Employees' Retirement System (NYSLERS), which is a cost-sharing multiple-employer plan in which the participating government employers pool their assets and their obligations to provide defined benefit pensions. The plan assets of this type of plan can be used to pay the pensions of the retirees of any participating employer. The amounts reported by the Authority for its proportionate share of the net pension liability, pension expense and deferred outflows and deferred inflows have been provided by the New York State and Local Employees' Retirement System to employers participating in the NYSLERS in accordance with Statement No. 68, *Accounting and Financial Reporting for Pensions*, and have been determined on the same basis as reported by the NYSLERS. See Note 10 "Pension Plans" of the notes to the consolidated financial statements.

(s) Postemployment Benefits Other Than Pensions (OPEB)

The Power Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer noncontributory (except for certain optional life insurance coverage) health care plan (Power Authority OPEB Plan). The Power Authority has an established trust for its OPEB obligations (OPEB Trust) that is separate from the Power Authority and is held by an independent custodian for the exclusive benefit of the OPEB Trust beneficiaries and not of the Power Authority. The ownership of the OPEB Trust assets are held by the independent custodian at all times and the OPEB Trust assets are not considered funds or assets of the Power Authority for any purpose. All of the OPEB Trust assets are irrevocably dedicated to, and are used for the exclusive purpose of, making payments of benefits to or for the benefit of the Power Authority OPEB Plan beneficiaries and for paying administrative expenses of the Power Authority OPEB Plan and the OPEB Trust and will not be available to any creditors of the Power Authority. The OPEB Trust does not issue a stand-alone financial report and its financial statements are reported as a fiduciary fund in the Authority's financial report.

The Power Authority's net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The actuarial valuation is performed biennially. For purposes of measuring the net OPEB liability, deferred

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outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the OPEB Trust and additions to/deductions from OPEB Trust's fiduciary net position have been determined on the same basis as they are reported by the Power Authority OPEB Plan as of the same measurement date. For this purpose, the Power Authority OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except investments that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

(t) **New Accounting Pronouncements**

GASB issued GAS Statement No. 87 (GAS No. 87), *Leases*, which was effective for reporting periods beginning after December 15, 2019 prior to issuance of (GAS No.95). GAS No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under GAS No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact of GAS No. 87 on its consolidated financial statements.

GASB issued GAS Statement No. 91 (GAS No. 91), *Conduit Debt Obligations*, which was effective for reporting periods beginning after December 15, 2020 prior to issuance of GASB Statement 95 (GAS No.95). GAS No. 91 provides a single method of reporting conduit debt obligations by issuers associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement clarifies the definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and improves required note disclosures. The Authority is evaluating the impact of GAS No. 91 on its consolidated financial statements.

In May 2020, in response to challenges arising from the COVID-19 virus, GASB issued Statement No. 95 (GAS No. 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*, in which GASB approved an 18-month postponement for Statement 87, *Leases*. In addition, GAS No. 95 postponed for one-year effective dates for all statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later. As such GAS No. 87 will be effective for reporting periods beginning after June 15, 2021 and GAS No. 91 will be effective for reporting period beginning after December 31, 2021.

GASB issued GAS Statement No.92 (GAS No. 92), *Omnibus 2020*, which originally had an effective date for reporting periods beginning after June 15, 2020. This effective date has been postponed to June 15, 2021 due to the issuance of GAS No.95. GAS No.92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The Authority is evaluating the impact of GAS No.92 on its consolidated financial statements.

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GASB issued GAS Statement No. 93 (GAS No. 93) *Replacement of Interbank Offered Rates*, which originally had an effective date for reporting periods beginning after June 15, 2020. This effective date has been postponed to June 15, 2021 due to the issuance of GAS No.95. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. GASB 93 objective is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The Authority is evaluating the impact of GAS No.93 on its consolidated financial statements.

GASB Issued GASB Statement No. 96 (GAS No. 96), *Subscription-Based Information Technology Arrangements*, which is effective for reporting periods beginning after June 15, 2022. GAS No.96 requires recognition of certain subscription assets and liabilities for Subscription-based information Technology Arrangements (SBITA) which were previously either capitalized or expensed. It establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. The Authority is evaluating the impact of GAS No.96 on its consolidated financial statements.

GASB Issued GASB Statement No. 97 (GAS No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No.14 and No.84 and superseded of GASB Statement No.32*, which is effective for reporting periods beginning after June 15, 2021. The primary objectives of this Statement are to increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board, mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans and to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The Authority is evaluating the impact of GAS No.97 on its consolidated financial statements.

(3) Bond Resolution and Related Matters

On February 24, 1998, the Authority adopted its “General Resolution Authorizing Revenue Obligations” (as amended and supplemented up to the present time, the Bond Resolution). The Bond Resolution covers all of the Authority’s projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest authorized by the Act or by other applicable State statutory provisions, provided, however, that the term “Project” shall not include any Separately Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available therefore (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

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

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

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

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

Under the hybrid revolving credit and note purchase agreement supporting the Authority's Commercial Paper Notes and Liquidity effective April 22, 2020, among the Authority, JP Morgan Chase Bank, National Association, as Administrative Agent, and sole lender thereunder (Revolving Credit Agreement), the Authority is able to borrow up to \$250 million in aggregate principal amount outstanding at any time for the repayment of the Commercial Paper Notes and/or Direct Purchase Note(s) under the agreement. In the case of an Event of Default (as defined in the Revolving Credit Agreement), the sole lender under the Revolving Credit Agreement holding 100% of the commitment thereunder will be able to: terminate their commitment; direct the Authority to cease issuing Commercial Paper Notes; and declare the principal and accrued interest on obligations under the Revolving Credit Agreement due and immediately payable.

(4) Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law.

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(a) Credit Risk

The Authority's investments are restricted to (a) authorized collateralized certificates of deposit, time deposits and money market funds, which shall not exceed 40% of the Authority's invested funds, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies, (e) Guaranteed Investment Contracts or GIC Funds issued by creditworthy insurance companies and collateralized by issuer's general or separate account assets, with no more than \$50 million invested in any one contract or fund. The Authority's investments in the senior debt securities of Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) Federal Agricultural Mortgage Corporation (FAMC) and Federal Home Loan Mortgage Corporation (FHLMC) were rated Aaa by Moody's Investors Services (Moody's), AAA by Fitch Ratings (Fitch) and AA+ by Standard & Poor's (S&P).

(b) Interest Rate Risk

Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment. The agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or \$100 million. The Authority has no other policies limiting investment maturities.

(c) Concentration of Credit Risk

There is no limit on the amount that the Power Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds and shall not exceed \$25 million from any one bank. At December 31, 2020, the Authority's total investment portfolio of \$1,488 million, excluding the Canal Development Fund, consists of investments of \$71 million (5%), \$139 million (9%), \$16 million (1%) \$51 million (3%), \$146 million (10%) and \$134 million (9%) in securities of FAMC, FHLMC, FHLB, FFCB, U.S. government and other various municipal debt securities, respectively

At December 31, 2019, the Authority's total investment portfolio of \$841 million, excluding the Canal Development Fund, consists of investments of \$222 million (26%), \$124 million (15%), \$179 million (21%) \$72 million (9%) and \$16 million (2%), \$108 (12%) in securities of FHLB, FNMA, FFCB, FHLMC, U.S. government and other various municipal debt securities, respectively.

(d) Other

All investments are held by designated custodians in the name of the Authority. The bank balances at December 31, 2020 and 2019 were \$662 million and \$32 million, respectively, of which \$661 million and \$31 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority. As of December 31, 2020, the Authority had \$52 million invested in repurchase agreements. As of December 31, 2019, the Authority had no investments in repurchase agreements.

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Cash and Investments of the Authority at December 31, 2020 and 2019 are as follows:

December 31, 2020	Total	Total restricted	Restricted			Unrestricted
			Canal Development Fund	WNYEDF, POER, projects and other	Capital fund	
				(In millions)		
Cash and investments:						
Cash and cash equivalents	\$ 947	\$ 728	\$ 16	\$ 35	\$ 677	\$ 219
U.S. government:						
U.S. Treasury bills	18	—	—	—	—	18
U.S. Treasury notes	128	—	—	—	—	128
	146	—	—	—	—	146
Other debt securities:						
FAMC	71	65	—	—	65	6
FHLMC	139	77	—	—	77	62
FHLB	16	16	—	16	—	—
FFCB	51	50	—	—	50	1
All other	134	—	—	—	—	134
	411	208	—	16	192	203
Total investments	557	208	—	16	192	349
Total cash and investments	\$ 1,504	\$ 936	\$ 16	\$ 51	\$ 869	\$ 568
Summary of maturities (years):						
0 – 1	\$ 1,116	\$ 67	\$ 16	\$ 51	\$ 679	\$ 370
1 – 5	303	—	—	—	155	148
5 – 10	35	—	—	—	35	—
10+	50	—	—	—	—	50
	\$ 1,504	\$ 67	\$ 16	\$ 51	\$ 869	\$ 568

As of December 31, 2020, restricted funds include the POER fund (\$8 million), the Lower Manhattan Energy Independence Initiative fund (\$6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing (\$13 million), the Western New York Economic Development Fund (\$8 million), the Northern New York Economic Development Fund (\$4 million) (see Note 13(a) “Commitments and Contingencies – Power Programs”), Canal Development Fund (\$16 million) and other (\$12 million).

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

December 31, 2019	Total	Total restricted	Restricted			Unrestricted
			Canal Development Fund	WNYEDF, POCR, projects and other	Capital fund	
			(In millions)			
Cash and investments:						
Cash and cash equivalents	\$ 134	\$ 68	\$ 14	\$ 38	\$ 16	\$ 66
U.S. government:						
U.S. Treasury bills	16	16	—	16	—	—
U.S. Treasury notes	—	—	—	—	—	—
	<u>16</u>	<u>16</u>	<u>—</u>	<u>16</u>	<u>—</u>	<u>—</u>
Other debt securities:						
FNMA	124	—	—	—	—	124
FHLMC	72	6	—	—	6	66
FHLB	222	—	—	—	—	222
FFCB	179	1	—	—	1	178
All other	108	3	—	—	3	105
	<u>705</u>	<u>10</u>	<u>—</u>	<u>—</u>	<u>10</u>	<u>695</u>
Total investments	<u>721</u>	<u>26</u>	<u>—</u>	<u>16</u>	<u>10</u>	<u>695</u>
Total cash and investments	<u>\$ 855</u>	<u>\$ 94</u>	<u>\$ 14</u>	<u>\$ 54</u>	<u>\$ 26</u>	<u>\$ 761</u>
Summary of maturities (years):						
0 – 1	\$ 336	\$ 68	\$ 14	\$ 54	\$ 23	\$ 245
1 – 5	497	—	—	—	3	494
5 – 10	13	—	—	—	—	13
10+	9	—	—	—	—	9
	<u>\$ 855</u>	<u>\$ 68</u>	<u>\$ 14</u>	<u>\$ 54</u>	<u>\$ 26</u>	<u>\$ 761</u>

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(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2020.

	<u>Beginning balance</u>		<u>Additions</u>		<u>Retirements/ Transfers</u>		<u>Ending balance</u>
				(In millions)			
Capital assets, not being depreciated:							
Land	\$ 193	\$	—	\$	—	\$	193
Construction in progress	738		490		(437)		791
Total capital assets not being depreciated	931		490		(437)		984
Capital assets, being depreciated:							
Production – Hydro	2,262		53		(2)		2,313
Production – Gas turbine/combined cycle	2,336		49		—		2,385
Transmission	2,366		185		—		2,551
General	1,301		120		(16)		1,405
Canal System	768		34		—		802
Total capital assets being depreciated	9,033		441		(18)		9,456
Less accumulated depreciation for:							
Production – Hydro	888		38		(2)		924
Production – Gas turbine/combined cycle	1,296		85		—		1,381
Transmission	1,331		40		—		1,371
General	456		52		(16)		492
Canal System	210		30		—		240
Total accumulated depreciation	4,181		245		(18)		4,408
Net value of capital assets, being depreciated	4,852		196		—		5,048
Net value of all capital assets	\$ 5,783	\$	686	\$	(437)	\$	6,032

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending balance</u>
	(In millions)			
Capital assets, not being depreciated:				
Land	\$ 193	\$ —	\$ —	\$ 193
Construction in progress	703	506	(471)	738
Total capital assets not being depreciated	896	506	(471)	931
Capital assets, being depreciated:				
Production – Hydro	2,114	160	(12)	2,262
Production – Gas turbine/combined cycle	2,386	17	(67)	2,336
Transmission	2,228	151	(13)	2,366
General	1,198	111	(8)	1,301
Canal System	723	45	—	768
Total capital assets being depreciated	8,649	484	(100)	9,033
Less accumulated depreciation for:				
Production – Hydro	862	38	(12)	888
Production – Gas turbine/combined cycle	1,260	86	(50)	1,296
Transmission	1,304	40	(13)	1,331
General	413	49	(6)	456
Canal System	187	25	(2)	210
Total accumulated depreciation	4,026	238	(83)	4,181
Net value of capital assets, being depreciated	4,623	246	(17)	4,852
Net value of all capital assets	\$ 5,519	\$ 752	\$ (488)	\$ 5,783

Wind Farm Transmission Assets

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

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(6) Long-Term Debt

a. Components

	<u>Amount</u>		<u>Interest rate (a)</u>	<u>Maturity</u>		<u>Earliest redemption date prior to maturity</u>
	<u>2020</u>	<u>2019</u>				
	(In millions)					
Senior debt:						
Revenue Bonds (Tax-Exempt):						
Series 2011A Revenue (b), (c)						
Bonds:						
Serial Bonds	—	57	N/A	N/A		N/A
Term Bonds	—	39	N/A	N/A		N/A
Series 2015A Revenue (b)						
Bonds:						
Serial Bonds	—	15	N/A	N/A		N/A
Series 2020A Revenue						
Bonds:						
Serial Bonds	1,121	—	3.25% to 4.00%	11/15/2045 - 2060	**	5/15/2030
Revenue Bonds (Taxable):*						
Series 2003A Revenue						
Bonds:						
Term Bonds	117	149	5.649% to 5.749%	11/15/2020 to 2033	**	Any date
Series 2007B Revenue (b)						
Bonds:						
Term Bonds	210	231	5.905% to 5.985%	11/15/2037 and 2043	**	Any date
Series 2020B Revenue						
Bonds:						
Term Bonds	114	—	2.818%	11/15/2039	**	Any date
	1,562	491				
Plus unamortized premium and discount	67	9				
Less deferred refinancing costs	—	5				
	1,629	495				
Less due in one year	—	30				
Long-term senior debt, net of due in one year	\$ 1,629	\$ 465				

(a) interest rate at issuance

(b) Principal due in: 2020-2023 of Series 2007B of \$20 million, 2020 of Series 2015A of \$15 million and 2020-2023 of Series 2011A of \$33 million defeased in May 2020.

(c) Principal due 2024-2038 of Series 2011A of \$63 million defeased in December 2020.

* All outstanding term bonds are subject to Make-Whole Call provisions

** Bonds are subject to sinking fund provisions.

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	<u>Amount</u>		<u>Interest rate (a)</u>	<u>Maturity</u>	<u>Earliest redemption date prior to maturity</u>
	<u>2020</u>	<u>2019</u>			
	(In millions)				
Subordinate debt:					
Subordinated Notes, Series 2017	\$ 22	\$ 23	2.61% to 4.27%	2022 to 2041	Any date
Subordinated Notes, Series 2012	19	20	2.50% to 4.05%	2019 to 2037	Any date
Commercial Paper:					
EMCP (Series 1)	5	5	1.41%	2021	
	46	48			
Less due within one year	1	1			
	45	47			
Total Long-term debt	1,675	543			
Less due within one year	1	31			
Long-term debt, net of due in one year	\$ 1,674	\$ 512			

(a) interest rate at issuance

Interest on Series 2003A, 2007B and 2020B Revenue Bonds and Subordinated Notes, Series 2012 and Subordinated Notes, Series 2017 is not excluded from gross income for bondholders' Federal income tax purposes.

The Revenue Bonds outstanding at December 31, 2020 have an average interest rate of 4.24% and mature through 2060. The Revenue Bonds outstanding at December 31, 2019 had an average interest rate of 5.27% and mature through 2041.

In May 2020, the Authority's Trustees authorized the issuance of \$1.235 billion of Revenue Bonds consisting of \$1.121 billion tax-exempt Series 2020A Revenue Bonds and \$114.1 million of taxable Series 2020B Revenue Bonds for the purpose of refunding certain revenue bonds and commercial paper and funding on-going and future construction projects. The proceeds from the issuance of the 2020 Bonds were used to (i) redeem \$32 million of the Authority's Series 2003A Revenue Bonds and a redemption premium of \$3 million; (ii) defease \$68 million in aggregate principal of the Authority's Series 2011A and 2015A and certain 2007B Revenue Bonds by placing the net proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds; (iii) refund \$156 million of commercial paper, which was issued to refund \$156 million of its Series 2007A and Series 2007C Revenue Bonds in December 2019; and (iv) pay financing and other costs relating to the issuance of the 2020A and B Revenue 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, 2020.

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In December 2020, the Authority issued Commercial Paper to refund \$66 million of its 2011A Revenue Bond Senior Debt.

As indicated in Note 3 “Bond Resolution and Related Matters” of notes to the consolidated financial statements, the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. The total principal and interest remaining to be paid on the Senior Debt is \$3.2 billion as of December 31, 2020. Principal and interest paid for 2020 and operating income plus depreciation were \$283 million and \$339 million, respectively. Principal and interest paid for 2019 and operating income plus depreciation were \$104 million and \$362 million, respectively.

Senior revenue bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated in the table above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

At December 31, 2020 and 2019, the current market value of the senior debt was approximately \$2.1 billion and \$632.8 million, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt:

Subordinate Notes – In November 2016, the Authority’s Trustees authorized the issuance of Subordinated Notes, Series 2017 (Subordinated Notes, Series 2017) in a principal amount not to exceed \$30 million to accelerate additional funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation in connection with the Niagara Project’s relicensing. The Authority issued the subordinate notes on February 24, 2017 in the amount of \$25.2 million. These Subordinated Notes are subordinate to the Series 2003A Revenue Bonds, the Series 2007B, and the Series 2020A and 2020B Revenue Bonds.

In November 2012, the Authority’s Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes, Series 2012), in a principal amount not to exceed \$30 million for the purpose of accelerating the funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation. The Authority issued the Subordinated Notes on December 18, 2012 in the amount of \$25 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007B, and Revenue Bonds, and the Series 2020A and 2020B Revenue Bonds.

Commercial Paper – Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of \$200 million (EMCP Notes). It is the Authority’s intent to remarket the EMCP Notes as they mature with their ultimate retirement in 2021. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of \$400 million (Series 1 CP Notes), \$450 million (Series 2 CP Notes), \$350 million (Series 3 CP Notes) and \$220 million (Series 4 CP Notes). See Note 7 of the notes to the financial statements for Series 1, and certain Series 2 and Series 3 CP Notes designated as short-term debt. There were no Series 4 CP Notes outstanding at December 31, 2020.

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The proceeds of certain Series 2 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and the proceeds of the EMCP Notes were used to refund Series 2 and 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the EMCP Notes as they mature.

The Authority has a line of credit under a 2019 revolving credit agreement (the 2019 RCA), with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to \$700 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1-3 CP Notes. The 2019 RCA expires January 14, 2022. The 2019 RCA succeeded the amended 2015 RCA, which expired by its terms on January 18, 2019 with no outstanding borrowings. There are no outstanding borrowings under the 2019 RCA.

The Authority entered into a hybrid revolving line of credit with a single bank on April 22, 2020 under an agreement (the 2020 RCA) to provide liquidity support for the Series 3 and Series 4 CP Notes and/or to borrow directly. The Authority may borrow up to \$250 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of Commercial Paper or for general corporate purposes. The 2020 RCA expires April 21, 2021. There are no outstanding borrowings under the 2020 RCA.

CP Notes and EMCP Notes are subordinate to the Series 2003A Revenue Bonds, the Series 2007B, the Series 2020A and 2020B Revenue Bonds.

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

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

Maturities and Interest Expense:	Long-Term Debt			Capitalized Lease Obligations		
	(In millions)			(In millions)		
	Principal	Interest	Total	Principal	Interest	Total
Years ending December 31:						
2021	\$ 5	\$ 68	\$ 73	\$ 50	\$ 81	\$ 131
2022	2	68	70	58	77	135
2023	2	68	70	66	72	138
2024	17	68	85	76	66	142
2025	17	67	84	86	60	146
2026 – 2030	102	320	422	616	169	785
2031 – 2035	135	288	423	82	2	84
2036 – 2040	193	255	448	—	—	—
2041 – 2045	243	207	450	—	—	—
2046-2050	892	277	1,169	—	—	—
	1,608	1,686	3,294	1,034	527	1,561
Plus unamortized bond premium	67	—	67	—	—	—
Less deferred refinancing cost	—	—	—	—	—	—
Total	\$ 1,675	\$ 1,686	\$ 3,361	\$ 1,034	\$ 527	\$ 1,561

In 2008, the Authority entered into a long-term power supply contract with Astoria Energy II LLC for the purchase of all the output of Astoria Energy II, a new 550-MW plant, which entered into commercial operation on July 1, 2011 in Astoria, Queens. The delivery period under the contract is through 2031. The Authority entered into a separate contract with its' New York City Governmental Customers to purchase the output of

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Astoria Energy II and is coterminous with the power purchase agreement with Astoria Energy II LLC. All net costs of the Authority under the power purchase agreement with Astoria Energy II LLC pass through to the New York City Governmental Customers for the full term of the power purchase agreement. See note 13(b) “Commitments and Contingencies – Governmental Customers in the New York City Metropolitan Area” of the notes to the consolidated financial statements.

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

CP Notes and EMCP Notes (Long-Term Portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the notes at par in the Dealer’s opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be the higher of (SIFMA + E) or F, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where “E” and “F” are fixed percentage rates expressed in basis points (each basis point being 1/100 of one percent) and yields, respectively, that are determined based on the Authority’s debt ratings subject to a cap rate of 12%. As of December 31, 2020, the reset rate would have been 7.09%.

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c. Changes in Noncurrent Liabilities

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2020 are comprised of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities/ refundings and other</u> (In millions)	<u>Ending balance</u>	<u>Due within one year</u>
Senior debt:					
Revenue bonds	\$ 491	\$ 1,235	\$ 164	\$ 1,562	\$ —
Subtotal	<u>491</u>	<u>1,235</u>	<u>164</u>	<u>1,562</u>	<u>—</u>
Subordinate debt:					
Subordinated Notes, Series 2017	23	—	1	22	1
Subordinated Notes, Series 2012	20	—	1	19	—
Commercial paper	<u>5</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>—</u>
Subtotal	<u>48</u>	<u>—</u>	<u>2</u>	<u>46</u>	<u>1</u>
Net unamortized discounts/ premiums and deferred losses	<u>4</u>	<u>67</u>	<u>4</u>	<u>67</u>	<u>—</u>
Total debt, net of unamortized discounts/ premiums/ deferred losses	<u>\$ 543</u>	<u>\$ 1,302</u>	<u>\$ 170</u>	<u>\$ 1,675</u>	<u>\$ 1</u>
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,034	\$ —	\$ 50	984	\$ —
Disposal of nuclear fuel	228	1	—	229	—
Relicensing	256	15	20	251	—
Other	<u>426</u>	<u>126</u>	<u>—</u>	<u>\$ 552</u>	<u>\$ —</u>
Total other noncurrent liabilities	<u>\$ 1,944</u>	<u>\$ 142</u>	<u>\$ 70</u>	<u>\$ 2,016</u>	<u>\$ —</u>

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Changes in the Authority's long-term liabilities for the year ended December 31, 2019 are comprised of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities/ refundings and other</u> (In millions)	<u>Ending balance</u>	<u>Due within one year</u>
Senior debt:					
Revenue bonds	\$ 710	\$ —	\$ 219	\$ 491	\$ 30
Subtotal	<u>710</u>	<u>—</u>	<u>219</u>	<u>491</u>	<u>30</u>
Subordinate debt:					
Subordinated Notes, Series 2017	24	—	1	23	—
Subordinated Notes, Series 2012	20	—	—	20	1
Commercial paper	<u>5</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>—</u>
Subtotal	<u>49</u>	<u>—</u>	<u>1</u>	<u>48</u>	<u>1</u>
Net unamortized discounts/ premiums and deferred losses	<u>6</u>	<u>—</u>	<u>2</u>	<u>4</u>	<u>—</u>
Total debt, net of unamortized discounts/ premiums/ deferred losses	<u>\$ 765</u>	<u>\$ —</u>	<u>\$ 222</u>	<u>\$ 543</u>	<u>\$ 31</u>
Other noncurrent liabilities:					
Capitalized lease obligation	\$ 1,077	\$ —	\$ 43	1,034	\$ 43
Disposal of nuclear fuel	223	5	—	228	—
Relicensing	244	37	25	256	—
Other	<u>386</u>	<u>34</u>	<u>—</u>	<u>426</u>	<u>—</u>
Total other noncurrent liabilities	<u>\$ 1,930</u>	<u>\$ 76</u>	<u>\$ 68</u>	<u>\$ 1,944</u>	<u>\$ 43</u>

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(7) Short-Term Debt

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

		December 31,			
		2020		2019	
		Authorized	Outstanding	Authorized	Outstanding
(In millions)					
CP Notes (Series 1)	\$	400	\$ 139	\$ 400	\$ 309
CP Notes (Series 2)		450	288	450	217
CP Notes (Series 3)		350	75	350	166

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue up to a maximum amount outstanding at any time of \$400 million (Series 1 CP Notes), \$450 million (Series 2 CP Notes), \$350 million (Series 3 CP Notes) and \$220 million (Series 4 CP Notes). It had been and shall be the intent of the Authority to use the proceeds of the Series 1 CP Notes and certain Series 2 and Series 3 CP Notes to finance the Authority's current and future energy efficiency programs and for other corporate purposes. In 2020, the Authority issued Series 3 CP Notes of approximately \$66 million to defease the then outstanding 2011A Revenue Bonds. In December 2019, the Authority issued Series 3 CP Notes to refund \$156 million of its Series 2007A and Series 2007C Revenue Bond.

The changes in short-term debt are as follows:

	Beginning balance	Increases	Decreases	Ending balance
	(In millions)			
Year:				
2020	\$ 692	220	410	\$ 502
2019	\$ 526	294	128	\$ 692

(8) Risk Management and Hedging Activities

Overview

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance protects the various real and personal property owned by the Authority and the property of others while in its care, custody and control for which it may be held liable. Liability insurance protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and its officers and directors. Cyber liability insurance protects the Authority against first- and third-party losses. Insured losses by the Authority did not exceed coverage for any of the four preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage, the physical damage claims for its owned and leased vehicles and for portions of its medical, dental and workers' compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

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Another aspect of the Authority's risk management program is to manage risk and related volatility on its earnings and cash flows associated with interest rates, electric energy prices, fuel prices and electric capacity prices. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate potential adverse effects and to moderate cost impacts to its customers (certain of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks by utilizing financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; risk related to the price of energy and related products sold by the Authority; risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and the geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity, congestion costs associated with the transmission of electricity and aluminum.

To achieve the Authority's risk management program objectives, the Authority's Trustees have authorized the use of various interest rate, energy, fuel and certain non-energy commodity derivative instruments for hedging purposes that are considered derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the statements of net position as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred outflows or inflows on the statements of net position. The fair value for over-the-counter and exchange-traded energy, capacity and non-energy commodity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding energy derivative instrument using the prices published by Standard & Poor's Global Platt's ("Platts"), market sources and/or internal pricing models.

Derivative Instruments

The following table shows the fair value of outstanding derivative instruments for 2020 and 2019:

Derivative instrument description	Fair value balance December 31, 2019	Net change in fair value	Fair value balance December 31, 2020 (\$ in millions)	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2020	Unit of Measure
Energy swaps/futures (sales)	\$ 5	\$ (3)	\$ 2	Cash Flow	Deferred outflow	(14,655,019)	MWh
Energy swaps (purchases)	(1)	1	—	Cash Flow	Deferred inflow	—	MWh
Energy capacity futures	—	(13)	(13)	Cash Flow	Deferred outflow	(17,285,000)	KWm
Totals	<u>\$ 4</u>	<u>\$ (15)</u>	<u>\$ (11)</u>				

Energy swaps and futures—The Authority sells energy swaps and futures to manage the revenue stream from forecasted merchant hydro generation through 2024. Net settlement receipts were \$19.3 million and \$5.8 million in 2020 and 2019, respectively.

The Authority purchases energy swaps to manage the cost of energy for the benefit of its NYC Governmental Customers. Net settlement- payments in 2020 were \$4.0 million. There were no settlements in 2019.

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Energy capacity futures – The Authority sells forward installed capacity futures intended to mitigate the volatility of market prices for transactions in the NYISO markets through 2024. Net settlement receipts were \$1.0 million and \$0.7 million in 2020 and 2019, respectively.

Non-energy commodities swaps – During 2020, the Authority sold certain non-energy commodities swap to mitigate volatilities of specific commodity market prices effecting rates in certain customers' energy supply contracts through 2021. Net settlement receipts were \$2.5 million in 2020. There was no activity 2019.

Natural gas swaps – During 2020, the Authority purchased natural gas swaps to mitigate the volatility of market prices for fuel to operate certain electrical generation facilities in 2020. Net settlements payments were \$0.6 million in 2020.

Other – The Authority from time to time enters into certain derivative instruments that may become ineffective due to changes in the hedged item. The change in fair value of such derivative instruments would be recognized as other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. In 2020 and 2019, all derivative instruments were determined to be effective.

Counterparty Credit Risk

The Authority imposes thresholds, based upon agency-published credit ratings and/or analysis, for unsecured credit that can be extended to counterparties to the Authority's commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty's credit ratings and financial ratios and the Authority can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of December 31, 2020, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

Other Considerations

The Authority from time to time may be exposed to any of the following risks:

Basis risk – The Authority is exposed to other basis risk in a portion of its electrical commodity-based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may be exposed to risk as a result of the hedging inability of the electrical commodity swaps to offset the delivery price of the related energy.

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

Termination risk – The Authority or its counterparties may terminate a derivative instrument agreement if either party fails to perform under the terms of the agreement. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right to terminate only as a result of certain events, which includes a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; bankruptcy or insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination the Authority has a liability position related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market access risk – The Authority remarkets its CP Notes on a continuous basis. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate

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this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support the CP Note programs. See Note 6 “Long-Term Debt” of the notes to the consolidated financial statements.

Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) which was enacted into law addresses, among other things, interest rate and energy related commodity swap transactions of the type in which the Authority engages. The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). Pursuant to CFTC rules, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, is exempted from posting collateral beyond that of any existing credit support annexes in support of its open over-the-counter hedge positions. These CFTC rules are not anticipated to have significant impact on the Authority’s liquidity and/or future risk mitigation activities. CFTC DF Act rules are continually being reviewed for updates and the Authority will continue to monitor their potential impact on the Authority’s liquidity and/or future risk mitigation activities.

(9) Fair Value Measurements

GAS No. 72 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity’s assumptions about how market participants would value the financial instrument.

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

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

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

The following describes the valuation methodologies used by the Authority for assets and liabilities measured at fair value:

- U.S. government obligations – The fair value is based on institutional bond quotes and evaluations based on various market data/inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs.

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- Corporate obligations – The fair value is based on institutional bond quotes and evaluations on various market and industry inputs.
- Derivative instruments – The Authority hedges market risks through the use of derivative instruments. Derivative instruments are traded on both exchange-based and non-exchange based markets. A detail disclosure on derivatives is included in Note 8 “Risk Management and Hedging Activities” of notes to the consolidated financial statements.
 - The fair values for over-the-counter and exchange-traded energy, derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using prices published by Platts.
 - The fair value for capacity derivative instruments is based on internal pricing models which develop a demand curve for the NYISO monthly spot market capacity auctions. Capacity reference points are observed from the NYISO filing with FERC. Peak load forecast are observed in the NYISO’s Gold Book and NYPSC’s publications.

The following tables summarize the Authority’s outstanding assets and liabilities, of which there are no Level 3, within the fair value hierarchy at December 31, 2020 and December 31, 2019:

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<u>December 31, 2020</u>	<u>Fair Value Measurements</u> (in millions)			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 947	\$ 947	\$ -	\$ -
Treasury bills	18	18	-	-
Treasury notes	128	128	-	-
Federal Agency securities:				
FAMC	71	-	71	-
FHLMC	139	-	139	-
FHLB	16	-	16	-
FFCB	51	-	51	-
Municipal Bonds	131	-	131	-
All other	3	3	-	-
Total cash and investments at fair value	<u>1,504</u>	<u>1,096</u>	<u>408</u>	<u>-</u>
Derivative instruments:(a)				
Energy capacity futures	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>
Total derivative assets at fair value	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>
Total assets at fair value	\$ <u>1,506</u>	\$ <u>1,096</u>	\$ <u>410</u>	\$ <u>-</u>
<u>Liabilities</u>				
Derivative instruments:(a)				
Energy capacity futures	\$ <u>13</u>	\$ <u>-</u>	\$ <u>13</u>	\$ <u>-</u>
Total derivative liabilities at fair value	<u>13</u>	<u>-</u>	<u>13</u>	<u>-</u>
Total liabilities at fair value	\$ <u>13</u>	\$ <u>-</u>	\$ <u>13</u>	\$ <u>-</u>

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

(a) The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At December 31, 2020 and 2019, the Authority determined that nonperformance risk would have no material impact on the financial position or results of operations.

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(10) Pension Plans

General Information

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (NYSLERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing multiple-employer defined benefit retirement plans.

The NYSLERS uses a tier concept to distinguish membership classes (i.e. tiers 1 through 6) with tier membership based on the date an employee joins the System. The ERS is non-contributory for tiers 1 and 2 employees who joined the NYSLERS on or prior to July 27, 1976. Tiers 3 and 4 employees, who joined the NYSLERS between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Tier 5 employees who joined the NYSLERS on or after January 1, 2010 contribute 3% of their salary during their entire length of service. Tier 6 employees who joined the NYSLERS on or after April 1, 2013 contribute 3% of their salary through March 31, 2013 and up to 6% thereafter, based on their annual salary, during their entire length of service. Members become vested in the plan after ten years of service and generally are eligible to receive benefits at age 55. The benefit is generally 1.67% of final average salary (FAS) times the number of years of service, for members who retire with less than 20 years of service, and 2% of FAS for members who retire with 20 or more years of service. The NYSLERS provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

The NYSLERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the NYSLERS and the Plan, and for the custody and control of their funds. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

The Authority is required to contribute at an actuarially determined rate. The average contribution rate relative to payroll for the NYSLERS fiscal year ended March 31, 2020 was 15%. The average contribution rates relative to payroll for the NYSLERS fiscal years ending March 31, 2021 and 2022 have been set at approximately 15% and 16%, respectively. The required contributions for 2020 was \$30 million and \$29 million for 2019. The Authority's contributions to the NYSLERS were equal to 100% of the required contributions for each year.

The NYSLERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244 or may be found on the internet at www.osc.state.ny.us/retire/publications/index.php.

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

At December 31, 2020, the Authority reported a liability of \$203 million for its proportionate share of the net pension liability. The NYSLERS total pension liability, which was used to calculate the NYSLERS net pension liability, was determined by the NYSLERS actuarial valuation as of March 31, 2020 (measurement date). The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At March 31, 2020, the Authority's proportion percentage (0.671%) of the net pension liability remained the same as its proportion measured as of March 31, 2019 (0.671%). The Canal Corporation's proportionate share was 0.097% at March 31, 2020 and 0.083% at March 31, 2019.

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For the year ended December 31, 2020 and 2019, the Authority recognized pension expense of \$69 million and \$35 million, respectively. At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	(In millions)	
Difference between expected and actual experience	\$ 12	\$ –
Net difference between projected and actual earnings on investments	103	–
Change of assumptions	5	4
Net difference between employer contributions and proportionate share of contributions	4	3
Employer contributions subsequent to the measurement date	30	–
Total	<u>\$ 154</u>	<u>\$ 7</u>

The \$30 million reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in millions):

Year ending December 31,	
2021	\$ 20
2022	30
2023	38
2024	30
Total	<u>\$ 118</u>

Actuarial Assumptions

The NYSLERS total pension liability at March 31, 2020 was determined by using the NYSLERS actuarial valuation as of April 1, 2019 with updated procedures to roll forward the NYSLERS total pension liability to March 31, 2020. The following actuarial assumptions were used for the April 1, 2019 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.5%
Salary increases:	4.2% annually
Investment rate of return:	6.8% compounded annually, net of investment
Cost of living adjustments:	1.3 % annually

The NYSLERS Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 NYSLERS experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2018.

The NYSLERS long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce

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the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Long-Term Expected Rate of Return

Asset Type	Target Allocation	Long-term Expected Real Rate
Domestic Equity	36%	4.05%
International Equity	14	6.15
Private Equity	10	6.75
Real Estate	10	4.95
Absolute Return	2	3.25
Opportunistic Portfolio	3	4.65
Real Asset	3	5.95
Bonds and Mortgages	17	0.75
Cash	1	0.00
Inflation Indexed Bonds	4	0.50
	100%	

Discount Rate

The discount rate used to calculate the total pension liability was 6.8%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the NYSLERS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.8 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.8 percent) or one percentage point higher (7.8 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Assumption</u>	<u>1% Increase</u>
Discount rate	5.8%	6.8%	7.8%
The Authority's proportionate share of the net pension liability (asset)	\$ 373 million	\$ 203 million	\$ (47) million

The NYSLERS actuary has not recommended any future changes to the actuarial assumptions used in the NYSLERS August 2020 actuarial valuation report.

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

(a) Power Authority

The Power Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer noncontributory (except for certain optional life insurance coverage) health care plan (Power Authority OPEB Plan). Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or dies while working at the Power Authority. Salaried employees hired after December 31, 2015 and IBEW employees hired after October 15, 2015, become eligible after 15 years of service. In addition, they will be required to contribute 50% of the active plan contribution.

The Power Authority has an established trust for OPEB obligations (OPEB Trust), with the trust to be held by an independent custodian. Plan members are not required to contribute to the OPEB Trust. The OPEB Trust is set-up to pay for the exclusive benefit of the OPEB Trust plan participants. The funding of the Power Authority's OPEB Trust is at the discretion of management. Changes to the Power Authority OPEB Plan or OPEB Trust agreement are approved by the Board of Trustees. The Power Authority made contributions on a pay-as you go basis in 2020 and 2019 and did not contribute any amount beyond these contributions to the OPEB Trust.

As of the December 31, 2020, the following current and former employees were covered by the benefit terms, under the Plan. It is assumed that 100% of future retirees who meet the eligibility requirements will participate in the OPEB plan.

Active employees	1,789
Inactive employees and beneficiaries, receiving and or entitled to benefits	<u>2,798</u>
Total	<u>4,587</u>

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

For the year ended December 31, 2020, the Authority recognized OPEB expense credit of \$(8.9) million. At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In millions)	
Differences between expected and actual experience	\$ 2	\$ —
Changes in assumptions	—	60
Differences between projected & actual investment earnings	46	87
Employer contributions subsequent to the measurement date	25	—
Total	<u>\$ 73</u>	<u>\$ 147</u>

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

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Year ending December 31,	(In millions)
2021	\$ (23)
2022	(23)
2023	(13)
2024	(40)
	<u>\$ (99)</u>

Net OPEB Liability

The Authority's net OPEB liability (asset) was measured as of December 31, 2019 based on valuation results as of that date. The Authority's net OPEB asset of \$169 million is recorded in miscellaneous receivables in current assets, respectively, in the Authority's consolidated statements of net position.

The following table shows the components of the Authority's changes in its total OPEB liability, the OPEB fiduciary net position, and the net OPEB (asset) during the measurement period ending December 31, 2019.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB (Asset)
	Increase (Decrease) (In millions)		
Balance – beginning of year	\$ 560	\$ 565	\$ (5)
Service Cost	13	–	13
Interest	39	–	39
Differences between expected and actual experience	2	–	2
Changes of Assumptions	(72)	–	(72)
Contributions – employer	–	25	(25)
Net investment income	–	123	(123)
Benefit payments	(25)	(25)	–
Administrative expense	–	(2)	2
Net changes	<u>(43)</u>	<u>121</u>	<u>(164)</u>
Balance – end of year	<u>\$ 517</u>	<u>\$ 686</u>	<u>\$ (169)</u>

The components of the net OPEB asset at December 31, 2020, were as follows (in millions):

Total OPEB liability	\$ 542
Plan fiduciary net position	(728)
Net OPEB (Asset)	<u>\$ (186)</u>

Plan fiduciary net position as a percentage of the total OPEB liability 134%

Actuarial Assumptions

The total OPEB liability in the December 31, 2019 biennial actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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Investment rate of return:	7.00%
Healthcare Cost Trend Rates:	Pre-Medicare - 7.0 percent for 2020, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent for 2025 and later years. Post-Medicare – 4.9 percent for 2020, decreasing to an ultimate rate of 4.5 percent for 2025. Prescription drugs (Rx) – 7 percent for 2020, decreasing to an ultimate rate of 4.5 percent for 2025.
Salary increases:	Varies by service, average of 8.0 percent for first year of service, 4.5 percent for 5 years of service, 3.8 percent for 10 years of service, 3.3 percent for 15 years of service, and 3.0 percent for 20 years or more of service.
Mortality:	The General Pub-2010 headcount weighted tables were used for active employees and healthy retirees and dependents, while the corresponding Contingent Survivor mortality tables were used for current surviving spouses and the corresponding Disabled Retiree mortality tables were used for disabled participants. To project mortality improvement for years after 2010, the MP-2019 Projection Scale is applied on a fully generational basis to the base rates.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates (expected returns net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Type	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	37 %	6.8 %
International Equity	24	7.5
Fixed Income	30	3.3
Real Estate	6	6.5
Cash	3	2.4
Total	<u>100 %</u>	

Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 6.53 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to calculate the total OPEB liability was 7.0%, the long-term rate of return on the OPEB Trust assets. The projection of cash flows used to determine the discount rate assumed that NYPA will contribute at a rate equal to the average of contributions made over the most recent five-year period (2013 through 2017), and that contributions apply first to service cost of current and future plan members

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and then to past service costs. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees for the foreseeable future.

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

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

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB Liability / (Asset)	\$ (100) million	\$ (169) million	\$ (225) million

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

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

	1% Decrease	Current Healthcare Trend Rate	1% Increase
Net OPEB Liability / (Asset)	\$ (225) million	\$ (169) million	\$ (99) million

(b) Canal Corporation

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

To be eligible an employee must (1) retire as a member of Canal Corporation, or be at least 55 years old at time of termination; (2) be enrolled in the NYSHIP on date of retirement; and (3) complete at least 5 years of service for the retiree and dependent to have coverage while the employee is living. Ten years of service are needed for continued dependent coverage upon death of the employee. The Plan currently pays a portion of the medical premium cost for retired employees and covered dependents. Additionally, the Plan reimburses retirees and covered dependents for their Medicare Part B premiums.

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

Active employees, including opt-out (actives not in medical plan)	397
Inactive employees and beneficiaries, receiving and or entitled to benefits	<u>524</u>
Total	<u>921</u>

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

The Authority's consolidated financial statements include the Canal Corporation's OPEB costs of \$9.0 million, for the year ended December 31, 2020. In addition, the Authority's consolidated statements include the Canal Corporations deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	(in millions)	
Differences between expected & actual experience	\$ —	\$ 6
Changes in assumptions	8	35
Employer contributions subsequent to the measurement date	7	—
Total	<u>\$ 15</u>	<u>\$ 41</u>

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

<u>Year ending December 31,</u>	<u>(in millions)</u>
2021	\$ (7)
2022	(7)
2023	(11)
2024	(8)
	<u>\$ (33)</u>

Total OPEB Liability

The Canal Corporation's total OPEB liability was measured as of December 31, 2019, based on a no gain or loss rollforward of the May 1, 2020 valuation. The Canal Corporation's total OPEB liability is recorded in the Authority's consolidated statements of net position in other long-term liabilities in the amount of \$226 million.

The following table shows the components of the Canal Corporation's changes in its total OPEB liability during the measurement period ending December 31, 2019.

<u>Total OPEB Liability</u>
Increase (Decrease)
(in millions)

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Balance – beginning of year	\$ 226
Changes for the year:	
Service cost	8
Interest	8
Changes of benefit terms	–
Differences between expected & actual experience	(8)
Changes of assumptions	(30)
Benefit payments	(6)
Net Changes in Total OPEB Liability	(28)
Balance – end of year	\$ 198

Actuarial Assumptions

The total OPEB liability in the December 31, 2019 biennial actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Healthcare Cost Trend Rates:	Pre-Medicare - 5.75 percent for 2020, decreasing to an ultimate rate of 4.5 percent for 2026 and later years. Post-Medicare – 4.9 percent for 2020, decreasing to an ultimate rate of 4.5 percent for 2025. Prescription drugs (Rx) – 7.0 percent for 2020, decreasing to an ultimate rate of 4.5 percent for 2025.
Salary increases:	Varies by service, 8.0 percent for first year of service, 4.5 percent for 5 years of service, 3.8 percent for 10 years of service, 3.3 percent for 15 years of service, and 3.0 percent for 20 years or more of service.
Mortality:	The General Pub-2010 headcount weighted tables were used for active employees and healthy retirees and dependents, while the corresponding Contingent Survivor mortality tables were used for current surviving spouses and the corresponding Disabled Retiree mortality tables were used for disabled participants. To project mortality improvement for years after 2010, the MP-2019 Projection Scale is applied on a fully- generational basis to the base rates.

Discount Rate

The discount rate at the measurement date used to calculate the total OPEB liability is 3.26%. The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2019. Benefit payments are funded on a pay-as-you go basis. The discount rate at the previous measurement date is 3.64% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

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

Changes in the discount rate affect the measurement of the total OPEB liability. The following table depicts the Canal Corporation' Total OPEB liability, as well as the sensitivity of using a discount rate that is 1

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percentage point lower (2.26 percent) or 1 percentage point higher (4.26 percent) than the current discount rate:

	1% Decrease (2.26%)	Current Discount Rate (3.26%)	1% Increase (4.26%)
Total OPEB Liability	\$ 232 million	\$ 198 million	\$ 170 million

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

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

	1% Decrease	Current Healthcare Trend Rate	1% Increase
Total OPEB Liability	\$ 169 million	\$ 198 million	\$ 234 million

Amendment to the Authority's OPEB Trust

Prior to 2021, an OPEB Trust was established to pay benefits for those covered under the Authority's OPEB Plan. The Canal Retiree Health Plan operated on a pay-as-you-go basis, as no OPEB Trust existed for this plan. Effective January 2021, the Board approved an amendment to the Authority's OPEB Trust allowing the trust to be used to pay benefits for both the Authority's OPEB Plan and the Canal Retiree Health Plan. This change has been reflected as of the December 31, 2020 measurement date for Fiscal Year 2021 reporting, with both plans being accounted for as a single plan under GASB 75. The trust amendment resulted in an increase in the discount rate used for the Canal Plan liabilities to 7.00% as of the December 31, 2020 measurement date; if this change had not occurred, a rate of 1.93% would have been selected.

(c) Deferred Compensation and Savings Plans

The Power Authority offers union employees and salaried employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

The Power Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Power Authority matches contributions of employees up to limits specified in the plan. Matching annual contributions were approximately \$4.1 million and \$3.5 million for 2020 and 2019, respectively.

Both the deferred compensation plan and the savings plan have a loan feature.

Independent trustees are responsible for the administration of the 457 and 401(k) plan assets under the direction of a committee of union representatives and nonunion employees and a committee of nonunion employees, respectively. Various investment options are offered to employees in each plan. Employees are responsible for making the investment decisions relating to their savings plans.

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(12) Nuclear Plant Divestiture and Related Matters

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

In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Power Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Power Authority's contract with the DOE was assigned to Entergy. Entergy assigned the portion of the pre-1983 spent fuel obligation applicable to JAF to Exelon in connection with the sale of JAF to Exelon. The Power Authority remains liable for the pre-1983 spent fuel obligation to Exelon for JAF and to Entergy for IP3 (see Note 13(e) "Commitments and Contingencies – New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2020 and 2019, the pre-1983 spent fuel liability for JAF and IP3 totaled \$229 million and \$228 million, respectively.

(13) Commitments and Contingencies

(a) Power Programs

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of \$100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, \$70 million for the fourth year, \$50 million for the fifth year, and \$30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total \$594 million for the period from August 2011 to December 2020 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2020 totaling approximately \$60 million. Operations and maintenance expenses included \$30 million of residential consumer discounts in each year ended December 31, 2020 and 2019.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and

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Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (WNYED Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to \$66 million in net earnings, calculated for the period August 30, 2010 through December 31, 2020 as provided in the legislation, for deposit into the WNYED Fund. As of December 31, 2020, approximately \$43 million has been deposited into the Fund. As of December 31, 2020, the Authority has approved awards of Fund money totaling approximately \$38 million to businesses that have proposed eligible projects and has made payments totaling \$35 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNYED Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

As of December 31, 2020, the Authority's Trustees approved the release of funds, of up to \$15 million, into the NNYED Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2020. As of December 31, 2020, approximately \$5 million has been deposited into the Fund. As of December 31, 2020, the Authority has approved awards of NNYED Fund money totaling approximately \$2 million to businesses that have proposed eligible projects has made payments totaling approximately \$1 million to such businesses. Payment of approved awards of the NNYED Fund money is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Economic Development Customer Assistance Program

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Based upon the current economic conditions relating to COVID-19, the Authority's Trustees on March 31, 2020 approved two temporary measures to provide financial relief to its customers in the Authority's Economic Development Power Programs (Recharge New York, Western New York, Expansion Power & Replacement Power, and Preservation Power programs) that are subject to the Annual Adjustment Factor ('AAF'). The AAF, whether it represents an increase or decrease, is normally applied to program base rates annually on July 1st in accordance with the applicable tariffs. Each of the Economic Development Power Programs require a commitment from the recipients of job growth within their business, job retention and/or capital commitment.

These two temporary measures include (1) suspension of the AAF which is otherwise scheduled under applicable tariffs to be applied to energy and demand rates annually on July 1st, for a period of one year from July 1, 2020 through June 30, 2021; and (2) provision to such customers of the option to defer payment of energy bills to the Authority, beginning with the April 2020 invoice, for up to 6 months, with repayment of deferred amounts to occur in equal installments over the subsequent 18-month period. As of December 31, 2020, 373 customers have applied for this program resulting in interest free deferred payments of approximately \$50 million with no corresponding increase in interest rates.

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

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

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). The Authority has entered a supplemental electricity supply agreement with all 103 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months' notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

Astoria Energy II

In 2008, the Authority entered into a long-term power supply contract with Astoria Energy II LLC for the purchase of all the output of Astoria Energy II, a new 550-MW plant, which entered into commercial operation on July 1, 2011 in Astoria, Queens. The delivery period under the contract is through 2031. The Authority entered into a separate contract with its' New York City Governmental Customers to purchase the output of Astoria Energy II and is coterminous with the power purchase agreement with Astoria Energy II LLC. All net costs of the Authority under the power purchase agreement with Astoria Energy II LLC pass through to the New York City Governmental Customers for the full term of the power purchase agreement.

The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of \$1,034 billion as of December 31, 2020 which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly.

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As of December 31, 2020, the Authority has a recorded capital asset (net of depreciation) of \$651 million and a regulatory asset with respect to the recoverable cost associated with the lease obligation of \$383 million (see note 2 (l) “Summary of Accounting Policies – Other Long-Term Assets” of the notes to the consolidated financial statements).

HTP Transmission Line

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

The Authority’s payment obligations under the FTCPA include capacity payments, interconnection and transmission upgrades, and Regional Transmission Expansion Plan (“RTEP”) charges allocated to HTP in accordance with the PJM tariff. Interconnection and transmission upgrades were completed in 2018 at a total cost to the Authority of \$334.9 million. The RTEP charges imposed upon HTP, which are still subject to legal challenge, are discussed in more detail below.

It is estimated that the revenues derived from the Authority’s rights under the FTCPA will not be sufficient to fully cover the Authority’s costs under the FTCPA during the 20-year term of the FTCPA. In December 2020, the Authority estimated that its under-recovery of costs for the Line could be in the range of approximately \$106 million to \$111 million per year over the period from 2021-2024. The under-recovery estimates were based on projections of the capacity payment obligations, the costs of interconnection and transmission upgrades and energy revenues.

The Authority’s obligations under the FTCPA include payment of the RTEP charges allocated to HTP. From June 2013 through December 2020, the Authority has paid approximately \$129.6 million in RTEP charges for the Line. Effective 2018, HTP relinquished the Firm Transmission Withdrawal Rights (“FTWRs”) held by HTP on the Line that were the basis for a significant share of its RTEP allocations. PJM’s annual RTEP cost allocation update for 2018 eliminated the Authority’s obligation in 2018 and beyond to pay RTEP charges related to the Bergen Linden Corridor project, which accounted for the bulk of the projected RTEP allocations to HTP.

While PJM had determined that the Authority had no RTEP payment responsibility starting in 2018 as a result of HTP’s FTWR relinquishment, in 2020, FERC reversed PJM’s determination over the Authority’s objections, and held that a portion of the RTEP charges assignable to the HTP facility dating back to 2018 had to be reinstated as they were unrelated to whether HTP had retained FTWRs. These reinstated RTEP charges were for projects other than the Bergen Linden Corridor project. FERC authorized PJM to begin collection for the back periods starting in August 2020. In 2020, the Authority’s incurred and paid \$27 million in RTEP charges retroactive to 2018. In addition, the Authority will accrue approximately \$1.1 million per month effective 2021 through the term of the agreement which ends in 2033. Depending on PJM TO’s Annual Revenue Requirement, the RTEP charges could trend downward during the out years. The Authority is contesting the ruling.

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(c) *Small, Clean Power Plants*

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area in the early 2000s, the Authority placed into operation the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses two units, under certain conditions and if the Mayor of New York City directs such cessation. No such cessation has occurred.

(d) *Legal and Related Matters*

St. Regis Litigation

In 1982 and again in 1989, several groups of Mohawk Indians, including a Canadian Mohawk tribe, filed lawsuits (the St. Regis litigation) against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil islands. These islands are within the boundary of the Authority's St. Lawrence-FDR Project and Barnhart Island is the location of significant Project facilities. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal government intervened on behalf of all Mohawk plaintiffs.

The parties agreed to a land claim settlement, dated February 1, 2005, which if implemented would have included, among other things, the payment by the Authority of \$2 million a year for 35 years to the tribal plaintiffs and the provision of up to 9 MW of low cost Authority power for use on the reservation. The legislation required to effectuate the settlement was never enacted and the litigation continued.

In 2013, all claims against the Authority were dismissed and the lawsuit against the Authority was concluded. On May 28, 2014, the State of New York, the St. Regis Mohawk Tribe, St. Lawrence County and the Authority executed a Memorandum of Understanding (St. Regis MOU) that outlined a framework for the possible settlement of all the St. Regis land claims. In the St. Regis MOU, the Authority endorses a negotiated settlement that, among other terms and conditions, would require the Authority to pay the Tribe \$2 million a year for 35 years and provide up to 9 MW of its hydropower at preference power rates to serve the needs of the Tribe's Reservation. The St. Regis MOU would require an Act of Congress to forever extinguish all Mohawk land claims prior to such a settlement becoming effective.

Any settlement agreement, including the terms endorsed in the St. Regis MOU, would in the first instance need to be negotiated and agreed upon by all parties to the St. Regis litigation, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. In addition, before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims. The Authority is in continuing settlement discussions with some of the parties to the St. Regis litigation.

Long Island Sound Cable Project

In January 2014, one of the Sound Cable Project underwater cables was severely impacted by an anchor and/or anchor chain dropped by one or more vessels, causing the entire electrical circuit to fail and the circuit to trip. As a result of the impact to the cable, dielectric fluid was released into Long Island Sound. At December 31, 2020 and December 31, 2019, the consolidated statements of net position includes approximately \$19 million, respectively, in other long-term assets, reflecting the cost of damages net of

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insurance recoveries. As of February 2021, the Authority recovered \$9.2M of its damages through legal proceedings and believes that it will recover the remainder through contractual obligations.

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

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

Other Actions or Claims

In addition to the matters described above, other actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries), in contract, and for environmental, employment and other matters. All of such other actions or claims will, in the opinion of the Authority, be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amount which the Authority has available therefore and without any material adverse effect on the business of the Authority. While the Authority cannot presently predict the outcome of the matters described above or any related litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

(e) New York State Budget and Other Matters

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

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

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Budget

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

In May 2011, the Authority’s Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority’s Trustees.

Temporary Asset Transfers

As a result of budget legislation enacted in February 2009, the Authority was authorized to provide, subject to Trustee approval, temporary asset transfers to the State of certain funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (the “MOU”) between the State and the Authority, the Authority transferred to the State in 2009 \$103 million of funds set aside for future construction projects (“Asset A”) and \$215 million of funds associated with its Spent Nuclear Fuel Reserves (“Asset B”). The Authority subsequently executed amendments to the MOU in 2014 and 2017 that extended the return date for Asset A and Asset B and provided for the return of the Assets in installments over several years, subject to annual appropriation by the State Legislature. In the Second Amendment to the MOU in 2017, the Authority and the State agreed on a framework for alternative cost recovery agreements for each of State Fiscal Year 2017-18 through State Fiscal Year 2022-23 the asset transfers have not been fully returned to the Authority that would relieve the Authority of up to \$5 million in cost recovery assessment payments to the State in each year. Asset A was returned to the Authority in 2018.

As of December 31, 2020 and 2019, the Authority has received cumulative installment payments of \$86 million on the return of Asset B. Pursuant to the amended MOU, the remaining portion of Asset B (\$129 million) is to be returned by the State in installments from 2021-2023, subject to annual appropriation by the State Legislature. The asset transfers are reported in miscellaneous receivables and other (\$43 million as of December 31, 2020 and December 31, 2019) and in other noncurrent assets (\$86 million at December 31, 2020 and December 31, 2019, respectively) in the statements of net position. In February 2021, the Authority received a \$43 million installment payment for State Fiscal Year 2020-21.

(f) Relicensing of Niagara

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. By decision dated March 13, 2009, the U.S. Court

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of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately \$495 million. This estimate does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. As of December 31, 2020, the balance in the recorded liability associated with the Niagara relicensing on the statement of net position is \$223 million (\$19 million in current and \$204 million in other noncurrent liabilities). As of December 31, 2019, the balance in the recorded liability associated with the Niagara relicensing on the statement of net position is \$225 million (\$18 million in current and \$207 million in other noncurrent liabilities).

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara project, including the debt issued therefore, were incorporated into the cost-based rates of the project beginning in 2007.

New York State Office of Parks, Recreation and Historic Preservation

In 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of \$3 million per year to OPRHP for the term of the 50-year License. In 2012 and 2017, OPRHP requested that the Authority accelerate such payments by making two lump sum payments of approximately \$25 million each to pay for authorized projects. In order to make the lump sum payments, the Authority issued (a) \$25.2 million in subordinated notes in 2012 and (b) \$25.2 million in subordinated notes in 2017. The proceeds of those subordinated note issuances were made available to OPRHP (see Note 6 "Long-Term Debt – Subordinate Debt" of notes to the financial statements).

(g) *St. Lawrence-FDR Relicensing – Local Task Force Agreement*

In 2003, FERC approved a Comprehensive Relicensing Settlement Agreement ("Relicensing Agreement") reached by the Authority and numerous parties and issued the Authority a new 50-year license for the St. Lawrence-FDR Project ("St. Lawrence-FDR License"). The St. Lawrence-FDR Power Project No. 2000 Relicensing Agreement ("LGTFSA") between the Authority and the Local Government Task Force ("LGTF") provided for a review of the LGTFSA every ten years to discuss issues not contemplated at the time of relicensing in 2003. The first such review commenced in December 2013. The Authority and the LGTF entered into an agreement in 2015 in which the Authority agreed to commit and the Trustees authorized up to \$45.1 million over 10 years for certain actions, including to: (1) fund an economic development strategic marketing study (the "Marketing Study"); (2) temporarily reduce electricity costs for certain farms and businesses (the "Discount Program"); (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities. In 2016, the Authority's Trustees approved a proposal to terminate the Discount Program early and repurpose funding to be used to support a collaborative marketing effort between the Authority and North Country communities through the St. Lawrence County Economic Development Study Advisory Board created in connection with the Marketing Study at the rate of \$2 million/year for five years (\$10 million total) commencing in 2017.

In July 2017, the Authority's Trustees approved: (1) a new temporary business incentive program consisting of a monetary discount or rebate that would be payable to eligible private business applicants who agree to establish new business operations in certain North Country counties ("Business Incentive Discount

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Program”); and (2) the repurposing of funds previously approved for the marketing effort to include funding for the Business Incentive Discount Program. Funding repurposed for the marketing effort, including the Business Incentive Discount Program, would not exceed a total of \$10 million. As of December 31, 2020, the Authority has spent approximately \$30 million of the \$45.1 million authorized by the Trustees for the purpose of implementing the commitments in the LGTF 10-Year Review Agreement.

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

On April 30, 2019, the Federal Energy Regulatory Commission issued a new 50-year operating license, effective May 1, 2019, to the Power Authority for the Blenheim-Gilboa Pumped Storage Power Project. In May 2019, the Power Authority’s Trustees accepted the new license and approved the settlement package with state and federal resource agencies, the towns of Gilboa and Blenheim, and Schoharie County. The Trustees also authorized \$37.1 million in capital expenditures for the period 2019-2069 for all compliance, implementation and settlement activities. Through December 31, 2020, the Authority has disbursed approximately \$5.1 million, which includes a Recreation Fund in the amount of \$2.4 million (total commitment under the settlement package is \$6 million) and established an Ecological Fund in the amount of \$2 million (total commitment under the settlement package is \$3.5 million). As of December 31, 2020, the recorded a liability of the Blenheim-Gilboa Pumped Storage Power Project relicensing is approximately \$21 million.

(i) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority’s construction programs aggregated approximately \$1.0 billion at December 31, 2020.

Noncancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority’s operations. Rental expense for years ended December 31, 2020 and 2019 was \$6.5 million and \$5.6 million, respectively. Commitments under noncancelable operating leases are as follows:

	<u>Total</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>
	(In millions)						
Operating leases	\$ <u>7.6</u>	<u>1.8</u>	<u>1.7</u>	<u>1.5</u>	<u>1.1</u>	<u>0.6</u>	<u>0.9</u>

(j) Other Developments

Marcy to New Scotland Upgrade Project

Authority executed a Memorandum of Understanding (“MOU”) with North America Transmission (“NAT”) to develop and submit proposals to the solicitation. The MOU provided that, if any of the Authority/NAT proposals are accepted, the Authority, at its sole discretion, may elect to purchase an ownership share in the project(s) or operate and maintain the project(s). In December 2016, the Authority’s Trustees’ approved funding in the amount of approximately \$1 million for the Authority’s share of expenses pursuant to the MOU.

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

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The NYISO estimated the total cost of the Segment A project to be about \$750 million (in 2018 dollars, including 30 percent contingency). In August 2019, LS Power and the Authority submitted an Article VII application to the PSC and the Authority filed a petition for incentive rate treatment with the Federal Energy Regulatory Commission (“FERC”) pursuant to FERC’s regulations Section 219 of the Federal Power Act. FERC granted the Authority’s its requested incentive rates effective November 21, 2019 inclusive of a 9.45% return on equity. The Commission approved the Article VII Certificate and first EM&CP on January 21, 2021. Ultimately, the upgraded transmission lines and new substations as part of the Segment A project are expected to be energized as part of the New York electrical system by the end of 2023.

In January 2021, the Authority’s Trustees approved a capital expenditure of approximately \$208.3 million for Segment A. Prior to this the Trustees approved a total of \$31 million in capital expenditures for the Project. In December 2019, the Authority’s Trustees approved a capital commitment of \$275 million for the Segment A project. As of December 31, 2020, the Authority has spent approximately \$11.2 million.

In July 2020, the Trustees approved the Authority’s request to exercise its 37.5% purchase option. LS Power transferred its project assets and assigned the participation agreement to LS Power Grid New York Corporation I (LS Corp.) on January 27, 2020. A development agreement relating to Segment A among the NYISO, LS Corp. and the Authority was executed on February 3, 2020, filed with FERC on March 4, 2020 and accepted for filing by FERC on April 16, 2020. The Authority expects its costs of the Segment A project to be recovered through FERC’s cost-recovery mechanism outlined in the NYISO tariff.

BuildSmart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent by April 2020— an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO88 by accelerating priority improvements in energy performance. The Authority has offered to provide low-cost financing for this initiative for state owned buildings. The Authority’s costs of financing would be recovered from the energy efficiency customers in this program. In addition, as provided for in EO88, the Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. At the conclusion of EO88 on April 1, 2020, the Authority has in aggregate provided approximately \$679 million in financing for the energy efficiency projects at State agencies and authorities covered by EO88.

BuildSmart 2025

Build Smart 2025 is New York State’s program for aggressively pursuing energy efficiency savings in New York State owned and occupied buildings of 11 TBtu by December 31, 2025 while advancing economic growth, environmental protection, and energy security in New York State. Build Smart 2025 expands and continues the requirements of Build Smart NY to assist State entities in meeting statutory requirements established by the Climate Leadership and Community Protection Act (CLCPA), that “all state agencies shall assess and implement strategies to reduce their greenhouse gas emissions”.

Clean Energy Standard

On August 1, 2016, the NYPSC issued an order establishing a Clean Energy Standard (the “CES Order”) to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving entities identified in the order are required to purchase “Zero Emission Credits” (“ZECs”) from the New York State Energy Research Development Authority (“NYSERDA”) to support the preservation of existing at-risk zero

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emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but has assumed an obligation to purchase ZECs consistent with the terms of the CES Order and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority and NYSERDA executed an agreement covering a two year period from April 1, 2017 to March 31, 2019 under which the Authority committed to purchase ZECs in a quantity based on its proportional load in the New York control area. The Authority and NYSERDA executed an additional agreement covering a nine year period from April 1, 2020 to April 1, 2029 under which the Authority committed to purchase ZECs in a quantity based on its proportional load in the New York control area, subject to certain adjustments. As of December 31, 2020, the Authority estimates that it will incur ZEC purchase costs associated with participation in the ZEC program of approximately \$320.6 million in aggregate over the 2021-2024 period, of which approximately \$21.5 million is not expected to be recovered under customer contracts that predate the adoption of the CES Order. As of December 31, 2020, the Authority has paid \$193.1 million in ZEC purchase costs.

Offshore Wind

On July 18, 2019, Governor Cuomo announced the development of the Sunrise Wind Project, a proposed 880 MW offshore wind farm to be located 30 miles off the shore of Long Island, New York ("Sunrise Wind") in support of the Governor's target of producing 9,000 MW of offshore wind power by 2035 as part of a Green New Deal plan and a mandate to generate 50% of the State's electricity from renewable sources by 2030. Sunrise Wind is a joint development of Danish power company Ørsted and US-based energy provider Eversource. In October 2019, Sunrise Wind signed a 25-year purchase-and-sale agreement with the New York State Energy Research Development Authority ("NYSERDA"). Construction of the Sunrise Wind Project will be started in 2022 with operations scheduled to begin in 2024. The Authority and Con Edison Transmission plan to support the development of the transmission facilities needed to deliver the offshore wind energy to the grid. To that effect, the Authority entered into a Memorandum of Understanding with Bay State Wind LLC, the joint venture between Ørsted and Eversource Energy, effective January 30, 2019 (the "Bay State MOU"). The Bay State MOU is in effect until December 31, 2020. The total project cost for the dry transmission assets is estimated to be \$300 million. The planned interconnection point is the Holbrook and West-Bus substations in the town of Brookhaven, within the service territory of the Long Island Power Authority. Additional initiatives to support offshore wind development are being considered by NYSERDA and the Authority may participate in such initiatives.

AGILE

The Authority, in collaboration with the State utilities, NYSERDA and NYISO, has developed an advanced grid innovation lab for energy ("AGILE") to create new tools to better monitor, control, accommodate and respond to the evolving energy sector. Costs to the Authority are estimated at \$20 million over the initial three-year period, which has been extended to five years, and are not expected to exceed \$50 million through final build-out of the facility. Upon completion, operating and maintenance costs are expected to be shared among AGILE participants. On July 25, 2017, the Authority's Trustees authorized capital expenditures in the amount of \$20 million for the initial phase of AGILE, which has since commenced. As of December 31, 2020, approximately \$5.5 million has been spent.

Moses Adirondack Line

The Authority is moving forward with its plans to update a major section of the Moses Adirondack Line, one of the Authority's backbone transmission facilities. The project covers 78 miles of 230 kV transmission line from Massena to the Town of Croghan in Lewis County. In July 2017, the Authority received authorization under the NYISO tariff to include the costs of this project in its NYPA Transmission

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Adjustment Charge mechanism for cost recovery of the Authority's transmission system costs, which means that the costs will be allocated to all ratepayers in the State. The project includes the update of obsolete wood pole structures with higher, steel pole structures, as well as update of failing conductor with new conductor and insulation. The line will operate at its current 230 kV level, but the conductor and insulation design will accommodate future 345 kV operation. The Authority anticipates that the Moses Adirondack line will support the transmission of growing levels of renewable generation located in upstate New York and Canada, such as wind and hydroelectricity, and assist in meeting the State's renewable energy goals. The rebuilt line is also expected to enhance grid reliability by supporting the NYISO's black start plan. On September 21, 2018, the Public Service Commission (PSC) determined that the Authority's April 2018 Article VII application was complete. The PSC granted the Certificate of Compatibility and Public Need for the project on November 14, 2019, approving the Joint Proposal. On February 6, 2020, the PSC issued an order approving Part One of the Environmental Management and Construction Plan, and construction started on Part One in March 2020. Additionally, the Authority has received its Nationwide Permit from the U.S. Army Corps of Engineers and the New York State Department of Public Service has issued a Notice to Proceed. Part Two of the Environmental Management & Construction Plan was approved in July 2020, with construction beginning immediately after the approval in July 2020. Part Three of the Environmental Management and Construction Plan was approved in September 2020 with construction beginning in October 2020. The remaining approvals will follow through the end of this year and construction will begin in 2021. Part Four of the Environmental Management and Construction Plan was approved in December 2020 with construction to begin in April 2021. The Authority estimates a project cost of \$484 million through project completion in 2023. As of December 31, 2020, the Authority has spent approximately \$124 million on Moses Adirondack project, which commenced in 2020.

Niagara Parkway Redevelopment

The State plans to replace an underutilized two-mile stretch of the Robert Moses Parkway North in Niagara Falls with open space, scenic overlooks and recreational trails. Construction commenced in 2018 and is expected to take approximately three years to complete with funding to be provided by the Authority. As of December 31, 2020, the Authority has approved up to \$46.3 million in funding. As of December 31, 2020, the Authority has disbursed approximately \$38.8 million.

Electric Vehicle Acceleration Initiative

In 2018, the Authority's Trustees approved an overall allocation of up to \$250 million to be used through 2025 for an electric vehicle acceleration initiative and authorized \$40 million for the first phase of the initiative. The Authority will own and operate a charging network of 800 DC fast chargers across the State, with 25 fast chargers in operation in 2020. As of Dec 31, 2020, approximately \$4.2 million has been spent.

(14) Canal Corporation

The Canal Transfer Legislation enacted April 4, 2016, authorized, but does not require, the Authority, to the extent that the Authority's Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. The Canal Corporation's expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority's Board of Trustees and compliance with the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Certain expenses eligible for reimbursement are expected to be reimbursed to the Authority by moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance. For the year ended December 31, 2020, the Canal Corporation recognized \$1.8 million in revenues, \$83 million in operations and maintenance expenses and \$27 million in depreciation expense. For the

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December 31, 2020 and 2019

year ended December 31, 2019, the Canal Corporation recognized \$2 million in revenues, \$86 million in operations and maintenance expenses and \$25 million in depreciation expense.

(15) Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel strain of the coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As COVID-19 accelerated throughout New York State the Authority paused all non-essential efforts temporarily and focused on maintaining core operations, keeping its workforce safe and preserving cash. As the year progressed and safety precautions implemented, the Authority methodically un-paused in field construction efforts. Significant construction was able to continue on many of the Authority's major capital projects.

To support the resiliency of the generation and transmission facilities of the Authority for the people of the State and power system generally, the Authority has entered into mutual aid agreements with other utility providers in the State and in Canada and is offering assistance to such other utilities through the exchange of employees as well as the sharing of expertise, equipment and materials. These agreements are currently expected to remain in effect through September 2021.

Because of the evolving nature of the outbreak and federal, state and local responses thereto, the Authority cannot predict the extent or duration of the outbreak or what impact it may have on the Authority's financial condition or operations. There can be no assurances that the spread of the Coronavirus and COVID-19 or other highly contagious or epidemic diseases will not have an adverse impact on the Authority's, financial position, results of operations, supply chains and customers. The effects of the pandemic on the Authority's financial performance or operations could be material.

As of December 31, 2020, the Authority incurred costs totaling \$30 million in response to the pandemic ranging from critical employee sequestration and sanitization/cleaning supplies to facility protective measures and equipment for a remote workforce. Per the current federal and state regulations it is anticipated that the Authority is eligible for a total reimbursement of approximately \$10 million.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

New York Power Authority

Required Supplementary Information

(Unaudited)

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

(\$ in millions, expect percentages)

	2020	2019	2018
<u>Total OPEB liability</u>			
Service cost	\$ 13	\$ 15	\$ 13
Interest	37	40	37
Change of benefit terms	—	—	—
Differences between expected and actual experience	—	—	—
Change of assumptions	—	—	—
Benefit payments	(25)	(25)	(25)
Net change in total OPEB liability	25	30	25
Total OPEB liability - beginning	517	560	535
Total OPEB liability - ending	\$ 542	\$ 590	\$ 560
<u>Plan fiduciary net position</u>			
Contributions - employer	25	25	25
Net investment income	46	123	(36)
Benefit payments	(25)	(25)	(25)
Administrative expense	(4)	(2)	(2)
Net change in plan fiduciary net position	42	121	(38)
Plan fiduciary net position - beginning	686	565	603
Plan fiduciary net position - ending	\$ 728	\$ 686	\$ 565
Net OPEB liability / (asset) - ending	\$ (186)	\$ (96)	\$ (5)
Plan fiduciary net position as a percentage of the total OPEB liability	134%	116%	101%
Covered-employee payroll	\$ 199	\$ 188	\$ 182
Total OPEB liability as a percentage of covered-employee payroll	272%	314%	307%
Net OPEB liability / (asset) as a percentage of covered-employee payroll	(93)%	(51)%	(3)%

Notes to schedule:

The amounts presented for 2020 were determined based on a no gain loss roll-forward of the Power Authority OPEB Plan's December 31, 2019 biennial actuarial valuation.

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

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of the New York Power Authority's OPEB Contributions

(\$ in millions, except percentages)

Year Ending <u>December 31,</u>	(a) Contractually / Actuarially determined contribution	(b) Contributions made	Contribution deficiency / (excess)	(c) Covered employee payroll	Contributions as a percent of covered employee payroll column (b ÷ c)
2020	\$ 25	\$ 25	\$ —	\$ 199	13%
2019	25	25	—	193	13%
2018	25	25	—	182	14%
2017	40	22	18	166	13%
2016	39	24	15	161	15%
2015	38	38	—	149	25%
2014	33	39	(1)	145	27%
2013	41	42	(1)	147	29%
2012	41	41	—	143	29%
2011	35	60	(25)	144	42%

Notes to schedule:

Contributions: The Power Authority made contributions on a pay as you go basis in 2020 and 2019 and did not contribute any amount beyond the contractually / actuarially required amounts.

Valuation date: 12/31/2019

Methods and assumptions used to determine contributions:

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

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

Asset Valuation: Market Value

Per Capita Claims: Developed using 2020 projected funding rates using NYPA claims experience from January 1, 2018 through December 31, 2019.

Salary increases: Varies by service, 8.0 percent for first year of service, 4.5 percent for 5 years of service, 3.8 percent for 10 years of service, 3.3 percent for 15 years of service, and 3.0 percent for 20 years or more of service.

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

Discount rate: 7.0%

Mortality: The General Pub-2010 headcount weighted tables were used for active employees and healthy retirees and dependents, while the corresponding Contingent Survivor mortality tables were used for current surviving spouses and the corresponding Disabled Retiree mortality tables were used for disabled participants. To project mortality improvement for years after 2010, the MP-2019 Projection Scale is applied on a fully- generational basis to the base rates.

New York Power Authority

Required Supplementary Information

(Unaudited)

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

Schedule of Investment Returns

<u>Year Ending December 31,</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2020	6.53%
2019	21.40%
2018	(6.30)%
2017	16.70%
2016	7.00%
2015	0.41%
2014	3.99%
2013	20.41%
2012	12.57%
2011	1.43%

Note:

This schedule is intended to present 10 years of data.

Average rate of return over ten-year period was 8.1%.

New York Power Authority

Required Supplementary Information

(Unaudited)

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

(\$ in millions, except percentages)

	2020	2019	2018
<u>Total OPEB liability</u>			
Service cost	\$ 8	\$ 9	\$ 7
Interest	8	7	8
Change of benefit terms	—	—	—
Differences between expected and actual experience	(8)	—	—
Change of assumptions	(30)	(18)	20
Benefit payments	(6)	(6)	(6)
Net change in total OPEB liability	(28)	(8)	29
Total OPEB liability - beginning	226	234	205
Total OPEB liability - ending	\$ 198	\$ 226	\$ 234
Total OPEB liability - ending	\$ 198	\$ 226	\$ 234
Covered-employee payroll	\$ 26	\$ 25	\$ 24
Total OPEB liability as a percentage of covered-employee payroll	762%	904%	975%

Notes to Schedule:

Changes of assumptions reflect the effect of the Further Consolidated Appropriations Act, which was signed on December 20, 2019, repealed the Cadillac Tax. As a result of this, the tax was no longer considered in the liabilities presented herein. This resulted in a decrease in liabilities.

The per capita cost assumptions for the Empire Plan were updated to reflect claims experience through 2019. The EGWP subsidy assumption and HMO plans' cost assumptions were updated based on the report Development of Recommended Actuarial Assumptions for Other Post Employment Benefit Plans Actuarial Valuations – Participating Employer Version for New York State/SUNY produced by Aon in June of 2019. In addition, premiums were updated for the 2020 calendar year. These updates resulted in a decrease in liabilities.

The mortality assumptions were updated to the Pub-2010 Public Retirement Plans Mortality Tables, projected forward on a fully-generational basis with the MP-2019 Mortality Improvement Scale in order to reflect the data published by the Society of Actuaries (SOA) in 2019. The prior valuation used gender distinct pre- and post-commencement rates based on experience under the NYSLRS (New York State and Local Retirement System). This update resulted in a decrease in liabilities.

The discount rate at the measurement date used to calculate the total OPEB liability is 3.26%. The discount rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2019. Benefit payments are funded on a pay-as-you go basis. The discount rate at the previous measurement date is 3.64% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedules Relating to the Employees' Retirement System Pension Plan

(\$ in millions, except percentages)

Schedule of Proportionate Share of the Net Pension Liability

<u>As of March 31,</u>	<u>Proportion of the Net Pension Liability (Asset) Percentage</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</u>
2020	0.77%	\$ 203	\$ 219	92.8%	86.4%
2019	0.76	53	214	25.0	96.3
2018	0.72	23	205	11.3	98.2
2017	0.72	67	193	35.0	94.7
2016	0.60	96	166	57.4	90.7
2015	0.59	20	150	13.3	97.9
2014	0.60	27	148	18.2	97.2

Schedule of Contributions

<u>Year Ending December 31,</u>	<u>Actuarially Required Contribution</u>	<u>Actual Contribution</u>	<u>Contribution (Excess) Deficiency</u>	<u>Covered Employee Payroll</u>	<u>Contribution as a Percentage of Covered Payroll</u>
2020	\$30	\$30	\$—	\$219	14%
2019	29	29	—	214	14
2018	28	28	—	205	14
2017	28	28	—	193	14
2016	24	24	—	166	15
2015	25	25	—	150	17
2014	28	28	—	148	19
2013	29	29	—	146	20
2012	27	27	—	146	19
2011	21	21	—	141	15



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

DRAFT

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Power Authority of the State of New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of the business-type activities and fiduciary funds of the Power Authority of the State of New York, (the Authority) and its blended component unit, as of December 31, 2020 and 2019, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents, and have issued our report thereon dated March 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

New York, New York
March 30, 2021



New York Power Authority Audit Results

Consolidated financial statements for the year ended
December 31, 2020

Presented on: March 18, 2021

Prepared on: March 9, 2021



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Overall Status Update

We are on track to complete our remaining audit procedures and we expect to be in a position to issue our reports in connection with the Authority's consolidated financial statements on or near March 29, 2021.

As of March 9, 2020, we draw your attention to the following outstanding matters:

- Completion of our audit procedures, including manager and partner level reviews
- Final audit misstatements and our evaluation thereof, if necessary
- Final tie-out and review of the Authority's financial statements
- Receipt of the management representation letter and legal letter

Upon completion of the outstanding matters noted above, KPMG will issue the following reports in connection with the audit of the New York Power Authority's 2020 consolidated financial statements:

- Independent Auditors' Report
- Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
- Independent Accountants' Report on Investment Compliance



Coordinating audits during COVID-19

Business Continuity Update

- Insert description of current working coordination
- Insert description of expected working coordination in coming months
- Insert any impacts to the audit arising from issues with coordination



Thinking Ahead To A New Normal

- Discuss plans for return-to-office
- What remote work lessons are we considering keeping
- What remote work lessons may evolve in FY21



COVID-19 Audit-Related Insights

Recover, new reality put strategy to the test

Compensation and Benefits Impacts of COVID-19

FASB discusses and responds to coronavirus

Goodwill Impairment and Valuation Insights



Summary: Audit results required communications and other matters

Audit Results	Response	
	Outstanding matters	Refer to slide 1 for a summary of the outstanding matters as of March 9, 2021.
	Significant unusual transactions	No significant unusual transactions identified during the audit.
	Uncorrected audit misstatements	The engagement team is in the process of finalizing the summary of uncorrected audit misstatements and we will communicate and provide a final schedule prior to issuance of our audit opinion, if necessary.
	Corrected audit misstatements	As of March 9, 2021, no corrected audit misstatements identified during the audit.
	Financial presentation and disclosure omissions	As of March 9, 2021, no matters to report.
	Non-GAAP policies and practices	As of March 9, 2021, no significant matters to report.
	Material weaknesses and significant deficiencies in internal control	As of March 9, 2021, no matters to report.
	Changes to our planned risk assessment and audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on December 9, 2020.
	Significant accounting policies and practices	Significant accounting policies and practices are discussed within note 2 of the New York Power Authority's consolidated financial statements. We have reviewed the accounting policies utilized by management in the preparation of the consolidated financial statements and found such policies to be appropriate.
	Significant accounting estimates	Refer to slide 7 and 8.
	Significant financial statement disclosures	As of March 9, 2021, no matters to report.
	Related Parties	We performed an evaluation of the Authority's identification of, accounting for, and disclosure of its relationships and transactions with related parties. As a result of such procedures we have no matters to report.
	Other Matters	Refer to slide 13 for other matters.
	Other information in documents containing audited financial statements	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the consolidated financial statements. As a result of our consideration of the other information, no material inconsistencies or material misstatements of facts were identified related to other information.



Summary: Audit results required communications and other matters (continued)

		Response
Audit Results	Subsequent events	As of March 9, 2021, no matters to report.
	Illegal acts or fraud	As of March 9, 2021, no actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
	Noncompliance with laws and regulations	As of March 9, 2021, no matters to report.
	Significant difficulties encountered during the audit	As of March 9, 2021, no matters to report.
	Significant findings or issues discussed, or the subject of correspondence, with management	As of March 9, 2021, no matters to report.
	Management's consultation with other accountants	As of March 9, 2021, no matters to report.
	Difficult or contentious matters for which the auditor consulted	As of March 9, 2021, no matters to report.
	Disagreements with management	As of March 9, 2021, no matters to report.
	Other significant matters	As of March 9, 2021, no matters to report.
	Written communications	Engagement letter, management representation letter(s), including summary of uncorrected misstatement, internal control deficiency letter, and minutes representation letter to be distributed under separate covers.

Internal control related matters

KPMG responsibilities

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

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

Significant deficiency

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

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



Significant risks and other significant audit matters

Our audit response and findings

Significant risks	Our audit response and findings
Management override of controls	Internal controls - Assessed management's design and implementation of controls and the operating effectiveness of those controls over manual journal entries (during the year and at the end of the reporting period) and post-closing adjustments Substantive procedures - Examined journal entries and other adjustments - Reviewed accounting estimates for bias - Evaluated the business purpose for any significant unusual transactions that may have occurred throughout the year - The engagement team considered the risk of management override of controls related to revenue and the Authority's revenue process is routine and not complex. Additionally, the engagement team confirmed through inquiries that there is no incentive to fraudulently manipulate revenue. Our findings - The engagement team determined that there are no matters to report related to the internal controls over management override as of December 31, 2020. - The engagement team did not identify instances of fraud as a result of our substantive procedures.



Significant accounting estimates

Description of critical accounting estimates

- Other Post Retirement Benefits (OPEBs) including the fair value of plan assets (GASB 75)

Audit findings

Management's process used to develop the estimates

- Management utilizes a third party actuary (Buck Consultants) to determine the other postretirement obligation for NYPA and the Canals based on the census data provided by the Company as well as the value of the Company's plan assets.
- **Significant assumptions used that have a high degree of subjectivity**
- Actuarial assumptions of expected return on plan assets, discount rates, health care cost trends, mortality assumptions and future compensation.

Conclusions

- The engagement team performed the following procedures:
- Utilized a KPMG Actuary to review the Company's actuarial valuation reports as of December 31, 2020, including key assumptions such as the discount rate and return on assets;
- Tested the completeness and accuracy of the census data provided by the Company to its actuary;
- Confirmed the actuarial report directly with the Company's actuary;
- Utilized the KPMG National Pricing Desk to test the fair value of the Company's plan assets;
- Confirmed the value of the Company's plan assets directly with the Company's custodians;
- Obtained the most recent audited financial statements of the Company's hard to value plan assets to test the net asset value;
- Ensured that the Company's disclosures within its financial statements are complete and accurate.



Significant accounting estimates (continued)

Description of critical accounting estimates

- Pensions (GASB 68)

Background and Audit findings

- The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (NYSLERS), which is a cost-sharing multiple-employer plan in which the participating government employers pool their assets and their obligations to provide defined benefit pensions. The amounts reported by the Authority are for its proportionate share of the net pension liability, pension expense, and deferred outflows and deferred inflows that have been provided by the NYSLERS in accordance with GASB Statement No. 68.
- **Significant assumptions used that have a high degree of subjectivity**
- Actuarial assumptions of cost method, long-term expected rate of return, mortality rates, and discount rate

Conclusions

The engagement team performed the following procedures:

- Evaluated the use of the external expert who performed the actuarial valuation for NYSLRS to measure the collective total pension liability for the plan as of the measurement date;
- Evaluated whether the methods and assumptions used in determining the total pension liability are in accordance with GASB Statement No. 68 and Actuarial Standards of Practice are the same as those used by the plan;
- Tested the relevant inputs (census data) utilized in developing the actuarial report;
- Recalculated the allocated amounts for the Authority per the NYSLRS financial statements and GASB 68 Report;
- Recalculated the current year gross incremental deferrals for changes in proportion and differences between the employer's actual contributions and its proportionate share of total employer contributions;
- Recalculated pension expenses based on the employer's specific pension expense in the NYSLRS schedule of pension amounts;
- Utilized KPMG actuarial specialist to validate the appropriateness of the assumptions used and calculations made to arrive at the pension liability.



Significant audit areas

Long-term Debt

Procedures

The engagement team performed the following procedures:

- Confirmed outstanding long term debt obligations and short term borrowing program with third parties;
- Tested the activity of debt issuances, repayments during FY20;
- Tested the appropriateness of the defeasements to retire outstanding debt of the Authority during FY20;
- Tested the appropriateness of the debt refunding during FY20;
- Confirmed the Authority's open line of credits as of FY20;
- Recalculated interest expense throughout the year;
- Reviewed debt covenants and ensured the Authority was compliant as of December 31, 2020.

Conclusion

The engagement team determined that there are no matters to report related to long-term debt as of December 31, 2020.



Significant audit areas (continued)

Capital Assets

Procedures

The engagement team performed the following procedures:

- Performed a rollforward of Construction Work in Process (CWIP) and Plant-in-Service (EPIS) from December 31, 2019 to December 31, 2020;
- Tested the additions to CWIP during FY20 with an emphasis on ensuring that items recorded to CWIP were appropriately capitalizable;
- Tested the additions to EPIS by ensuring that projects that were completed in FY20 were appropriately and timely transferred from CWIP to EPIS;
- Performed substantive analytical procedures to determine appropriate depreciation expense during the period;
- Tested the activity of transactions recorded related to capital leases during FY20;
- Ensured proper classification of certain transactions as capital or operating leases;
- Ensured proper impairment disclosure within the financial statements.

Conclusion

The engagement team determined that there are no matters to report related to capital assets as of December 31, 2020.



Significant audit areas (continued)

Revenue

Procedures

The engagement team performed the following procedures:

- Confirmed accounts receivables with the NYISO and SENY/Wholesale customers as of December 31, 2020;
- Detail tested SENY/Wholesale revenue by agreeing recorded amounts to invoices and cash receipts;
- Performed detailed recalculations of SENY/Wholesale invoices to customers by recalculating the charges on customer invoices and agreeing the billed rates to the approved tariffs;
- Performed volume reconciliations for delivery to customers during 2020;
- Confirmed and detailed tested revenue with the NYISO throughout the year;
- Detail tested wheeling charges recorded during FY20;
- Performed a trend analysis over Operating Revenues as classified on the financial statements.

Conclusion

The engagement team determined that there are no matters to report related to revenue as of December 31, 2020.



Significant audit areas (continued)

Investments

Procedures

The engagement team performed the following procedures:

- Confirmed investment balances with the respective banks at December 31, 2020;
- Tested the fair market value of the complete portfolio of investments utilizing the KPMG National Pricing Desk;
- Reviewed a sample of investments for compliance with Board approved policies;
- Reviewed the Authority's compliance with Board approved policies for its investment portfolio;
- Review of consolidated financial statements for completeness and accuracy of trust assets and obligations.

Conclusion

The engagement team determined that there are no matters to report related to investments as of December 31, 2020.



Other matters

Identification of other matters	Description
COVID-19	We have considered the impacts of COVID-19 when planning and performing our audit procedures. The engagement team did not identify any significant impacts as a result of COVID-19 during our risk assessment, inquiries with management, or performance of our audit procedures during FY20.
Asset Retirement Obligation (ARO) Presentation	The Authority has updated its presentation of its ARO liability and associated deferred outflows of resources as of December 31, 2020.
New Lease Standard for 2021 (GASB 87)	The engagement team has had continued discussions with management regarding the upcoming adoption of GASB 87. The Authority is currently planning to adopt GASB 87 in FY2021. GASB 87 is applicable for fiscal years beginning after June 15, 2021 due to the issuance of GASB 95 which postponed effective dates for certain Authoritative Guidance in response to COVID-19.
Review of Legal and Other Contingencies	The engagement team performed confirmation procedures with external legal counsel to determine if there is any litigation exposure which would have a financial statement impact. The engagement team additionally reviewed the footnote disclosures for appropriateness of legal matters and identification of any potential contingencies required to be recorded by management. As of March 9, 2021, no matters to note.

Appendix I: Audit Quality and Transparency



Transparency Report 2020

**Dedicated to trust.
Committed to quality.**

Updated February 2021
read.kpmg.us/auditquality



Audit quality

is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.



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Letter to our stakeholders

2020 was not the year we expected. It challenged us in many ways, and uncertainty became the norm. But we pivoted quickly, and we couldn't be prouder of how our firm came together to continue to serve clients and operate effectively every day.

The COVID-19 pandemic, ongoing economic uncertainty and social unrest playing out across the globe have created a new reality. As everything seemed to shift, our culture and purpose grounded us and ultimately strengthened our resolve. Responding to today's needs is making us stronger for tomorrow – finding solutions that will have enduring benefits for the firm and for audit quality.

This 2020 Transparency Report provides details on our commitment to continually enhance audit quality; outlines KPMG LLP's structure, governance and approach to audit quality; and discusses how the firm aligns with the requirements and intent of applicable professional standards. Our [2020 Audit Quality Report](#)  supplements this report by outlining key initiatives of the firm that underpin our commitment to audit quality.

KPMG is committed to providing high-quality professional services, including audit services, in an ethical manner for all of our constituents, including entities that are listed on capital markets around the globe. In addition to complying with the high standards of our U.S. regulators, KPMG complies with the applicable requirements of audit regulators outside of the United States where entities we audit have listings or are otherwise subject to regulation. This report and its supplemental documents cover fiscal year ended September 30, 2020, and are published in accordance with the provisions of the New York Stock Exchange Listed Company Manual Section 303A.07 and Article 13 of the European Union's Regulation No. 537/2014.

We have a duty to serve the public interest, which is a responsibility we take seriously. We are proud of our achievements in 2020, and we are deeply committed to all of our stakeholders as we continually monitor and improve our system of quality control and invest in the future of audit.



Paul Knopp
U.S. Chairman & CEO



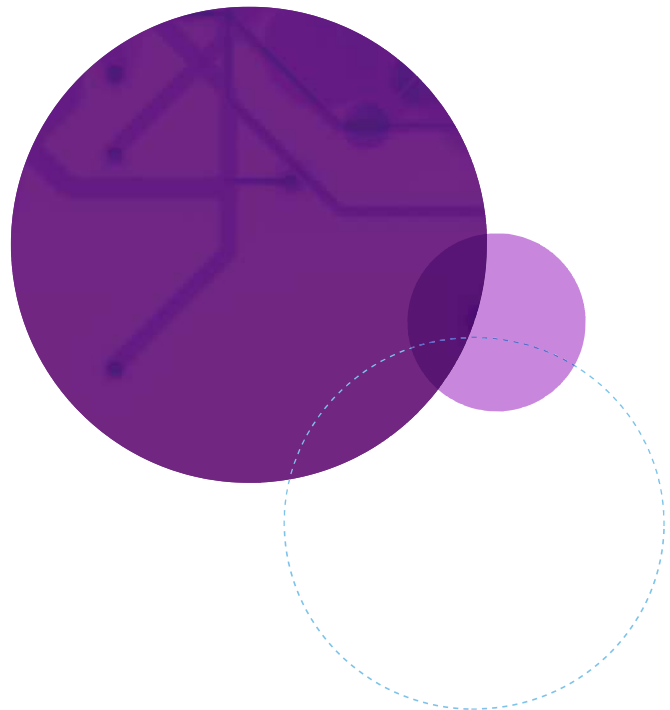
Scott Flynn
Vice Chair—Audit



Our business, structure and ownership

KPMG LLP (KPMG or the firm) provides audit, tax and advisory services to a broad range of domestic and international entities. Our U.S. firm operates from more than 100 offices with more than 38,000 employees and partners. KPMG operates as a Delaware limited liability partnership, and we are wholly owned by our more than 2,200 partners and principals (referred to collectively as partners).¹ Full details about the services we offer can be found at home.kpmg/us/en/home.html .

Prior to October 1, 2020, KPMG and the other independent member firms of the KPMG network were affiliated with KPMG International Cooperative (KPMG International), which is a legal entity formed under Swiss law. On October 1, 2020, KPMG LLP and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG member firms operate in 147 countries and territories, collectively employing more than 219,000 people, serving the needs of business, governments, public-sector agencies, not-for-profits, and the capital markets. More information about KPMG International, including the U.S. firm's relationship with it for the financial year ended September 30, 2020, is set out in the [Transparency Report – Supplement: Additional Information Required by Article 13 of EU Regulation 537/2014](#) .



¹ Partners and principals have essentially the same rights under the firm's partnership agreement except that principals are not licensed as certified public accountants under the laws of any of the various states or territories of the United States.



Tone at the top

The tone at the top of any organization drives its culture and accepted behaviors and is an important part of a firm's system of quality control.

We strongly believe that tone at the top enables the right attitude and behavior throughout the firm through a focused and consistent voice. There are a number of critical components to effective tone at the top, including:

- Culture, values and code of conduct, clearly stated and demonstrated in the way we work
- Focused and well-articulated strategy, incorporating audit quality at all levels
- Governance structure, with clear lines of responsibility and skilled and experienced people in the right positions to influence our quality agenda.

Our system of quality control is designed to meet applicable regulatory standards over quality control for a CPA firm. While this report is intended to cover our fiscal year ended September 30, 2020, we have highlighted throughout this document our progress of ongoing or upcoming initiatives in the coming year and our continuous approach to monitoring and enhancing our system of quality control.

Our culture and values are a critical part of audit quality. While each of us shares the responsibility to nurture and strengthen our KPMG culture, our collective commitment calls for deliberate and full-time leadership to ensure that culture remains foundational to our strategy and long-term success. Given its strategic importance, the firm's Chief Culture Officer is a member of the firm's Management Committee, which further reaffirms to our people, our clients, our regulators and other stakeholders how we see culture as a strategic imperative for the firm.

Leadership responsibilities for quality within the firm



Our Chair and Chief Executive Officer (CEO) establishes the firm's strategies and direction, including our commitment to audit quality, ethical culture and our promise of professionalism to investors and other participants in the capital markets, regulators, clients and our partners and employees.

In an effort to reinforce our audit quality agenda, our structure closely aligns our leadership with our audit quality foundation:

- Our Vice Chair – Audit, who reports to the Chair and CEO and Deputy Chair and Chief Operating Officer (COO) as a member of the Management Committee, has responsibility for our Audit practice, including driving certain aspects of our system of quality control.
- Our National Managing Partner – Audit Quality and Professional Practice (AQPP), who reports to the Vice Chair – Audit, leads our Department of Professional Practice (DPP) and the firm's regional and business unit professional practice partners, and is also responsible for driving and supporting certain monitoring activities within our system of quality control.
- Our National Managing Partner – Audit Operations and Execution, who reports to the Vice Chair – Audit, is responsible for implementing quality control initiatives that facilitate engagement performance, resource management, talent development, and growth and financial strategies and also is responsible for supporting certain aspects of the firm's system of quality control.



We define and document the key roles and responsibilities associated with each of the quality control elements outlined in the standards – i.e., Public Company Accounting Oversight Board (PCAOB) QC Section 20, “System of Quality Control for a CPA Firm’s Accounting and Auditing Practice” and American Institute of Certified Public Accountants (AICPA) QC Section 10, “A Firm’s System of Quality Control (Redrafted).” We evaluate our leaders on their achievement of these responsibilities during the partner year-end review process.

Beyond the executive level, several important leadership bodies carry KPMG culture across the firm’s Audit practice.

Our nationally managed Audit practice is supported by East and West regional leadership teams, each with a designated regional managing partner and regional professional practice partner. The regional managing partners report to the National Managing Partner – Audit Operations and Execution to assist in his responsibilities for audit quality with respect to certain aspects of the firm’s system of quality control. The regional professional practice partners, reporting to the National Managing Partner – AQPP, provide professional practice and audit quality leadership and direct adherence to firm policies, procedures and professional standards within their respective regions. They are supported by a network of professional practice partners and the professional practice support team, which assists with our monitoring systems and supports our professionals in meeting their risk management and professional practice responsibilities, all of which help to reinforce a strong system of quality control.

Professional practice partners

KPMG professional practice partners in each geographical business unit:

- Report to a regional professional practice partner
- Support and advise partners, managing directors and engagement teams on entity-specific technical accounting and audit matters
- Assimilate information pertaining to professional practice and risk management
- Monitor compliance with firm policies, our system of quality control and professional standards

- Review policies and processes to continuously improve audit quality
- Provide performance feedback related to audit quality for Audit partners and managing directors in the business unit
- Assign the partner or managing director to lead each engagement as well as evaluate the ongoing capacity of partners, managing directors and managers to serve the client portfolio
- Evaluate new clients and new and continuing audit and attestation engagements along with the respective lead audit engagement partner or managing director to address audit risks and association or continued association with the client.

DPP personnel

DPP comprises a broad network of partners, managing directors, senior managers and other professionals who support our people in meeting their professional responsibilities in accordance with firm policies and the requirements of the PCAOB, the U.S. Securities and Exchange Commission (SEC), the AICPA, and other regulatory oversight organizations. Additionally, DPP oversees root-cause analyses and audit-specific training.

Chief Auditor and Chief Accountant

Our Chief Auditor and Chief Accountant, both of whom report to the National Managing Partner – AQPP, develop and disseminate topic-specific guidance on emerging technical and professional auditing, accounting, reporting and regulatory matters. Under the supervision of the Chief Auditor and Chief Accountant, DPP professionals develop and present KPMG positions on current topics being addressed by the SEC, PCAOB and other regulatory and standard-setting bodies². In addition, DPP professionals actively liaise with KPMG International’s International Standards Group (ISG), located in London, on international accounting and auditing standards matters.

The Chief Auditor is responsible for our Audit Quality Support Partner (AQSP) program, which comprises select Audit partners who recently completed a rotation in DPP and have returned to a local office. Each AQSP goes through an annual accreditation

² Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Emerging Issues Task Force, the Auditing Standards Board, and other boards and committees of the AICPA, the International Auditing and Assurance Standards Board, and other similar organizations.



process and works closely with local and national audit leaders to provide direct audit quality coaching and support to engagement teams. The Chief Auditor leads an annual planning process and directs AQSPs to those areas where coaching will have the most significant effect on audit quality.

The Chief Accountant is involved in the nomination and annual accreditation process of partners designated as SEC Reviewing Partners (SECRPs), who are select Audit partners who meet certain qualifications and criteria to perform engagement quality control reviews of audits of issuers. Further information on the types of the firm's quality control reviews can be found in the "Quality control review" section of this report.

Chief of Integrated Inquiries

One of DPP's central functions is to provide technical accounting and auditing guidance to teams through consultations on engagement-related issues. In 2019, we reorganized DPP to bring together into one integrated group our resources that respond to accounting and audit consultations. The Chief of Integrated Inquiries, which is a role created last year, reports to the National Managing Partner – AQPP and leads this group of partners, managing directors and senior managers in providing this support to engagement teams.

National Business Leader of DPP

The National Business Leader of DPP reports to the National Managing Partner – AQPP and drives the execution of audit quality enhancement initiatives, ensuring that these efforts are resourced and prioritized appropriately. The National Business Leader also has responsibility for root-cause analyses, the system of quality control assessment activities, audit-related training and the operations of DPP.

The Root Cause and Collaboration Group (RCCG) is instrumental to enhancing our ability to identify, analyze and address findings to continually improve our system of quality control and engagement performance. The RCCG and root cause analysis are discussed further in the "Commitment to Monitoring Quality and Continuous Improvement" section.

The System of Quality Control (SoQC) Group plans and conducts an annual assessment of the effectiveness of our system of quality control. As part of that assessment, the SoQC Group performs certain testing over the policies, procedures, processes and controls that comprise the firm's system of quality control. The SoQC Group also considers the

results of the firm's monitoring procedures, including its internal inspection program and its evaluation of external regulatory and peer reviews and the development of any necessary corrective actions to continually improve the firm's system of quality control.

PCAOB Standards Group (PSG)

The global PCAOB Standards Group (PSG) comprises a dedicated group of professionals with a background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of foreign private issuers and non-U.S. components of U.S.-based issuers. The PSG also provides input into the development of training for auditors outside of the U.S. firm who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

Ethics and integrity



Ethics, integrity, independence and objectivity are the pillars of our firm and of the profession. We take our obligations to all of the stakeholders of the capital markets seriously and, as required by the standards that bind us, are committed to protecting the confidentiality of our clients' sensitive information.

Our environment is built on the principle that every individual must take personal responsibility for the ethical culture of the firm. As individuals, we live our values – integrity, excellence, courage, together, for better – by doing what is right, continually learning and improving, thinking and acting boldly, respecting one another and drawing strength from our differences and doing what matters. We expect those who manage others to act as role models; enhance understanding; set appropriate goals; and be responsive, responsible, fair and accountable.

The firm's Code of Conduct (the Code) is the cornerstone of our ethics and compliance program. It helps us articulate our standards of professionalism and integrity expected of all KPMG partners and employees. The Code sets forth our values, shared responsibilities, channels of communication and key policies and protocols, and provides a roadmap to guide how our individual and collective commitments to professionalism and integrity should be manifested and maintained. This approach supports and positively impacts how



we achieve our strategic priorities, as we look to grow our business by working with companies that share our values and by recruiting and retaining professionals who take pride in the positive contributions they make to our ethical culture.

When they join the firm, and each year thereafter as part of an annual confirmation process, every one of our people is asked to confirm that they have read the Code, understand it and agree to comply with it, which includes adhering to our values, shared responsibilities, commitments and promises.

Ethics and Compliance Hotline

To further our commitment to integrity and an ethical culture, KPMG maintains an Ethics and Compliance Hotline that allows both phone and web reports to be made through an independent third-party provider by calling the toll-free number, 1-877-576-4033, or by submitting a report via the web at www.kpmgethics.com.¹ We encourage use of the hotline when KPMG professionals feel uncomfortable reporting concerns about possible illegal, unethical or improper conduct through normal channels or when they want to remain anonymous.

The hotline is available to external parties as well, including personnel at entities we serve, vendors and professionals from other KPMG International member firms. Reports filed through the hotline are directed to our Chief Compliance Officer for review and, if necessary, for assignment of appropriate firm resources for investigation and resolution. All reports are handled confidentially (to the extent allowable by law and consistent with the needs of a thorough investigation). Retaliation for good-faith reporting or for otherwise participating in an investigation is strictly prohibited, and the firm has a monitoring process designed to protect individuals who disclose their identities when raising their concerns and witnesses who participate in an investigation.

Commitment to enhancing audit quality worldwide



The Global Audit Quality Committee of the Global Board (principal governance and oversight body of KPMG International) is designed to achieve greater accountability and consistency among member firm senior partners and Audit leaders for audit quality. It comprises senior partners (i.e., Chair and CEO or their equivalents) from large member firms and is led by a dedicated Global Head of Audit Quality, who reports to the committee.

Global steering groups, such as the Global Audit Steering Group, Global Audit Quality Council, and Global Quality and Risk Management Steering Group, work with regional and member firm leadership to promote audit quality in each region and member firm. More information about these global groups can be found in section 1.4.4 of the [EU supplement](#)² to this report.



Audit quality

Audit quality is fundamental to maintaining public trust in the capital markets and is the key measure on which our professional reputation stands.

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

And all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We continuously monitor our approach to audit quality to enhance our system of quality control and our audit methodology. Our firm’s system of quality control is based on PCAOB and AICPA standards and is documented and assessed annually. Additionally, we are in the process of analyzing the impact that the new international quality control standards, issued by the International Auditing and Assurance Standards Board (IAASB), as well as the project by the PCAOB to enhance its existing quality control standards, will have on our system of quality control.

KPMG International developed the Global Audit Quality Framework, based on International Standards on Quality Control (ISQC) ¹³, issued by the IAASB, and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements. KPMG International’s framework provides a common language for member firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to the delivery of audit quality.

Tone at the top is fundamental to the core of the Global Audit Quality Framework’s seven drivers, and as a driver itself, guides the right behaviors across the firm. All of the other drivers are presented within a continuous circle because each driver is intended to reinforce the others.



Our Global Audit Quality Framework

¹³ In September 2020, the IAASB approved the new International Standard on Quality Management (ISQM) 1, which will replace ISQC 1 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits and to evaluate the effectiveness of the system on an annual basis.



Association with the right clients

Rigorous entity and engagement acceptance and continuance policies are important to our ability to provide reasonable assurance that our firm:

- Minimizes the likelihood of association with an entity whose management lacks integrity
- Undertakes only those engagements that we can reasonably expect to complete with professional competence
- Considers the risks associated with providing professional services in particular circumstances.

Risk Management develops risk management policies for the Audit practice, including those relating to client and engagement acceptance and continuance. Risk Management reports outside of the Audit practice to the Vice Chair – Risk Management, and oversees relevant risk management systems, including CLEAS (Client/Engagement Acceptance and Setup) and the Partner Rotation System, which helps the firm to monitor compliance with the SEC independence rules on partner rotation as well as the firm's rotation requirements.

KPMG has established policies and procedures for evaluating new and continuing professional relationships and whether to perform specific services for a particular entity. CLEAS is used to manage, control and document the firm's acceptance and continuance processes. Our policies and procedures are designed to prohibit engagement teams from beginning work on an engagement or setting up an engagement code in the firm's financial system before potential risks are evaluated, any applicable safeguards are put in place and approval is obtained from appropriate leaders, including those in Risk Management.

Prospective entity and engagement evaluation processes



Before accepting an audit engagement with a new entity, we require an evaluation of the entity, its principals and its business. This typically includes a background investigation of the entity and select members of senior management.

Factors considered during the acceptance process include, but are not limited to:

- Client-related matters (reputation, character and integrity of the management and owners of the prospective client, as well as internal controls considerations and accounting policy and reporting matters)
- Business-related matters (risk of potential litigation, whether association with the prospective client may harm the firm's professional reputation)
- Service-related matters (whether the engagement team possesses adequate knowledge, skills and experience to respond to the engagement risks, fulfill our professional obligations and provide appropriate professional services).

Independence and conflict check system

With the assistance of the national Independence Group, engagement teams proposing to perform a new audit engagement conduct a review of relationships that the firm or certain individual professionals may have with the prospective client and its affiliates. The review also includes consideration of any nonaudit services we may provide or have provided. We use our proprietary tool, Sentinel™, to identify potential independence issues and other conflicts



of interest within and across member firms in the KPMG International network. If a potential independence issue or conflict cannot be resolved satisfactorily, in accordance with professional and firm standards, we decline the prospective engagement.

Continuance and reevaluation process

Lead audit engagement partners and managing directors are required to review and evaluate their existing audit and attestation engagements with their professional practice partner at least annually. An engagement continuance evaluation is a process of formal approvals by various parties, generally including the business unit professional practice partner and, in certain situations, the regional professional practice partner and Risk Management. The objective of these reviews is to identify those engagements where the firm should consider implementing additional

safeguards to address audit risk or those instances where the firm should discontinue its professional association with the entity. In addition, certain factors that may alter the risk profile of the engagement, such as a significant change in the nature, size, structure, ownership or management of an entity's business, prompt evaluation procedures applicable to the situation, such as independence clearance and background checks, to be conducted before the annual continuance process.

Withdrawal process

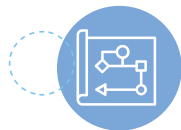
When we obtain information that indicates we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate bodies or authorities.



Policies and effective audit tools

Engagement performance, including KPMG audit methodology, encompasses all aspects of audit design and execution in accordance with auditing standards, including supervision, consultation, documentation, review and communication of audit results. Our system of quality control includes policies and procedures that prepare every KPMG professional performing audits with the information, tools, skills and behaviors needed for their assigned responsibilities. Our professionals above the associate level, including those in the Advisory and Tax practices supporting audit engagements and as determined by Tax and Advisory, also receive training on incorporating the KPMG judgment framework that addresses how to recognize and overcome biases in making judgments and applying appropriate professional skepticism.

Audit methodology

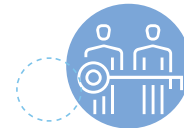


The KPMG audit methodology is based on the requirements of the PCAOB and AICPA, as well as the International Standards on Auditing. The KPMG audit methodology is set out in the KPMG Audit Manual (used with eAuditIT) and in the KPMG Audit Execution Guide (used with the new KPMG Clara workflow, described below) and emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality expectations.

As a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raised awareness of key audit risks, such as going concern⁴ and impairments⁵, and provided reminders of the importance of exercising professional skepticism, including taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk, or fraud.

Effective audit tools



We are implementing a phased deployment of the KPMG Clara workflow, which is replacing our existing electronic audit tool, eAuditIT. Limited deployment of the new KPMG Clara workflow in the U.S. took place during 2019, with additional engagement teams using the KPMG Clara workflow in 2020 and full deployment in the U.S. expected in 2021 (year-end audit dates after December 14, 2021). The KPMG Clara workflow includes a redesigned workflow linked to our revised methodology included in the KPMG Audit Execution Guide. The workflow includes a robust risk assessment that enables the auditor to understand the company, its processes and financial reporting risks and tailor the audit response to drive quality. The methodology and workflow are designed to build quality into the process and allow us to enhance our monitoring of the audit prior to issuance of the audit report. They are intended to deliver enhanced knowledge and guidance to engagement teams, allowing the auditor to read and understand the standards and how the KPMG methodology drives compliance with those standards. This will further standardize our audit approach.

⁴ An accounting assumption that a business will stay in operation, with no threat of ceasing its operations and liquidating its assets.

⁵ An accounting term that describes a reduction in the value of a company's asset, typically a fixed asset or an intangible asset.



The KPMG Clara workflow also provides powerful data and analytics capabilities. For example, enhanced functionality facilitates the performance of planning and risk assessment activities and substantive procedures, and includes capabilities that:

- Enable the analysis of account balances and journal entry data
- Automate “period on period” balances comparison and “time series” evolution information
- Enable the analysis of subledger, transactional data over business processes and accounts.

Over 2,200 professionals have advanced training in data visualization technologies for use on audits, and 500 are upskilled in data extraction and transformation technologies. More information on our capabilities, technology, and support, including the development of audit quality indicators, can be found in our [2020 Audit Quality Report](#).⁶

Quality control review



KPMG continually seeks to strengthen and improve the role that the quality control reviewer plays in audits, as this is a fundamental part of the system of quality control. Each KPMG audit involves either an engagement quality control review or a limited-scope quality control review (collectively, a quality control review). The type of quality control review depends on the type of audit.

An engagement quality control review, performed for such audits as financial statement audits of entities that have a high public profile and audits of internal control over financial reporting, includes an evaluation of significant judgments made by the team and related conclusions reached in forming the overall conclusion on the engagement. A limited-scope quality control review is performed for audits that do not meet the criteria for an engagement quality control review. These reviews provide reasonable assurance that, among other things, the entity’s financial statements comply with applicable accounting and reporting standards and relevant regulatory requirements and that the auditor’s report is appropriate. All quality control reviewers must be independent of the entity and maintain integrity and objectivity.

Reviewers meet certain qualifications, training, and experience

criteria to perform a quality control review for a particular engagement. Partners who perform engagement quality control reviews of public company audits receive additional internal training and are knowledgeable and experienced in SEC accounting and reporting matters and PCAOB standards (including, specifically, PCAOB Auditing Standard No. 1220, Engagement Quality Review).

KPMG requires a quality control review before the release date of the reports for financial statement audits, integrated audits, financial statement reviews, reviews of interim financial information, audits or reviews by component auditors (with certain exceptions) and other reports (except compilation reports) that may be used by more than one KPMG International member firm or relied upon by other parties.

In general, quality control reviewers discuss significant engagement matters with the lead audit engagement partner or managing director, review documentation related to significant judgments and conclusions, review the appropriateness of the financial statements and related disclosures, review the reports to be issued and, for engagement quality control reviews, evaluate the audit engagement team’s response and conclusions with respect to significant risks. In an integrated audit, the engagement quality control review includes review of management’s report on internal control over financial reporting and the related auditor’s report. Our report is not released until completion of the quality control review.

Engagement documentation



Our audit documentation is completed and assembled according to the timeline established by firm policy, and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.

KPMG policy requires engagement teams to clear all review notes before the report release date and initiate file closure within two business days of the report release. We also require engagement teams to submit physical documentation files to our records center within five business days after the release of the report⁶. To make it easier for engagement teams to file and retain documentation, we automated previously manual aspects of the archiving and file closeout process.

⁶ PCAOB auditing standards require that a complete and final set of audit documentation be assembled for retention within 45 days after the report is released.



Our audit professionals are trained on the documentation assembly and record retention process in connection with this policy, process and technology.

In accordance with the relevant SEC and PCAOB rules, as well as other applicable standards, laws and contractual requirements, the firm's document retention policies set forth the retention period for audit documentation and other records relevant to an engagement as well as related matters.



Independence

Our independence policies require that our firm, partners, management group and the people assigned to each audit engagement be free from financial interests in and prohibited relationships with the entities we audit, their affiliates, individuals in key positions, directors and significant owners. We require adherence to applicable independence requirements and ethical standards, which meet or exceed the standards promulgated by the SEC, PCAOB, AICPA, Government Accountability Office (GAO), and other applicable regulatory bodies.

Our national Independence Group, which is a dedicated group of experienced partners and employees reporting to the National Partner in Charge, Risk Management – Audit and Independence, is responsible for our independence policies, processes and controls in the areas outlined below.

Personal independence

Each professional has ultimate responsibility for maintaining personal independence.

In addition to policies prohibiting any professional or employee from trading on inside information, our partners, managing directors, managers and those providing professional services to an entity we audit or its affiliates (collectively, restricted entities) may not have direct or material indirect investments in that restricted entity, regardless of whether they are in possession of inside information about such entities.

The KPMG Independence Compliance System (KICS) contains an inventory of SEC registrants and other entities from which we must be independent, along with the securities issued by those entities. These entities and securities are marked as "restricted" in KICS. Before purchasing a security, securing a loan, or initiating another financial relationship, partners, managing directors and managers are required to use KICS to determine whether the entity is restricted. Additionally, acquisitions and disposals of investments and loans must be

reported in KICS, which automatically notifies professionals if a previously permissible investment or loan becomes "restricted." Other compliance monitoring processes also identify noncompliant activity (e.g., late reporting of an investment acquisition). For most investment activity, all managers and above are required to use brokers that link to and automatically feed into our professionals' KICS accounts, to enable timely reporting of investments and identification and disposal of potentially prohibited investments.

Certain firm professionals may also be subject to limitations related to other financial relationships (e.g., credit cards, insurance products and bank accounts) with restricted entities. In addition, certain firm professionals may not have a close family member in an accounting or financial reporting oversight role with an audit client or, in certain cases, its affiliates.

Postemployment relationships

KPMG professionals are required to report promptly to the firm any discussions or contacts regarding possible employment that they may have with an audit client or its affiliates.

Firm professionals engaged in possible employment negotiations who are members of that entity's audit engagement team are immediately removed from the engagement. Their work is reviewed to assess whether the professional exercised appropriate skepticism and, when appropriate, the work may be reperformed.

If a former KPMG professional accepts employment with an audit client or with certain affiliates, then the engagement team considers the appropriateness or necessity of modifying the audit procedures to adjust for the risk that the former professional's prior knowledge of the audit plan could reduce audit effectiveness.

For SEC issuer entities we audit, a former member of the audit engagement team may not accept employment in a financial reporting oversight role at such entity until the required "cooling-off" period, which in most cases is more than 12 months, has expired.

Rotation of audit partners

To comply with the Sarbanes-Oxley Act of 2002 and SEC independence rules, the firm's lead audit engagement partners and certain other partners and managing directors are subject to specific rotation requirements that limit the number of consecutive years certain individuals may provide services to an SEC-registered entity we audit. The firm's policies also limit the number of years certain individuals may provide services for audit clients not subject to SEC independence rules. To monitor compliance with these requirements, the firm uses its Partner



Rotation System, which assists in monitoring assignments of certain personnel and initiating personnel changes on entities we audit. Additionally, Risk Management must approve any proposed change of a lead audit engagement partner of an SEC registrant if the change is for any reason other than required partner rotation or normal partner retirement. Our monitoring system also aids in the development of timely transition plans that help the firm to deliver consistent quality service to the entities we audit. The process of monitoring and tracking service periods and rotations is subject to compliance testing as part of various monitoring functions.

Firm financial independence

Our Independence Group reviews all new firm financial transactions, including direct investments in firm pension and employee benefit plans, for potential independence issues and conducts monthly reviews of firm investments and loans to confirm that there are no investments in, or loans from, restricted entities. We test ownership threshold levels to help ensure that any indirect financial interest in an entity we audit is not material.

KPMG also uses KICS to record its own direct investments in listed entities and funds (or similar investment vehicles) as well as in nonlisted entities or funds. This includes investments held in pensions and employee benefit plans.

Additionally, we are required to record in KICS all firm borrowing and capital financing relationships, as well as custodial, trust, and brokerage accounts that hold member firm assets.

Clearance of prospective audit clients

KPMG follows specific procedures to evaluate the firm's independence related to prospective audit clients. These procedures, also referred to as "the independence clearance process," must be completed before accepting any audit or attestation engagement. A dedicated team within the Independence Group leads the independence clearance process for all prospective audits of SEC-registered entities.

Approval of audit and nonaudit services

Lead audit engagement partners and managing directors are required to reflect the legal and ownership structures of audit clients and their affiliates in the firm's Sentinel™ system. Additionally, KPMG International member firms must enter every proposed engagement (and the client for which it relates) into the Sentinel™ system before starting work. The Sentinel™ system will identify if the proposed service is for an audit client or any affiliate of an audit client. When the

engagement is for an audit client or affiliate, an evaluation of the permissibility of the service, including potential threats and safeguards, is required to be included in the Sentinel™ submission. This allows for the lead audit engagement partner or managing director to receive notification of all services to be provided to their audit client or its affiliates. For all services proposed for SEC-registered and certain nonpublic entities we audit, the lead audit engagement partner or managing director reviews and approves or denies the service. For approved proposed services, Sentinel™ designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

For SEC-registered entities, the audit partner or managing director obtains preapproval of permitted services from the audit committee prior to providing the service. For engagements subject to GAO standards, the lead engagement partner or managing director must approve nonaudit services before they begin.

Our policies and Sentinel™ system help us prevent the provision of prohibited nonaudit services to audit clients, facilitate audit committee preapproval of permitted services (as required) and allow us to identify and manage potential conflicts of interest.

Business relationships, suppliers and financial relationships

Firm policies and procedures help ensure that our business, supplier and financing relationships with audit clients are identified, assessed and maintained in accordance with applicable independence standards. The Independence Group monitors compliance with these policies and procedures.

Business acquisitions and investments

If KPMG is in the process of considering the acquisition of, or investment in, a business, we perform due diligence procedures on the prospective target to identify and address any potential independence and risk management issues before closing the transaction.

Training and confirmations

KPMG has established processes to communicate independence policies and procedures to our people. We require all professionals to complete annual independence training and affirm their independence when they join the firm and at least annually thereafter.



Independence monitoring

We monitor compliance with our independence policies related to personal financial interests through KICS as well as a personal independence compliance audit process. All partners are subject to independence compliance audits every five years and leadership⁷ is subject to independence compliance audits every three years. Client service employees are subject to independence compliance audits on a sample basis. Annually, the firm conducts approximately 1,000 independence compliance audits of its partners and professionals. For all new partners, principals and audit managing directors, we conduct detailed procedures before they join the firm or are promoted into such roles, to identify financial interests and relationships that would become impermissible in those roles. This allows the financial interest or relationship to be terminated or modified to prevent a violation prior to their joining the firm or the effective date of their promotion.

Through participation in the Audit, Advisory and Tax Quality Review Programs, the Independence Group evaluates a sample of audit engagements to determine compliance with independence requirements and related firm policies, including those pertaining to partner rotation; fees outstanding at commencement of the audit; maintenance of group legal, affiliate and ownership structures in Sentinel™; audit committee preapproval of services; required independence communications; and former partners in an accounting or financial reporting oversight role. A sample of nonaudit services provided by Advisory and Tax to SEC-registered audit clients is also reviewed to determine compliance with engagement setup and contracting requirements and to ensure permissibility under the SEC independence rules and PCAOB audit committee preapproval rules.

Sanctions for independence violations

All professionals are required to report a potential independence violation as soon as it comes to their attention. Any violations of auditor independence regulations are reported to the audit committee or those charged with governance at the audit client.

KPMG has an established and documented disciplinary policy in relation to independence violations, with multiple sanction levels (including financial penalties) that correspond to the significance of the violations. A failure to comply with our independence policies, whether self-reported or identified through a personal independence compliance audit or other compliance monitoring process, is subject to discipline. A panel

of firm leaders is charged with overseeing the imposition of sanctions for independence violations.

Compliance with laws, regulations, and anti-bribery and corruption



Compliance with laws, regulations and standards is expected of everyone at KPMG. In particular, we have zero tolerance for bribery and corruption. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials.

For each audit report issued for a U.S. issuer, the firm is required to submit a Form AP in accordance with PCAOB Rule 3211. To assist engagement teams in completing these forms accurately, we recently implemented changes to our process and tool, developed new training and required engagement teams to consult internally in certain circumstances.

Objectivity



We are committed to maintaining our objectivity and avoiding undue influence. We accept only those engagements we can perform consistent with our high-quality standards and without conflict of interest. Firm personnel are trained to be alert to conflicts of interest between the firm and our clients or among our clients and are careful to identify and evaluate actual and potential conflicts of interest to resolve, manage or avoid the conflict timely. If significant threats to objectivity cannot be reduced to an acceptable level, a conflict of interest may preclude the firm from accepting a relationship or a specific engagement.

Confidentiality



KPMG has policies and processes in place to help ensure that any nonpublic information that comes to the attention of our personnel as a result of their association with the firm (confidential information) is treated confidentially, in accordance with applicable laws, professional standards and contractual requirements. All KPMG personnel are trained on and required to confirm their understanding of and adherence to the firm's confidentiality policies when they join the firm and at least annually thereafter.

⁷ Members of the Board of Directors and Management Committee



Recruitment, development and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, integrity, passion and purpose to deliver a high-quality audit. This requires appropriate recruitment, development, training, promotion and assignment of professionals.

Recruitment and onboarding



The interview process includes recruiting individuals to regularly updated job descriptions and having technical experts participate in the interview process to assess an applicant's skill sets and knowledge base.

Before receiving an offer of employment, all experienced applicants receive the firm's independence guidelines to ensure they understand these requirements early in the recruiting process. Campus hires receive this information at the time of offer. Anyone who accepts an offer must complete an authorization for release of information, which allows the firm to conduct a background investigation that verifies certain information through independent sources. Upon joining the firm, new hires complete required training programs on independence, ethics, respect and dignity, protection of confidential information, document retention and security, in addition to any applicable practice-related training. Situations involving independence or conflicts of interest are resolved before the individual can begin employment.

Professional development



Our professionals are required to maintain their technical competence and to comply with applicable regulatory and professional requirements regarding continuing professional education (CPE). To support our commitment to audit quality, as

well as our commitment to the growth and development of our professionals, we continuously evaluate and improve upon our methods of instruction by assessing results gathered through course evaluations, focus groups, testing, and follow-up surveys. Recent changes include:

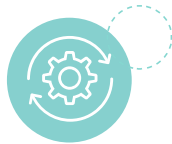
- Continued expansion of our performance support learning library, which includes various resources, such as microlearnings (short instructional videos and web-based training courses), and job aids to provide our professionals with quick access to knowledge and learning resources at the point of need. This includes the continued development of Contextual Guidance microlearning assets, which provide learning at the time of need related to audit methodology topics directly associated with specific tasks within the KPMG Clara workflow activity screen.
- Implementation of new design methodologies that consistently incorporate advanced design techniques to drive greater learner motivation, engagement with the content and retention of skills and knowledge. The most significant new design methodology is the learning Roadmaps, which delivers content divided into many short microlearnings and activities. The microlearnings are associated with activities that our professionals are asked to complete to enhance and apply what was learned, such as reading a related audit standard or speaking to members of their engagement team about the current year audit approach for that topic. The content in the Roadmaps involves the professional in the KPMG Clara workflow, which is grounded in the auditing standards and reinforces the professional's responsibilities to perform an audit in accordance with these standards. The Roadmaps are deployed to our audit professionals over a time period that is responsive to their time of need. This new way of providing learning opportunities allows our professionals to focus on the key concepts, practice using resources that are used on a day-to-day basis on their engagements and put the content into practice in a meaningful and immediate way.



Client service professionals who are eligible to hold a certified public accountant (CPA) license (i.e., those who have passed the CPA exam and meet applicable state educational and experience requirements) must be licensed to practice in the state where their principal place of business is located and meet CPA licensing or reciprocity requirements in any other state in which they practice public accounting. We monitor license expiration and renewal for our professionals using a database, which generates a notification before license expiration. Professionals who are deficient in meeting our CPA licensing requirements may be subject to disciplinary action.

Our Ethics and Compliance Group tests and monitors compliance with firm policies related to CPE and licensing.

Audit continuous improvement



As part of our focus on audit quality, we maintain a team of process improvement professionals with extensive experience in improving the audit process. Our Continuous Improvement (CI) program helps audit teams improve project planning and management and apply process improvement techniques related to engagement execution. Engagement teams learn to improve audit quality, while driving operational excellence and enhancing the experience for our clients and people. The CI team supports our system of quality control through design and implementation of response initiatives. The CI program is deployed through several modes including workshops with engagement teams alone or with their client, better practices and solution sharing via the CI portal, and coaching provided by the local office CI champion network.

Diversity and inclusion



Diversity and inclusion (D&I) is a longstanding commitment and foundational component of our firm's values and strategy. It is top-of-mind to leadership and driven by the firm's Chief Diversity & Inclusion Officer, National Diversity and Inclusion Center of Excellence, and functional business leaders, with the support of seven Business Resource Groups that engage more than a third of our people firmwide.

This year, we announced a renewal of that commitment through a targeted, but bold effort, Accelerate 2025. This effort – aligned to our leadership team's five-year tenure – will help ensure that more individuals from underrepresented groups choose KPMG as their employer of choice, build careers at KPMG, and advance to leadership positions within our firm and within the profession.

We are proud of our work and this effort, but recognize that there is always more to do. Part of this effort is committing to greater transparency on delivering against those objectives. At the end of fiscal 2020, the firm's workforce is represented by 62 percent of underrepresented groups, 36 percent at the partner and managing director level. Women represent 46 percent of our workforce and 24 percent of partners and managing directors. People of color represent 34 percent of our workforce and 16 percent of partners and managing directors.

Our goal is to be a role model for the professional services industry, with the most diverse representation and engagement at all levels of the organization. We want to compel and inspire others – including clients, vendors and communities – to partner, collaborate, share best practices and lead. We look forward to sharing more information through an in-depth D&I report on our efforts and progress.

Performance measurement, advancement and compensation



All partners and employees participate in annual expectation setting and semiannual performance evaluations. Our performance measurement model provides a consistent framework by which leadership and people management leaders may discuss performance relative to goals and objectives and career development aspirations. In addition to considering adherence to our firm's values, we evaluate each professional on skills and behaviors that include a focus on quality, compliance with professional standards and firm policies, technical competencies, engagement execution, leading and developing people and continuous learning. Annual performance evaluation results directly affect compensation and advancement of personnel, including partners, and in some cases, their continued association with our firm.

KPMG has compensation and promotion policies that are informed by market data and linked to the performance review process. This helps our employees know what is expected of them and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions. Reward decisions are based on consideration of both individual and firm performance.

Our partnership admission process is thorough. Each candidate, whether a direct-entry or internal nomination, undergoes a due diligence process that includes a background check,



independence review, ethics and compliance review and consultation with the Office of General Counsel. Candidates are interviewed by several members of firm leadership, including a professional practice or risk management partner and a member of the Board of Directors. Each internal partner candidate also undergoes an extensive review by a number of departments, including Risk Management. All recommendations for admission to the partnership must be approved by our Board of Directors.

Audit partner compensation is determined annually by Audit leadership and approved by our Management Committee and Board of Directors. The professional practice partners have significant involvement in evaluating Audit partner performance, including consideration of audit quality indicators and compensation recommendations. Additionally, one of the factors considered in the compensation of Tax and Advisory partners who participate in audit engagements is their performance relative to audit quality.

Our policies for setting compensation amounts do not allow Audit partners (and certain other partners meeting the definition of an Audit partner for purposes of this policy) to be compensated for obtaining nonaudit service engagements to an entity that they audit.

All partners are compensated out of the firm's profits, which are based on the firm's results as a whole and are not dependent directly on the performance of any particular line of business or function. Individual partner compensation is set considering sustained quality, performance, roles and responsibilities and leadership values and behaviors.

Assignment of engagement teams



We assign people to specific engagements based on their skill sets, relevant professional and industry experience, the nature of the assignment or engagement, and available capacity. Lead audit engagement partners and managing directors, and quality control reviewers' assignments are approved by business unit leadership and may also be subject to regional and national leadership approval, including Risk Management, based on the individual characteristics of the specific engagement.

The lead audit engagement partner or managing director considers whether the engagement team collectively has the appropriate competencies and capabilities, including time, to perform the audit engagement in accordance with professional standards, applicable legal and regulatory requirements, and firm policies. This may include involving specialists from our own firm, other KPMG member firms or external experts. Engagement team competencies and capabilities include:

- An understanding of professional standards and legal and regulatory requirements
- Technical skills, including in specialized areas of accounting or auditing, such as tax, actuarial and valuation
- Ability to apply judgment and professional skepticism
- An understanding of KPMG quality control policies and procedures
- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- Knowledge of relevant industries in which the audit entity operates.

Partner and employee surveys



Throughout the year, partners and employees are invited to participate in independent surveys that measure their overall level of engagement with the firm. The results provide leadership with information about drivers of business performance, employee engagement and motivation; enable leadership to see how the firm is progressing against strategic priorities; and provide metrics that identify potential areas that may require leadership attention.



Commitment to technical excellence and quality service delivery

All professionals are provided with the technical training and support they need to perform their roles. This includes access to employed KPMG specialists and DPP – which is made up of senior professionals with extensive experience in auditing, reporting and risk management – either to provide resources to the engagement team or for consultation. Within our network of KPMG member firms are other KPMG professionals who have a variety of skills and experiences and who are available for additional support or collaboration should the need arise.

Consultation and differences of opinion



We have established protocols for consultation regarding significant accounting, reporting and auditing matters, including procedures to resolve differences of opinion on audit engagement issues. Consultation within the firm is encouraged and, in certain circumstances, required. Technical support for each engagement team comes from the DPP group and a network of specialists in topics such as tax, valuation, technology and other business areas, as well as from our Professional Practice Partners.

Differences of opinion may arise within the engagement team, with those consulted, or between the lead audit engagement partner or (for certain private clients) managing director and the quality control reviewer. When an engagement team member does not agree with the resolution of a difference of opinion, even after appropriate consultation, and believes it necessary to be disassociated from the matter, the individual documents

the matter, including the basis for resolution, in the audit documentation and consults with relevant partners, which may include those in DPP. If there are disagreements within DPP over the conclusions reached, the alternative view, with input from the dissenting DPP professional, is fully documented and the Chief Accountant or Chief Auditor (or his/her delegate), as well as the National Managing Partner – AQPP, are consulted. We also do not issue the auditor's report until differences of opinion are documented and the final conclusion is implemented and documented.

Access to specialist network



Engagement teams have access to a network of highly skilled KPMG specialists employed locally and at other KPMG member firms, if needed. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and competencies.

The need for and assignment of specialists to a specific audit engagement is considered throughout the audit engagement, including at acceptance and continuance. Specialists who are assigned to serve the engagement team have the competencies and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.



Performance of effective audits

The KPMG audit is, where applicable, an integrated audit model, which incorporates both the audit of the financial statements and the audit of internal control over financial reporting. Our integrated audit is enhanced through timely communications with audit committees and company management throughout the audit process.

We use our knowledge and experience to identify and assess risks to determine the nature, timing and extent of audit procedures. The higher the risk, the more persuasive the audit evidence needs to be to mitigate such risks. We exercise professional skepticism throughout the audit by gathering and objectively evaluating the sufficiency and appropriateness of audit evidence, which includes both confirming and disconfirming evidence.

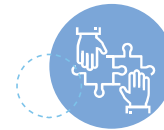
The KPMG audit addresses our clients' manual and automated controls. We integrate our Information Technology and Tax professionals and specialists into the core audit engagement team, when appropriate, and incorporate procedures to identify and respond to fraud risks.

The KPMG audit also guides the conduct of audits of financial statements consisting of two or more components (group audits) and clearly delineates responsibilities relative to managing group audits and the involvement of the group audit engagement team in the work performed by the component auditor. We have policies and guidance related to matters that merit special consideration in group audits, including:

- Performing the group risk assessment, including obtaining an understanding of the group, its components and their environments
- Identifying significant components
- Identifying significant accounts/disclosures and relevant assertions at the group level
- Evaluating group-wide controls

- Establishing group and component materiality
- Communicating with component auditors
- Being involved in the component auditors' work
- Evaluating the results and findings of all work performed and considering whether sufficient appropriate audit evidence has been obtained.

Timely partner and manager involvement



The engagement partner is responsible for the direction, supervision and performance of the engagement and therefore responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment and significant risks.

Accelerating planning and risk assessment procedures is key to proper audit sequencing and achieving sustained audit quality. Engagement teams participating in the KPMG Clara deployment are subject to milestones and project management deadlines that are built into the workflow. As we conduct our final audits using eAudIT, our Accelerating Audit Execution framework focuses on a properly sequenced audit aligning with our KPMG Clara methodology and workflow.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation, including documentation in particular relating to significant matters



arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaising with the client and team, building a deep business understanding that helps the partner and team deliver a quality audit.

Critical assessment of audit evidence with emphasis on professional skepticism



The nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. Further, each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout the auditing standards, and the KPMG audit emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

Our professional judgment framework recognizes the need to be aware of, and alert to, biases that may pose threats to good judgment. We require engagement teams to follow a structured approach to auditing areas that require significant judgment, which involves:

- Identifying and evaluating estimates that contain a risk of material misstatement
- Performing retrospective reviews of the above identified estimates as well as those that were a risk of material misstatement in the prior year but are no longer considered a risk of material misstatement
- Explicitly documenting the sufficiency and appropriateness of audit evidence obtained for all estimates, in light of the risk assessment, the procedures performed, and any contradictory, inconsistent or other disconfirming evidence identified.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Supervision, review and support for the engagement team

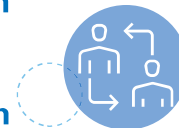


Supervision entails directing the efforts of professionals who are involved in meeting the objectives of the audit and determining whether those objectives were accomplished. Supervision includes instructing and guiding professionals; keeping informed of significant issues; reviewing work; addressing auditing, accounting and reporting matters; and agreeing on appropriate conclusions.

Appropriate involvement of the quality control reviewer

Although the engagement partner is ultimately responsible for the resolution of financial reporting and accounting and auditing matters, the quality control reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete and the related report issued.

Insightful, open and honest two-way communication



Effective two-way communication between the auditor and the audit committee is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG, we stress the importance of keeping the audit committee informed of issues arising throughout the audit. We achieve this through a combination of reports and presentations, attendance at audit committee, and, as appropriate, board meetings, ongoing discussions (formal and informal) with management and, when appropriate, members of the audit committee.

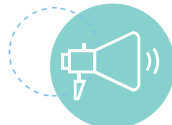
The firm provides templates to engagement teams to facilitate the relevance, timeliness, and quality of the communications between the auditor and audit committee in a manner consistent with the rules and regulations established by policymakers.



Commitment to monitoring quality and continuous improvement

KPMG is committed to continually improving the quality, consistency and efficiency of our audits. Our quality monitoring and root-cause programs enable us to identify quality deficiencies, perform root-cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and our system of quality control. The following paragraphs discuss other elements of our commitment to continuous improvement.

Monitoring



Our monitoring procedures include our firm's internal inspection program (Quality Performance Review or QPR), our internal independence and compliance monitoring processes, preissuance monitoring programs and other activities described in this report. We continuously evaluate our monitoring results, as well as the results of external regulatory inspections and peer reviews. We conduct ongoing consideration and evaluation of the following matters:

- Relevance and adequacy of the firm's messaging, policies, procedures and practices
- Appropriateness of firm guidance materials, tools and practice aids
- Effectiveness of professional development activities
- Results of external reviews, including by the PCAOB, other regulators and governmental bodies and our peer review firm
- Compliance with professional and firm standards, policies and procedures

- Effectiveness of action plans developed to address systemic findings related to audit engagement performance and our system of quality control.

Internal reviews

Inspections Group



We reinforce our commitment to audit quality through our Inspections Group, which is comprised of highly skilled professionals whose function is to monitor our audit and attest engagements and interact with external inspectors and peer reviewers.

The Inspections Group executes our annual internal inspection program for the Audit practice by performing both pre- and postissuance audit quality inspections and liaising closely with the RCCG. The group also coordinates and acts as the principal interface for external audit quality reviews, including the annual PCAOB inspection of the firm and the AICPA peer review program.

To further enhance the objectivity of those who conduct internal reviews and interact with external inspectors and peer reviewers, our Inspections Group is part of Risk Management. The Vice Chair – Risk Management reports directly to the Chair and CEO and has no audit operational responsibilities. This ensures that the group's internal inspections of the firm's audits are objective and free from influence or pressures from engagement partners or Audit leadership.



Internal inspection processes

Through our QPR program, which implements an aspect of the monitoring element of the quality control standards set by the PCAOB and AICPA, we review a selection of audits conducted during each annual audit cycle. We identify areas for improvement and use the findings to continuously enhance our audit process, guidance to our professionals and training. During the inspections planning phase, the QPR program considers areas for improvement that were previously identified to assess our progress in those areas.

Our QPR program components include:

- The core Inspections Group, consisting of partners, managing directors, executive directors, directors and senior managers, supplemented by other firm professionals with applicable industry and technical knowledge
- Systematic reviews of individual partner and managing director audit engagements of public and nonpublic entities
- Systematic reviews of audit engagements of selected managers in a lead role for an SEC-registered entity
- Reviews of audit engagements using risk-based selection criteria
- Reviews of audit engagements on a random basis
- Frequent, timely reporting of inspection results
- Identification of common inspection findings, including those areas where audit quality can be improved, which are provided to the RCCG for consideration in its root-cause analysis.

Root-cause analysis

The role of the RCCG is to respond to engagement and firm-level audit quality control matters raised through internal and external inspections or through other channels by (1) gathering information associated with audit quality matters, identifying the root causes of those deficiencies, and supporting the development of remedial action plans designed to enhance audit engagement performance or quality controls; and (2) enhancing the firm's overall processes to build audit quality considerations into operational and business initiatives through ongoing collaboration with other Audit practice groups. The RCCG analyzes root causes associated with audit quality matters through a process tailored to specific circumstances,

which involves defining the problem, collecting and analyzing data, and identifying root causes. To address root causes, the RCCG also helps develop, implement and monitor remedial actions that are selected by the senior Audit leadership team in conjunction with other Audit practice groups and audit professionals.

Risk compliance program (RCP)

The firm is subject to an annual RCP as a condition of ongoing membership in KPMG International. The RCP is a cross-functional self-review program designed to provide KPMG firms with a consistent process to document, assess and monitor their system of quality control and compliance with Global Quality and Risk Management (GQ&RM) policies, underlying processes and their related procedures, which include the requirements of ISQC 1. The RCP results are considered during our annual assessment of our system of quality control. Where findings are identified during the RCP, we are required to develop appropriate action plans and monitor the status of each action item through to completion.

Global compliance reviews

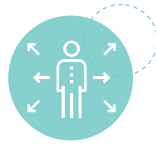
As a condition of ongoing membership in the KPMG International network, we are also subject to a cross-functional global compliance review (GCR), at various intervals based on identified risk criteria. KPMG International's GCR team, which is external to KPMG LLP, performs the reviews and is objective and knowledgeable of GQ&RM policies. GCRs assess compliance with select KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of the firm's:

- Commitment to quality and risk management (tone at the top) and the extent to which our overall structure, governance and financing support and reinforce this commitment
- Compliance with KPMG International policies and procedures
- Effectiveness in performing our own RCP.

We develop action plans to respond to all GCR findings that indicate improvement is required and agree these with the GCR team, which monitors our progress on these plans. Results are reported to the Global Quality and Risk Management Steering Group and to appropriate KPMG International and regional leadership.



External reviews



Regulatory

The PCAOB oversees auditors of U.S. public companies to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB conducts periodic inspections of registered public accounting firms, and we are subject to annual inspection. The PCAOB plays an important role in improving audit quality and the results of its inspection process provide areas of focus to enhance our engagement performance and strengthen our system of quality control.

KPMG has been subject to 17 annual PCAOB inspections (excluding a limited inspection in 2003). In each PCAOB inspection, certain of our public company audit engagements were selected for review and certain procedures relating to the activities and responsibilities of our executive and national offices were performed. As initially published, the PCAOB's inspection reports include a public portion (Part I), which describes the PCAOB's observations related to the particular audits it inspected, and a nonpublic portion (Part II) that includes the PCAOB's criticisms or potential defects in the firm's system of quality control. The quality control observations remain nonpublic if the firm demonstrates to the PCAOB's satisfaction that it has made substantial, good-faith progress toward remediating the quality control observations in the report within the 12 months following the initial publication of the report.

The status of the five most recent PCAOB inspections follows.

The PCAOB has not yet released its 2020 KPMG inspection report.

On February 2, 2021, the PCAOB released its 2019 KPMG inspection report. The public portions of the report are available on our website: home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html . We will submit our response to the nonpublic portion of this report no later than December 2021.

In June 2020, the PCAOB issued its 2018 KPMG inspection report. The public portions of the report are available on our website: home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html . We will submit our response to the nonpublic portion of this report no later than April 2021.

During January 2019, the PCAOB issued its 2016 and 2017 KPMG inspection reports. The public portions of the report are available on our website: home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html . We submitted our response to the nonpublic portion of these reports in January 2020.

KPMG does not publicize otherwise nonpublic portions of PCAOB inspection reports. However, we would be pleased to discuss with our clients significant information contained in the reports and the areas of focus for audit performance improvements.

Peer review

To comply with licensing requirements of state boards of accountancy, the GAO and membership in the AICPA, we undergo external peer review every three years. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The firm's most recent peer review report on our system of quality control applicable to engagements not subject to permanent PCAOB inspection (nonpublic entity accounting and auditing practice) for the year ended March 31, 2020 was issued with a *pass* rating by PricewaterhouseCoopers LLP in December 2020.

Our most recent peer review report and the AICPA's acceptance letter are public documents that are accessible through our website at home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html .

Continuous improvement

We have taken a number of specific steps to improve our audit quality foundation, which are described in more detail in our most recent [2020 Audit Quality Report](#) . We invite our interested stakeholders to review that report as well.



KPMG actions in 2020

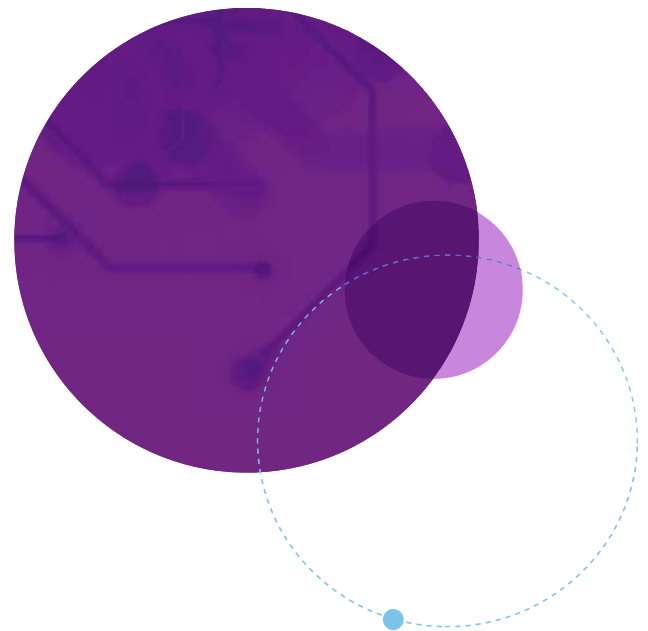
These key actions had a direct bearing on audit quality, which remains our highest priority.





Statement of effectiveness of the system of quality control

As set forth earlier in this report, KPMG is committed to providing high-quality professional services, including audit services, in an ethical manner for all of our constituents, including entities that are listed on capital markets around the globe. Maintaining an effective system of quality control is paramount to achieving this commitment and the consistent performance of high-quality audits. The Audit practice performs an annual evaluation of the policies and procedures and operation of its system of quality control. The system of quality control includes, among other components, monitoring the results of the Audit practice internal inspection program as well as evaluating the results of external regulatory and peer reviews. The results of these activities, together with other activities described in further detail in the “Monitoring” section of this report, are reviewed on a recurring basis to determine and develop corrective actions, as needed, to continually improve the firm’s system of quality control. Such evaluations have provided the basis to conclude that the overall system of quality control for the Audit practice is operating effectively.



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Transparency Report 2020

Supplement

Assisting audit committees in meeting
NYSE rules on auditor communications

January 2021

read.kpmg.us/auditquality

1.1 System of quality control

KPMG LLP (KPMG or the firm) maintains a system of quality control that is designed to meet applicable regulatory standards over quality control for a CPA firm. The accompanying document, [Transparency Report 2020](#), describes that system in more detail and encompasses:

- Tone at the top, including leadership responsibilities, ethics and integrity, and audit quality
- Association with the right clients
- Relevant ethical requirements, including independence, objectivity and confidentiality
- Recruitment, development and assignment of appropriately qualified people
- Commitment to technical excellence and quality service delivery and performance of effective audits
- Commitment to monitoring quality and continuous improvement, including internal and external reviews.

KPMG periodically reviews its policies and practices to respond timely to changes in regulatory and professional requirements.

2. Review action plans

As part of our continuous improvement and quality control efforts, KPMG has dedicated audit quality functions that determine root causes for audit quality deficiencies; participate in the development of remedial action plans; and monitor the timely implementation, execution and effectiveness of those plans.

3. Internal and external inspections and other inquiries or investigations of audits carried out by the firm

We are not aware of any matter arising out of an internal or external inspection, any inquiry, or any investigation by government or regulatory authorities respecting an independent audit carried out by KPMG within the preceding five years that would have a material adverse effect on KPMG's operations or our ability to fulfill our obligations as independent auditor.

However, in resolving certain investigations, the firm has agreed to enhance specific areas of its policies and procedures. Accordingly, KPMG notes the following:

SEC Order of June 17, 2019¹

On June 17, 2019, the U.S. Securities and Exchange Commission (SEC) issued an order (the Order) instituting public administrative and cease and desist proceedings against KPMG in relation to the two matters described below.

(a) In early 2017, KPMG learned that an individual who had joined the firm from the Public Company Accounting Oversight Board (PCAOB) subsequently received confidential information from the PCAOB and shared it with other KPMG personnel. When KPMG's leadership became aware of the misconduct, the firm immediately reported the matter to the PCAOB and the SEC, took steps to separate implicated individuals from KPMG and retained outside counsel to investigate. That investigation revealed that some KPMG individuals may have had information suggesting improper access to information regarding upcoming PCAOB inspections and failed to report that information in a timely manner.

In January 2018, the U.S. Attorney's Office for the Southern District of New York announced that it had criminally charged five of the individuals who had been separated from KPMG in early 2017. The SEC also instituted administrative proceedings against the same individuals. Four of these individuals have entered guilty pleas, and two of these individuals – one partner and one director – also have agreed to settlements with the SEC.

On March 11, 2019, a former KPMG partner was convicted following a jury trial of four of the five charges against him, including wire fraud and conspiracy to commit wire fraud. On January 15, 2020, the SEC suspended this same partner from appearing or practicing before the SEC. KPMG cooperated fully with the U.S. Attorney's Office and the SEC in connection with this matter and took several remedial actions designed to prevent the sort of individual misconduct at issue in this matter, including updating the firm's Code of Conduct and conducting a comprehensive culture assessment assisted by an independent advisory firm.

¹ Following the SEC Order of June 17, 2019, a number of state regulatory bodies have initiated inquiries into the facts and circumstances related to this matter. Certain state regulators may take action against KPMG and, to date, KPMG has reached settlements with the California and Texas state boards of accountancy.

(b) The second matter resolved by the Order relates to training exams and was discovered by KPMG in late 2018. Some of the firm’s professionals shared the answers to open-book tests that were administered in connection with internal, firm-sponsored training. In the context of investigating the training exams, KPMG discovered that prior to 2016, certain individuals had manipulated the hyperlink associated with the training exams to ensure passing scores. KPMG immediately reported this misconduct to its regulators, and KPMG’s Board of Directors established a Special Committee to oversee the investigation conducted by outside counsel.

The Order censured KPMG for violating PCAOB Rule 3500T and other standards. Rule 3500T requires KPMG and associated persons to comply with ethics standards mandated by the American Institute of Certified Public Accountants. The Order also found that the violations of Rule 3500T caused KPMG to fail to be in compliance with PCAOB QC Section 20.09, which requires firms to establish policies and procedures that provide reasonable assurance that personnel “perform all professional responsibilities with integrity.” The Order required the firm to cease and desist from committing or causing any future violations of PCAOB Rule 3500T and imposed a \$50 million civil monetary penalty and remedial undertakings upon the firm. The remedial undertakings obligate the firm to take certain actions, including but not limited to an internal review of the firm’s policies and procedures related to ethics and integrity and the completion of the Special Committee’s investigation related to the training exams. KPMG agreed to provide the SEC with reports summarizing the review and investigation. The review and investigation have been evaluated by an independent, third-party consultant retained by KPMG, the reports provided to the SEC, and for the past year the firm has been providing additional ethics and integrity training to its professionals.

Miller Energy settlement

On August 15, 2017, the SEC announced a settlement with the firm and one of its partners with respect to the firm’s audit of the fiscal year 2011 financial statements of former client Miller Energy Resources, Inc. (Miller Energy) and the firm’s review of Miller Energy’s financial statements for the third quarter of fiscal year 2011. As part of the settlement, the firm agreed to the entry of an administrative order censuring it and obligating it to complete a number of undertakings. The undertakings included, among other things, conducting a firmwide internal review of the adequacy of the firm’s policies and procedures with respect to the audit areas in which the SEC found deficiencies and providing the SEC with a detailed report (the KPMG Report) summarizing both the review itself and any changes that the firm made in those areas between 2011 and 2017, as well as any additional changes that the firm determined to make as a result of the review. In addition, as required by the settlement, KPMG hired an independent consultant, to whom the firm provided the KPMG Report, and who conducted his own review of the same areas. At the conclusion of his engagement, the independent consultant provided KPMG and the SEC with a report summarizing the review, noting that he concurred with the firm’s finding that relevant policies, procedures, and training programs are adequate and sufficient to provide reasonable assurance of compliance with all relevant SEC regulations and PCAOB standards and rules. The consultant did not make any recommendations for additional changes.

KPMG remains fully committed to maintaining a system of quality control that meets or exceeds all applicable standards.

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Questions?

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

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**NY Power
Authority**

**Canal
Corporation**

Audit Committee

***New York Power Authority and Canal Corporation
Internal Audit Update***

3/18/2021

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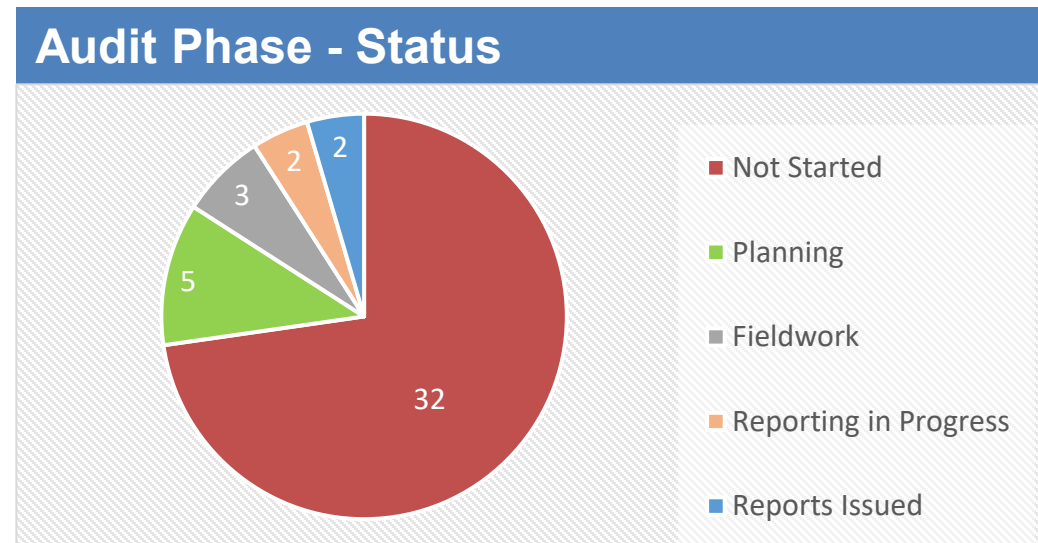
Appendix

- Appendix A – 2021 Internal Audit Plan
- Appendix B – Changes to 2021 Internal Audit Plan

Executive Summary

2021 Audit Plan Status

- 2021 Plan Status*:
 - 44 audits are included in the NYPA and Canals Audit Plan.
 - Two audit reports have been issued to date. Two audits have moved to the reporting stage and are expected to be issued within the next week.
 - Three audits are in fieldwork and are expected to be issued by the end of Q1 or early April. Planning for three Q2 and two ongoing audit projects has begun.



* Details of audit plan status can be found in Appendix A.

Changes to 2021 Internal Audit Plan

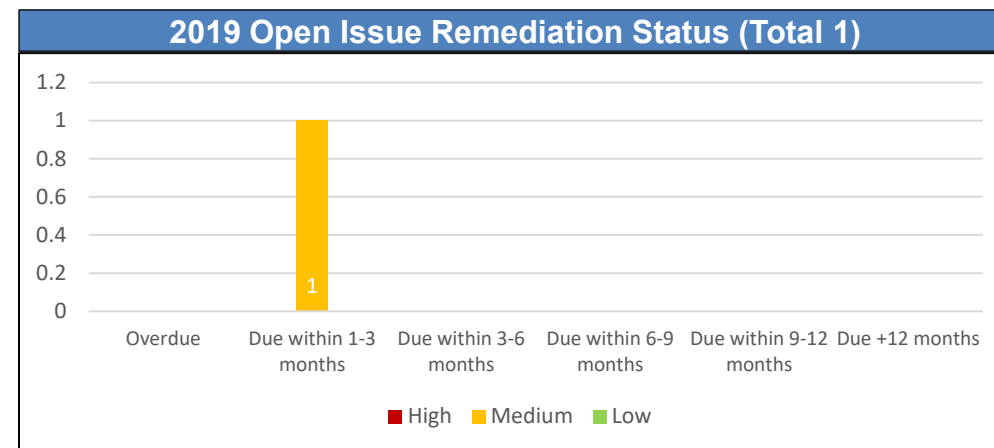
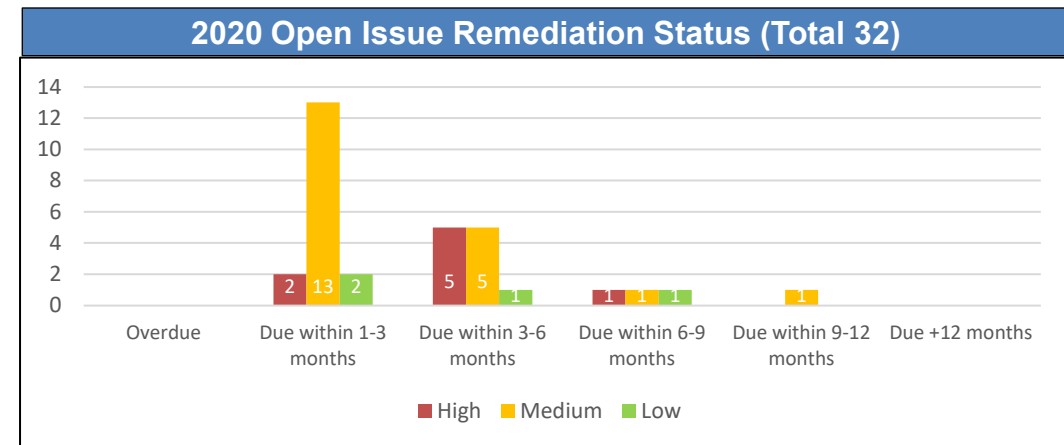
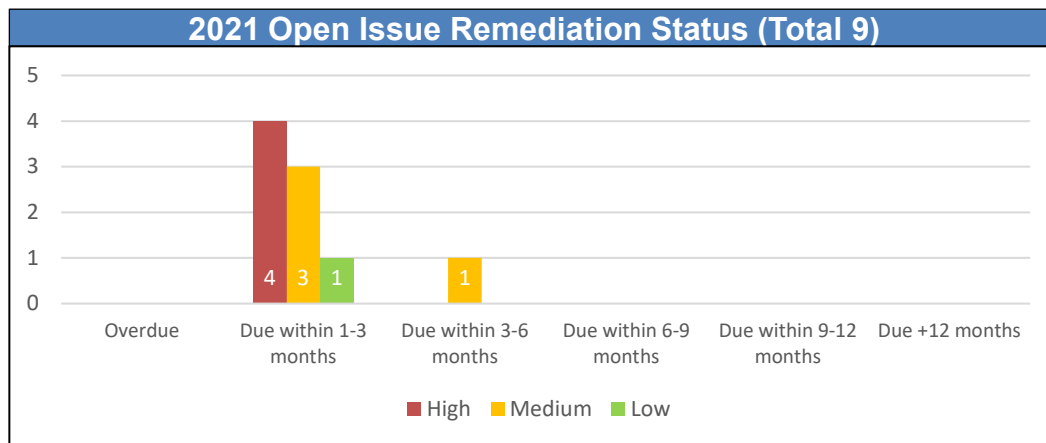
- Based on management requests and supplemental information provided by management, 44 audit projects are included in the 2021 Audit Plan. One audit project has been added to the Internal Audit Plan as follows:

2020 Audit Status	3/9/21
2021 Internal Audit Plan	43
Audits Added to 2021 Internal Audit Plan NYPA: 1 (Contractors Out-of-State Travel Affirmation Review)* Canals: 0	+1
Audits Removed from 2021 Internal Audit Plan NYPA: 0 Canals: 0	0
Total 2021 Audits	44

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

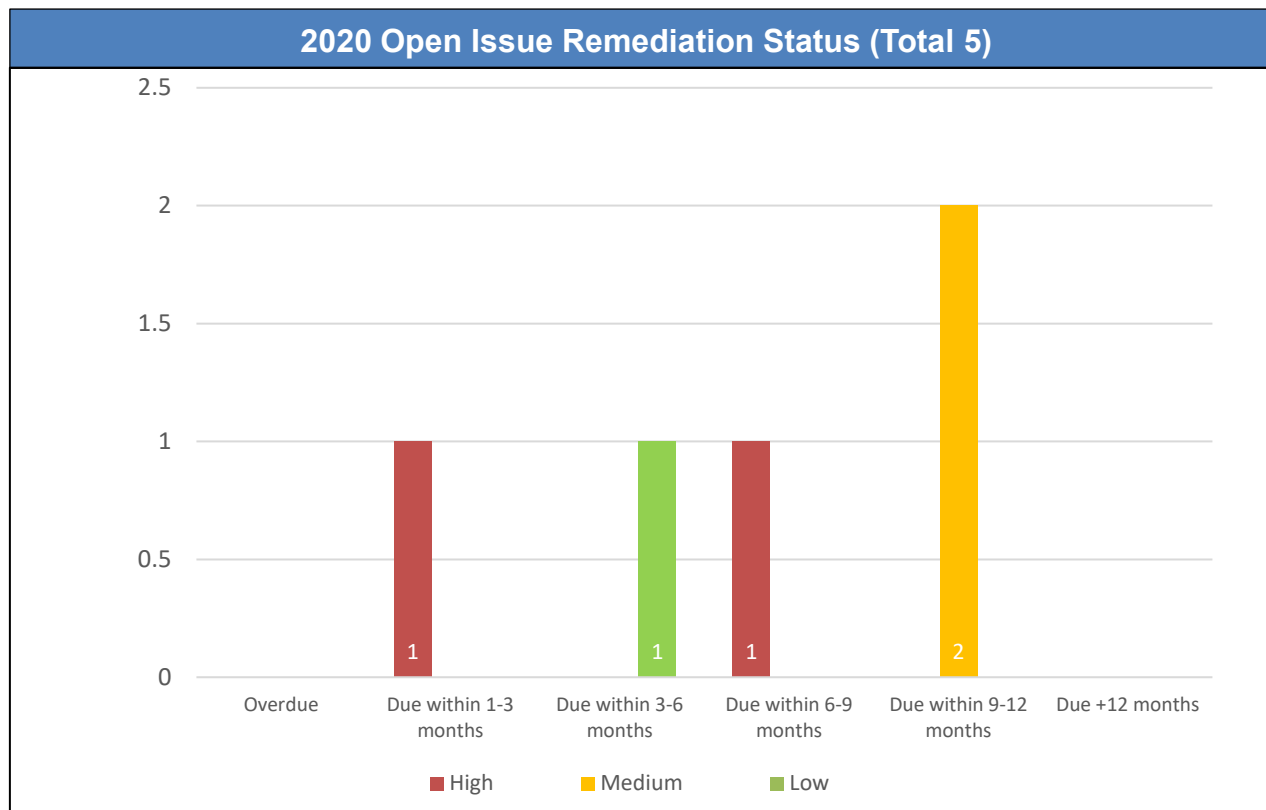
Internal Audit Remediation Status – NYPA

- As of March 9, 2021, nine 2021 recommendations, 32 2020 recommendations and one 2019 recommendation remain open for NYPA. See slide 8 for details regarding the one 2019 open recommendation.
- The below bar chart shows the 2019-2021 open recommendations and those high, medium, and low rated observations that are due for closure over a 12-month timeframe, broken down in three-month increments. Open recommendations are on track to close in accordance with their due date and no observations are overdue to date.



Internal Audit Remediation Status – Canals

- As of March 9, 2021, five 2020 recommendations remained open for Canals.
- The below bar chart shows the 2020 open recommendations and those high, medium, and low rated observations that are due for closure over a 12-month timeframe, broken down in three-month increments. Open recommendations are on track to close in accordance with their due date and no observations are overdue to date.



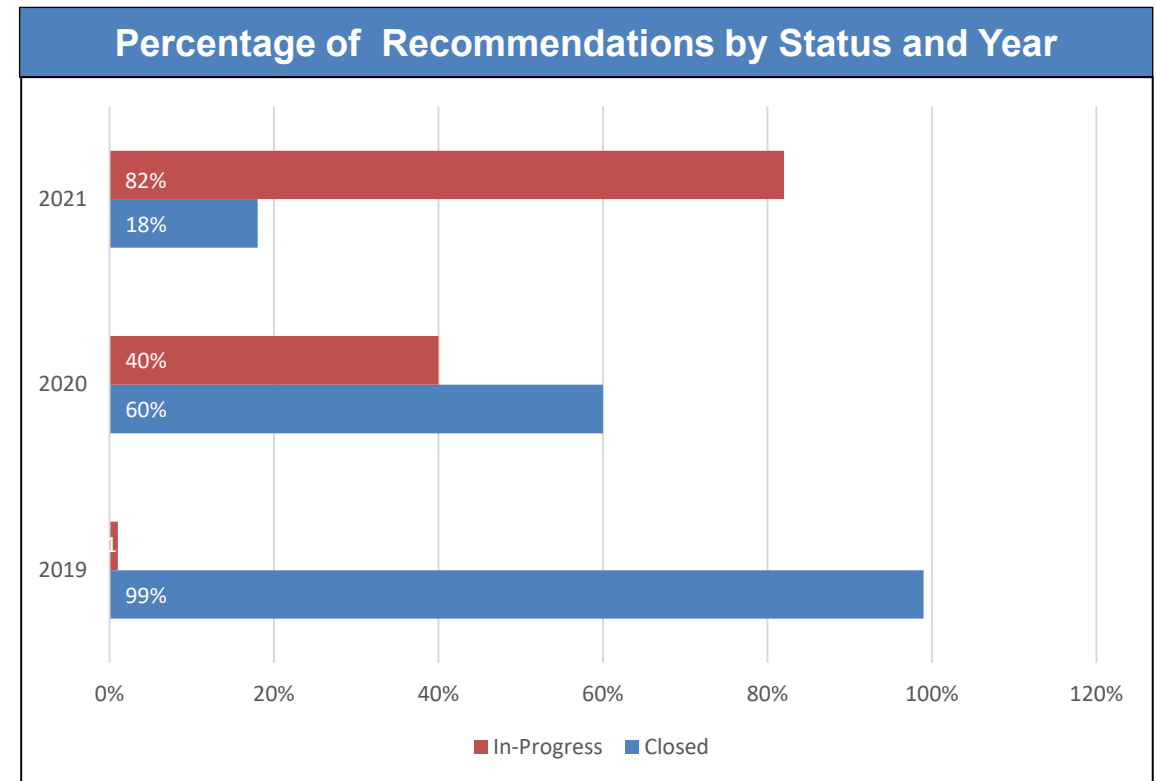
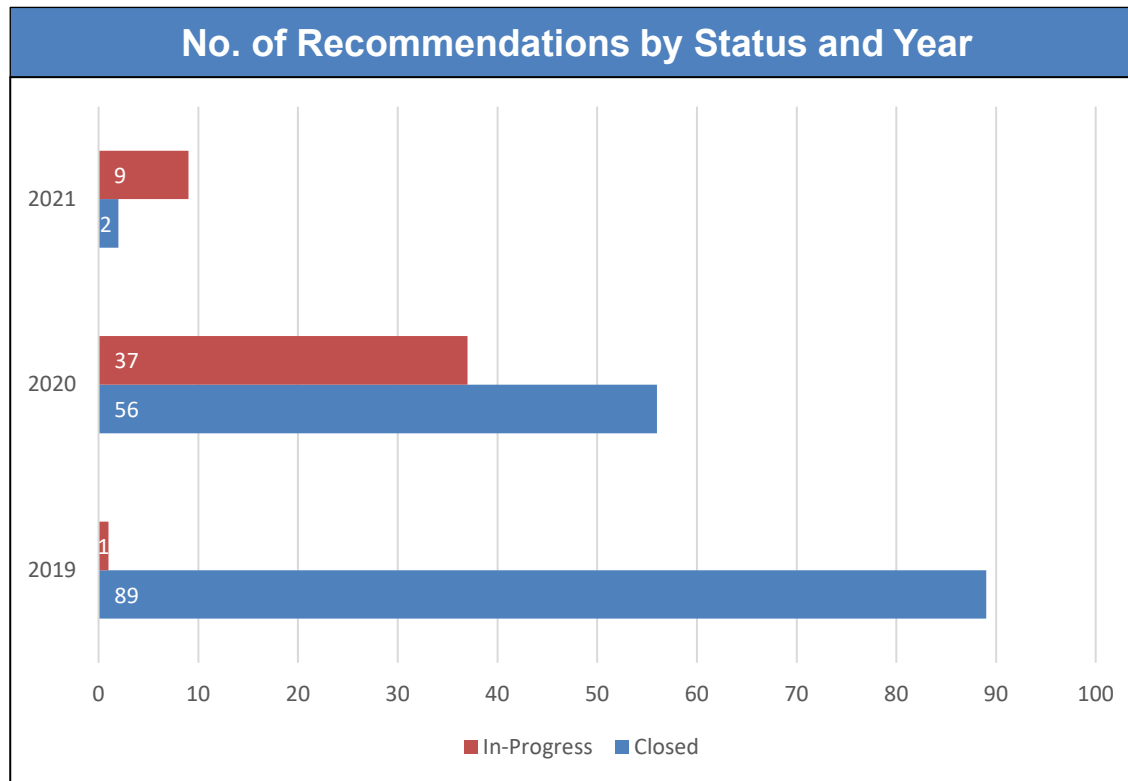
- Internal Audit continues to assist management by providing monthly reporting to the EMC and follow-up with management on open recommendation status, and monitors remediation efforts for 2019-2021 issues, with the priority on high-risk issues.

Status of Audit Recommendations – 2019

2019 Open Recommendations - NYPA	Remediation Status
Sustainability Advisory Review (one recommendation)	The Sustainability Department has made progress to develop a data tracking and monitoring tool working with the New York Energy Manager team and a Sustainability Dashboard has been created. Due to the recent expansion of the sustainability reporting requirements with the new annual Sustainability/ESG Report, the tool will need to be re-assessed for handling these new reporting requirements before it can be considered complete and shared with data owners. Tool Implementation will be added to the Sustainability Plan that will be presented to the Board of Trustees. Internal Audit will review the Board materials prior to the meeting and closure will be pending approval of the plan by the Board of Trustees. In addition, Internal Audit will conduct an assessment of the Sustainability Plan Refresh later in 2021 and can evaluate progress related to this item. Due Date: 3/31/21

Internal Audit Remediation Status

➤ Below is the number and percentage of NYPA and Canals open and closed recommendations by year 2019-2021:



Internal Audit Strategy Highlights

Agile Optimization

- Held Agile foundation certification training in February for continued staff Agile education and skillset. Achieved 100% participation.
- Implemented Microsoft Planner for automated Kanban boards at the audit project level. Evaluation of audit plan portfolio automated tools is in progress.
- The Agile audit methodology will be applied to the Canals audit plan to gain further efficiencies.
- An Agile Maturity Assessment is scheduled for April 2021 to determine maturity levels within certain Agile constructs and areas for improvement.

GRC Optimization

- User acceptance testing has been completed for the Observation Management module. The move to production will take place after the GRC platform upgrade is completed. The move to production is targeted for the end of April.
- Reporting capabilities developed for certain metrics have been completed using GRC. Other metrics are dependent on the Observation Management module go-live.
- Held GRC training sessions in February and March for new hires and a refresher for current staff as part of an ongoing series of trainings to improve staff proficiency.

Data Analytics

- The Data Analytics team has completed bid evaluation for the data analytics tool and selected two final vendors for proof-of-concept demonstrations.
- Both proof-of-concept demonstrations have been completed. Vendor selection is in progress. Targeting the end of March/early April for contract finalization.
- The Data Analytics teams is also working on updating roles and responsibilities, techniques for change management and skillset requirements.
- Data analytics application has been identified for 27 out of 44 (61%) 2021 audit projects.

Talent Management

- Launched a Skill Diagnostic survey through the Gartner Audit Leadership Council to staff to determine key skill strengths and areas where upskilling is needed.
- Results of this survey will be evaluated and assist with targeting training to increase skill sets.
- The Talent Management team is working on enhancing the Internal Audit competency model and the results of the Skills Diagnostic survey will be an input to this enhancement.

CAE Required Communications to the Audit Committee

Internal Audit - NYPA and Canal Corporation

Standard	Communication Requirement	Form	Audit Communication
1110	The CAE must confirm to the Audit Committee, at least annually, the organizational independence of the internal auditing activity.	Annual Plan Executive Summary	As the CAE, I hereby confirm the organizational independence of the Internal Audit activity as of March 18, 2021.
1111	The CAE must communicate and interact directly with the Audit Committee.	Audit Committee Meetings and Private Sessions	As the CAE, I confirm that an appropriate level of communication and interaction has taken place between myself and the Audit Committee.
1320	The CAE must communicate the results of the quality assurance and improvement program to senior management and the Board. Disclosure should include: - the results of ongoing monitoring of Internal Audit activity's performance. - The scope and frequency of both the internal and external assessments. - The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. - Conclusions of assessors and corrective action plans.	Internal Quality Assessment Presentation Monthly Activity Report & IA Scorecard	Results of ongoing monitoring of performance were reported to the Audit Committee as a component of the monthly internal activity reports. All communications included the required disclosures.
2020	The CAE must communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to senior management and the Board for review and approval. The CAE must also communicate the impact of resource limitations.	Annual Audit Plan Monthly Activity Report	Communication of internal audit plan status and resource requirements was reported on a monthly basis to the Audit Committee. There have been no significant interim changes in Internal Audit activity's plans and resource requirements. Accordingly, there were no material impacts associated with resource limitations.
2060	The CAE must report periodically to senior management and the Board on Internal Audit activity's purpose, authority, responsibility, and performance relative to its plan and its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the Board.	Internal Audit Charter Monthly Activity Report & IA Scorecard Required Communications Checklist	As the CAE, I confirm that all required communications have taken place within the established timeframes, including significant risk exposures and control issues, fraud risks, governance issues and other matters that require the attention of senior management and/or the Board.
2600	When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the Board.	Audit Committee Meetings & Private Sessions	As the CAE, I confirm that there were no situations where I concluded management had accepted an inappropriate level of risk.

Appendix

Appendix A – 2021 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
Deliverable Issued: 2							
1	NYPA	2021-AU-10	Economic Development Programs	Commercial Operations	Audit	Satisfactory	3/5/2021
2	NYPA	2021-AV-44	Contractors Out-of-State Travel Affirmation Review	Utility Operations	Advisory	N/A	3/8/2021
Reporting in Progress – Fieldwork Complete: 2							
3	NYPA	2021-AU-07	Contingent Worker (NYPA & Canals)	Human Resources & Administration	Audit		
4	NYPA	2021-AU-06	Cloud Services	Information Technology	Audit		
Fieldwork in Progress: 3							
5	NYPA	2021-AU-01	Customer Billing	Business Services	Audit		
6	NYPA	2021-AU-30	User Access Management	Information Technology	Audit		
7	NYPA	2021-AV-38	NERC Operations and Planning/Critical Infrastructure Protection Audit Prep	Utility Operations	Advisory		
Planning in Progress: 5							
8	NYPA	2021-AU-14	Generation and Transmission Project Scope and Design Change Management	Utility Operations	Audit		
9	NYPA	2021-AU-16	IT Governance	Information Technology	Audit		
10	NYPA	2021-AU-19	Financial Forecast Model System Implementation	Business Services	Audit		
11	NYPA	2021-AU-32	Bid to Bill System Implementation	Commercial Operations	Audit		
12	Canals	2021-AS-39	Canals Asset Management Lifecycle (Inventory and Maintenance)	Utility Operations	Assessment		
Planning Not Started: 32							
13	NYPA	2021-AS-02	Reimagine Canals Program Implementation	Strategic Planning Corporate Strategy	Assessment		
14	NYPA	2021-AS-03	Sustainability Plan Refresh	Legal Affairs	Assessment		
15	NYPA	2021-AU-04	Apprenticeship Program	Utility Operations	Audit		
16	NYPA	2021-AU-05	Asset Management Governance	Utility Operations	Audit		
17	NYPA	2021-AU-08	Fixed Assets	Business Services	Audit		
18	NYPA	2021-AU-09	Customer Financing	Business Services	Audit		
19	NYPA	2021-AU-11	Energy Management System (EMS) Replacement	Utility Operations	Audit		
20	NYPA	2021-AU-12	SAP General Ledger	Business Services	Audit		
21	NYPA	2021-AS-13	Enterprise Program Management	Business Services	Assessment		
22	NYPA	2021-AU-15	IT Asset Management System Implementation	Information Technology	Audit		
23	NYPA	2021-AU-17	Mobile Device Security	Information Technology	Audit		
24	NYPA	2021-AU-18	Next Gen Niagara Implementation	Utility Operations	Audit		
25	NYPA	2021-AV-20	Pandemic Plan After Action Review	Utility Operations	Advisory		

Appendix A – 2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued
26	NYPA	2021-AU-21	Project and Business Case Development	Commercial Operations	Audit		
27	NYPA	2021-AU-22	Rapid Application Development	Information Technology	Audit		
28	NYPA	2021-AU-23	ReCharge NY Customer Compliance	Commercial Operations	Audit		
29	NYPA	2021-AU-24	Trading Process Controls	Business Services	Audit		
30	NYPA	2021-AU-25	Supply Chain Management	Human Resources & Administration	Audit		
31	NYPA	2021-AU-26	System Development Lifecycle (SDLC)	Information Technology	Audit		
32	NYPA	2021-AU-27	Third Party Services (NYPA & Canals)	Human Resources & Administration	Audit		
33	NYPA	2021-AU-28	Other Post-Employment Benefits	Business Services	Audit		
34	NYPA	2021-AU-29	Transitional Positions (NYPA & Canals)	Human Resources & Administration	Audit		
35	NYPA	2021-AU-31	Western NY Customer Compliance	Commercial Operations	Audit		
36	NYPA	2021-AU-33	Succession Planning (NYPA & Canals)	Human Resources & Administration	Audit		
37	NYPA	2021-AU-34	Communications Backbone Program	Utility Operations	Audit		
38	NYPA	2021-AU-35	Smart Path Transmission Line Upgrade	Utility Operations	Audit		
39	NYPA	2021-AV-36	Diversity, Equity, and Inclusion Program	Human Resources & Administration	Advisory		
40	NYPA	2021-AV-37	Emergency Energy Control Center (E2C2) Physical and Environmental Controls	Information Technology	Advisory		
41	Canals	2021-AU-40	Canals Flood Warning System Application Review	Utility Operations	Audit		
42	Canals	2021-AU-41	Canals Pension and Other Post Retirement Benefits	Utility Operations	Audit		
43	Canals	2021-AU-42	Canals Post Integration Review	Utility Operations	Audit		
44	Canals	2021-AU-43	Canals Medical and Dental Benefits Administration	Utility Operations	Audit		
Audit Projects Canceled: 0							

Appendix B – Changes to 2021 Internal Audit Plan

NYPA:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Utility Operations	Contractors Out-of-State Travel Affirmation Review	Add to Plan	EH&S management requested Internal Audit to review the COVID-19 testing results affirmation process for out-of-state traveling contractors working at NYPA sites to ensure procedures are followed.	Q1	+1
Utility Operations	Generation and Transmission Project Planning Implementation	Audit Name and Scope	Changed name to Generation and Transmission Project Scope and Design Change Management. Initial review was to evaluate project scope changes to project plans; however, this process is under revision and will be reviewed during the Project and Business Case Development audit later in 2021. The scope for this review will be to evaluate project scope changes during project design phase.	Q2	0

CANALS:

Business Unit	Audit Name	Change	Rationale	Est. Start	Impact to IA Plan
Utility Operations	Canals Maximo System Implementation	Audit Name and Scope	Name and scope changed to Canals Medical and Dental Benefits Administration. The additional functionality for the Maximo system at Canals will not be implemented during 2021 due to budgetary constraints. Internal Audit will review the Canals Medical and Dental benefits administration which was next in priority for the Canals audit plan.	Q4	0



**NY Power
Authority**

**Canal
Corporation**



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

December 9, 2020

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December 9, 2020

Minutes of the regular meeting of the New York Power Authority and Canal Corporation's Audit Committee held via video conference, at approximately 8:00 a.m.

The following Members of the Audit Committee were present:

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

Anthony Picente, Jr. – Excused

Also in attendance were:

Gill Quiniones	President and Chief Executive Officer
Justin Driscoll	Executive Vice President and General Counsel
Joseph Kessler	Executive Vice President and Chief Operations Officer
Adam Barsky	Executive Vice President and Chief Financial Officer
Sarah Salati	Executive Vice President and Chief Commercial Officer
Soubhagya Parija	Senior Vice President and Chief Risk Officer
Angela Gonzalez	Senior Vice President – Internal Audit
Karen Delince	Vice President and Corporate Secretary
Daniella Piper	Vice President – Digital Transformation/Chief of Staff
Christine Reynolds	Treasurer
Anne Reasoner	Vice President Budgets & Business Controls
Sundeeep Thakur	Controller
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Quatrocci	Associate Corporate Secretary
Scott Heiser	Lead Audit Partner - KPMG
Christopher Davanzo	Lead Audit Manager - KPMG

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

Introduction

Chairman Nicandri welcomed committee members and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.

1. **Adoption of the December 9, 2020 Proposed Meeting Agenda**

On motion made by member Tracy McKibben and seconded by member John Koelmel, the agenda for the meeting was adopted.

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

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

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

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

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

4. **DISCUSSION AGENDA:**

a. **New York Power Authority and Canal Corporation:**

i. **2020 Internal Audit Update**

Ms. Angela Gonzalez, Senior Vice President, Internal Audit, provided an update on the New York Power Authority and Canal Corporation's 2020 Internal Audit ("IA") activities. (Exhibit "4a i-A")

Internal Audit Scorecard

Key metrics:

OPERATIONAL EXCELLENCE

IA has achieved or exceeded most of the metrics under Operational Excellence.

Audit Plan – The Audit Plan is 92% complete. IA is on target to finish the Plan by the end of the year, with four more reports to issue.

Audit Deliverables with Opinions – Achieved or exceeded Benchmark/Internal Target/on Track

Fieldwork to Report Issuance – Achieved or exceeded Benchmark/Internal Target/on Track.

Audit Utilization Rate – Target is a little lower than the benchmark and is being monitored.

IA Average Project Cycle – On track to achieve target.

Audit Standards

External Assessment Remediation Completion Status – All 2019 remediation items have been completed and closed.

VALUE AND IMPACT

All the 2018 recommendations have all been remediated and closed. For 2019, five to be implemented, some are due by the end of the year and some in Q1. They are all tracking to be closed on time. Management has started work on the 2020 recommendations and have made progress in addressing the open recommendations.

1. Percentage of high-risk Observations Identified – for informational purposes; observations that IA has identified over the last year.
2. Percentage of High-Risk Observations Implemented – This includes only observations that had an original due date prior to 11/15/20; Seventeen (17) after November 15, 2020.
3. Percentage of All Observations by Due Date – Includes observations that had an original due date prior to 11/15/20.
4. Percentage of Observations Extended and Subsequently Implemented – Includes observations that had an original due date prior to 11/15/20. To date, one observation has been extended.

2020 Audit Plan Status

- 38 Audits are included in the NYPA and Canals Audit Plan. One audit project has more than one deliverable for a total of 39 deliverables. IA has reached 92% audit plan completion.
- 35 audit reports have been issued to date. One audit has moved to the reporting stage and is expected to be issued by early December.
- 3 audit projects are in fieldwork and reports should be issued by mid-December.

Key Transformation Accomplishments

Highlights of IA's transformation accomplishments include:

GRC Automation:

- All audit projects from Q2 on have been executed in the GRC Audit System.
- Audit entities, as part of the Audit Universe, were risk assessed and the Audit Plan was created using the GRC Audit System.
- The Observation Management module is now in user acceptance testing and is targeted for production in January 2021. As soon as that system is in place, IA will no longer be using SharePoint for Observation tracking and reporting; the GRC system will be used.

Quality Assurance Improvement Program (QAIP):

- The QAIP team has reached 100% remediation of the recommendations from the 2019 external quality assessment.
- As part of the QAIP program, the QAIP team completed the required annual internal assessment for compliance with the IIA Standards. The team found that IA is compliant with the standards. Suggested improvements to be made is related to maturity of data analytics, and retention of emails indicating final report approval when a report goes into the GRC audit system.
- Required Communications to the Audit Committee checklist states specific standards required for reporting to the Audit Committee.

ii. 2021 Internal Audit Plan

Ms. Angela Gonzalez, Senior Vice President, Internal Audit, provided an update on the New York Power Authority and Canal Corporation's 2021 Internal Audit Plan (Exhibit "4a ii-A"). She said that the 2021 IA Plan has been fully developed and reflects several components based on a defined and risk-scored Audit Universe aligned by Business Unit.

The projects in the Plan are a subset of the Audit Universe entities and are based on audit risk ranking, last audit date, and Internal Audit resources. The plan aligns to top Enterprise Risks and NYPA's current core strategic priorities and Foundational Pillars.

The Plan will be evaluated each quarter to address emerging risks and will be adjusted as business needs change. IA received several inputs from Executive Management, Risk Management, and other Business Units across the organization.

Risk Assessment Process – NYPA and Canal Corporation

The EMC has reviewed, and IA is still obtaining internal inputs on the which includes: the Risk Assessment Process which includes:

Key Stakeholders

- Key Stakeholder input is vital to obtaining risk assessment information. To date, IA has completed 81 interviews with NYPA and Canal Corporation management.

External Inputs

- Gartner 2021 Hot Spots in terms of risks
- NYPA Internal Audit Benchmark to Peers
- Industry Benchmarks

Audit Universe

- 57 Audit Entities in IA's universe
- Refined and updated the Risk Scoring Model
- All Audit Entities are in the GRC Audit System

2021 Audit Plan

- 38 NYPA and 5 Canal Corporation audit projects based on available resources.

The Plan will be COVID-dependent; how it will affect the organization.

Audit Universe

The Audit Universe contains 57 audit entities for both NYPA and the Canal Corporation and are broken down between high-, medium-, and low-rated.

Audit Universe Cycle

IA have been focusing mostly on the high-rated and medium-rated entities. The low-rated entities are reviewed on an "as-needed" basis or as business needs change.

Proposed 2021 Audit Plan Coverage - NYPA

- There are 38 projects in the proposed NYPA 2021 Audit Plan broken down into Audits, Assessments, and Advisory, 82% of which are Audits.
- Audits, Assessments and Advisory audit projects for 2021 are based on open positions to be filled by the end of January 2021. Co-sourced partner will primarily supplement IT Audit staff as per Internal Audit's staffing model and subject matter expertise where needed.
- The number of audit projects included in the 2021 Audit Plan is based on actual audit project hours collected in 2020. This data showed that audit projects took an average of 475 hours as opposed to the average of 430 hours in 2019. This is primarily due to certain audit projects that required more fieldwork testing, applying data analytics, observation analysis, management agreement and subsequent action plan development.
- Audit projects were budgeted using 525 hours on the average for the majority of NYPA audit projects (i.e., some audit projects were budgeted more/less hours as needed). IA increased budgeted hours by 50 more hours for data analytics and total plan hours equate to 18,700 hours. Internal staff hours available for the audit plan equate to 18,690. Approximately 1,000 hours have been allotted as contingency hours for special projects. Historically, Internal Audit is requested by the business to execute at least two to three special projects during the year.

Proposed 2021 Audit Plan Coverage - Canal Corporation

- There are 5 projects in the proposed Canal 2021 Audit Plan broken down into Audits (4) and Assessments (1).
- Based on internal staff hours available for the audit plan, 2,575 hours were budgeted for Canal Corporation audit projects based on 525 hours per audit project for the majority of these projects.

Proposed Audit Plan Resource and Audit Type Allocation - NYPA

- 38 projects are included in the Audit Plan based on Resource Availability.

(1) Internal staff hours available include all open positions filled in January 2021 equating to 3,200 audit hours.

(2) Third-party co-source technology hours are to support technology audit projects (IT and OT) and cover the increase in integrated audits as per Internal Audit's staffing model. Third-party co-source business hours are for subject matter expertise.

A comparison of business, technology, and integrated type audits between 2020 and 2021 shows an increase in integrated audits.

Proposed Audit Plan Resource and Audit Type Allocation – Canal Corporation

Five (5) audit projects are included in Canal's Audit Plan based on Resource Availability, three of which will review support operations for asset management, post-retirement benefits and post-integration activities. Two are integrated, covering technology audits for system implementation and an application review which include enhanced operational functionalities.

2021 Audit Plan Risk Category Allocation – NYPA and Canal Corporation

- The allocation of 2021 audit projects by risk category does not materially deviate from the 2020 actual allocation.
- Relatively same audit coverage percentage for operational risk for NYPA due to continued support of the Utility Operations business unit for compliance with ISO 55001 standards and an increase in coverage within the Human Resources & Administration business unit for workforce planning.
- Audit coverage for technology risk remained relatively the same in support of digitization.
- For the Canal Corporation, a decrease in operational risk audit coverage is due to focus on technology areas not reviewed in prior years.

Proposed NYPA 2021 Audit Plan Alignment

87% of the projects in the Audit Plan directly align to either Strategic Core Priorities and Foundational Pillars with concentration on Resource Alignment and Digital Transformation, or Top Enterprise Risks with concentration on Attract and Retain Qualified Workforce, Critical Infrastructure and Cyber Security.

Proposed Canal Corporation 2021 Audit Plan Alignment

100% of the projects in the Audit Plan align to either Strategic Core Priorities, Foundational Pillars and/or Top Enterprise Risks.

Internal Audit Strategy Refresh

Internal Audit have been reporting to the Audit Committee on its strategy over the last two years. The transformation initiatives introduced in 2018 have been substantially operationalized, with a focus on process and automation.

To continue the path of moving the Internal Audit function forward and meeting the needs of the business, IA reviewed its current state, conducting maturity benchmarking through the Gartner Audit Leadership Council and refreshed Internal Audit's strategy. Internal Audit conducted several strategy sessions and developed three key themes and corresponding roadmaps that will be the center of focus: Optimization of AGILE and GRC, Data Analytics, and Talent Management strategies.

Agile and GRC Optimization Roadmap

- Enhance current Agile Methodology.
- Implement Enterprise-wide Agile tools to manage the portfolio.
- Adding AGILE concepts to other areas such as Risk Assessments.
- Enhance and further develop Agile KPIs.
- Continuous Improvements, e.g., Agile Certifications at all levels.
- Develop Reporting and Dashboards.
- Enhance Training.

Data Analytics Strategy

- The Data Analytics Strategy has been on hold this year because of the COVID-19 pandemic. Internal Audit is now in the evaluation process to procure and implement the digital tools required to support the Data Analytics goals by February 2021. Once the tool is in place, IA will start developing some of its continuous auditing pilots, e.g., Work with IT's Data Governance team and

business units to enhance and build out data analytics capabilities, and hand off key data analytics to the business units for monitoring.

Talent Management Strategy Roadmap

- **Expand Competency Development**

Perform department skills assessment to understand gaps within desired competencies that align to Staff Excellence and Talent Strategy.

Provide HR with initial competency updates.

- **Enhance Performance Management**

Review current performance management process for enhancement opportunities, i.e., criteria that drives performance ratings.

Enhance current audit project evaluation form to align with updated competencies.

Expand Sourcing and Recruiting

Work with HR on updating competencies to add to job descriptions.

- **Enhance Learning and Development**

Roll out updated learning development program.

- **Develop Rewards and Well Being**

Identify permissible rewards for employee performance.

Design program to recognize and reward top talent and accomplishments.

- **Create Career Mobility and Update Succession Planning**

Work milestones, and expected competencies to align with Staff Excellence and Talent Strategy. Work with HR to create a career development program that includes a career path, defined to update the current succession plans that include Senior Audit Managers and above.

The Audit Committee is requested to approve the 2021 NYPA and Canal Corporation Internal Audit Plan. On motion made by member John Koelmel and seconded by member Tracy McKibben the members approved the 2021 Internal Audit Plan.

iii. 2021 Internal Audit Budget

Ms. Angela Gonzalez, Senior Vice President, Internal Audit, provided an update on the New York Power Authority and Canal Corporation's 2021 Internal Audit Budget. (Exhibit "4a iii-A"). She said that pursuant to the Internal Audit Standard, the Audit Committee is required to approve the Internal Audit Budget and requested that the Audit Committee approve the 2021 budget for Internal Audit.

On motion made by member John Koelmel and seconded by member Michael Balboni, the members approved the 2021 Internal Audit Budget.

b. New York Power Authority: (KPMG)

i. Audit Plan and Strategy Update – Year-end December 31, 2020

Mr. Scott Heiser, KPMG's Lead Audit Partner, and Mr. Christopher Davanzo, Lead Audit Manager presented an update on KPMG's Audit Plan and Strategy for the year ending December 31, 2020. (Exhibit 4b i-A).

Mr. Heiser outlined the Client Service team for the engagement adding that there were no significant changes in the engagement team for the audit. An Industry Manager was added, and Grace Kachigian is assisting based on her knowledge of NYPA and GASB expertise. This shows that there is continuity on the team. Communications with Adam Barsky, NYPA's Executive Vice President and Chief Financial Officer and Sundeep Thakur, Controller, and the KPMG team has been very good and enabled KPMG to build a strong relationship with NYPA.

KPMG had a more aggressive timeline and plan this year than historically because it provides for a better audit and takes some of the pressure off the February-March time frame. This has been driven by KPMG's team with the cooperation of NYPA's team to be open to making some of those changes and doing more work during the October – December time periods.

The impact of COVID-19 resulted in more planning in risk assessment and KPMG will continue on this path and communicate any changes with NYPA's management and report any findings to the Audit Committee in March.

KPMG's Commitment to NYPA

Mr. Scott Heiser provided highlights on the Audit key items. He reiterated that KPMG's client services team this year is very consistent. KPMG has continuity at all levels with the addition of an Audit Manager who will be assisting the audit staff in performing the audit on a day-to-day basis.

KPMG is committed to delivering an exceptional client experience focusing on audit quality, delivering thoughtful, coordinated and a transparent approach, being productive in its audit through design and execution of the processes, and providing industry insights into any audit or business topics.

COVID-19: Resilience and Readiness

As KPMG moves along with its planning process, they are understanding the impact of COVID-19, not only on the results of the financial statements, but as well as the impact to the business processes. For example, if management used manual sign offs, KPMG will be looking for changes in that process with remote sign offs on such things as reconciliations.

KPMG have conducted risk assessment of planning related to COVID-19, and this will be a continuous effort throughout the audit process.

Required Audit Committee Communications:

Scope of Audit

KPMG is conducting an audit of the consolidated financial statements of New York Power Authority as of and for the year-end of December 31st, 2020. KPMG's reporting deliverables this year are consistent with the prior year. KPMG will be delivering an audit opinion, a report on Internal Control over Financial Reporting and Compliance and Other Matters, as well as a report on the Investment Compliance, ensuring they are within the guidelines.

Audit Timeline

KPMG have been meeting with NYPA management, debriefing them on the prior year audit, and discussing ways to improve the audit process. They also discussed key issues and updates during the current year and ongoing risk assessment procedures.

In the interim period, which is the September through December time period, KPMG is performing process walkthroughs to get an understanding of key processes at NYPA, as well as evaluating the design and implementation of controls and performing interim audit procedures.

At year's end, KPMG will be performing any remaining substantive audit procedures, evaluating the results of those audit procedures, reviewing financial statement disclosures, and will be meeting with NYPA to present those audit results. And, consistent with prior years, KPMG's filing date to issue audit reports on financial statements is expected to be prior to March 31, 2021.

Audit Improvements

As mentioned earlier, KPMG's biggest change and improvement is the timing of audit. KPMG's goal is to improve audit quality and reduce some of the compression of the audit procedures that they perform at the year-end audit time period, moving them up to the interim time period of October through December. KPMG's focus has been on testing high volume accounts, including revenue, expenses, and capital assets. KPMG is currently going through the process of performing walkthroughs to gain an understanding of the key processes as well as any COVID impacts.

Along with KPMG's audit improvements, Adam Barsky and Sundeep Thakur and team have done a great job working with KPMG to execute the plan. They have worked to coordinate some key contacts in the remote work environment and facilitate conversations and have also been a great help in getting KPMG's improvements implemented.

RISK ASSESSMENTS:

i. Significant Risks

KPMG identified one significant risk, Fraud, which is related to management override of controls and is present in all entities. In response, KPMG will be assessing the design, implementation, and operating effectiveness of journal entry controls, with an emphasis on closing entries.

ii. Estimates and other Significant Audit Areas

- **Estimates – Pension and Post Retirement Obligations –**

KPMG identified one significant estimate related to Pension and OPEB at NYPA and Canals. The relevant factor being the measurement uncertainty of assumptions utilized in that evaluation.

- **Significant Audit Areas: Revenue Recognition; Long-Term Debt; Capital Assets, including Depreciation; and Investment –**

Some of KPMG's risk assessment were around the size and composition of the accounts; volume of activity processed through the accounts, and the nature of the disclosures.

For each of these areas, among others, KPMG understands the impact of COVID-19 on the processes, the financial results, and the audit as a whole.

INVOLVEMENT OF OTHERS

KPMG engages a number of subject matter professionals:

- KPMG National Pricing Desk which tests the valuation of investment selections.

- KPMG Actuarial Specialists to review the valuation of the NYPA and Canals OPEB and Pension liability.
- KPMG Tax Specialists to review financial statements to determine the appropriateness of the tax-exempt status.
- KPMG Forensics team to identify fraud risks and fraud risk factors that are present in the NYPA audit.
- NYPA Internal Audit to conduct inquiries of Internal Audit, review the Internal Audit Plan for FY20, and review results of audits conducted by Internal Audit.

ACCOUNTING PRONOUNCEMENTS:

Accounting pronouncements are some of the GASB statements that will be applicable in the near-term:

GASB Statement Number 87 – Leases

This statement addresses the recognition of certain lease assets and liabilities and an intangible right-to-use lease asset.

KPMG had discussions with NYPA's management last year and is continually working with Adam Barsky and Sundeep Thakur regarding timing of the adoption of this pronouncement.

GASB Statement Number 91 – Conduit Debt Obligations

This statement addresses the reporting of conduit debt obligations by issuers. It creates a single method of reporting conduit debt obligations on the financial statements, eliminating the existing option for issuers to report these debt obligations as their own liabilities.

GASB 87 and 91 is planned to be adopted by NYPA in FY 2021.

GASB Statement Number 95 – Postponement of the Effective Dates of Certain Authoritative Guidance

This statement was issued in response to the COVID-19 pandemic. It postponed the effective dates of certain GASB statements by one year. This statement did pushback both 87 and 91, mentioned earlier, by one year.

SHARED RESPONSIBILITIES

Shared responsibilities between KPMG and NYPA management regarding independence – Auditor independence is a shared responsibility and most effective when management, Audit Committee and audit firms work together in considering compliance with the independence rules.

Required communications regarding independence, responsibilities for the audit, and any inquiries will be performed throughout the audit.

5. CONSENT AGENDA:

a. Approval of the Minutes of the Joint Regular Meeting held on July 16, 2020

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

6. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee is to be determined.

Closing

On motion made by member Tracy McKibben and seconded by member Dennis Trainor, the meeting was adjourned by the Chairman at approximately 9:44 a.m.

Karen Delince

Karen Delince
Corporate Secretary

December 9, 2020

EXHIBITS

For

Audit Committee

Minutes

December 9, 2020

Audit Committee

New York Power Authority and Canal Corporation Internal Audit Update

12/9/2020

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- Appendix E - Metrics Definitions

Executive Summary

Internal Audit Scorecard

Operational Excellence	Metric	Progress		Bench- mark (3)	Internal Target	Status
		2019	2020			
	Internal Audit Performance					
	Audit Plan Percentage Complete	100%	92%	88%		
	Audit Deliverables with Opinions	62% (31/50)	54% (19/35)	N/A	50% Opinions Issued	
	Fieldwork to Report Issuance (weeks)	3.1	3.1	5.1		
	Audit Utilization Rate	65%	67% (1)	75%		
	IA Average Project Cycle Time (weeks - Excludes ongoing projects)	12	11	12		
	Audit Standards					
	External Quality Assessment Remediation Completion Status	100%			100% by year-end 2020	

Key	Achieved or Exceeded Benchmark/Internal Target/On Track	
	Benchmark/Internal Target Monitored	
	Benchmark/Internal Target Not Achieved	
	N/A - Benchmark Not Available	

Value and Impact	Metric	Observations by Year Identified			Internal Target	Status
		2018	2019	2020		
	% of High-Risk Observations Identified	14% (14/102)	12% (11/90)	24% (19/80)		Information Purposes
	% of High-Risk Observations Implemented	100% (14/14)	100% (2) (10/10) One due 12/31/20	100% (2) (2/2) 17 are due after 11/15/20	100% for each year	
	% of All Observations Implemented by Due Date	100% (2) 102/102	100% (2) 85/85	100% (2) 27/27	100%	
	% of Observations Extended and Subsequently Implemented	100% (15/15)	89% (17/19) Two observations are due after 11/15/20	0% (0/1) One observation extended to date	100% for each year	

Note:

(1) Maintained utilization rate given COVID-19 and remote working. Staff continue to work on IA key reinvestment activities (GRC system, Data Analytics, QAIP) and internal administration.

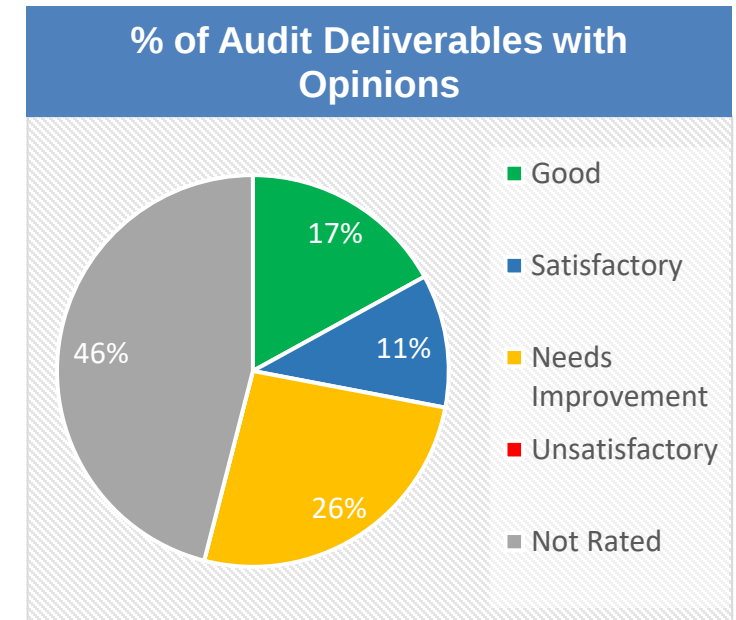
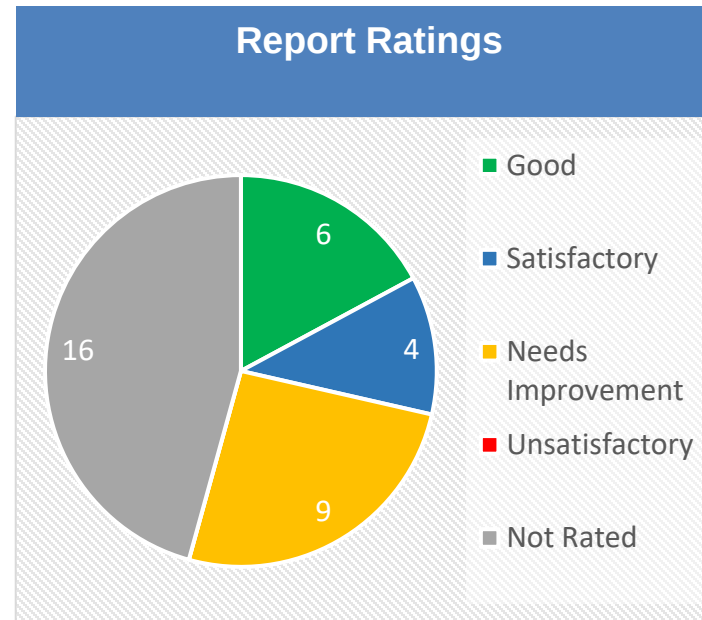
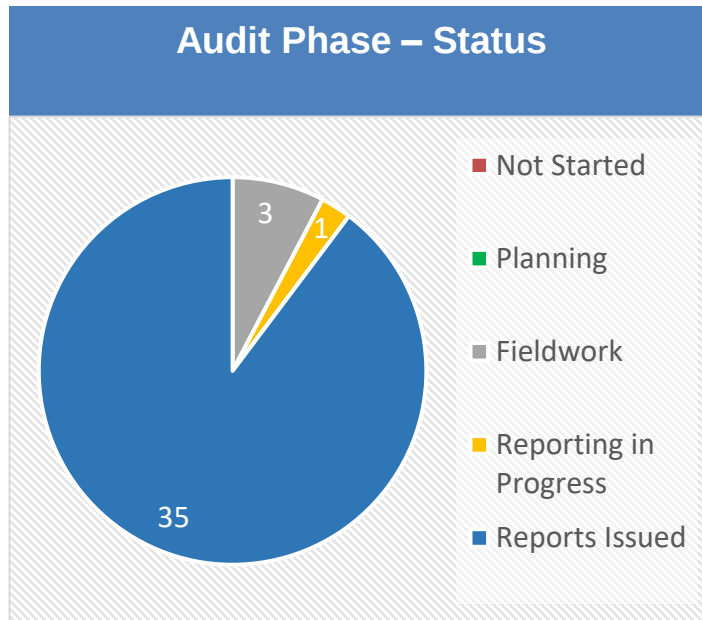
(2) Includes only observations that had an original due date prior to 11/15/20.

(3) Benchmarks used are from Gartner Audit Leadership Council and the IIA Global Audit Information Network (GAIN) report.

Appendix A – 2020 Audit Plan Status

2020 Audit Plan Status

- 2020 Audit Plan Status*:
 - 38 audits are included in the NYPA and Canals Audit Plan. One audit project has more than one deliverable for a total of 39 deliverables. We have reached 92% audit plan completion.
 - 35 audit reports have been issued to date. One audit has moved to the reporting stage and is expected to be issued by early December.
 - Three audit projects are in fieldwork and reports should be issued by mid-December.



NOTE: * See Appendix B for details

Appendix B – 2020 Internal Audit Plan

2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
Deliverable Issued: 35							
1	NYPA	2020-AU-01	Recharge NY Customer Compliance Audit (D&M)	Commercial Operations	Audit	N/A	2/27/20
2	NYPA	2020-AU-15	Intrusion Detection/Intrusion Protection Management	Information Technology	Audit	Satisfactory	3/11/20
3	NYPA	2020-AU-39	FEMA Reimbursement	Utility Operations	Audit	Good	3/16/20
4	NYPA	2020-AU-19	Active Directory Review	Information Technology	Audit	Needs Improvement	3/19/20
5	NYPA	2020-AU-43	Inventory & Warehousing: NIA, STL, BG, SENY	Utility Operations	Audit	Satisfactory	4/8/20
6	NYPA	2020-AU-27	Payroll (NYPA and Canals)	Business Services	Audit	Needs Improvement	4/20/20
7	NYPA	2020-AU-04	Commercial Operations Product Pricing	Commercial Operations	Audit	Needs Improvement	5/18/20
8	NYPA	2020-AU-11	Ariba Application Review	Human Resources & Administration	Audit	Needs Improvement	5/26/20
9	NYPA	2020-AU-26	Accounts Payable	Business Services	Audit	Needs Improvement	5/26/20
10	NYPA	2020-AU-08	New York Energy Manager Strategy, Customer and Management Reporting	Commercial Operations	Audit	Good	5/28/20
11	NYPA	2020-AS-22	Data Governance & Protection Program	Information Technology	Assessment	N/A	6/3/20
12	NYPA	2020-AS-10	Supply Chain Management (NYPA and Canals)	Human Resources & Administration	Assessment	N/A	6/9/20
13	NYPA	2020-AU-20	Microsoft 365	Information Technology	Audit	Good	7/31/20
14	NYPA	2020-AU-24	Treasury Workstation System Implementation	Business Services	Audit	N/A	8/13/20
15	NYPA	2020-AU-32	Insurance Risk Management (NYPA and Canals)	Business Services	Audit	Needs Improvement	8/21/20
16	NYPA	2020-AU-17	Database Security (NYPA and Canals)	Information Technology	Audit	Needs Improvement	8/26/20
17	NYPA	2020-AS-02	Economic Development Customer Assistance (Memo 1)	Commercial Operations	Assessment	N/A	9/16/20
18	NYPA	2020-AU-44	Operations Technology Operating System Security	Utility Operations	Audit	Good	9/18/20
19	NYPA	2020-AU-29	Finance & Administration (NIA, STL, CEC, WPO)	Business Services	Audit	Good	9/23/20
20	NYPA	2020-AU-31	Energy Commodity Risk Management System Imp.	Business Services	Audit	N/A	9/28/20
21	NYPA	2020-AU-41	ISO 55001 Audit Remediation Follow-up	Utility Operations	Audit	Satisfactory	9/30/20
22	NYPA	2020-AS-51	COVID-19 Expenses Assessment	Human Resources & Administration	Assessment	N/A	10/22/20

2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
23	NYPA	2020-AU-37	GE Asset Performance Management Implementation (APM)	Utility Operations	Audit	N/A	10/26/20
24	NYPA	2020-AU-14	Threat and Vulnerability Management	Information Technology	Audit	Needs Improvement	10/30/20
25	NYPA	2020-AS-02	Economic Development Customer Assistance	Commercial Operations	Assessment	N/A	11/3/20
26	NYPA	2020-AS-52	COVID-19 Data Privacy	Human Resources & Administration	Assessment	N/A	11/9/20
27	NYPA	2020-AS-34	Utility Operations Construction Projects – COVID-19 Response Review	Utility Operations	Assessment	N/A	11/18/20
28	NYPA	2020-AS-28	COVID-19 Timekeeping	Human Resources & Administration	Assessment	N/A	11/20/20
29	NYPA	2020-AS-53	IT Expense Allocation	Information Technology	Assessment	N/A	11/23/20
30	NYPA	2020-AU-42	Site SCADA Systems - NIA, BG, STL, SENY	Utility Operations	Audit	Satisfactory	11/24/20
31	NYPA	2020-AV-21	IT Disaster Recovery Test	Information Technology	Advisory	N/A	11/25/20
32	Canals	2020-AU-46	Canals Vendor Payment Accruals Follow-up	Administrative Services	Audit	Good	5/26/20
33	Canals	2020-AU-45	Canals Budgeting and Forecasting	Administrative Services	Audit	Needs Improvement	5/29/20
34	Canals	2020-AS-47	Canals Real Property	Administrative Services	Assessment	N/A	7/2/20
35	Canals	2020-AS-49	Canals Fleet Management Operations	Administrative Services	Assessment	N/A	7/16/20
Reporting in Progress – Fieldwork Complete: 1							
36	NYPA	2020-AU-30	Generation & Transmission Customer Rate Development	Business Services	Audit		
Fieldwork in Progress: 3							
37	NYPA	2020-AU-07	Unforced Capacity (UCAP) & Transmission Congestion Charge (TCC) Services & Trading	Commercial Operations	Audit		
38	NYPA	2020-AU-18	Network Administration (NYPA and Canals)	Information Technology	Audit		
39	NYPA	2020-AU-25	Green Bond Framework	Business Services	Audit		
Planning in Progress: 0							
Planning Not Started: 0							
Audit Projects Canceled: 15							
1	NYPA	2020-AU-35	Communications Backbone Program	Utility Operations	Audit		
2	NYPA	2020-AU-36	Transmission LEM	Utility Operations	Audit		
3	NYPA	2020-AU-03	Customer Digital Experience (CDEx)	Commercial Operations	Audit		
4	NYPA	2020-AU-40	Digital Worker	Utility Operations	Audit		

2020 Internal Audit Plan

Ref	Entity	Audit Project Number	Audit	Business Unit	Audit Type	Report Rating	Date Issued/ Comment
5	Canals	2020-AU-48	Canals Vendor Management	Administrative Services	Audit		
6	Canals	2020-AU-50	Canals Maximo System Implementation	Technical Services	Audit		
7	NYP&A	2020-AU-12	Succession Planning (NYP&A and Canals)	Human Resources & Administration	Audit		
8	NYP&A	2020-AU-13	Pension Plan Management	Human Resources & Administration	Audit		
9	NYP&A	2020-AU-38	Data Splice Post Implementation	Utility Operations	Audit		
10	NYP&A	2020-AS-23	Enterprise Program Management	Executive Office	Assessment		
11	NYP&A	2020-AU-16	Software License Management	Information Technology	Audit		
12	NYP&A	2020-AU-05	Customer Credit (Customer Financing)	Commercial Operations	Audit		
13	NYP&A	2020-AS-33	Environmental Health & Safety Program (NYP&A and Canals)	Utility Operations	Assessment		
14	NYP&A	2020-AS-09	EVolve Program	Commercial Operations	Assessment		
15	NYP&A	2020-AU-06	Bid to Bill System Implementation	Commercial Operations	Audit		

Appendix C – Internal Audit Key Transformation Accomplishments

Internal Audit Key Transformation Accomplishments

Accomplishments	
Delivery	
Agile Project Methodology	- Continued to scale the Agile model with 79% of the audit plan (30 audit projects) applied the Agile methodology. The remaining 21% (eight projects) used the Traditional methodology since these projects are comprised of three ongoing system implementations, one advisory engagement and four Canals audit projects. - Maintained continuous improvement efforts throughout 2020 related to an enhanced audit liaison risk monitoring program, consistent process retrospectives held with staff and Agile coaching.
GRC Automation	- All audit projects from Q2 on have been executed in the GRC audit system. Enhancements to the audit module related to audit process workflow, user interface and the overall platform have been completed. - Audit entities as part of the Audit Universe were risk assessed and the audit plan was created using the GRC audit system. - The Observation Management module is now in user acceptance testing and is targeted for production in January 2021. All observations continue to be uploaded to SharePoint for observation tracking and reporting and will be used until the Observation Management module is in production.
Data Analytics	- To date, 25 out 38 (66%) of 2020 audit projects have been identified where data analytics could be applied. 20 out of 38 (52%) of the audit projects have applied data analytics to date. - The Data Analytics team is in the process of bid evaluation for the new data analytics tool working with Strategic Supply Management. Selection of the vendor will be completed in Q4 with tool onboarding in Q1 2021.

Internal Audit Key Transformation Accomplishments

Delivery (Continued)

Quality Assurance Improvement Program

- The QAIP team has reached 100% remediation of the recommendations from the 2019 external quality assessment. See slide 15 for details of the standards where remediation items were cited.
- As part of the Quality Assurance Improvement Program, the QAIP team has completed the required annual internal assessment for compliance with the IIA standards. The results of the assessment found that Internal Audit is compliant with the IIA standards with a few improvement opportunities related to maturity of data analytics and retention of emails indicating final report approval by the CAE in the GRC audit system. See slide 16 for details.
- The Required Communications to the Audit Committee list states specific standards required of the CAE to communicate with the Audit Committee as per IIA Standard 1000 and 2060. See slide 17 for details.

Talent

Staff Excellence

- As of November 2020, 72% of staff currently have at least one certification and 17% of staff are pursuing various certifications such as the CIA, CPA and CISA.
- The Training and Development program is now on Internal Audit's SharePoint site and staff can look up internal and external training classes, links to industry organizations, review their training hour logs and more.

Appendix D – Quality Assurance Improvement Program Status

2019 External Quality Assurance Assessment Remediation Status

IIA Standard #	Standard Description	GAP/ Improvement Opportunity	GAP OR Improvement Opportunity Description	Status
1311	Internal Assessments	GAP	Conduct an Internal Quality Assessment (QA) annually.	Completed
1312	External Assessments	GAP	Conduct an external QA every five years.	Completed
1320 1311	Reporting on the QAIP	GAP	Communicate internal and external assessment results.	Completed
1311	Internal Assessments	GAP	Develop a balanced scorecard and report results during the periodic reporting process to the Audit Committee.	Completed
1000 1100	Purpose, Authority and Responsibility	GAP	Update the NYPA and Canals Audit Committee Charters to include QAIP responsibilities and obtain CAE and Audit Committee approvals.	Completed
1000	Purpose, Authority and Responsibility	Improvement Opportunity	Update the IA Charter and obtain CAE and Audit Committee approvals.	Completed
1000 2060	Purpose, Authority and Responsibility Reporting to Senior Management and the Board	Improvement Opportunity	Implement a checklist including Required Communications of the CAE to the Audit Committee.	Completed
1210	Proficiency	Improvement Opportunity	Consider developing IA staff in specialized areas of the energy industry.	Completed
1210	Proficiency	Improvement Opportunity	Consider use of technology-based audit.	Completed
1210	Proficiency	Improvement Opportunity	Consider other data analysis techniques and Computer Assisted Audit Techniques (CAATS) to better evaluate data and identify problems.	Completed
2240	Engagement Work Program	Improvement Opportunity	Document supervisory review of the Audit Program to evidence approvals.	Completed
2410 2411	Criteria for Communicating	Improvement Opportunity	Incorporate limitations on the distribution of deliverables in the report.	Completed
2450	Overall Opinions	Improvement Opportunity	Include a section in the report for description of any scope limitations.	Completed
1300	Quality Assurance and Improvement Program	Improvement Opportunity	Update QAIP documentation in policy. Develop the QAIP program. Perform the 2020 Internal QA. Present final 2020 Internal Annual QAIP report to the Audit Committee.	Completed
2050	Coordination and Reliance	Improvement Opportunity	Provide an Assurance Map that describes coverage of risk between IA and other providers of assurance for NYPA.	Completed

Summary: 2020 Internal Audit Conformation with the Standards and the Code of Ethics

	GC	PC	DNC
Overall Evaluation	✓		

	GC	PC	DNC
Code of Ethics	✓		

Attribute Standards (1000 through 1300)			
1000	Purpose, Authority, and Responsibility	✓	
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓	
1100	Independence and Objectivity	✓	
1110	Organizational Independence	✓	
1111	Direct Interaction with the Board	✓	
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓	
1120	Individual Objectivity	✓	
1130	Impairment to Independence or Objectivity	✓	
1200	Proficiency and Due Professional Care	✓	
1210	Proficiency	✓	
1220	Due Professional Care	✓	
1230	Continuing Professional Development	✓	
1300	Quality Assurance and Improvement Program	✓	
1310	Requirements of the Quality Assurance and Improvement Program	✓	
1311	Internal Assessments	✓	
1312	External Assessments	✓	
1320	Reporting on the Quality Assurance and Improvement Program	✓	
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"	✓	
1322	Disclosure of Nonconformance	✓	
Performance Standards (2000 through 2600)			
2000	Managing the Internal Audit Activity	✓	
2010	Planning	✓	
2020	Communication and Approval	✓	
2030	Resource Management	✓	
2040	Policies and Procedures	✓	
2050	Coordination and Reliance	✓	

2060	Reporting to Senior Management and the Board	✓	
2070	External Service Provider and Organizational Responsibility for Internal Auditing	✓	
2100	Nature of Work	✓	
2110	Governance	✓	
2120	Risk Management	✓	
2130	Control	✓	
2200	Engagement Planning	✓	
2201	Planning Considerations	✓	
2210	Engagement Objectives	✓	
2220	Engagement Scope	✓	
2230	Engagement Resource Allocation	✓	
2240	Engagement Work Program	✓	
2300	Performing the Engagement	✓	
2310	Identifying Information	✓	
2320	Analysis and Evaluation	✓	
2330	Documenting Information	✓	
2340	Engagement Supervision	✓	
2400	Communicating Results	✓	
2410	Criteria for Communicating	✓	
2420	Quality of Communications	✓	
2421	Errors and Omissions	✓	
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	✓	
2431	Engagement Disclosure of Nonconformance	✓	
2440	Disseminating Results	✓	
2450	Overall Opinions	✓	
2500	Monitoring Progress	✓	
2600	Communicating the Acceptance of Risks	✓	

GC	Generally Conforms
PC	Partially Conforms
DNC	Does Not Conform

CAE Required Communications to the Audit Committee

Standard	Communication Requirement	Form	Audit Communication
1111	The CAE must communicate and interact directly with the Audit Committee.	Audit Committee Meetings and Private Sessions	As the CAE, I confirm that an appropriate level of communication and interaction has taken place between myself and the Audit Committee.
1320	The CAE must communicate the results of the quality assurance and improvement program to senior management and the Board. Disclosure should include: - Results of ongoing monitoring of the internal audit activity's performance. - Scope and frequency of both internal and external assessments. - Qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. - Conclusions of assessors and corrective action plans.	Internal Quality Assessment Presentation Monthly Activity Report & IA Scorecard	Results of ongoing monitoring of performance were reported to the Audit Committee as a component of the monthly internal activity reports. The results of the annual QAIP internal self-assessment was reported to the Audit Committee on 12/9/2020. All communications included the required disclosures. Communication of status of internal audit plans and resource requirements was reported on a monthly basis to the Audit Committee.
2020	The CAE must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the Board for review and approval. The CAE must also communicate the impact of resource limitations.	Annual Audit Plan Monthly Activity Report	At the 12/9/2020 Audit Committee Meeting, Internal Audit reported the budgeted resources and the proposed 2021 audit plan that Internal Audit deemed necessary based on risk to be performed in 2021. Accordingly, there were no material impacts associated with resource limitations.
2060	The CAE must report periodically to senior management and the Board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the Board.	Internal Audit Charter Monthly Activity Report & IA Scorecard Required Communications Checklist	As the CAE, I confirm that all required communications have taken place within the established timeframes, including significant risk exposures and control issues, fraud risks, governance issues and other matters that require the attention of senior management and/or the Board.
2600	When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the Board.	Audit Committee Meetings & Private Sessions	As the CAE, I confirm that there were no situations during the year 2020 where I concluded management had accepted an inappropriate level of risk.

Appendix E – Metric Definitions

Metric Definitions

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

Value and Impact	
Percentage of High-Risk Observations Identified	Measures valuable insights for high-risk areas provided to management.
Percentage of High-Risk Observations Implemented	Measures closure of high-risk observations by year.
Percentage of All Observations Implemented by Due Date	Measures timeliness of closing open observations either by original due date or extended due date.
Percentage of Observations Extended and Subsequently Implemented	Measures the timeliness of closing extended observations.



**NY Power
Authority**

**Canal
Corporation**



**NY Power
Authority**

**Canal
Corporation**

Exhibit 4a ii-A

Audit Committee

***New York Power Authority and Canal Corporation
2021 Internal Audit Plan***

12/9/2020

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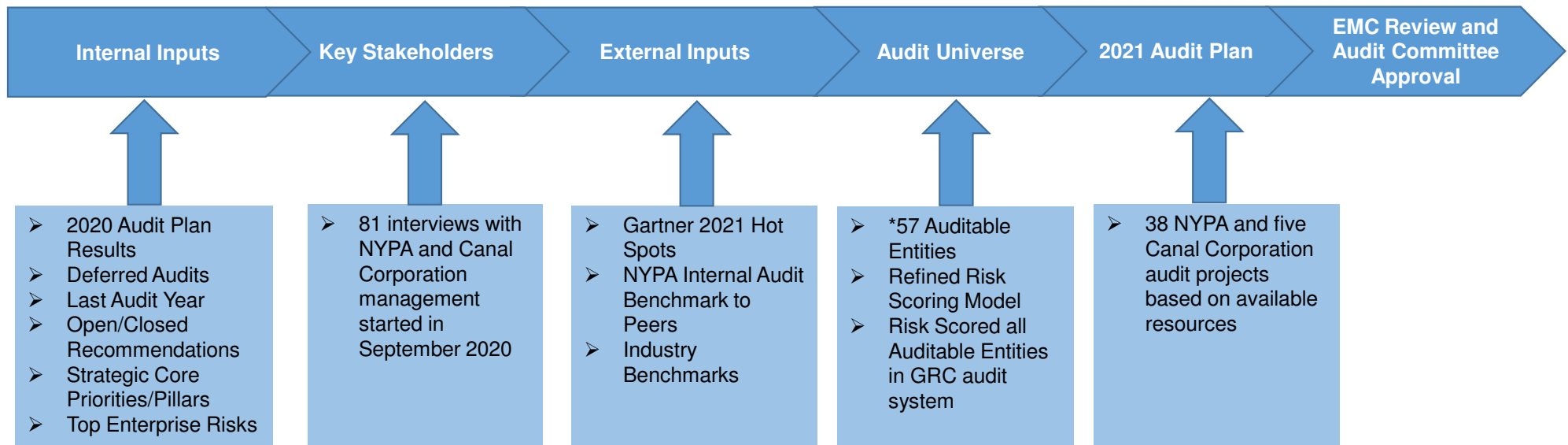
Executive Summary

Annual Audit Plan

The proposed 2021 Audit Plan is fully developed and reflects the following:

- A defined and risk-scored Audit Universe aligned by business unit.
- Audit projects in the plan are a subset of the Audit Universe entities selected based on audit risk ranking, last audit date, Internal Audit resources.
- The audit plan has been aligned to the Top Enterprise Risks and NYPA's current Strategic Core Priorities and Foundational Pillars.
- The audit plan will be evaluated each quarter to address emerging risks and given appropriate consideration. The audit plan will be adjusted as business needs change.
- Key stakeholder input from Executive Management, Risk Management and various Business Units.
- Internal Audit requests that the Audit Committee approve the 2021 NYPA and Canal Corporation Internal Audit Plan.

Risk Assessment Process (NYPA and Canal Corporation)



*See Slide 5 for details.

Audit Universe

- The Audit Universe contains 57 audit entities for both NYPA and the Canal Corporation and were adjusted for any new audit entities, department name changes; or combinations that have occurred within both organizations. All audit entities within the Audit Universe now reside in the audit module of the GRC system. Each audit entity was risk assessed using Internal Audit's risk model within the audit module, which was adjusted to reflect changes in risk due to the pandemic.
- The breakdown of the audit entities by risk are as follows (See Appendix A - Slides 17 - 20 for details):

NYPA Audit Entities		Canal Corp. Audit Entities	
High Rated:	11	High Rated:	1
Medium Rated:	27	Medium Rated:	2
Low Rated:	<u>15</u>	Low Rated:	<u>1</u>
Total	53	Total	4

Audit Universe Cycle

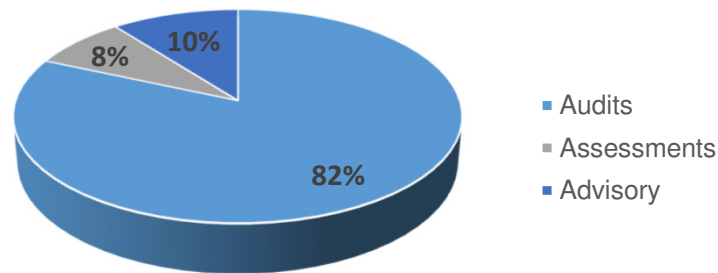
- Audit projects included in each year's plan will continue to focus on the high-rated and medium-rated audit entities within the coverage period of the five-year cycle considering last year audited, business needs, strategic initiatives, emerging risks and degree of change. Low-rated entities will be included on an as needed basis in alignment with Gartner Audit Leadership Council benchmarks or as risks within these entities change. Internal Audit has conducted audit work within every high-rated entity and the majority of the medium-rated entities within the audit cycle. See Appendix A - Slides 17 - 20 for details of audit cycle coverage.
- Internal Audit will continue to use the five-year cycle to cover audit entities within the Audit Universe as follows:

Audit Entity	Coverage Period in Years
High	1-2 years
Medium	2-4 years
Low	4-5 years

Proposed NYPA 2021 Audit Plan Coverage

2021 Planned Activities

38 projects in the Proposed NYPA 2021 Audit Plan*



Comparison to Prior Years

	2021 Plan	2020 Actual	2019 Actual
Audits	31	25	28
Assessments	3	8	8
Advisory	4	1	5
Quick Impact Review	-	-	3
Total	38	34	44

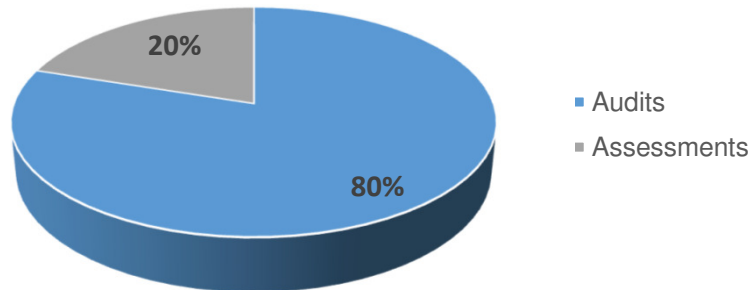
- Audits, Assessments and Advisory audit projects for 2021 are based on open positions filled by the end of January 2021. Co-source partner will primarily supplement IT Audit staff as per Internal Audit's staffing model and subject matter expertise where needed (See Slide 8 for details).
- The number of audit projects included in the 2021 audit plan is based on actual audit project hours collected in 2020. This data showed that audit projects took an average of 475 hours as opposed to the average of 430 hours in 2019. This is primarily due to certain audit projects that required more fieldwork testing, applying data analytics, observation analysis, management agreement and subsequent action plan development.
- Audit projects were budgeted using 525 hours on the average for the majority of NYPA audit projects (i.e. some audit projects were budgeted more/less hours as needed). We increased budgeted hours by 50 more hours for data analytics and total plan hours equate to 18,700 hours (See Slide 8 and 9). Internal staff hours available for the audit plan equate to 18,690 (See Appendix E – note rounding), however, approximately 1,000 hours have been allotted as contingency hours for special projects. Historically, Internal Audit is requested by the business to execute at least two to three special projects during the year.

*See Appendix B for the Proposed 2021 Audit Plan (Slides 21-32) and Appendix D – Supporting Information for Q1 Audit Projects (Slide 37).

Proposed Canal Corporation 2021 Audit Plan Coverage

2021 Planned Activities

5 projects in the Proposed 2021 Audit Plan*



Comparison to Prior Years

	2021 Plan	2020 Actual	2019 Actual
Audits	4	2	5
Assessments	1	2	1
Total	5	4	6

- Based on internal staff hours available for the audit plan (See Slide 9 for details), 2,575 hours were budgeted for Canal Corporation audit projects based on 525 hours per audit project for the majority of these projects.

*See Appendix C for Proposed 2021 Audit Plan (Slides 33-35) and Appendix D – Supporting Information for Q1 Audit Projects (Slide 37).

Proposed NYPA 2021 Audit Plan Resource and Audit Type Allocation

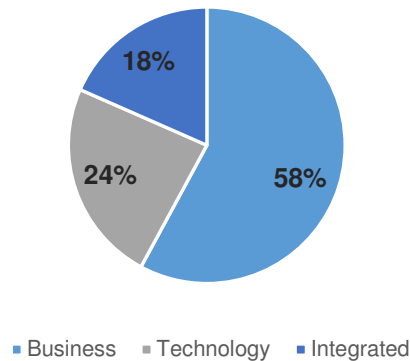
38 projects are included in the Audit Plan based on Resource Availability

Resource Allocation	Business	Technology
Internal Staff Hours Available for Audit Plan (1)	12,550	3,625
Budgeted Third Party Hours (2)	50	2,900
Total Resources Available for 2021 Audit Plan	12,600	6,525

(1) Internal staff hours available include all open positions filled in January 2021 equating to 3,200 audit hours. (See Appendix E – Audit Plan Internal Resource Capacity for details).

(2) Third party co-source technology hours are to support technology audit projects (IT and OT) and cover the increase in integrated audits as per Internal Audit's staffing model. Third-party co-source business hours are for subject matter expertise.

Types of Audits – 2021

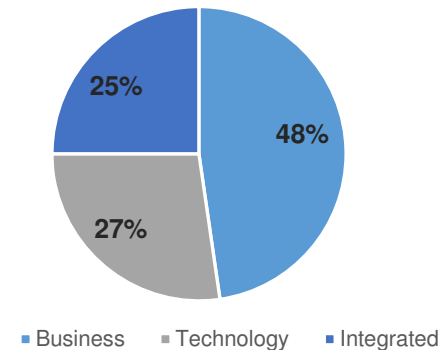


Increase in integrated audits are due to coverage for key operational and regulatory processes with significant reliance on technology and strategic system implementations.

Integrated audits allow Internal Audit to look at business and technology controls in coordination to provide full view of processes leading to increased efficiencies and value of audits.

Business and technology audits stayed relatively the same compared to 2020.

Types of Audits – 2020



Proposed Canal Corporation 2021 Audit Plan Resource and Audit Type Allocation

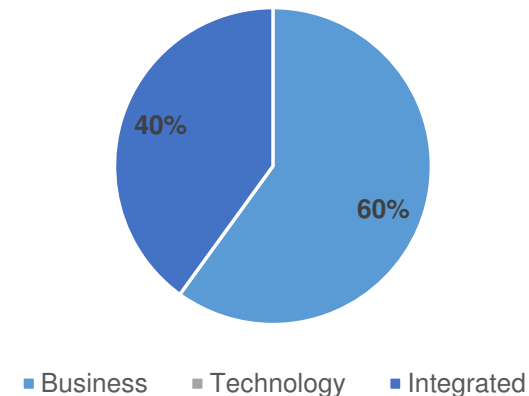
5 projects are included in the Audit Plan based on Resource Availability

Resource Allocation		
	Business	Technology
Internal Staff Hours Available for Audit Plan (1)	2,000	525
Budgeted Third Party Hours (2)	50	0
Total Resources Available for 2020 Audit Plan	2,050	525

2021 audit projects for the Canal Corporation will focus on key business operations areas as follows:

- Three out of five audit projects (60%) will review key support operations for asset management, post retirement benefits and post integration activities. Two out of five audit projects are integrated, covering a system implementation and application review which include enhanced operational functionalities (40%).

Types of Audits

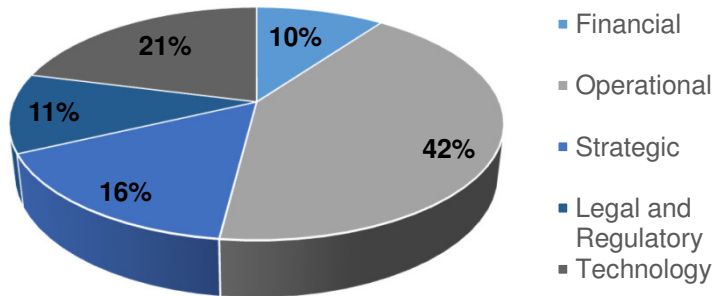


(1) Audit Plan hours include available hours from NYPA staff (See Appendix E – Audit Plan Internal Resource Capacity).

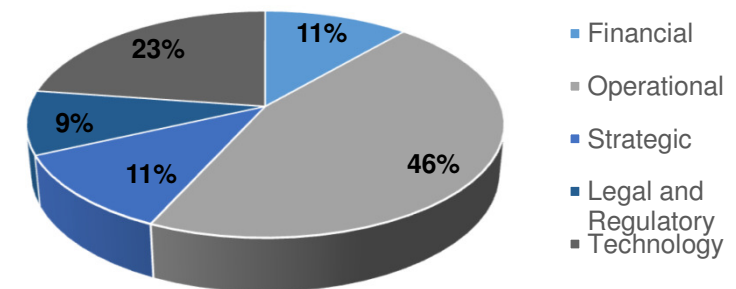
(2) Co-source hours allocated are for subject matter expertise hours needed.

Proposed NYPA and Canal Corporation 2021 Audit Plan Risk Category Allocation

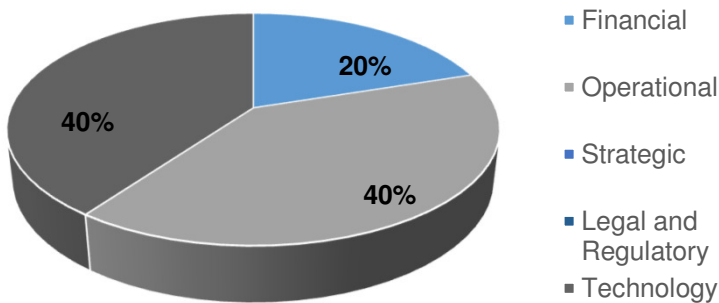
2021 NYPA Plan Allocation by Risk Category



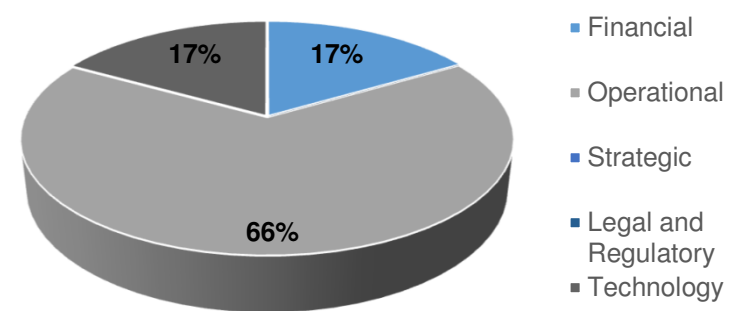
2020 NYPA Plan Allocation by Risk Category



2021 Canal Corp. Plan Allocation by Risk Category



2020 Canal Corp. Plan Allocation by Risk Category



2021 Audit Plan

- The allocation of 2021 audit projects by risk category does not materially deviate from the 2020 actual allocation.
- Relatively same audit coverage percentage for operational risk for NYPA due to continued support of the Utility Operations business unit for compliance with ISO 55001 standards and an increase in coverage within the Human Resources & Administration business unit for workforce planning. Audit coverage for technology risk remained relatively the same in support of digitization. For the Canal Corporation, a decrease in operational risk audit coverage is due to focus on technology areas not reviewed in prior years.

Proposed NYPA 2021 Audit Plan – Alignment

87% of the projects in the Audit Plan directly align to either Strategic Core Priorities, Foundational Pillars and/or Top Enterprise Risks (See Appendix D for list of projects)

Strategic Core Priorities and Foundational Pillars	# of Projects	Top Enterprise Risks	# of Projects
Hydropower	2	Attract & Retain Qualified Workforce	6
Transmission	2	Commodity Market Volatility	1
Natural Gas *	0	Critical Infrastructure	9
Customer and State	4	Customer Energy Choices	4
Reimagine the Canals	1	Cyber Security	5
Resource Alignment	10	Disruptive Innovation	1
Digital Transformation	7	Hydro Generation	1
Environment, Social & Governance	2	Workforce Health & Safety	1
Diversity, Equity & Inclusion	1		
Enterprise Resilience	1		

***Note:** Natural Gas – audit projects will be conducted as this strategic core priority develops.

Proposed Canal Corporation 2021 Audit Plan - Alignment

100% of the projects in the Audit Plan align to either Strategic Core Priorities, Foundational Pillars and/or Top Enterprise Risks

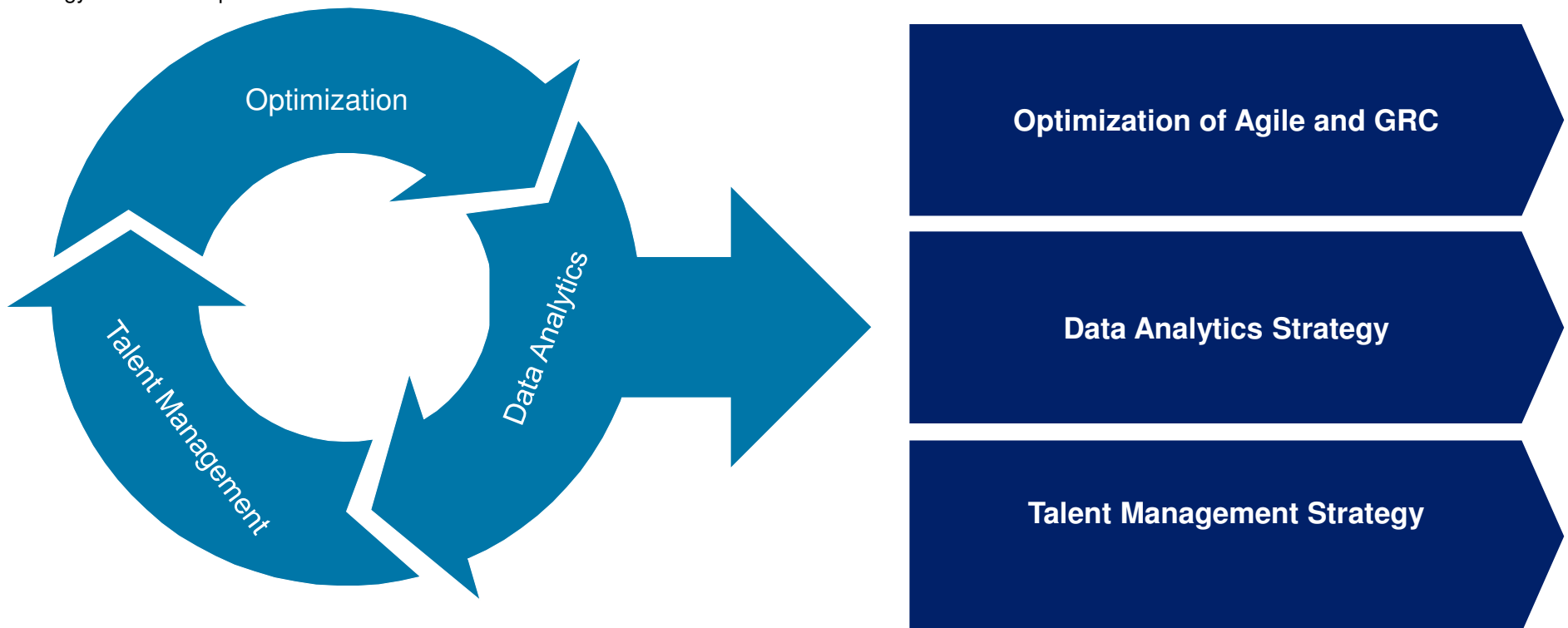
Strategic Core Priorities and Foundational Pillars	2021 Audit Plan Coverage
Hydropower	N/A
Transmission	N/A
Natural Gas	N/A
Customer and State	N/A
Reimagine the Canals	N/A
Resource Alignment	Canals Pension and Other Post Retirement Benefits
Digital Transformation	Canals Maximo System Implementation
Environment, Social & Governance	N/A
Diversity, Equity & Inclusion	N/A
Enterprise Resilience	N/A

Top Enterprise Risks	2021 Audit Plan Coverage
Attract and Sustain a Qualified Workforce	Canals Pension and Other Post Retirement Benefits
Critical Infrastructure	Canals Asset Management Lifecycle (Inventory and Maintenance) Canals Flood Warning System Application Review
Financial Planning	Canals Maximo System Implementation
Health and Safety*	None
Organizational Execution	Canals Post Integration Review

* **Note:** Audit projects related to Health and Safety were covered in the Canal Corporation 2019 Audit Plan.

Internal Audit Strategy Refresh

The transformation initiatives introduced in 2018 have been substantially operationalized. To continue the path of moving the Internal Audit function forward and meeting the needs of the business, we reviewed the function's current state, conducted some maturity benchmarking through the Gartner Audit Leadership Council and refreshed Internal Audit's strategy. We conducted several strategy sessions and developed three key themes and corresponding roadmaps (See Slides 14 -16) that will be the center of focus: Optimization, Data Analytics and Talent Management. In addition, these key areas align with certain NYPA 2030 Strategy foundational pillars.



Agile and GRC Optimization Roadmap

	January-March 2021	April-June 2021	July-September 2021	October-December 2021
Agile	Enhance Current Agile Methodology • Perform Agile health check to identify areas for enhancements. • Incorporate Agile concepts in IA activities, workstreams and tracking.		Implement Enterprise-wide Agile Tools • Assess available Enterprise-wide Agile tools. • Implement Agile tools where applicable to support the department.	
	Risk Assessment Refresh • Review current Risk Assessment process for enhancement opportunities to implement Agile concepts. • Mature recently enhanced Audit Liaison Program.		Enhance Agile KPIs • Enhance and further develop Agile KPIs. • Implement and track Agile KPIs.	
	Continuous Improvement • Agile Certifications at all levels (Foundation, Agile Coach, Product Owner). • Continue to train department via target trainings (i.e. refreshers, leadership training).			
GRC	Develop User Manual • Closeout any open/pending system issues prior to development of user manual. • Create and distribute user manual to staff.		Change Management Communication for Tool Standardization • Communicate new changes to GRC functionality and process updates to staff and applicable stakeholders.	
	Develop System Manual • Create and distribute system manual for Internal Audit GRC administrators.			
	Develop Reporting and Dashboards • Identify key reports, dashboards, and system automation and test for various desired functionality. • Implement reports, dashboards, and automation.			
	Enhance Training • Enhance system training curriculum to be conducted with periodic refreshers.			

Data Analytics Strategy Refresh Roadmap

January-March 2021	April-June 2021	July-September 2021	October-December 2021	January-March 2022	April-June 2022
Change Management Plan - Refine and enhance Data Analytics vision and strategy. - Establish the overall project plan and timeline with clear metrics and goals. - Create and implement a Change Management plan.					
Talent and Operating Model - Update roles and responsibilities and create a comprehensive data analytics RACI matrix. - Align desired data analytics competency model with a robust technical and non-technical training curriculum. - Review and revise current resourcing model to allocate time for data analytics projects and leverage internal and third-party teams.					
	Process and Methodology Update and enhance methodologies, review existing data analytics KPIs and develop additional key KPIs.			Continuous Monitoring - Work with IT's Data Governance team and business units to enhance and build out data analytics capabilities. - Hand off key data analytics to the business units for monitoring.	
Data and Tools - Procure and implement digital tools/technology required to support data analytics goals. - Establish a dataset inventory and procedure.		Continuous Auditing Pilots - Determine the business areas to apply continuous auditing pilots. - Build pilot data analytics scripts, execute and share results with the designated business units. - Create a culture internally and externally that commits to innovation through analytics.			Mature Data Analytics

Talent Management Strategy Roadmap

January-March 2021	April-June 2021	July-September 2021	October-December 2021	January-March 2022	April-June 2022
Expand Competency Development - Perform department skills assessment to understand gaps within desired competencies that align to Staff Excellence and Talent Strategy. - Based on results, enhance current competency model to reflect desired competencies. - Provide HR with initial competency updates.	Enhance Learning and Development - Update current learning and development program to align with Talent Strategy through specific learning tracks (Core, Immediate, Advanced). - Roll out updated learning development program.	Enhance Performance Management - Review current performance management process for enhancement opportunities, i.e. criteria that drives performance ratings. - Enhance current audit project evaluation form to align with updated competencies.			
Expand Sourcing and Recruiting - Work with HR on updated competencies and add to job descriptions. - Assess the feasibility for internal and external recruiting events. - Create audit skills assessment for potential hires.		Develop Rewards and Well Being - Identify permissible rewards for employee performance. - Design program to recognize and reward top talent and accomplishments.		Improve Career Mobility and Update Succession Planning - Work with HR to create a career development program that includes a career path, defined milestones, and expected competencies to align with Staff Excellence and Talent Strategy. - Work with HR to update the current succession plans that include Senior Audit Managers and above.	

Appendix A – Audit Universe Entities by Risk Rating

Audit Universe Entities by Risk Rating

BUSINESS UNIT	DEPARTMENT NAME	AUDIT ENTITY	RISK RATING H-M-L	LAST AUDIT YEAR	WITHIN AUDIT CYCLE YES/NO
Business Services	Business Services	Controller	H	2020 (1)	Yes
Business Services	Business Services	Treasury	H	2020 (1)	Yes
Commercial Operations	Commercial Operations	e-Mobility	H	-	No (2)
Human Resources & Administration	Strategic Supply Management	Strategic Supply Management	H	2020 (1)	Yes
Human Resources & Administration	Human Resources	Human Resources	H	2019 (1)	Yes
Information Technology	Critical Services - Infrastructure	Critical Services: Infrastructure	H	2020 (1)	Yes
Information Technology	Critical Services – Cyber Security	Cyber Security	H	2020 (1)	Yes
Utility Operations	Asset Performance Management	Asset Performance Management	H	2020 (1)	Yes
Utility Operations	Power Supply	Power Supply (All Regions)	H	2020 (1)	Yes
Utility Operations	Operations Support Services	Project Management & Operations Portfolio Management	H	2020 (1)	Yes
Utility Operations	Technology & Innovation	Strategic Operations	H	2020 (1)	Yes
Canal Corporation	Power Supply	Canals - Engineering & Maintenance	H	2019 (1)	Yes
Total High Entities			12		
Business Services	Business Services	Budgets	M	2019	Yes
Business Services	Business Services	Finance	M	2020 (1)	Yes
Business Services	Risk Management	Operational Risk	M	- (1)	Yes
Commercial Operations	Clean Energy Solutions	Clean Energy Solutions – Contract and Program Operations	M	2020 (1)	Yes
Commercial Operations	Clean Energy Solutions	Clean Energy Solutions – Engineering and Construction Management	M	2019	Yes
Commercial Operations	Clean Energy Solutions	Clean Energy Solutions – Market Services and Business Controls	M	2019 (1)	Yes
Commercial Operations	Energy Resource Management	Energy Resource Management	M	2020 (1)	Yes
Commercial Operations	Marketing Analysis & Administration	Marketing & Product Development	M	2020	Yes
Commercial Operations	Product and Business Development	Project Development & Licensing	M	2015 (1)	Yes
Human Resources & Administration	Knowledge Management – Digital Warehouse	Knowledge Management – Digital Warehouse	M	2019	Yes
Human Resources & Administration	Civil Rights & Inclusion	Civil Rights & Inclusion	M	- (1)	Yes

Note: (1) The 2021 Internal Audit Plan has included coverage of this audit entity in the audit plan.

(2) 2020 OSC Audit is underway. Internal Audit will conduct a follow-up audit.



**NY Power
Authority**

**Canal
Corporation**

Audit Universe Entities by Risk Rating

BUSINESS UNIT	DEPARTMENT NAME	AUDIT ENTITY	RISK RATING H-M-L	LAST AUDIT YEAR	WITHIN AUDIT CYCLE YES/NO
Information Technology	Architecture and Engineering	Architecture & Engineering	M	2015	No (2)
Information Technology	Critical Services – Service Delivery	Critical Services – Service Delivery	M	2019 (1)	Yes
Information Technology	Information Technology	IT Project Management Office	M	2019	Yes
Information Technology	IT Resiliency	IT Resiliency	M	2020	Yes
Information Technology	Product Development and Data Integration	Product Development and Data Integration	M	2020 (1)	Yes
Information Technology	Strategy and Planning	Strategy & Planning	M	2019 (1)	Yes
Corporate Strategy	Strategy	Strategy	M	2016 (1)	Yes
Utility Operations	Enterprise Resilience	Business Continuity Program	M	2019	Yes
Utility Operations	Operations Support Services	Engineering & Systems Planning & Analysis	M	-	No (2)
Utility Operations	Environmental Health & Safety (EH&S)	Environmental Health & Safety (EH&S)	M	2019	Yes
Utility Operations	Technology & Innovation	SOC & AGiLe Lab	M	2019	Yes
Utility Operations	Operations Support Services	Operational Performance & Reporting	M	- (1)	Yes
Utility Operations	Enterprise Resilience	Physical Security & Crisis Management	M	2019 (1)	Yes
Utility Operations	Enterprise Resilience	Quality Assurance & Code Compliance	M	2015	No (2)
Utility Operations	Enterprise Resilience	Reliability Standards & Compliance	M	2019 (1)	Yes
Utility Operations	Operations Support Services	Technical Training	M	2016	No (2)
Canal Corporation	Power Supply	Canals – Admin Services	M	2020 (1)	Yes
Canal Corporation	Power Supply	Canals – Technical Services	M	2017 (1)	Yes
Total Medium Entities			29		

Note: (1) The 2021 Internal Audit Plan has included coverage of this audit entity in the audit plan.

(2) Medium-rated audit entities indicated as “No” for within audit cycle have not been audited due to higher priority medium-rated audit entities.

Audit Universe Entities by Risk Rating

BUSINESS UNIT	DEPARTMENT NAME	AUDIT ENTITY	RISK RATING H-M-L	LAST AUDIT YEAR	WITHIN AUDIT CYCLE YES/NO
Business Services	Risk Management	Enterprise Risk Management	L	-	No (2)
Business Services	Risk Management	Insurance Risk Management	L	2020	Yes
Business Services	Business Services	Internal Business Controls (New Audit Entity)	L	-	Yes
Commercial Operations	Project & Business Development	Origination & Structuring (New Audit Entity)	L	-	Yes
Executive Office	Digital Transformation Office	Digital Transformation Office	L	-	Yes
Human Resources & Administration	Corporate Communications	Corporate Communications	L	2018	Yes
Human Resources & Administration	Enterprise Shared Services	Enterprise Shared Services	L	2018	Yes
Human Resources & Administration	Human Resources	Project Planning & Development	L	-	No (2)
Legal Affairs	Public & Regulatory Affairs	Community & Government Relations	L	2017	Yes
Legal Affairs	Public & Regulatory Affairs	Corporate Secretary Office	L	-	No (2)
Legal Affairs	Public & Regulatory Affairs	Environmental Justice	L	2019 (1)	Yes
Legal Affairs	Public & Regulatory Affairs	Legislative & Regulatory Affairs	L	2016	Yes
Legal Affairs	Office of Ethics & Compliance	Office of Ethics & Compliance	L	2019	Yes
Corporate Strategy	Strategy	Enterprise Excellence	L	-	No (2)
Utility Operations	Technology & Innovation	R & D	L	2016	Yes
Canal Corporation	Power Supply	Policy & Program Development /Community Economic Development /Public Affairs	L	2018	Yes
Total Low Entities			16		
Total Audit Universe Entities (NYP&A & Canal Corporation)			57		

Note: (1) The 2021 Internal Audit Plan has included coverage of this audit entity in the audit plan.

(2) Low-rated audit entities indicated as "No" for within audit cycle have not been audited since low-rated entities are audited as needed or as risks change.

Appendix B – Proposed 2021 NYPA Internal Audit Plan

Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
1	Business Services	Business Services	Controller	High	Audit	Customer Billing	Customer Billing may not be complete, accurate and timely, leading to inaccurate collections, expected revenue and financial reporting.	Evaluate the controls implemented to ensure that the customer billing is timely, accurate and complete.	Operational	Q1
2	Business Services	Business Services	Controller	High	Audit	Fixed Assets	Fixed assets may not be recorded accurately, completely or timely which may lead to inaccurate financial statements.	Evaluate the controls to ensure that the fixed assets are recorded accurately and completely, including the capitalization and depreciation of the assets. Determine that fixed assets are recorded in a timely manner.	Financial	Q4
3	Business Services	Business Services	Treasury	High	Audit	Customer Financing	Customers may default on financing provided by NYPA and cannot collect payments for financing provided which can affect NYPA's cash flows.	Verify controls exist to ensure that NYPA is financing creditworthy customers and that protections are put in place to minimize the risk to NYPA in case of default.	Operational	Q3
4	Business Services	Business Services	Controller	High	Audit	SAP General Ledger	The General Ledger may not comply with regulatory requirements, impacting the accuracy, completeness; and timeliness of NYPA's financial statements.	Evaluate the adequacy of controls in place to ensure the appropriateness of the chart of accounts and the correct mapping to the financial reports, FERC requirements and WBS codes. Review the process for reconciliations using the new Blackline system for effectiveness.	Financial	Q3
5	Business Services	Business Services	Finance	Medium	Assessment	Enterprise Program Management	Project management practices may be inconsistent and lead to inefficiencies and financial impact such as cost overruns, delays and inefficient use of resources. Project management functions may not be aware of projects executed within the organization which can impact the delivery of projects as expected.	Determine to what extent the newly developed Enterprise Program Management Office procedures have been implemented to manage NYPA's project portfolio. Evaluate the existing project management functions within NYPA, how they interact with the Enterprise Program Management Office, and determine the handoffs between functions, any overlaps and inefficiencies in processes.	Operational	Q4



Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
6	Business Services	Business Services	Finance	Medium	Audit	Financial Forecast Model System Implementation	Lack of effective system implementation, project management and functionality including business controls may not be appropriately designed to assure the accuracy of inputs, assumptions and calculations of the financial forecast model resulting in inaccurate reporting or decision making.	Review implementation activities to ensure that the financial forecast model system has proper business requirements including controls, system configuration, interfaces, systems and user acceptance testing, system security and overall project management.	Financial	Ongoing
7	Business Services	Risk Management	Operational Risk	Medium	Audit	Trading Process Controls	Inaccurate or inappropriate trading activities are not prevented or detected which can lead to excessive risk positions that are beyond NYPA's risk appetite.	Determine there is appropriate segregation of duties across all types of products and instruments traded within NYPA.	Operational	Q4
8	Business Services	Business Services	Treasury	High	Audit	Other Post Employment Benefits	Investment guidelines may not be met, and sufficient funds are not available to meet the requirements of other post employment benefits.	Evaluate the controls to ensure that other post employment benefits are managed in an appropriate manner, including the oversight of investment returns, management to investment guidelines and allocation to employees.	Financial	Q2
9	Commercial Operations	Clean Energy Solutions	Clean Energy Solutions - Contract and Program Operations	Medium	Audit	Economic Development Programs	NYPA may not comply with the requirements of its various economic development program commitments, and customers may not comply with program requirements leading to the state not benefiting from job or capital investments.	Ensure adequacy and effectiveness of controls in place to comply with NYPA's multiple economic development programs and agreements such as Recharge NY, Western NY, Preservation Power, Power Proceed Programs and others.	Legal & Regulatory	Q1
10	Commercial Operations	Project and Business Development	Project Development and Licensing	Medium	Audit	Project and Business Case Development	The investment returns for projects in development may not be included in business cases and the requirements to operationalize these projects once development has been completed, may not have been adequately determined.	Determine that there is an appropriate evaluation of the operational risks for projects under development, the business development checklist is used, and that considerations have been made to properly implement these projects by the respective business unit, once development has been completed.	Strategic	Q2



Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
11	Commercial Operations	Clean Energy Solutions	Clean Energy Solutions - Contract and Program Operations	Medium	Audit	ReCharge NY Customer Compliance	Power is provided to customers that do not comply with the job and capital commitment requirements of the ReChargeNY program leading to NY State not benefiting from the increase in jobs or capital commitments.	Determine whether ReCharge NY customers provide accurate compliance reporting as it relates to job and capital commitments.	Legal & Regulatory	Ongoing
12	Commercial Operations	Clean Energy Solutions	Clean Energy Solutions - Contract and Program Operations	Medium	Audit	Western NY Customer Compliance	Power is provided to customers that do not comply with job and capital commitment requirements of the Western NY Economic development program leading to the state of NY not benefiting from the increased job or capital commitments.	Determine whether Western NY customers provide accurate compliance reporting as it relates to job and capital commitments.	Legal & Regulatory	Ongoing
13	Commercial Operations	Clean Energy Solutions	Clean Energy Solutions - Market Services & Business Controls	Medium	Audit	Bid to Bill System Implementation	Lack of effective system implementation, project management and functionality including business controls not designed for Capacity and Energy settlements, can result with inadequate system design, project delays, cost overruns, poor system performance and user dissatisfaction.	Review implementation activities to ensure the Bid to Bill system has proper business requirements including controls, system configuration, interfaces, systems and user acceptance testing, system security and overall project management.	Operational	Ongoing
14	Human Resources & Administration	Strategic Supply Management	Strategic Supply Management	Medium	Audit	Supply Chain Management	Management has not identified supply chain risks including the unavailability of necessary equipment/services for NYPA operations which may cause disruption to the business. In addition, strategies or actions have not been developed to mitigate and manage these risks to reduce vulnerability and ensure continuity.	Review the internal and external supply chain risks identified by management and determine whether all risks have been properly considered for the organization. Review actions implemented to mitigate these risks and determine whether these actions are effective and demonstrate compliance with the NERC CIP 013 standard.	Operational	Q4



Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
15	Human Resources & Administration	Human Resources	Human Resources	High	Audit	Contingent Worker (NYPA & Canals)	Failure to identify and monitor risks associated with the contingent staffing processes may result in fines, penalties, lawsuits; exposure/loss of confidential and proprietary information, and reputational risk to NYPA and Canals.	Confirm contingent and temporary staffing vendors that support NYPA and Canals are compliant with contract terms, relevant Department of Labor laws and regulations and Internal Revenue Service requirements. Determine that NYPA and Canals staff are using contingent workers for the purposes they were contracted.	Operational	Q2
16	Human Resources & Administration	Human Resources	Human Resources	High	Audit	Third Party Services (NYPA & Canals)	Unnecessary use of third-party consulting services can result in excessive spending, inefficiencies, loss of institutional knowledge and potential fraudulent activities.	Determine the population of third-party consulting service contracts within NYPA and Canals and evaluate the overlap between business units and where efficiencies may be gained. Review and assess third-party service contracts and determine whether consultant activities are within the agreed upon scope and deliverables. Evaluate whether invoice rates are in line with the contracts and if consultants continue working at NYPA past their contract expiration.	Operational	Q1
17	Human Resources & Administration	Human Resources	Human Resources	High	Audit	Transitional Positions (NYPA & Canals)	Unclear or inconsistent use of transitional positions could result in unmitigated resource and succession planning risks.	Assess the use of transitional positions as a key mitigation to NYPA's resource and succession planning risk. Ensure NYPA has clearly defined procedures for how business units are to leverage this mitigation strategy as a part of their risk management effort.	Operational	Q4
18	Human Resources & Administration	Human Resources	Human Resources	Medium	Audit	Succession Planning (NYPA & Canals)	Significant workforce retirements or an increasing number of key staff exiting NYPA could lead to business disruptions, knowledge loss and critical skills shortages.	Review processes and controls associated with NYPA's Succession Planning and Retention Programs. Confirm that development plans for key personnel are consistently executed. Verify that performance measures related to Succession and Retention Programs are accurately implemented and reported.	Operational	Q3



Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
19	Human Resources & Administration	Civil Rights & Inclusion	Civil Rights & Inclusion	Low	Advisory	Diversity, Equity and Inclusion Program	Lack of oversight for the Diversity, Equity and Inclusion program goals and objectives may result in program goals not achieved in alignment with NYPA's 2030 strategy. In addition, management support may not be consistently provided and possible adverse perception of the program.	Review the mission, goals and objectives of the Diversity, Equity and Inclusion program and assess against current status and achievements. Verify that the program has developed Key Performance Indicators (KPIs), attainable short, medium and long-term targets and is reported to management.	Strategic	Q3
20	Information Technology	Critical Services - Infrastructure	Critical Services - Infrastructure	High	Audit	Cloud Services	Migration to the cloud computing environment introduces risks where NYPA has decreased visibility and control over cloud services, thereby increasing third party risks. Lack of proper configuration and security controls at NYPA and with cloud services providers can lead to unauthorized access to sensitive data, system compromise and potentially damage NYPA's reputation.	Evaluate whether investments in implemented cloud services currently align with NYPA business strategies and the providers' networks, systems and security requirements meet NYPA standards. Validate efficient and cost-effective use of cloud services through the review of NYPA's processes and determine whether they are documented, standardized and repeatable.	Technology	Q1
21	Information Technology	Critical Services - Service Delivery	Critical Services - Service Delivery	Low	Audit	IT Asset Management System Implementation	Lack of effective system implementation, project management and functionality including asset management controls not designed for appropriate IT Asset Management, can result with inadequate system design, project delays, cost overruns, poor system performance and user dissatisfaction.	Review implementation activities to ensure the IT Asset Management system, Flexera, has proper business requirements including controls, system configuration, interfaces, systems and user acceptance testing, system security and overall project management.	Technology	Ongoing
22	Information Technology	Strategy & Planning	Strategy & Planning	Medium	Audit	IT Governance	Lack of an IT Governance framework can lead to IT not operating efficiently to benefit NYPA and deliver quality services, leading to financial loss, poor compliance with regulation and law, and reputational damage.	Evaluate the IT governance structure and IT's ability to deliver results for the organization. Determine the metrics IT measures to evaluate efficiencies and effectiveness and where improvements can be made to governance processes.	Technology	Q1



Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
23	Information Technology	Critical Services - Cyber Security	Cyber Security	High	Audit	Mobile Device Security	Ineffective controls for mobile devices can lead to unauthorized access to NYPA data stored on mobile devices, download of inappropriate applications, outdated software versions, and device unavailability due to compromise.	Review the processes, procedures and system tools to manage mobile devices. Evaluate security controls for the physical devices, data stored/transmitted by these devices and monitoring processes and technologies. Review of security controls would include access controls and authentication, virus and malware prevention, secure connection and transmission, data encryption and device decommissioning.	Technology	Q3
24	Information Technology	Product Development & Data Integration	Product Development & Data Integration	Medium	Audit	Rapid Application Development	Increased use of rapid application development methodology can lead to potentially taking short cuts to develop applications which are designed to collect sensitive data. This presents elevated risks of unauthorized use, exposure to security vulnerabilities, violation of laws and potential for fraud due to poorly designed security controls or misconfigured systems.	Determine the technologies used for rapid development of applications and if these applications were built with safety and security controls. Also, review the development process to determine if requirements were met and validated prior to moving the application to production.	Technology	Q1
25	Information Technology	Information Technology	IT Project Management Office	Medium	Audit	System Development Lifecycle (SDLC)	Inadequate governance policies and procedures for Systems Development Lifecycle (SDLC) processes for systems/applications can lead to cost overruns, systems/applications developed or vendor solutions that do not meet user requirements, delays in promoting systems/applications to production, poor system performance and ineffective production support.	Evaluate the various systems development governance processes for both in-house developed systems and vendor solutions. Assess the requirements for each phase of the SDLC and ensure policies and procedures align with IT's Gate process for IT solution implementation. Determine if the proper checkpoints and signoffs have been incorporated to ensure consistency and accountability. Verify if metrics have been developed and are monitored to ensure successful system implementation.	Technology	Q2

Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
26	Information Technology	Critical Services - Service Delivery	Critical Services - Service Delivery	Medium	Audit	User Access Management	Lack of user access management may result in users with unauthorized access beyond those required for their job function, need to know, system compromise and violations of policy. Excess systems access may cause unintended system disruptions having financial, regulatory, operational and reputational risks.	Review IT's established policies and procedures for requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges for systems, applications and related subscriptions to ensure these procedures are adequately followed. Determine if an approval procedure outlining the data or system owner granting the access privileges, applies to all users, including administrators (privileged users), employees and third-party users (e.g., consultants, contingent workers, vendors) for normal and emergency cases.	Operational	Q2
27	Information Technology	Critical Services - Infrastructure	Critical Services - Infrastructure	High	Advisory	Emergency Energy Control Center (E2C2) Physical and Environmental Controls	Inadequate physical security and environmental controls of NYPA's data centers increases the risk of confidential data exposure and damage and theft of valuable IT equipment, resulting with NYPA's inability to recover systems in the event of a service interruption, and damage NYPA's reputation.	Determine the adequacy of physical and environmental controls implemented at the E2C2 backup data center. Verify the effectiveness of policies and procedures in place for NYPA's data centers governing physical security and environmental controls management.	Technology	Q1
28	Legal Affairs	Public & Regulatory Affairs	Environmental Justice	Low	Assessment	Sustainability Plan Refresh	The Sustainability Plan goals may not be met and not align with NYPA's 2030 Strategy.	Evaluate the controls implemented to ensure the Sustainability Plan goals are met to ensure there is accurate and complete reporting of metrics. Determine the plan goals align with NYPA's 2030 Strategy.	Strategic	Q3
29	Strategic Planning Corporate Strategy	Strategy	Strategy	Medium	Assessment	Reimagine Canals Program Implementation	Reimagine Canals Program objectives may not be met if specific project milestones are not accomplished which could lead to exceeding the program budget, delays in program implementation and potential damage to NYPA's reputation.	Evaluate the controls in place to ensure that the objectives of the Reimagine Canals Program are met, projects as part of the overall program are meeting their milestones; and are managed to their respective budgets.	Strategic	Ongoing



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Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
30	Utility Operations	Operations Support Services	Operational Performance & Reporting	Medium	Audit	Apprenticeship Program	Misalignment and poor planning of business needs to the Apprenticeship Program may lead to critical skills shortage as well as insufficient coverage of business activities, succession planning, knowledge transfer and overall workforce development, resulting in ineffective execution of operational and maintenance activities, increasing operational risk.	Assess management oversight and monitoring of program governance activities, including program recruitment, approvals, committee structure, metrics, reporting, and training requirements and completion. Evaluate the process implemented by NYPA and the regional sites to track, identify and assign positions to be used by the Apprenticeship Program. Ensure adequacy and effectiveness of the Apprenticeship Program and review design and delivery of training to meet key skills requirements.	Operational	Q2
31	Utility Operations	Technology & Innovation	Strategic Operations	High	Audit	Asset Management Governance	Inadequate implementation and adherence of policies, procedures, and controls related to the asset management system objectives and ISO 55001 requirements could result in sub-optimized asset performance, increased cost and risk, and non-maintenance of the ISO 55001 certification.	Validate adequacy of policies, procedures and controls related to NYPA's asset management system objectives. Ensure asset management activities align with the Asset Management strategy, Corporate Asset Management plan, and Regional Asset Management plans. In addition, validate adherence to the ISO 55001 governance framework and related policies and procedures, objectives and other requirements.	Operational	Q2
32	Utility Operations	Power Supply	Power Supply (All Regions)	High	Audit	Energy Management System (EMS) Replacement	Lack of effective system implementation, project management and business process controls can result with inadequate system design, project delays, cost overruns, poor system performance and user dissatisfaction.	Review implementation activities to ensure the Energy Management System has proper business requirements including controls, system configuration, interfaces, systems and user acceptance testing, system security and overall project management.	Technology	Ongoing

Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
33	Utility Operations	Operations Support Services	Project Management & Operations Portfolio Management	High	Audit	Generation and Transmission Project Planning and Implementation	Project plans do not consider viability of the project, return on investment, asset ownership, cost and resources for operations and maintenance activities, and other considerations to operationalize the project, which may result in financial and operational risks to the organization.	Determine that project plans include considerations to the viability of projects, return on investments, asset ownership, cost and resource implications related to O&M activity once the assets have been placed in service. Validate that implementation activities agree with project plans and all deviations from the plan have been pre-approved and assessed for appropriateness.	Strategic	Q2
34	Utility Operations	Operations Support Services	Project Management & Operations Portfolio Management	High	Audit	Next Gen Niagara Implementation	Failure to follow established NYPA project management policies and procedures during the implementation of the Next Gen Niagara project could lead to fraud, waste and abuse of NYPA funds and resources, operational failure, and security vulnerabilities. It can also lead to the existing systems not supporting NYPA's long term strategic goals and objectives to power economic growth across the State by providing NYPA's customers with the low cost, clean, reliable energy and innovative energy infrastructure and services.	Assess compliance to NYPA's project management policies and procedures. Validate project activities are appropriately managed and project milestones and status are reported to relevant management on a periodic basis. Determine that project objectives and requirements are met by reviewing the project plan and progress to date and project costs are tracked against budget. Review configurations to confirm proper security controls have been implemented.	Operational	Ongoing
35	Utility Operations	Enterprise Resilience	Physical Security & Crisis Management	Medium	Advisory	Pandemic Plan After Action Review	Inadequate capture of lessons learned in the pandemic response After Action Report could lead to inappropriate development of action plans to address pandemic risks identified.	Confirm that the After Action Report includes lessons learned from the pandemic. Determine the plan is updated on a regular basis, communication and reporting protocols have been defined and are adhered to, and roles and responsibilities have been designated. If applicable, validate the steps are followed in a pandemic situation and After Action Reports are completed.	Operational	Q3

Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
36	Utility Operations	Operations Support Services	Project Management & Operations Portfolio Management	Medium	Audit	Communications Backbone Program	Failure to follow established NYPA project management policies and procedures during the implementation of the Communication Backbone could lead to fraud, waste and abuse of NYPA funds and resources, operational failure, and security vulnerabilities. It can also lead to the backbone not supporting NYPA's long term strategic goals and objectives to power economic growth across the State by providing NYPA's customers with the low cost, clean, reliable energy, and innovative energy infrastructure and services.	Assess compliance to NYPA's project management policies and procedures. Validate project activities are appropriately managed and project milestones and status are reported to relevant management on a periodic basis. Determine that project objectives and requirements are met by reviewing the project plan and progress to date and project costs are tracked against budget. Review configurations to confirm proper security controls have been implemented.	Strategic	Ongoing
37	Utility Operations	Operations Support Services	Project Management & Operations Portfolio Management	Medium	Audit	Smart Path Transmission Line Upgrade	Inefficient or ineffective project management activities could result in sub-optimal use of resources, projects do not meet objectives or are delivered with poor quality, cost overruns, project delays and reporting data is inaccurate leading to poor business decisions.	Ensure management has identified project risks and follow adequate project management procedures to ensure projects are on time, within budget and project deliverables have quality. Verify management is aware of project status and can verify percentage complete, and significant vendors or contractors are performing in accordance with contract terms. Verify the accuracy of project activity reports. Ensure appropriateness of financial management activities including compliance with procurement, cost estimation, quality assurance plan, accounting policies and procedures and budget to actual analysis is maintained.	Operational	Q3

Proposed 2021 NYPA Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
38	Utility Operations	Enterprise Resilience	Reliability Standards & Compliance	Medium	Advisory	NERC Operations and Planning/Critical Infrastructure Protection Audit Prep	Failure to comply with NERC Operations and Planning/Critical Infrastructure Protection (NERC O&P/CIP) standards and its requirements may result with regulatory fines/penalties, increased regulatory scrutiny from the NPCC and damage to NYPA's reputation.	Provide support to management for compliance readiness for the upcoming NERC O&P and CIP standards audit to ensure management has the proper policies and procedures, current compliance responsibility matrix, evidence documentation and adequacy of staff knowledge for compliance with applicable NERC standards.	Legal & Regulatory	Ongoing

Appendix C – Proposed 2021 Canal Corporation Internal Audit Plan

Proposed 2021 Canal Corporation Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
1	Utility Operations	Power Supply	Canals - Engineering & Maintenance	High	Assessment	Canals Asset Management Lifecycle (Inventory and Maintenance)	Capital assets are not valued appropriately and are inaccurately recorded on the financial statements leading to financial misstatements.	Review the adequacy and efficiency of the current Capital Asset Management strategic plan, risk matrix, policies and procedures as they relate to asset procurement, valuation, tracking and monitoring, recording and reporting, disposal of assets, and depreciation to ensure capital assets are valued appropriately and recorded accurately on the financial statements.	Operational	Q1
2	Utility Operations	Power Supply	Canals - Technical Services	Medium	Audit	Canals Flood Warning System Application Review	Failure of the Canals Flood Warning System can result in the system's inability to detect the Canal's water flow rates, monitoring rainfall and water level impacts, making water level forecasts, flood extent and impact forecasts, sending alerts and warning messages, and other operational failures. This could lead to financial, operational, legal, reputational, environmental, health and safety risks.	Review the functionality and current configuration of the Canals Flood Warning System to ensure they are in accordance with vendor recommended specifications and are operating as intended, validate any configuration changes were made in accordance with Information Technology's change management procedures, evaluate user access and cyber security controls, and assess whether the system is physically secure. Review implementation activities for the enhancement of the system to ensure proper business requirements have been defined, including controls, system configuration, interfaces, systems and user acceptance testing, system security and overall project management.	Technology	Ongoing
3	Utility Operations	Power Supply	Canals - Administrative Services (Need Full Name)	Low	Audit	Canals Pension and Other Post Retirement Benefits	Unsupported judgments used in determining post retirement benefits costs could lead to over or underfunding of post retirement benefit accounts. Data (e.g. inputs, assumptions, projections) used to determine the pension plan liability are not complete, accurate and reported incorrectly.	Evaluate the support for judgments made by Canals related to post retirement benefits and ensure proper accounting treatment. Evaluate the controls exist to ensure data used to determine the pension plan liability is complete, accurate and is reported correctly.	Financial	Q2



Proposed 2021 Canal Corporation Internal Audit Plan

	Business Unit	Department	Audit Entity	Audit Entity Risk Rating	Project Type	Audit Project Name	Risk Description	Scope / Objectives	Risk Category	Quarter Planned
4	Utility Operations	Power Supply	Canals - Administrative Services (Need Full Name)	Medium	Audit	Canals Post Integration Review	Unclear and undefined roles and responsibilities and restrictions to data and technology for shared services functions can lead to process and control breakdowns, duplication of efforts and other inefficiencies, which can lead to financial, operational, workforce management and reputational impacts.	Review Canals shared services that have been established post integration and validate whether adequate roles and responsibilities have been defined, operational and communication processes and related controls have been established to ensure effective continuation of Canals operations and administration.	Operational	Q3
5	Utility Operations	Power Supply	Canals - Technical Services	Low	Audit	Canals Maximo System Implementation	Lack of effective system implementation can lead to original business objectives not met, poor system performance, inefficiencies and user dissatisfaction.	Determine that the Maximo application business requirements have been implemented and are functioning as intended. Determine if business objectives have been met, efficiencies gained, system performance is adequate, organizational change management is effective and user acceptance testing has been performed. In addition, confirm that a process has been established to ensure all asset information that is currently stored in the CIMS application is accurately and completely transferred into Maximo.	Technology	Ongoing

Appendix D – Supporting Information

Proposed NYPA and Canal Corporation Q1 Projects

Q1 projects were selected based on management requests, timing of key business initiatives or implementations and balancing audit work throughout the year:

Area	Audit Project
Operational	• Customer Billing • Bid to Bill System Implementation • Third Party Services (NYPA & Canals) • Canals Asset Management Lifecycle (Inventory and Maintenance)
Strategic	• Communications Backbone Program (Ongoing – Q1 start)
Financial	• Financial Forecast Model System Implementation (Ongoing – Q1 start)
Legal and Regulatory	• Economic Development Programs • NERC Operations and Planning/Critical Infrastructure Protection Audit Prep
Technology	• IT Asset Management System Implementation (Ongoing – Q1 start) • IT Governance • Emergency Energy Control Center (E2C2) Physical and Environmental Controls • Cloud Services • Rapid Application Development

Plan Alignment to Strategic Core Priorities and Foundational Pillars

Strategic Core Priorities and Foundational Pillars	Projects
Hydropower	• Project and Business Case Development • Next Gen Niagara Implementation
Transmission	• Generation and Transmission Project Planning and Implementation • SMART PATH Transmission Line Upgrade
Customer and State	• Customer Financing • Economic Development Programs • ReCharge NY Customer Compliance • Western NY Customer Compliance
Reimagine the Canals	• Reimagine Canals Program Implementation
Resource Alignment	• Trading Process Controls • Other Post Employment Benefits • Enterprise Program Management • Contingent Worker (NYPA & Canals) • Transitional Positions (NYPA & Canals) • Succession Planning (NYPA & Canals) • Emergency Energy Control Center (E2C2) Physical and Environmental Controls • Apprenticeship Program • Asset Management Governance • NERC Operations and Planning/Critical Infrastructure Protection Audit Prep

Plan Alignment to Strategic Core Priorities and Foundational Pillars

Strategic Core Priorities & Foundational Pillars	Projects
Digital Transformation	• Bid to Bill System implementation • IT Asset Management System Implementation • Cloud Services • Mobile Device Security • Rapid Application Development • Energy Management System (EMS) Replacement • Communications Backbone Program
Environment, Social & Governance	• IT Governance • Sustainability Plan Refresh
Diversity, Equity & Inclusion	• Diversity, Equity and Inclusion Program
Enterprise Resilience	• Pandemic Plan After Action Review

Plan Alignment to Top Enterprise Risks

Top Enterprise Risk	Projects
Attract and Retain Qualified Workforce	• Other Post Employment Benefits • Contingent Worker (NYPA & Canals) • Transitional Positions (NYPA & Canals) • Succession Planning (NYPA & Canals) • Diversity, Equity and Inclusion Program • Apprenticeship Program
Commodity Market Volatility	• Trading Process Controls
Critical Infrastructure	• Supply Chain Management • Emergency Energy Control Center (E2C2) Physical and Environmental Controls • Asset Management Governance • Energy Management System (EMS) Replacement • Generation and Transmission Project Planning and Implementation • Next Gen Niagara Implementation • Communications Backbone Program • SMART PATH Transmission Line Upgrade • NERC Operations and Planning/Critical Infrastructure Protection Audit Prep
Customer Energy Choices	• Customer Financing • Economic Development Programs • ReCharge NY Customer Compliance • Western NY Customer Compliance

Plan Alignment to Top Enterprise Risks

Top Enterprise Risk	Projects
Cyber Security	• IT Asset Management System Implementation • Cloud Services • Mobile Device Security • Rapid Application Development • User Access Management
Disruptive Innovation	• Project and Business Case Development
Hydro Generation	• Financial Forecast Model System Implementation
Workforce Health & Safety	• Pandemic Plan After Action Review

Appendix E – Audit Plan Internal Audit Resource Capacity

Audit Plan Internal Resource Capacity (NYPA and Canal Corporation)

	# of Hours
Total Available Time (1)	24,600
Continuous Improvement (Reinvest in IA processes) (2)	(2,160)
Available Resource Time	<u>22,440</u>
Professional Services - Client Support Hours (3)	(3,195)
EH&S Compliance Audit Program Methodology and Project Management	(555)
Hours Available for NYPA and Canal Corporation Audit Plan	<u>18,690</u>

(1) Hours assume filled open positions by the end of January 2021 and excludes Non-Audit Time: training, vacation/sick/holidays, administrative time

(2) Continuous Improvement Hours include: Agile and GRC optimization, Data Analytics Strategy Refresh, QAIP

(3) Client Support Hours include: Audit Liaison Program, Committees/Work Groups participation, policies/procedures review, management request reviews

Internal Audit Plan - NYPA and Canal Corporation Approval Request

- Internal Audit requests the Audit Committee to approve the 2021 NYPA and Canal Corporation Audit Plan.



**NY Power
Authority**

**Canal
Corporation**

Exhibit 4a iii-A

***Audit Committee Update
2021 Internal Audit Budget
NYPA and Canal Corporation***

12/9/2020

Proposed 2021 Internal Audit Budget

	2021 Budget	2020 Budget	2020 Actual (as of 11/20/20)	Explanation
Payroll and Benefits*	\$3,184,900	\$3,241,333	\$3,114,737	Reflects full year of FTE costs for staff level at budget time.
Computer Software – Data Analytics Extraction Tool	\$250,000	\$0	\$0	Cost of data analytics tool and IT Support Services.
Software Maintenance	\$175,000	\$75,000	\$0	Cost of GRC maintenance and IT Support Services.
Training & Professional Fees	\$99,443	\$94,684	\$55,275	40 hours professional development per staff member as per IIA best practice and professional fees for staff members. Most training in 2020 was virtual at reduced cost and/or covered by the Technical Training group.
Travel Expenses	\$20,000	\$25,000	\$1,113	2021 travel will depend on future imposed travel restrictions. 2020 decrease in expenses due to travel restrictions, virtual training.
Books & Publications	\$0	\$9,532	\$0	Added to Internal Audit's budget for 2020. Will be budgeted through Digital Warehouse in 2021.
Miscellaneous Office	\$17,250	\$25,600	\$5,179	Virtual lunch and learn/staff meetings. Tentative Department off-site staff training meeting in 2021.
Audit Consulting -Internal Audit Co-Sourcing -Economic Development Job Commitment -Environmental Health & Safety Compliance Audit Program	\$1,350,000	\$1,680,000	\$1,526,509	Reduction in co-source costs with hired positions, some support hours for Data Analytics Strategy and Agile Optimization. Addition of outsourced auditors for Environmental Health & Safety Compliance Audit Program.
Total	\$5,096,593	\$5,151,149	\$4,702,813	

*Payroll and co-source support costs will change to reflect reallocation of cost as open positions are filled. The overall budget will remain substantially the same.

Internal Audit Budget Approval Request

- Internal Audit requests the Audit Committee to approve the 2021 Internal Audit Budget.

New York Power Authority

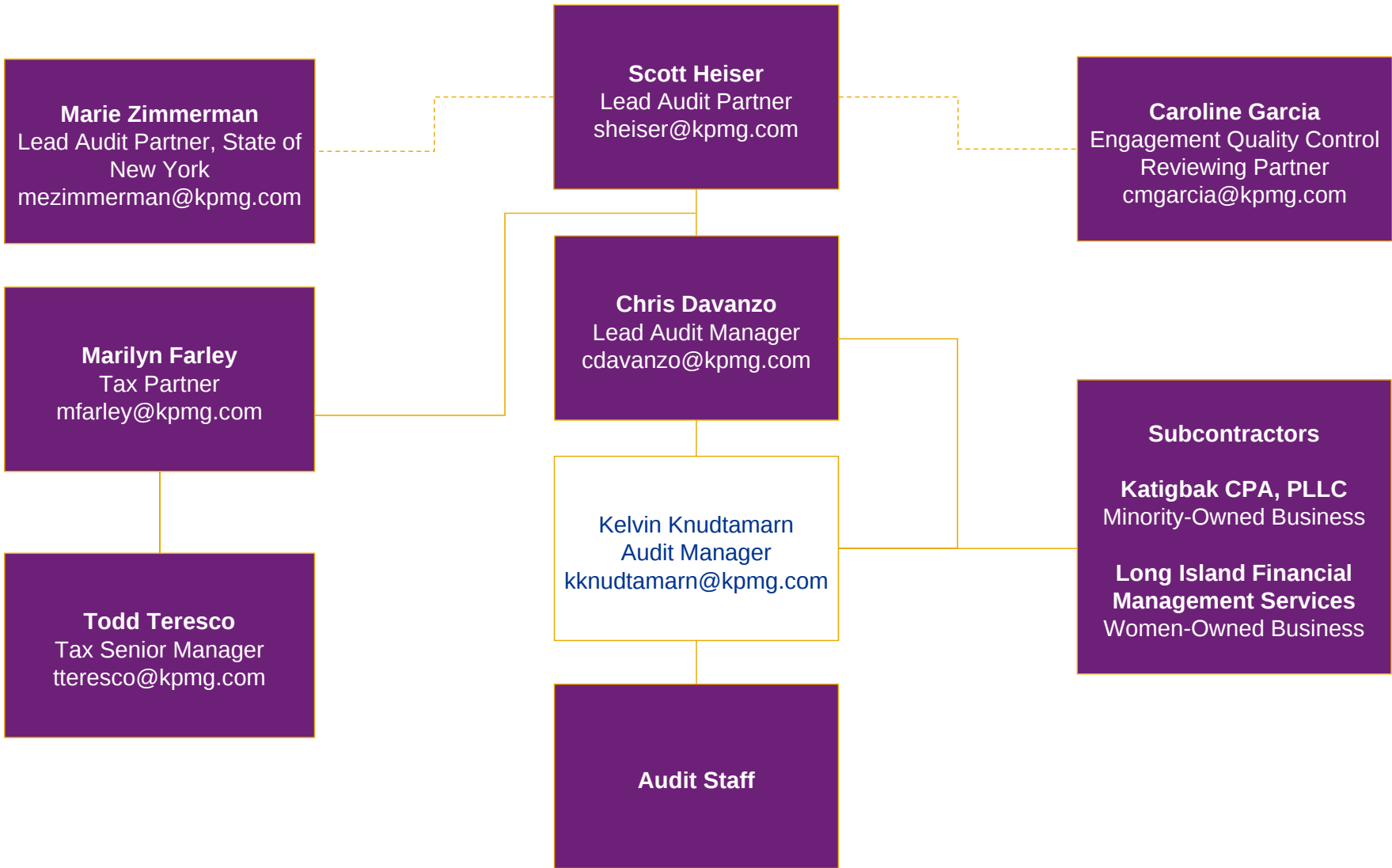
Report to the Audit Committee

Audit plan and strategy for the year ending December 31, 2020

December 9, 2020



Client service team

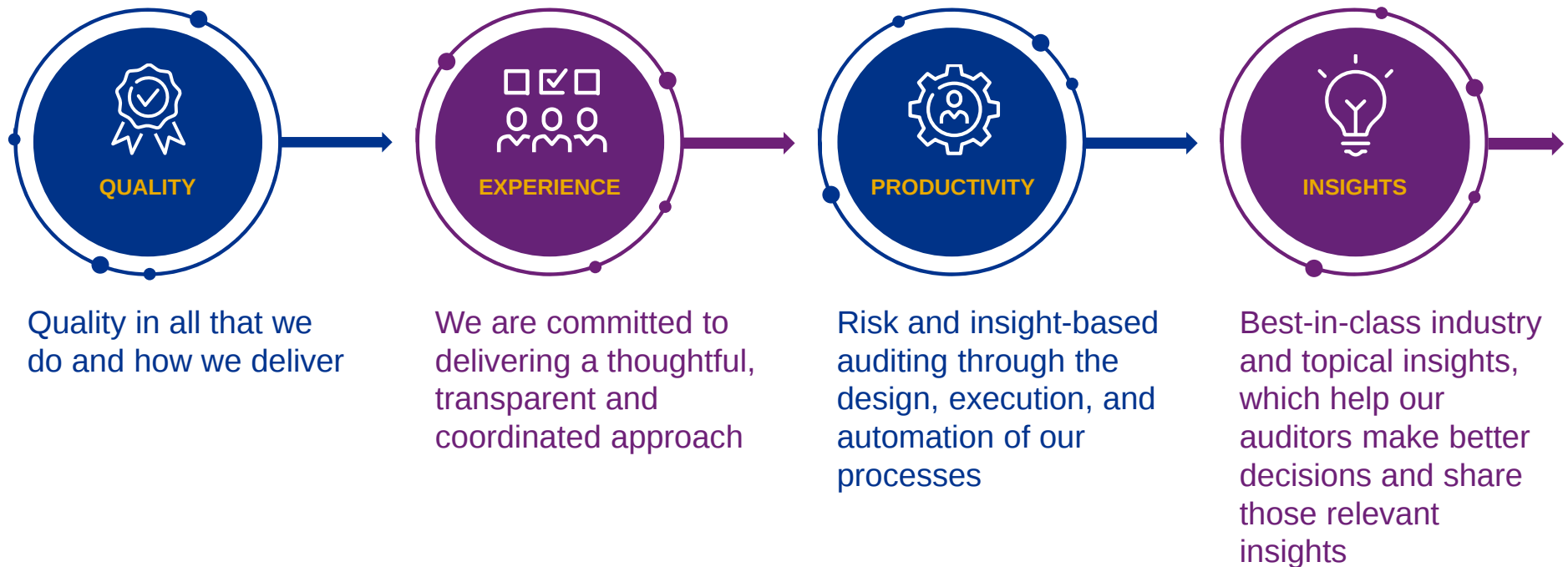


Team members with continuity are designated in purple.



Our commitment to you

We aim to deliver an exceptional client experience by focusing on





Executive summary

2020 AUDIT PLAN





COVID-19: Resilience & Readiness

COVID-19 is truly a unique and demanding challenge with severe human consequences. We place the highest priority on the health of our people and yours, and continue to take action based on guidance from public health authorities.

Key Insights For Your Organization

- Our team is producing insights and providing perspectives on actions we can all take to respond with resilience.
- Our [Audit Committee Institute](#) and [Board Leadership Center](#) is producing insights on oversight of companies' pandemic response.
- Our [COVID-19 resource center](#) also covers topics such as financial reporting, global economic impacts, financial management, contingency planning and business continuity, and more.



Business Continuity Excellence

- Our business continuity plan is working effectively and we have taken steps to prepare for future, potentially longer-term, alternative work arrangements.
- We are coordinating with your teams to best work together and communicating frequently to keep each other informed.
- Our Heads Up Thinking culture vision is helping to shape the way the firm responds to challenges like this to the benefit of our clients.



COVID-19 is a major consideration in the development of our audit plan in 2020. We are focused on understanding the impact of COVID-19 to your business, and coordinating and adjusting our audit plan as appropriate.

Required Audit Committee Communications

Presented on: December 9, 2020



Scope of audit

Our audit of the consolidated financial statements of the New York Power Authority (the Authority), as of and for the year ended December 31, 2020, will be performed in accordance with auditing standards generally accepted in the United States of America.

Performing an audit of the consolidated financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.

We plan to issue the auditor report on the consolidated financial statements of the Authority as of and for the two-year period ended December 31, 2020. Other planned audit deliverables include a report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Accounting Standards as of December 31, 2020, and a report on the Investment Compliance as of December 31, 2020.



Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the consolidated financial statements, considering the following factors:

Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

Judgments about materiality involve both qualitative and quantitative considerations.

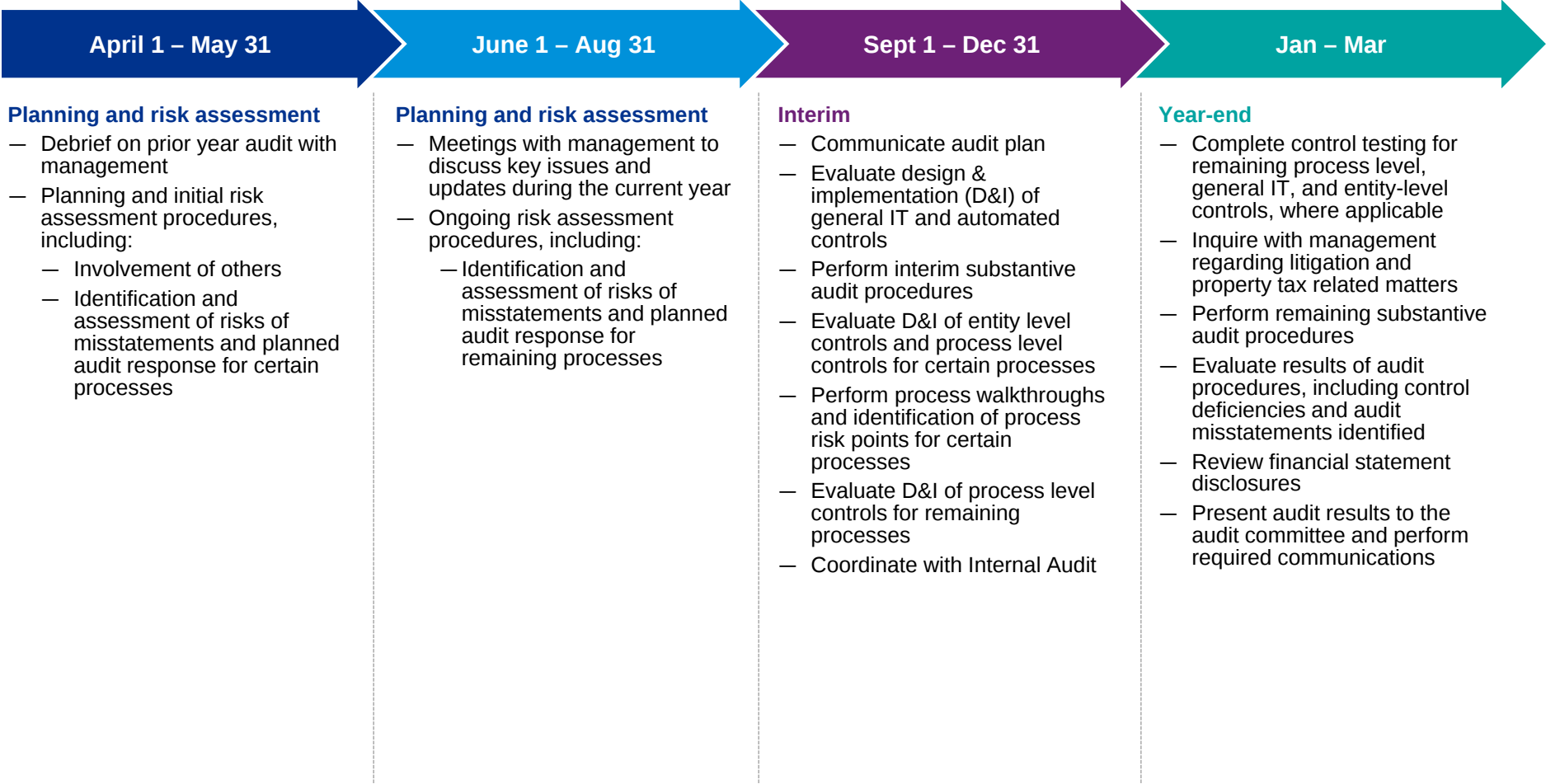
Judgments about matters that are material to users of the consolidated financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Determining materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the consolidated financial statements.

Judgments about the size of misstatements that will be considered material provide a basis for

- a) Determining the nature and extent of risk assessment procedures;
- b) Identifying and assessing the risks of material misstatement; and
- c) Determining the nature, timing, and extent of further audit procedures.

Our timeline



Filing date (Before March 31, 2021): Issue audit reports on financial statements.



Audit Improvements

Changes to audit plan during FY 2020

Timing of Audit

- KPMG has adjusted the timing of interim audit procedures
 - Increased the time period of field work during the months of October – December 2020
 - Focus on testing of high volume accounts including revenue, expenses and capital assets during November 2020 and December 2020
 - Planned walkthroughs of key processes during the month of December 2020

Ultimate goal to improve audit quality and to reduce compression of audit procedures during the year-end audit time period in February and March. KPMG has been and is continuing to work with management on improving the timing of the audit process.

Risk assessment: Significant risks

Significant Risks

Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent consolidated financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Susceptibility to:

Error

Fraud

Yes



Risk assessment: Estimates and other significant audit areas

Audit areas*	Relevant factors affecting our risk assessment
<i>Estimates – Pension and Post Retirement Obligations</i>	• Size and composition of the accounts • Nature of account and disclosure • Measurement uncertainty (assumptions utilized)
<i>Significant Audit Area – Revenue Recognition</i>	• Size and composition of the accounts • Volume of activity processed through the account • Nature of the account and disclosure
<i>Significant Audit Area – Long term debt</i>	• Size and composition of the accounts • Nature of account and disclosure
<i>Significant Audit Area – Capital Assets, including depreciation</i>	• Size and composition of the accounts • Volume of activity processed through the account • Nature of the account and disclosure
<i>Significant Audit Area – Investments</i>	• Size and composition of the accounts • Issuance of Investment Compliance Report

***The engagement team is considering the impact of COVID-19 on the above audit areas and the audit as a whole.**



Involvement of others

Subject Matter Professionals	Extent of planned involvement
KPMG National Pricing Desk	Testing the valuation of Investment selections
KPMG Actuarial Specialists	Testing the valuation of the NYPA and Canals OPEB and Pension liability
KPMG Tax	Review the entity's financial statements to determine tax-exempt status is appropriate
KPMG Forensics	Assist in brainstorming sessions related to fraud risks and fraud risk factors
Other	Extent of planned involvement
NYPA Internal Audit	Inquiries of internal audit, review of internal audit plan for FY20, and review results of audits conducted by internal audit



Accounting pronouncements

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

GASB Statement No. 87, *Leases*

This Statement addresses the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a model for lease accounting based on the principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NYPA plans to adopt this Statement in FY2021.

GASB Statement No. 91, *Conduit Debt Obligations*

This Statement addresses the reporting of conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, (3) related note disclosures. This statement establishes a single method of reporting conduit debt obligations thus eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby eliminating significant diversity in practice among entities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, although GASB 95 (noted above) postponed the effective date by one year.

NYPA plans to adopt this Statement in FY2021.



Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, audit committee and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, audit committee, and KPMG each play an important role.

System of independence quality control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules)

Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- NYPA or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.



Responsibilities

Management responsibilities



- Communicating matters of governance interest to those charged with governance.
- The audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities.

KPMG responsibilities – Objectives



- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and those charged with governance.
- Communicating effectively with management and third parties.

KPMG responsibilities – Other



- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
 - Withdraw from the audit engagement when possible under applicable law or regulation,
 - Communicate the circumstances to those charged with governance, and
 - Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- Forming and expressing an opinion about whether the consolidated financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- Communicating any procedures performed relating to other information, and the results of those procedures.



Inquiries

The following inquiries are in accordance with AU-C 260

Is the audit committee aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the consolidated financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the consolidated financial statements?
 - Whether all required information has been included in the consolidated financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Does the audit committee have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting NYPA, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?
 - If so, have the instances been appropriately addressed and how have they been addressed?

Additional inquiries:

- What are the audit committee's views about fraud risks in NYPA?
- Who is the appropriate person (audit committee chair or full committee) for communication of audit matters during the audit?
- How are responsibilities allocated between management and the audit committee?
- What are NYPA's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are the audit committee's attitudes, awareness, and actions concerning (a) NYPA's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has NYPA entered into any significant unusual transactions?
- Whether the is in compliance with other laws and regulations that have a material effect on the consolidated financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?

Questions?

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

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**NY Power
Authority**

**Canal
Corporation**

March 18, 2021

Next Meeting

The next regular meeting of the Audit Committee will be held on Thursday, July 15, 2021.