MINUTES OF THE REGULAR MEETING
OF THE
POWER AUTHORITY OF THE STATE OF NEW YORK

January 26, 2016

Table of Contents

January 26, 2016

Minutes of the Regular Meeting of the Power Authority of the State of New York held via video conference at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York at approximately 9:30 a.m.

Members of the Board present were:

John R. Koelmel, Chairman
Eugene L. Nicandri, Trustee
Terrance P. Flynn, Trustee
Dr. Anne M, Kress, Trustee
Anthony J. Picente, Jr., Trustee
Tracy McKibben, Trustee

Gil Quiniones	President and Chief Executive Officer
Edward Welz	Executive Vice President and Chief Operating Officer
Robert Lurie	Executive Vice President and Chief Financial Officer
Justin Driscoll	Executive Vice President and General Counsel
Parija Soubhagya	Senior Vice President and Chief Risk Officer
Jill Anderson	Senior Vice President – Wholesale Commercial Operations
Joseph Kessler	Senior Vice President – Power Generation
James Pasquale	Senior Vice President – Economic Development & Energy Efficiency
Kristine Pizzo	Senior Vice President – Human Resources
Bradford Van Auken	Senior Vice President – Operations Support Services & Chief Engineer
Rocco Iannarelli	Senior Vice President – Corporate Affairs
Gerard Vincitore	Senior Vice President – Corporate Finance
Karen Delince	Vice President and Corporate Secretary
Kristen Barbato	Vice President – Customer Energy Solutions
John Canale	Vice President – Procurement
Keith Hayes	Vice President – Marketing
Joseph Leary	Vice President – Community and Government Relations
Anne Reasoner	Vice President – Budgets and Business Controls
Ethan Riegelhaupt	Vice President – Corporate Communications
Scott Tetenman	Vice President – Finance
Gerald Goldstein	Assistant General Counsel – Contracts, Licensing & Environmental
Dominick Luce	Senior Director and Acting Vice President – Energy Efficiency
Frank Deaton	Director – Internal Audit
Helen Eisenfeld	Director – Financial Controls
Lori Gale	Director – Civil/Structural Engineering, Civil/Structural Engineering
John Plasko	Director – Corporate Support Services
Silvia Louie	Senior Project Manager – Executive Office/Public and Regulatory Affairs
Steven Gosset	Manager – Media Relations
Jaiah Gottor	Manager – Network Services – Infrastructure
Glenn Martinez	Senior Network Analyst – Infrastructure
Lorna Johnson	Senior Associate Corporate Secretary
Sheila Baughman	Senior Assistant Corporate Secretary

Chairman Koelmel presided over the meeting. Corporate Secretary Delince kept the Minutes.

<u>Introduction</u>

Chairman Koelmel welcomed the Trustees and staff members who were present at the meeting. He said that the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to the Authority's Bylaws, Article III, Section 3.

1. <u>Adoption of the January 26, 2016 Proposed Meeting Agenda</u>

Upon motion made by Trustee Flynn and seconded by Trustee Picente, the meeting Agenda was adopted.

<u>Conflicts of Interest</u>

Members declared no conflicts of interest based on the list of contractors provided for their review.

2. CONSENT AGENDA:

Upon motion made by Trustee Kress and seconded by Trustee Flynn, the Consent Agenda was approved.

Chairman Koelmel said, he appreciated Trustee Nicandri's willingness to serve as Vice Chairman of the Board and congratulated him on his appointment (Item #2a-ii).

a. Governance Matters:

i. **Approval of the Minutes**

The Minutes of the Regular Meeting held on December 17, 2015 were unanimously adopted.

ii. **Election of the Vice Chair of the Authority**

The Chairman submitted the following report:

"SUMMARY

The Trustees are requested to elect Eugene L. Nicandri to serve as Vice Chair of the Authority, effective immediately, in accordance with Section 1004 of the Public Authorities Law (the 'Power Authority Act').

BACKGROUND

Based on his outstanding record of service, it is recommended that the Trustees elect **Eugene L. Nicandri** to fill the vacancy of Vice Chair created by the resignation of Joanne M. Mahoney.

RECOMMENDATION

The following resolution is recommended for adoption."

The following resolution, as submitted by the Chairman, was unanimously adopted.

RESOLVED, That Eugene L. Nicandri of Massena, New York be, and hereby is, elected as Vice Chair of the Power Authority of the State of New York, effective immediately.

b. Power Allocations:

i. **Contract for the Sale of Expansion Power – Transmittal to the Governor**

The President and Chief Executive Officer submitted the following report:

"SUMMARY

The Trustees are requested to:

1) Approve the proposed final contract ('Contract') for the sale of 300 kilowatts ('kW') of Expansion Power ('EP') to RockTenn CP, LLC (the 'Company'), in accordance with Public Authorities Law ('PAL') §1009 as summarized below and in Exhibit '2b i-A.'

2) Authorize transmittal of the Contract to the Governor for his review and requested authorization for the Authority to execute the Contract pursuant to PAL §1009. The Contract is attached as Exhibit '2b i-B.'

BACKGROUND

Under PAL §1005(13), the Authority may allocate and sell directly or by sale for resale, 250 megawatts ('MW') of Expansion Power and 445 MW of Replacement Power to businesses located within 30 miles of the Niagara Power Project, provided that the amount of EP allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county. Under PAL §1005(13), the Authority may allocate and sell directly or by sale for resale, 490 megawatts ('MW') of Preservation Power to businesses located in Jefferson, Franklin and St. Lawrence Counties.

At their meeting on September 29, 2015, the Trustees awarded an allocation of 300 kW of EP to RockTenn CP, LLC as described in Exhibit '2b i-A.' At this meeting, the Trustees also authorized a public hearing on a contract for the sale of this allocation pursuant to PAL §1009.

The Contract before the Board would provide for the sale of this allocation to the Company. The sale of this allocation would be made under a direct sale arrangement. Transmission and delivery service would be provided by the Company's local utility in accordance with the utility's Public Service Commission-filed delivery service tariff. The following is a summary of some pertinent provisions of the Contract:

- The Contract would provide for the direct billing of all production charges (*i.e.* demand and energy) as well as all New York Independent System Operator, Inc. ('NYISO') charges, plus taxes or any other required assessments, as set forth in the Trustee approved Service Tariff-10 ('ST-10').

- The Contract includes the Company's agreed-upon commitments with respect to employment, power utilization and capital investments. The Authority would retain the right to reduce or terminate the allocation if employment, power utilization, or capital investment commitments are not met.

- The Contract provides for the sale of additional allocations of EP to the Company in appropriate circumstances by incorporating new allocations into Schedule A of the Contract. The Trustees approved this convention in the 2010 long-term extension contract for hydropower, which simplifies contract administration.

- To accommodate non-payment risk that could result from the direct billing arrangement with the Authority, the Contract includes commercially reasonable provisions concerning, among other things, the ability to require deposits in the event of a customer's failure to make payment for any two monthly bills. This is consistent with broader Authority contract template changes that incorporate direct billing, including the Authority's Recharge New York contracts forms.

- The Contract requires the Company to perform an energy efficiency audit at least once within five years at the facility receiving the low-cost power to help ensure that the hydropower is utilized as effectively as possible.

The Authority has discussed the Contract with the Company and has received its consent to the Contract. The Company has also acknowledged application of the appropriate tariff, discussed above, to its respective allocation.

As required by PAL §1009, when the Authority has reached agreement with its co-party on a power sale contract, it is required to transmit the proposed contract to the Governor and other elected officials and hold a public hearing on the proposed contract. At least 30-days' notice of the hearing must be given by publication once in each week during such period in each of six selected newspapers. Following the public hearing, the contract may be modified, if advisable.

Upon approval of the final proposed contract by the Authority, the Authority 'reports' the proposed contract, along with its recommendations and the public hearing record, to the Governor and other elected officials. Upon authorization of the Governor, the Authority may execute the contract.

DISCUSSION

As noted above, the Trustees, at their September 29, 2015 meeting, awarded the aforementioned allocation to the Company, and also authorized the Corporate Secretary to schedule a public hearing on the Contract.

A public hearing on the Contract was held on January 5, 2016 at the Power Vista (Visitors Center) at the Niagara Power Project in Lewiston. No oral statements were given at the public hearing. The official transcript of the public hearing and the written submittals are attached as Exhibit '2b i-C.'

RECOMMENDATION

The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the Contract for the sale of 300 kilowatts of Expansion Power to RockTenn CP, LLC and authorize the transmittal of the Contract to the Governor for his review pursuant to PAL §1009.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the contract for the sale of 300 kilowatts of Expansion Power to RockTenn CP, LLC ("Contract") is in the public interest, and in accordance with Public Authorities Law §1009 should be submitted to the Governor for his review along with a copy of the record of the public hearing thereon, and copies of the Contract along with the record of the public hearing thereon be forwarded to the Speaker of the Assembly, the Minority Leader of the Assembly, the Chairman of the Assembly Ways and Means Committee, the

Temporary President of the Senate, the Minority Leader of the Senate and the Chairman of the Senate Finance Committee; and be it further

RESOLVED, That the Chairman and the Corporate Secretary be authorized and directed to execute such Contract in the name of, and on behalf of, the Authority if the Contract is approved by the Governor; and be it further

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency, or his designee, be, and hereby is, authorized, subject to the approval of the form thereof by the Executive Vice President and General Counsel, to negotiate and execute any and all documents necessary or desirable to implement the Contract with the business as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

c. Procurement (Services) Contracts:

Niagara

i. **Procurement (Services) Contract –**
Niagara Power Project – Relicensing, Compliance and Implementation of the Strawberry Island Wetland Restoration Habitat Improvement Project – Contract Award

The President and Chief Executive Officer submitted the following report:

"SUMMARY

The Trustees are requested to approve the award of a contract to Applied Ecological Services, Inc., ('AES') of Brodhead, WI, in the amount of $994,580, for the Strawberry Island Wetland Restoration Habitat Improvement Project ('HIP') plant cultivation and installation work as part of the implementation of the Niagara Power Project's ('Project') new license and settlement commitments. The term of the contract will be from February 2016 through the end of 2018.

BACKGROUND

Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered in excess of one year.

The Federal Energy Regulatory Commission ('FERC') issued the New License for the Project on March 15, 2007. The License and associated Settlement Agreement and Section 401 Water Quality Certification ('WQC') from the New York State Department of Environmental Conservation ('License Agreements') require the Authority to support and establish a fund for the design, construction, operation, maintenance, and monitoring of eight specified HIPs; Strawberry Island is one of these HIPs.

Strawberry Island is a horseshoe-shaped area within the upper Niagara River in Erie County, NY, which is owned by the People of the State of New York and operated primarily as a wildlife habitat area by the New York State Office of Parks, Recreation and Historic Preservation ('NYSOPRHP'). The island's ecological features are managed with considerable assistance from the New York State Department of Environmental Conservation ('NYSDEC'). Under the License Agreements, the Authority has undertaken the restoration and improvement of the ecological features of the island. The goal of this HIP is to establish or re-establish approximately 6.6 acres of fish and wildlife habitat along the edges of the island and within its lagoon, as well as to improve over an acre of wetland and upland habitat for birds on the island. The first part of the HIP, largely accomplished under separate contract, involved the reconfiguration of the lagoon bottom and inside shoreline areas by dredging to create contours of varying depths, installing appropriate substrate materials to support growth of desirable submerged and emergent aquatic plants, and installing logs and other features to attract a variety of aquatic and terrestrial species. This work was accomplished in preparation for the upcoming planting phase, which will involve cultivation and installation of wetland and upland plants within the dredged and excavated area and within selected areas of the island.

DISCUSSION

On October 26, 2015, the Authority issued a Request for Quotation ('RFQ') (Q15-5986SG) for the planting work at Strawberry Island, including a notice in the New York State *Contract Reporter*, and a pre-bid conference was held on November 12, 2015. One proposal was received on December 1, 2015 from AES. The RFQ requested pricing for procurement, cultivation, installation and maintenance of specific native wetland and upland plants along with associated measures to protect newly installed plants from herbivores and measures to protect against pollution by sediment. The proposal from AES was six percent below the Authority's estimate.

Staff from the Authority's Relicensing and Implementation ('R&I') Division, the Environmental Health and Safety Division, and Procurement evaluated the AES proposal on the basis of technical qualifications and pricing. The Authority's review team was assisted in the technical evaluation by staff from Kleinschmidt Associates, which supported the biological design and engineered elements of the HIP, and the Authority's Niagara Compliance Implementation Consultant, Gomez and Sullivan Engineers, which assisted the Authority with project management of Niagara Project relicensing implementation projects.

AES was the sole bidder and is fully qualified. The company's proposal met all specifications and was within the Authority's cost estimate. Its performance on three previous relicensing projects in the Niagara River has been satisfactory in all areas including budget, schedule, safety, quality control, responsiveness, awareness of constraints, and adherence to technical requirements. The proposed personnel for the Strawberry Island planting work are identical to the team that performed previous successful planting projects.

AES proposed no unacceptable deviations or exceptions for the Strawberry Island HIP planting. Therefore, it is recommended that the contract be awarded to AES. The contract term will be from February 2016 through the end of 2018, and the contract amount will be a lump-sum of $934,580. In addition, it is recommended that an additional amount of $60,000 be included in the Trustee authorization for potential adjustments or additions to accommodate dynamic conditions in the Niagara River or which may be requested by regulatory agencies. Including this additional amount, the total recommended authorization is $994,580.

FISCAL INFORMATION

Since these expenditures are related to implementing new project commitments in the New License and the Section 401 Water Quality Certificate issued by the New York State Department of Environmental Conservation, payments will be made from the Capital Fund.

RECOMMENDATION

The Vice President – Project and Business Development, the Vice President – Procurement and the Director – Relicensing and Implementation recommend that the Trustees authorize the award of a construction contract to Applied Ecological Services, Inc. for the Strawberry Island Wetland Restoration Habitat Improvement Project plant cultivation and installation work in connection with the Niagara Power Project's new license and settlement commitments.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a contract to Applied Ecological Services, Inc. from February 2016 through the end of 2018, in the amount of $994,580, for plant cultivation and installation services for the Strawberry Island Wetland Restoration Habitat Improvement Project in connection with the Niagara Power Project's new license and settlement

commitments, as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	**Contract Approval**
Applied Ecological Services, Inc. (Q15-5986SG)	**$994,580**

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

SENY

ii. **Procurement (Services) Contract –**
SENY 500 MW Plant – Cathodic Protection –
Engineering Design and Construction
Services – Contract Extension

The President and Chief Executive Officer submitted the following report:

"SUMMARY

The Trustees are requested to approve an extension, through January 19, 2018, at no additional funding, of a contract previously awarded to Russell Corrosion Consultants ("Russell") (Purchase Order #4500254364), LLC of Columbia, Maryland. The contract is for the Southeast New York ('SENY') 500 MW Plant's Cathodic Protection System Assessment Engineering and Construction Services Project ('Project'). Interim contract extension through January 19, 2018 was approved by the Vice President – Procurement subject to approval by the Trustees at the January 26, 2016 meeting.

BACKGROUND

Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

Based upon annual site surveys from the last few years, testing results indicated that the existing cathodic protection system showed signs of depletion and a new or enhanced system was required.

The subject contract in the amount of $327,450 was competitively bid and awarded on January 20, 2015 to Russell to provide design and construction oversight services for the Cathodic Protection System at the 500 MW Plant. The contract includes design services to replace the existing cathodic protection system at the 500 MW Plant site. The contract services also include construction oversight services during the installation phase of the new Cathodic Protection System.

DISCUSSION

The current project was originally designated as a one-year, Non-Emergent Operations and Maintenance Project. The project was re-evaluated in mid-2015 and reclassified as a Capital project and recommended for implementation for a one- to three-year period to align with budgeting limitations. As such, Russell's contract, which was originally awarded for a one-year term, requires a two-year extension to align with the construction over multiple years. Currently, the design documents are in final review and the anticipated bid package is planned for February 2016. Construction is expected to commence in June of 2016 with an anticipated completion date of December of 2017. Therefore, Russell's services are required thru January 19, 2018 to ensure project closeout and turnover.

FISCAL INFORMATION

Payments associated with this Project will be made from the Authority's Capital Fund.

RECOMMENDATION

The Senior Vice President and Chief Engineer – Operations Support Services, the Vice President – Engineering, the Vice President – Project Management, the Vice President – Procurement and the Regional Manager – SENY recommend that the Trustees approve the contract extension through January 19, 2018, at no change in contract value, to Russell Corrosion Consultants, LLC of Columbia, Maryland, for the Southeast New York 500 MW Plant's Cathodic Protection System Assessment Engineering and Construction Services Project.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to extend through January 19, 2018, at no change in contract value, the contact with Russell Corrosion Consultants, LLC of Columbia, Maryland, for the Southeast New York ("SENY") 500 MW Plant's Cathodic Protection System Assessment Engineering and Construction Services Project as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	**Contract Approval**
Russell Corrosion Consultants, LLC Columbia, MD PO# 4500254364	**Contract Extension Not-To-Exceed January 19, 2018**

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

iii. **Procurement (Services) Contract – Legal Services for SENY Region – Contract Award**

The President and Chief Executive Officer presented the following report:

"SUMMARY

The Trustees are requested to approve the award of a single-source contract to Mercer Thompson, LLC of Atlanta, Georgia, for a five-year term not to exceed the amount of $750,000, to provide legal services in support of the Authority's development of a bid solicitation for a Long-Term Service Agreement ('LTSA') for the 500 MW Combined Cycle Power Plant.

BACKGROUND

Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

The Authority's Expenditure Authorization Procedures require the Trustees approval for personal services contracts awarded on a single-source basis with a value exceeding $500,000.00.

DISCUSSION

The 500 MW Combined Cycle Power Plant has two General Electric Frame 7 combustion turbines and one General Electric D11 steam turbine; each of these turbines drives a General Electric generator. Proper maintenance and upkeep of this equipment is critical to the 500 MW facility's continued operation.

A LTSA is currently in place with Ethos Energy Services (formerly The Wood Group). This LTSA was approved by the Trustees on March 26, 2007, as a result of a competitive bid, and signed on June 26, 2007, with a term until October 2018, after the second Steam Turbine Major Outage, or sooner, if the Authority determines it is in its best operational and financial interest.

In order to obtain the best maintenance agreement for the 500 MW Power Plant's combustion and steam turbines and associated equipment, and to avoid a lapse between LTSAs, Authority staff identified areas of the current LTSA which are in need of improvement. For example, items not included in the current LTSA such as OEM upgrades like Advanced Gas Path components, spare parts availability and pricing, technical expertise for fleet known issues and solutions, and technical information letters ('TILs') implementation are some of the areas identified for inclusion in the new LTSA.

Given the complexity of this type of document, the Authority is seeking the assistance of Mercer Thompson to assist in drafting and incorporating current industry standard legal terms and conditions in order to prepare bid documents for public release.

Mercer Thompson has the required knowledge and experience with the equipment, technologies, upgrades and industry-wide practices for the LTSA. The firm's experience includes LTSAs covering GE 6B, 7EA, 7FA, 7FB, 9FA, 7HA, LMS100, LM6000, STA10, STA14 and STD11 gas and steam turbine technology, Siemens 501F, 501G, 8000H and V94.3A1 technology and Mitsubishi 501F, M501G, M501GAC and M501J technology. Mercer Thompson has demonstrated this in the past with the preparation and evaluation of the current LTSA that ultimately led to a contract with the Ethos/Wood Group, a process that took more than one year to complete. Since many Authority employees who were involved in the negotiation of the current LTSA have left or retired, Mercer Thompson offers the experience and hindsight of lessons learned during that process. Additionally, this firm has dealt with most of the companies in the United States and worldwide that provide LTSA services making their contribution in the development of the 500 MW Plant's LTSA Request for Proposal (**'**RFP**'**) not only extremely valuable, but also necessary.

Mercer Thompson will assist the Authority with the following services:

1) RFP Development, including vendor qualification – Mercer Thompson will work with the Authority to develop bid documents that define the major terms and conditions, industry standards, and scope-of-services required for the subsequent LTSA agreement.

2) Bid Evaluation – Mercer Thompson will assist in the evaluation of the proposals received and provide recommendations to the Authority. In addition to helping analyze bids, Mercer Thompson will assist in identifying the key differences between the bids taking into account both pricing and risk allocation.

3) Contract Negotiations – Mercer Thompson will assist the Authority and legal counsel with negotiating a contract award with the next LTSA provider. Based upon the firm's experience, it can offer strategic advice as to structuring LTSA transactions and agreements so as to best match the Authority's needs, meet its goals and protect its interests.

The MWBE requirements of this single-source contract have been waived and the Authority's Supplier Diversity Department has been notified.

RECOMMENDATION

The Executive Vice President and General Counsel recommends that the Trustees approve a contract award to Mercer Thompson, LLC, for a not-to-exceed amount of $750,000 and a term of up to five years, to provide legal services in support of the Authority's development of a bid solicitation for a Long-Term Service Agreement for the 500 MW Combined Cycle Power Plant.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority and the Authority's Expenditure Authorization Procedures, approval is hereby granted to award a legal services contract to the law firm of Mercer Thompson, LLC located in Atlanta, Georgia, for a five-year term not to exceed the amount of $750,000, to provide legal services in support of the Authority's development of a bid solicitation for a Long-Term Service Agreement for the 500 MW Combined Cycle Power Plant.

CONSULTANT	**CONTRACT APPROVAL**
Mercer Thompson LLC Atlanta, GA	**$750,000**

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on

behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

d. Real Estate:

i. **Expansion of Leased Premises –**
<u>30 South Pearl Street, Albany, New York</u>

The President and Chief Executive Officer submitted the following report:

"SUMMARY

The Trustees are requested to authorize the amendment of the Authority's current lease with PS Associates, L.P. ('Landlord') to expand the current leased premises located on the tenth floor at 30 South Pearl Street, Albany, NY ('30 South Pearl Street') from 12,600 square feet to 17,100 square feet. It is intended that the lease for the new space would commence on or about February 1, 2016 and terminate, coincident with the current lease, on July 31, 2021. The annual rental for the added space is $82,880 for the period from February 1, 2016 through July 31, 2017; $87,360 for the period August 1, 2017 through July 31, 2019; and $89,600 for the period August 1, 2019 through July 31, 2021.

BACKGROUND

The Authority's Expenditure Authorization Procedures governing real estate require the Trustees' approval for the acquisition of lease interests in real property where the total term, including all renewal options, exceeds ten (10) years.

The Authority has leased office space at 30 South Pearl Street since March 1, 1999. The original lease has been amended on several occasions to extend the term and to adjust the leased square footage, as required, to meet staffing needs. Pursuant to the New York State Public Authorities Law and the Authority's Real Estate Procurement Guidelines, staff periodically reviews Authority leases to insure that any leased space is still required and that the rent paid represents fair market value for the type of space and its location.

DISCUSSION

The square footage leased at 30 South Pearl Street has been adjusted on several occasions to reflect changes in operational and staffing needs. For a period of time the entire tenth floor was leased, but as staff was relocated the space was reduced. At present, the Authority leases approximately two-thirds of the floor. However, as the result of recent staff additions, particularly in the Energy Efficiency and Legislative and Regulatory Affairs groups, additional space is required. All available space, including some storage and meeting space, is now being utilized by existing employees, and new employees are sitting in temporary and inadequate locations. Additionally, due to the centralized location of the office and proximity to other government entities, there is a significant need for 'swing' offices for both Authority personnel and guests, and none are available. There is also a need for more storage and filing room space.

The rental rate for the current leased space is $20 per square foot ('psf'). Real Estate staff negotiated a reduced rate for the new space, starting at $18.50 psf and increasing incrementally to $20 psf at the end of the term. The lease amendment also includes an option for an additional five-year term at a rate to be negotiated. The rental rates and other charges set out above are competitive with similar space in the Albany area. The Authority will incur no build-out costs or brokerage fees in this transaction.

FISCAL INFORMATION

Funds required for the lease extension will come from the Authority's Capital Fund.

RECOMMENDATION

The Senior Vice President – Wholesale Commercial Operations and the Vice President – Enterprise Shared Services recommend that the Trustees approve the amendment of the Authority's current lease with PS Associates, L.P. to expand the leased premises located on the tenth floor at 30 South Pearl Street, Albany, New York from 12,600 square feet to 17,100 square feet.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, that the President and Chief Executive Officer and the Vice President – Enterprise Shared Services be, and hereby are, authorized to enter into a lease extension with PS Associates, L.P. to expand the current leased premises located on the tenth floor at 30 South Pearl Street, Albany, NY from 12,600 square-feet to 17,100 square-feet, on substantially the terms set forth herein, subject to approval of lease documents by the Executive Vice President and General Counsel or his designee; and be it further

RESOLVED, That the Vice President – Enterprise Shared Services, or designee, is hereby authorized to execute any and all other agreements, papers or instruments on behalf of the Authority that may be deemed necessary or desirable to carry out the foregoing, subject to the approval by the Executive Vice President and General Counsel; and be it further

RESOLVED, that the Chairman, the President and Chief Executive Officer, the Chief Operating Officer, the Senior Vice President – Wholesale Commercial Operations and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution subject to the approval of the form thereof by the Executive Vice President and General Counsel.

e. Finance:

i. **Release of Funds in Support of the Residential Consumer Discount Program Created in Connection with the Recharge New York Power Program**

The President and Chief Executive Officer submitted the following report:

"SUMMARY

The Trustees are requested to approve the release of funds during 2016 in support of the monthly Residential Consumer Discount Program created in connection with the Recharge New York ('Recharge NY') Power Program, as authorized by Chapter 60 of the Laws of 2011 ('Chapter 60'). The funds are to be released monthly, initially at a level of approximately $4.2 million per month through August, declining to approximately $2.5 million per month through the end of the year, for a total of approximately $43.3 million. It is estimated that the $43.3 million authorized for the Residential Discounts in 2016 will be entirely off-set from (1) Recharge NY hydropower allocated and sold to Recharge NY customers, and (2) unallocated Recharge NY hydropower sold into the wholesale market.

BACKGROUND

The Authority is requested, from time to time, to make financial contributions and transfers of funds to the State or to otherwise provide financial support for various State programs including the Residential Consumer Discount Program related to Recharge NY.

Any such contribution or transfer of funds must (1) be authorized by the Legislature; (2) be approved by the Trustees 'as feasible and advisable,' and (3) satisfy the requirements of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented ('Bond Resolution'). Further, as set forth in the Trustees' Policy Statement dated May 24, 2011, a debt service coverage ratio of 2.0 shall be used as a reference point in considering any such payments or transfers.

The Bond Resolution's requirements to withdraw monies 'free and clear of the lien and pledge created by the [Bond] Resolution' are such that withdrawals (a) must be for a 'lawful corporate purpose as determined by the Authority,' and (b) 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 (i) payment of reasonable and necessary operating expenses, (ii) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals or for retirement from service, decommissioning or disposal of facilities, (iii) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt or (iv) payment of interest and principal on subordinate debt.

DISCUSSION

In March 2011, Governor Cuomo signed into law legislation creating the Recharge NY Power Program. The Program utilizes 455 megawatts ('MW') of the firm power from the Authority's Niagara and St. Lawrence hydroelectric facilities, combined with market-based power purchases, forming a new, 910-megawatt economic development power program to replace and expand upon the Power For Jobs ('PFJ') and Energy Cost Savings Benefits ('ECSB') economic development programs.

As part of the Recharge NY Power Program, the Authority, on August 1, 2011, withdrew all 455 MW of the firm hydroelectric power previously sold to certain utility companies for the benefit of their residential consumers. To mitigate the price impacts of this withdrawal on the residential consumers, the

Authority was authorized by Chapter 60, as deemed feasible and advisable by the Trustees, to fund monthly 'Residential Consumer Discount Program' payments for the benefit of such consumers on a declining schedule. For each of the first three years following the withdrawal, the Authority is authorized to provide $100 million per year to fund the discounts. In years four and five following the withdrawal, the Authority is authorized to fund discounts of $70 million and $50 million, respectively. Beginning in year six following the withdrawal, and for each year thereafter, the Authority is authorized to fund discounts of $30 million per year.

The Authority is authorized to use the revenues from the sale of the withdrawn power, together with any other funds of the Authority as the Trustees may deem feasible and advisable, to support the Residential Consumer Discount Program. The net cost to the Authority of the Residential Discounts, after taking into account the resale of the power following the withdrawal from its prior use to supply certain utility companies for the benefit of their residential consumers, is projected to be entirely off-set from (1) Recharge NY hydropower allocated and sold to Recharge NY customers, and (2) unallocated Recharge NY hydropower sold into the wholesale market during 2016. Given the volatility in market prices, however, there is no assurance that the sale of this power will produce sufficient revenues to cover the amount of the residential discounts.

The Trustees have previously approved the release of funds in support of the Residential Consumer Discount Program, the most recent action being taken at the February 26, 2015 meeting. Under consideration today are payments for 2016. Staff intends to return to the Trustees with a recommendation as to the release of any future amounts related to the Residential Consumer Discount Program based on how the overall program is progressing as well as the financial circumstances of the Authority at the time such payments are to be considered.

Staff has reviewed the effects of the anticipated payments of the Residential Consumer Discount Program (up to $43.3 million) on the Authority's projected financial position and reserve requirements. In addition, in accordance with the Board's Policy Statement, staff calculated the impact of these amounts on the Authority's debt service coverage ratio and determined it would not fall below the 2.0 reference point level. Given the current financial condition of the Authority, its estimated future revenues, operating expenses, debt service and reserve requirements, staff is of the view that it will be feasible for the Authority to provide up to $43.3 million of the Residential Consumer Discount Program at this time.

FISCAL INFORMATION

Staff has determined that sufficient funds are available in the Operating Fund to provide up to $43.3 million in support for the Residential Consumer Discount Program authorized by Chapter 60 at this time, and that such Authority funds are not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's Bond Resolution. The release of up to $43.3 million associated with the Residential Consumer Discount Program payments was anticipated and reflected in the Power Authority's 2016 Operating Budget approved by the Trustees at their December 17, 2015 meeting. The net cost to the Authority of the Residential Consumer Discounts, after taking into account the resale of the power following the withdrawal from its prior use to supply certain utility companies for the benefit of their residential consumers, is projected to be entirely off-set from Recharge NY hydropower allocated and sold to Recharge NY customers and unallocated Recharge NY hydropower sold into the wholesale market during 2016. These monthly payments will be recorded as an expense at the time of payment.

RECOMMENDATION

The Treasurer recommends that the Trustees approve that the release of up to $43.3 million related to the Residential Consumer Discount Program is feasible and advisable and to authorize such payments.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Trustees hereby authorize the release of up to $43.3 million from the Operating Fund during 2016 to support the monthly Residential Consumer Discount Program as authorized by Chapter 60 of the Laws of 2011 and as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of up to $43.3 million to be used for the Residential Consumer Discount Program described herein is not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That as a condition to making the payments specified in the foregoing resolutions, on the day of such payment the Treasurer or the Deputy Treasurer shall certify that such monies are not then needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Corporate Secretary, the Treasurer and all other officers of the Authority be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents that they, or any of them, may deem necessary or advisable to effectuate the foregoing resolutions, subject to approval as to the form thereof by the Executive Vice President and General Counsel.

ii. **Release of Funds in Support of the Northern New York Power Proceeds Allocation Act**

The President and Chief Executive Officer submitted the following report:

"SUMMARY

The Trustees are requested to approve the release of up to $5 million in funds into the Northern New York Economic Development Fund representing 'net earnings' from the sale of unallocated St. Lawrence County Economic Development Power into the wholesale energy market for the period January 1, 2016 through December 31, 2016, as authorized by Chapter 545 of the Laws of 2014.

BACKGROUND

1. Program Structure

On December 29, 2014, Governor Cuomo signed into law the Northern New York Power Proceeds Allocation Act (the 'Act') which created a program intended to support economic development by providing financial support for eligible economic development projects located, or proposed to be located, in St. Lawrence County by eligible applicants.

In summary, the program is to be administered by the Authority, with assistance from the five-member Northern New York Power Proceeds Allocation Board ('NNYPPAB') which the Act creates. The NNYPPAB, whose members are appointed by the Governor, is authorized to solicit applications from 'eligible applicants' for financial assistance known as 'fund benefits' to support 'eligible projects;' evaluate applications based on eligibility requirements and applicable criteria; and make recommendations to the Trustees for awards of fund benefits. The Trustees are authorized to consider whether to make awards of fund benefits to support eligible projects that are recommended by the NNYPPAB.

The Act defines 'eligible applicant' as a private business, including a not-for-profit corporation. 'Eligible projects' are defined as economic development projects that are or would be physically located within St. Lawrence County that will support the growth of business in St. Lawrence County and thereby lead to the creation or maintenance of jobs and tax revenues for the state and local governments. Eligible projects may include capital investments in buildings, equipment, and associated infrastructure (collectively, 'infrastructure') owned by an eligible applicant for fund benefits; transportation projects under state or federally approved plans; the acquisition of land needed for infrastructure; research and development where the results of such research and development will directly benefit New York State; support for tourism and marketing and advertising efforts for St. Lawrence County tourism and business; and energy-related projects. Eligible projects do not include, and fund benefits may not be used for, public interest advertising or advocacy; lobbying; the support or opposition of any candidate for public office; the support or opposition to any public issue; legal fees related to litigation of any kind; expenses related to administrative proceedings before state or local agencies; or retail businesses as defined by NNYPPAB, including without limitation, sports venues, gaming and gambling or entertainment-related establishments, residential properties, or places of overnight accommodation.

Applications will be evaluated using the following criteria specified in the Act:

1. whether the eligible project would occur in the absence of an award of fund benefits;

2. the extent to which an award of fund benefits will result in new capital investment in the State by the eligible applicant and the extent of such investment;

3. other assistance the eligible applicant may receive to support the eligible project;

4. the type and cost of buildings, equipment and facilities to be constructed, enlarged or installed if the eligible applicant were to receive an award of fund benefits;

5. the eligible applicant's payroll, salaries, benefits and number of jobs at the eligible project for which an award of fund benefits is requested;

6. the number of jobs that will be created or retained within St. Lawrence County and any other parts of the State in relation to the requested award of fund benefits, and the extent to which the eligible applicant will agree to commit to creating or retaining such jobs as a condition to receiving an award of fund benefits;

7. whether the eligible applicant is at risk of closing or curtailing facilities or operations in St. Lawrence County and other parts of the State, relocating facilities or operations out of St. Lawrence County and other parts of the State, or losing a significant number of jobs in St. Lawrence County and other parts of the State, in the absence of an award of fund benefits;

8. the significance of the eligible project that would receive an award of fund benefits to the economy of the area in which such eligible project is located; and

9. for new, expanded and/or rehabilitated facilities, the extent to which the eligible applicant will commit to implement or otherwise make tangible investments in energy efficiency measures as a condition to receiving an award of fund benefits.

The Act provides that the NNYPPAB shall also consider the extent to which an award of fund benefits would be consistent with the strategies and priorities of any Regional Economic Development Council having responsibility for the region in which the eligible project would be located, and authorizes the NNYPPAB to solicit the views of organizations that have an interest in economic development in St. Lawrence County regarding such matters as proposed funding strategies and priorities, and applications for fund benefits.

2. Program Funding

The program is funded by ‘net earnings’ from the sale of unallocated St. Lawrence County Economic Development Power (‘SLCEDP’). 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 entitled ‘Agreement Governing the Sale of St. Lawrence-FDR Project Power and Energy to the Town of Massena Electric Department for Economic Development Purposes’ (the ‘Authority-TMED Contract’). The Act 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 five years after enactment, the amount of SLCEDP that may be used by the Authority 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 under the Authority-MED contract for sub-allocations. Thereafter, the amount of SLCEDP that may be used by the Authority to generate net earnings may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated under the Authority-MED contract for sub-allocations.

The Act also authorized the Authority to create and maintain a fund known as the Northern New York Economic Development Fund (the ‘NNYEDF’), and deposit net earnings into the NNYEDF as determined to be feasible and advisable by the Trustees. The NNYEDF is a separate fund residing within the Authority’s Operating Fund.

DISCUSSION

The Authority is requested, from time to time, to provide financial support to the State or for various other State programs. Any such transfer of funds must (1) be authorized by the Legislature, (2) be approved by the Trustees ‘as feasible and advisable,’ and (3) satisfy the requirements of the Authority’s General Resolution Authorizing Revenue Obligations, dated February 24, 1998, as amended and supplemented (‘Bond Resolution’). Further, as set forth in the Trustees’ Policy Statement dated May 24, 2011, a debt service coverage ratio of 2.0 shall be used as a reference point in considering any such payments or transfers.

The Bond Resolution’s requirements to withdraw monies ‘free and clear of the lien and pledge created by the Bond Resolution’ are such that withdrawals (a) must be for a ‘lawful corporate purpose as determined by the Authority,’ and (b) 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 (i) payment of reasonable and necessary operating expenses, (ii) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals or for retirement from service, decommissioning or disposal of facilities, (iii) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (iv) payment of interest and principal on subordinate debt.

The Trustees have already authorized the release of up to $3 million in net earnings from the Operating Fund to the NNYEDF representing the then-estimated net earnings from inception through December 31, 2015. Actual net earnings deposited into the NNYEDF through this period totaled $1.5 million.

Staff is seeking authorization to deposit into the NNYEDF all additional net earnings through December 31, 2016 up to a total of $5 million. While it is estimated that approximately $3 million in net earnings will be generated based upon current levels of unused St. Lawrence County Economic Development Power and presently projected wholesale energy prices, the recommendation for up to $5 million reflects the potential volatility in market prices. If authorized by the Trustees, such net earnings would be deposited into the NNYEDF on, at least, a quarterly basis.

Staff has reviewed the effects of a transfer of up to $5 million into the NNYEDF on the Authority’s projected financial position and reserve requirements. In addition, in accordance with the Board’s Policy Statement, staff calculated the impact of this transfer on the Authority’s debt service coverage ratio and determined it would not fall below the 2.0 reference point. Given the current financial condition of the Authority, its estimated future revenues, operating expenses, debt service and reserve requirements, staff is of the view that it will be feasible for the Authority to make the deposit of up to $5 million over the course of the stated time period.

FISCAL INFORMATION

Staff has determined that sufficient funds are available to provide up to $5 million for deposit into the NNYEDF for the period January 1, 2016 through December 31, 2016, and that such Authority funds are not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority’s Bond Resolution. Authorization for the deposit of net earnings into the NNYEDF for periods beyond December 31, 2016 will be requested of the Trustees at a later date. Provisions for the Authority’s fiscal year 2016 deposits for this program were also included in the 2016 Operating Forecast approved by the Trustees at their December 17, 2015 meeting.

RECOMMENDATION

The Treasurer recommends that the Trustees affirm the deposit of up to $5 million into the Northern New York Economic Development Fund for the period January 1, 2016 through December 31, 2016 is feasible and advisable, and authorize such deposit to the extent such amount of net earnings is generated during this timeframe.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Trustees hereby authorize the release of up to $5 million from the Operating Fund to the Northern New York Economic Development Fund ("NNYEDF") for the period from January 1, 2016 through December 31, 2016, to the extent such amount of net earnings is generated during this timeframe, as authorized by Chapter 545 of the Laws of 2014 ("Chapter 545") and as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of up to $5 million to be released to the NNYEDF for the purposes authorized by Chapter 545 described in the foregoing resolution is not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That as a condition to making the releases specified in the foregoing resolutions, on the day of such payment the Treasurer or the Deputy Treasurer shall certify that such monies are not then needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Corporate Secretary, the Treasurer and all other officers of the Authority be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents that they, or any of them, may deem necessary or advisable to effectuate the foregoing resolutions, subject to approval as to the form thereof by the Executive Vice President and General Counsel.

DISCUSSION AGENDA:

3. <u>Staff Reports</u>:

a. <u>Report of the President and Chief Executive Officer</u>

President Quiniones provided a year-end summary of the Authority's performance, highlighting some of the Authority's accomplishments during 2015 (Exhibit "3a-A").

<u>Performance Scorecard</u>

President Quiniones said the Authority had a successful year in 2015 despite some operational challenges in the early part of the year and also challenges as a result of the collapse of the price of electricity in the wholesale markets. He said the challenges in the early part of the year were due to lack of anticipated water flow, based on the Authority's forecast, and some unanticipated forced outages which caused the Authority not to meet the Generation Market Readiness and Safety performance goals. However, overall, the Authority had an excellent year; its Net Income, excluding State assistance and voluntary contributions, was over $300 million, which is in line with the Authority's normal financial performance.

President Quiniones then provided the following report on the Authority's accomplishments during the year 2015.

"<u>2015 Accomplishments</u>

The 2015 accomplishments underscore NYPA's continuing commitment to its Mission Statement which is to "Power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value." The Mission Statement guides our Strategic Vision 2020 and our ambitious plan to help NYPA stay ahead of the curve in an industry undergoing significant and rapid changes.

<u>Organizational Health</u>

We can ensure our success only when all of us come together for a common purpose. That's why we take great satisfaction in the agreement NYPA reached with the International

Brotherhood of Electrical Workers union on a contract that runs through March 2019. This important milestone speaks volumes to our efforts to become one NYPA.

With this essential goal in mind, we worked hard to engage with all employees—both salaried and union—across multiple locations. Still, we feel there is room for improvement so that we can create an even more productive workplace.

With this goal in mind, we conducted an anonymous survey of salaried employees through the Strategic Vision 2020 lens. We heard from 899 employees—an 86 percent response rate—and received more than 5,000 comments. The survey confirmed that NYPA is good at overall project execution, employee relationships and safety, and we are building on many employee recommendations that will strengthen our organization's communication, teamwork and performance, and our ability to lead through change.

<u>Strategy Implementation</u>

The cornerstone of our Strategic Vision 2020 strategy, as we have often discussed, is our multi-year effort to enhance our Smart Generation and Transmission capacity. Examples of our moving forward on this objective include the Marcy-South Series Compensation smart-grid project to relieve transmission congestion, which will be completed by June of this year, and the introduction of SMART Path—a multiyear project to replace our oldest asset, the 230-kilovolt Moses-Adirondack transmission lines that run 85 miles between the St. Lawrence-Franklin D. Roosevelt Power Project in Massena and a substation in Lewis County in the Adirondacks.

<u>Customer Experience</u>

This has been a very busy year for energy efficiency and economic development.

<u>K-Solar</u>

Working with the New York State Energy Research and Development Authority ('NYSERDA') and the State Education Department, we advanced the K-Solar program to help schools lower energy costs by using solar power. More than 330 schools statewide have

received free solar site assessments, and, to date, 10 districts have signed agreements totaling 14 megawatts ('MW') of solar power.

We recently announced that the New York Institute for Special Education in the Bronx, which has been around for 185 years, will be the site of the State's first solar schools project.

<u>Economic Development</u>

One important example of NYPA's commitment to the New York communities is the completion of the 10-year review of the St. Lawrence relicensing process.

The towns and villages surrounding our St. Lawrence facility will see an array of necessary improvements as we work together to address economic development, environmental and transportation issues. We will be turning a well-designed blueprint into action for a region of the State that needs our assistance.

<u>Financial Performance</u>

The three leading credit-rating agencies issued strong ratings for NYPA's Series 2015 A Revenue Bonds issue for up to $80 million, with each citing NYPA's prudent fiscal management. Moody's Investor Service assigned an AA1 rating, Standard & Poor's assigned an AA long-term rating and Fitch Ratings assigned an AA rating.

Some of the financial indicators that also speak to our strong financial position include:

- ***Adjusted Net Income: $304 million (before any assistance to New York State)***
- ***Debt Service Coverage Ratio: 2.75***
- ***Debt to Total Capitalization: 28 percent (extremely low relative to our industry)***
- ***Days Cash on Hand: 235 (a measure of liquidity)***

Despite the collapse in electricity prices due to very low natural gas prices in the market place, NYPA remains fiscally solid.

Enterprise Risk Management

Mr. Soubhagya Parija was hired as Senior Vice President and Chief Risk Officer.

In 2015, a modified framework to manage risks was introduced at the Power Authority that focuses on optimal resource allocations in order to protect, as well as enhance the value of the organization.

Guided by the principles of risk and opportunity, differing levels of controls will be established based on the type and magnitude of risk while ensuring alignment with strategic objectives.

The protection of our assets, our customers and the reliability of the grid are paramount at the Power Authority. With cyber risk becoming a growing concern for all organizations, we took a significant step in mitigating exposure to cyber threats with the acquisition of cyber insurance and other cyber activities across the company.

Audit

Ms. Jennifer Faulkner was hired as our new Senior Vice President of Internal Audit.

The Internal Audit department underwent significant changes in 2015, from revision of its mission to changes in methodology. We created and executed a transformation program focusing on improving people, process and technology within the function. Internal Audit's new mission is to help improve operations, add value through consulting and being a trusted business partner with all of the Business Units of the Power Authority.

Internal Audit has worked to help our capacity to prevent, detect, correct and escalate critical issues and bridge the gap with managers by speaking their language. We have engaged in high-visibility activities through audit, assessment and consulting activities addressing risk. Internal Audit successfully completed the 2014 and 2015 Audit Plans during 2015.

The team executed a 2016 risk assessment which led to the development of the 2016 Audit Plan, ensuring that, companywide, significant risks are being addressed through audit, consulting and assessment activities.

Operational Excellence

As I previously noted in our yearly Operational Scorecard, we have an important story to tell about what we were able to achieve throughout 2015. Clearly, NYPA is well-positioned for 2016 and beyond, guided by Strategic Vision 2020 and working within the framework of Governor Andrew Cuomo's Energy Policy agenda.

President Quiniones ended by expressing his gratitude to the Board for their support, assistance, guidance and counsel. He said the Authority will encounter many significant challenges in the year ahead, but with the members' help, it will build on its considerable progress in the months ahead."

Chairman Koelmel said that on behalf of the Board he wanted to thank President Quiniones and his team for the Authority's very strong year of performance. He said despite the external influences which were beyond everyone's control, President Quiniones continued to navigate through them and built an even stronger foundation for the organization. He continued that the Board is very pleased and proud to know that the organization is even better positioned for 2016 than it was in 2015 and looks forward to an improved 2016 based on the operational objectives and key strategic initiatives that are in place.

b. <u>Report of the Chief Risk Officer</u>

Mr. Soubhagya Parija provided highlights of the report to the Trustees. (Exhibit “3b-A”)

Top Enterprise Risks

Mr. Parija said that based on feedback from the Trustees and senior staff, two risks, Workplace Safety and Regulatory Environment Changes, have been added to the list of top enterprise risks. The Enterprise Risk Management (“ERM”) group has launched a full-scale risk assessment and the top risks will be assessed through three main categories: Strategic, Internal, and External risks.

Enterprise Risk Dashboard

Mr. Parija introduced the proposed Enterprise Risk dashboard to be used for Enterprise Risk’s presentation to the Board. He said the goal is to link the top risks in terms of how they might impact the corporate goals to Strategy goals.

The risk assessment process has been launched and staff will report annually on how the top risks are trending. Enterprise Risk’s staff has met with EMC members and plans to undertake a variety of cross-function work to assess risks and report to the Board on the results of the risk assessment process in May.

Risk Management Activities

- ***Cyber Security***

One of the findings based on the Cyber Security Risk Analysis conducted by Risk Management was that they needed to understand the impact of a Cyber Security event on NYPA’s reputation and public trust and also how they can be better prepared to address those situations if it occurs. To that end, Enterprise Risk has launched a project to address those issues; this is expected to be completed in May.

- ***Commodity Risks Portfolio Review***

In order to understand the total risks of the Commodity Portfolio that NYPA has to deal with, Enterprise Risk is continuing to pursue close relationships with the other business units to create a strategy for Audit. ERM is also working with Finance and Marketing in terms of long-term

contract negotiations; and Customer Energy Services to have a better understanding of their risks.

ERM is also developing a set of key risk indicators with Strategy, monitoring metrics to be more aligned with the key performance indicators so that ERM can have a clear story for the Board, going forward.

Mr. Soubhagya ended by saying that he was pleased to inform the Board that Enterprise Risk has been successful in recruiting a Senior Director for Enterprise Risk who will be joining the group in February.

In response to a question from Trustee McKibben, Mr. Parija said, as mentioned by President Quiniones, the Authority's mission is to provide low-cost energy to its customers in order to drive energy productivity in the state of New York. So, even though there is value for energy, the energy that the Authority sells may not be monetized exactly based on the market rates, but the Authority is still providing value to the state of New York through energy production and distribution.

Mr. Lurie added that the first goal is largely internal and financially focused; the second goal is operationally focused; and the third goal is designed to capture the value that the Authority provides to its customers in various forms e.g. low-cost energy; carbon reduction or resiliency. Staff is trying to design metrics around those goals.

In response to further questioning from Trustee McKibben, Mr. Lurie agreed that "value," technically, is an external measurement.

In response to a question from Trustee Kress, Mr. Parija said there are internal elements to cyber security threats; however, the risks are categorized based on the risk sources. ERM's view is that the risk sources for cyber security are primarily external. In response to further questioning from Trustee Kress, Mr. Parija said during the annual risk assessment process the team will be assessing all of the top risks and will examine the benefit of disaggregating Cyber and Physical Security through that process.

In response to a question from Chairman Koelmel, Mr. Parija said other emerging risks will be addressed as part of the risk assessment process and a dashboard reflecting those risks will be provided, going forward.

In response to further questioning from Chairman Koelmel, Mr. Parija said the Authority has undertaken a number of initiatives to address cyber security risks. e.g., Operations has launched some initiatives and the Information Technology and Operations teams have been working together, building more resilience into the systems and technology aspects of the business. The risk assessment process is a specific project to address public trust and reputational elements so that the Authority can be better prepared to address the potential impact of a cyber event.

In response to a question from Trustee Nicandri, Mr. Parija said ERM has a trained dashboard that portrays a short-view of the risk levels going up, down, or remaining stable; If the dashboard shows risk levels going up, ERM will take immediate action.

c. <u>Report of the Chief Operating Officer</u>

Mr. Joseph Kessler, Senior Vice President of Power Generation, provided highlights of the Chief Operating Officer's report to the Trustees. (Exhibit "3c-A")

<u>Performance Measures:</u>

<u>Generation Market Readiness</u>

- ***As stated previously, early in the year (2015) ice and emergent issues in Southeast New York ("SENY") created a deficit in the Generation Market Readiness measure. Although the Authority did not reach the target of 99.4, this measure improved by the end of the year.***

- ***No significant issues in December 2015.***

<u>Transmission Reliability:</u>

- ***Scheduled outages impacted this measure; however, the target, as projected, was met by end-of-year 2015.***

<u>Environment, Health & Safety:</u>

<u>Environmental Incidents:</u>

- ***One incident in December at the Niagara Project – SPDES outfall, 28 TSS [total suspended solids] at 91 mg/l above permit limit.***

<u>Safety:</u>

- ***Recovering from a difficult start in 2015. This measure was significantly below the American Public Power Association's average and below the BLS rate for utilities of 1.10; therefore, the Authority did not recover this measure by end-of-year 2015.***

- ***No safety incidents occurred in December; however, two previous injuries became DART incidents due to employees having to undergo surgeries for shoulder injuries in February (slip – B-G) and July (material handling – SENY).***

<u>Technical Compliance:</u>

- ***NYPA is working to achieve compliance with the new cyber security standards before the April 1, 2016 enforcement date. Some new requirements may be enforceable in July 2016 and is presently being assessed by staff.***

<u>Budget Portfolio:</u>

- ***Significant non-recurring O&M and Capital work execution.***

- ***In order to align the budget process and employee performance expectations, Operations will continue with the milestone metrics it has been using to track performance in 2016. Operations will, however, be looking at Cost, Scheduling, and Timing Performance Indices to be piloted in 2016 for implementation in the 2017 budget cycle.***

- ***Operations is also raising expectations with a challenge process in 2016 that is intended to demonstrate technical, NPV, Approval-process, resourcing and review (feedback) criteria for all new projects without compromising its ability to introduce innovative proposals, going forward.***

Asset Management:

- ***Operations has begun its first quarter 2016 regional outreach at the sites on the Strategic Asset Management Plan with regard to some of the key initiatives – Safety, Security and Workforce Development. Further information regarding these initiatives will be provided, going forward.***

Employee Engagement:

- ***Operations have started staffing plans to address Transmission Life Extension and modernization ("T-LEM") resources in Northern New York ("NNY") and the Transmission division.***

- ***Started a rotational assignment between Energy Control Center ("ECC"), Enterprise Risk Management ("ERM") and Plant Operations within the FERC Standards of Conduct rules.***

- ***Site involvement with EPRI and other groups – hydro representation in Generation Sector, for example.***

- ***Labor – Apprenticeships – more succession issues – meetings underway to address these issues.***

- ***Staffing and resourcing the commitments – with unknown regarding the Canals initiative, this will be a key issue.***

President Quiniones added that the Authority is the first generation and transmission owners in the United States that will be seeking the ISO-55000 standard, an international standard on asset management, and commended the team for taking the lead in the utility industry in the United States to attain this standard.

d. Report of the Chief Financial Officer

Mr. Robert Lurie provided highlights of the Chief Financial Officer's report to the Trustees (Exhibit "3d-A").

Net Income

- ***Net income for the year was $69.3 million, which was $136.3 million lower than budgeted, due to lower hydro production ($65 million), and lower market energy prices ($145 million), partially offset by lower O&M and other expenses ($73 million). Lower production resulted from low precipitation and a less than normal winter ice thaw early in the year. Lower O&M and other expenses reflect underspending in programs including Five City Master Plan, Western NY Workforce Development and Customer Energy Solutions.***
- ***During the month of December, the Authority experienced a net loss of $5.9 million, which was $23.1 million worse than the budgeted $17.2 million net income. These results were due primarily to a lower net margin on sales ($17.4 million) and a mark-to-market loss on the Authority's investment portfolio ($2.8 million, higher than anticipated market interest rates). The lower net margin on sales was primarily attributable to significantly lower prices on market sales of hydro energy into the ISO market.***

Mr. Lurie said the Authority's year-end performance was very good and commended staff for the actions taken to ensure that the Authority remain in a positive range, financially. He said, as mentioned by President Quiniones in his report, reduction in water flows impacted hydro generation. The collapse in energy prices throughout the state, particularly in upstate New York, resulted in approximately $145 million in lost revenue from energy sales in the wholesale market. However, the Authority was able to control its operating expenses to bring its income back in line. Overall, given the negative factors that occurred during the year – a testament of the resiliency of the Authority's business – the Authority's financial condition remained strong.

The Authority's debt coverage service ratio was originally expected to be extremely high; however, the Authority exceeded its minimum target level of 2X debt service coverage, and therefore, was able to sustain its AA bond rating from all of the rating agencies.

In response to a question from Trustee McKibben, Mr. Lurie said, the Authority took advantage of the lower rates, and, in the fall, issued new bonds to refinance old bonds, which process resulted in savings for the Authority.

With regard to the 2016 budget, Mr. Lurie said the efforts that the Authority is making to focus on the way it invest funds – examining the economic returns expected from investments; whether it should delay investments and the associated risks of that decision; and the alignment of its investments to its Strategic Plan – will continue to result in positive returns for the Authority in 2016.

In response to comments from Trustee McKibben, Mr. Lurie said the Authority will be watching its costs and the investments planned for the year in order to make sure all components of its business are contributing to its overall returns. In addition, all of NYPA's programs will be reviewed to ensure that they contribute their fair share to providing the "cushion" necessary for the Authority to withstand the market volatility. The Authority will have to be more disciplined about "cost-shifting" in each of its various program areas and make sure that it is disciplined about providing the return necessary to cover risks.

4. Power Allocations and Proceeds:

a. Compliance Review – Globe Metallurgical, Inc.

The President and Chief Executive Officer submitted the following report:

"SUMMARY

On July 30, 2015, Authority staff presented the results of its compliance review for customers in the Expansion Power ('EP'), Replacement Power ('RP') and Preservation Power ('PP) (collectively, 'Hydropower') programs who were in service for the full twelve months of the reporting period of January 2014 through December 2014 (the 'Reporting Period'). In summary, based on staff's recommendations the Trustees authorized a reduction in the contract demands and Hydropower allocations of customers who failed to achieve at least a 75% compliance level for job retention commitments, capital investment commitments, or power utilization commitments. At the time of this meeting, staff was still considering the compliance status and possible compliance recommendations for Globe Metallurgical, Inc. ('Globe').

The purpose of this memorandum is to inform the Trustees of the results of an audit of Globe that was conducted by Dannible & McKee, LLP, an independent auditing firm, after the July 30th Trustees' meeting, and to make recommendations for compliance action regarding Globe.

Based on Staff's review, the Trustees are asked to authorize a reduction in the contract demand and corresponding Hydropower allocations for Globe based on Globe's failure to achieve at least a 75% compliance level of its job retention commitments, the same compliance threshold used for other Hydropower customers as authorized by the Trustees at the July 30th meeting. Specifically, staff recommends the contract demand and Hydropower allocations of Globe be reduced to the amounts indicated on Exhibit '4a-A.' In addition, consistent with the approach for other Hydropower customers authorized by the Trustees at the July 30th meeting, staff recommends the Trustees authorize the Authority to adjust the job commitments for Globe as indicated on Exhibit '4a-A' to reflect the reductions in the contract demand and Hydropower allocations.

BACKGROUND

At noted above, in July 2015, staff conducted its annual compliance review of customers in the EP, RP and PP Hydropower programs. The review examined contract compliance in three areas: (1) job retention; (2) power utilization; and (3) capital investment. Customers subject to compliance review began submitting their compliance reports to the Authority in February 2015.

In addition to the basic requirement to pay for electric service, Hydropower contracts typically provide for several 'supplemental' commitments by the customer relating to (1) job creation and/or retention, (2) capital investment, and/or (3) power utilization (collectively, 'Supplemental Commitments'). Each year, staff performs a review of all in-service Hydropower allocation contracts for compliance with the Supplemental Commitments.

To facilitate compliance review and contract enforcement, nearly all Hydropower contracts require customers to report information on the Supplemental Commitments. Customers are required to report pertinent information no later than February 28 of each year for the prior 12-month reporting period from January through December.

As more specifically detailed in the Hydropower contracts, if a customer's report indicates that any of its Supplemental Commitments for the reporting period is below the compliance threshold of 90%, the Authority may take action against the customer, which may include reducing the customer's Hydropower allocations on a pro rata basis. Pro-rata reductions taken are rounded up to the nearest 50 kilowatts ('kW').

DISCUSSION

When staff reported the results of its 2014 compliance review at the July 30th Trustees' meeting, it was still considering Globe's circumstances, and recommendations for reduction of Globe's contract demand and Hydropower allocations in response to Globe's compliance report for 2014 indicating it had failed to meet its commitment to create and maintain 500 jobs in exchange for Hydropower allocations of 7,353 kW of EP and a 32,647 kW of RP allocation (the 'Allocation'). A basis for the Allocation was a proposed plant expansion by Globe that was intended support the employment commitment. The expansion has not come to fruition.

Since that time, staff retained an independent auditing firm, Dannible & McKee, LLP ('DM'), to conduct an audit of Globe's employment status. In summary, based on the results of the audit and discussions with the Authority's internal audit department, the Authority reached the following conclusions:

- Globe reported 105.5 jobs for the 2014 compliance period (although the audit indicated Globe actually employed 101.1 jobs during this period).
- Globe reported 126 jobs for 2013 (although the audit indicated Globe actually employed 99.18 jobs during this period. Globe attributed the discrepancy to a clerical error).
- Globe employed an average of approximately 100 employees in 2015.
- The facility expansion that was proposed to help support the job commitment has not occurred and there is no concrete timeline for the expansion to proceed.
- No basis exists for staff to conclude that any change in Globe's business model is planned that would result in a material increase in jobs at Globe's facility in the near term that would bring Globe into compliance with its job commitment.

Data collected as a result of the Dannible & McKee audit is attached to this report in three separate pages produced as a result of the audit (#00-13PA, #00-14PA, #00-15PA) as Exhibit '4a-B.'

As detailed above, Hydropower contracts require customers to achieve at least a 90% compliance rate in the three commitment areas noted. Consistent with the compliance approach for other Hydropower customers authorized at the July 30, 2015 Trustees' meeting, staff is recommending compliance enforcement for Globe based on Globe's failure to achieve at least a 75% compliance level for its job creation and retention commitment.

As noted in Exhibit '4a-A', the year-end monthly average number of employees reported by Globe in its 2014 compliance report was 105, or 21% of the Globe's Base Employment Level of 500 – Globe's Hydropower contract job commitment.

Accordingly, staff recommends that the Trustees authorize a reduction in the contract demand and Hydropower Allocation for Globe to the amounts indicated on Exhibit '4a-A.' In addition, consistent with the approach authorized for other Hydropower customers at the July 30th Trustees' meeting, staff recommends that the Trustees authorize the Authority to adjust the job commitments for Globe as indicated on Exhibit '4a-A' to reflect the reduced contract demand and Hydropower Allocation.

While the reduction of Globe's contract demand and Hydropower Allocation may have the effect of increasing Globe's operating costs, the Authority notes that no compliance action was taken against Globe in 2014 although Globe was not compliant with its job commitment during the 2013 compliance period. In addition, while no final decision has been made, staff is considering a phased reduction of Globe's contract demand and Hydropower Allocation, targeting all reductions to be made by June 1, 2016.

Should Globe's expansion plans change, it can apply for additional hydropower to support the project.

RECOMMENDATION

The Senior Vice President – Economic Development and Energy Efficiency recommends that the Trustees authorize a reduction of the contract demand and Hydropower Allocation for Globe Metallurgical Inc. as set forth in Exhibit '4a-A' to the amount indicated on Exhibit '4a-A', and authorize the Authority to adjust the job commitment for Globe as indicated on Exhibit '4a-A' to reflect the reductions in the contract demand and Hydropower Allocation.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below."

Mr. James Pasquale provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee Nicandri, Mr. Pasquale said because Globe's facility was shut for five years, the 100 jobs the company needed to restart the facility was deemed to be newly-created jobs. Chairman Koelmel commended Mr. Pasquale and staff for their efforts in pondering the range of options and considerations on whether to recommend a full versus a pro-rate reduction to the company before their final recommendation to the Board.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That for the reasons described in the foregoing report of the President and Chief Executive Officer and Exhibits "4a-A" and ''4a-B" thereto, the Trustees hereby approve the reduction of the contract demand and hydropower allocations for Globe Metallurgical, Inc. ("Globe") to the amounts indicated in Exhibit "4a-A," and authorize the Authority to adjust the job commitments for Globe as indicated on Exhibit "4a-A" to reflect the reduction in the contract demand and hydropower allocations; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

5. **Informational Item:**

Q1 2016 Energy Industry Update

Mr. Adam Brudnick, Strategy Project Manager, provided the following update on the Energy Industry.

"Introduction and Objectives

This is an ongoing series of quarterly industry updates that will help ensure the Board and senior staff has the latest trends and information available to them as they deliberate the proper course of action for the Authority. Each year, one presentation will focus on broad trends in the electricity industry and the other three will be deep-dives on specific areas of interest.

This presentation is a recap of the information shared with the Board in December 2015.

Although there have been some developments since that time – turmoil in the stock market, low oil prices, and an extension to solar tax credits – these insights still hold.

There are five mega-trends that are affecting the utility industry. How these trends may affect NYPA in the years to come is discussed below:

1. Slowing Growth in Electricity Sales

Growth in electricity sales has been shrinking for decades and is now showing signs of flattening.

The growth rate in centralized generation has been declining since the 1950s; in recent years it has reached a critical juncture.

Electricity sales forecasts made in 2005 through 2014:

1) ***each year the forecasts are revised downward;***
2) ***not only are the actuals well below the forecasts, they have, essentially, been flat for the past 5 years.***

Aside from sluggish economic growth, two main factors are behind the sales stagnation: 1) Efficiency gains have reduced the amount of energy needed; and 2) the increase in self-generation (e.g. solar power and customer-sited back-up generators) allows customers to access electricity without having to buy it on the market. Analysts

did not expect these to spread as quickly as they have, so their forecasts have been high. The impact of those technologies has been so great, overall sales of electricity have been flat for the past five years.

In the long term, sales will probably go up – as long as standards of living go up, so will electricity consumption. However, it is not clear when sales will grow or by how much. The assumption is that there will not be significant growth in electricity sales in the near term. The most recent projection sees sales less than 5% over 2010 levels.

NYPA's generation is among the cheapest and cleanest in the world; so while it can weather the storm, it is unlikely it will see significant revenue growth from power sales."

In response to a question from Trustee McKibben, Mr. **Brudnick** ***said the current forecast on distributed generation, specifically solar, is, basically, exponential. The solar tax credit has been extended; therefore, whatever the Authority is forecasting now will not be a factor. This information will be included in the reports, going forward.***

Responding to further questioning from Trustee McKibben, Mr. Brudnick said this report addresses electricity sales in terms of volume. Prices may go up if there are regulatory changes or changes in the price of natural gas; as for demand-based price increase, it is unlikely that the margin will expand greatly.

2. "<u>Peak Demand</u>

Energy consumption represents the total amount of electricity used, and peak demand represents the highest amount of power drawn. (the rate at which electricity is consumed)

For the first eight years between 1992 and 2012, peak demand and energy consumption went up hand-in-hand. After the year 2000, they started to diverge. By 2012, peak demand grew by about three times as much as energy consumption on a relative basis. Looking at the past few years, peak demand and energy consumption appears to be getting further apart.

This trend is driven by a number of factors e.g. consumer electronics and increases in energy efficiency, the impact being that consumers are now facing two pressures,

affordability and reliability. In New York, the grid has the capacity to supply over 30 GW of power, and consumers typically use only 60% of that capacity during the year. This can result in affordability issues because customers will have to pay for capacity that is sitting idle most of the year. From a reliability perspective, because power plants operate big heavy machines with a lot of inertia, unless you can get them up to speed and back down in perfect sync with demand, you may experience power quality issues such as "brownouts" or "blackouts."

While this does not pose a risk to NYPA's business, it does present an opportunity. Through its Customer Services group, the Authority can leverage its exposure to commercial and industrial customers in NYS by addressing this issue through novel approaches and provide power more affordably and reliably than the current system. This is an area that the Authority will be discussing in its annual strategy offsite meeting and report to the Board at its meeting in March."

In response to a question from Chairman Koelmel, Mr. Brudnick said peak demand is the maximum demand in any year.

3. "<u>Transmission system</u>

Unless one has a functioning Transmission system one cannot actually get the power from the power plants to the consumers to satisfy their peak demands. This requires investment; however, timing and economics are currently uncertain.

Although NYISO forecasts that the transmission grid in New York requires about $25 billion in investment over the next 30 years to meet energy needs, private investment in transmission peaked in 2014 and has been projected to go down at least 3% per year in the near future. The gap between private investment and investment need creates a potential opportunity for NYPA to step in and invest profitably in transmission. The Authority currently owns approximately one-third of the high-voltage transmission in the state.

Unfortunately, despite the Authority's size and unique mandate, it is still subject to the same regulatory and business uncertainties holding back private investment – mostly

reflected in uncertainties in rate recovery and project timelines. Therefore, in order to maintain its rating in the State the Authority has adopted a strategy of opportunistic investments coupled with capability development. The Authority's Smart Generation and Transmission and Asset Management initiatives are tapping the power of data to get more out of its existing infrastructure, and, in the last few months, has placed a bid to upgrade the transmission grid and relieve congestion in Western New York.

Going forward, the Authority will continue to develop its capabilities and look for opportunities to invest profitably in transmission; however, until the regulatory roadblocks begin to shift, it does not expect to see many near-term opportunities in transmission."

In response to a question from Chairman Koelmel, Mr. Brudnick said there are opportunities to work with other players in the industry to reform the regulatory roadblocks, but it is unlikely to change in the next several months. President Quiniones said that transmission is very difficult to site because it crosses through multiple jurisdiction which usually spur a lot of local opposition.

Mr. Lurie added that, on the other side, those investments would be financially attractive if there were more certainty about being able to get through the regulatory process. FERC has tried to encourage new investments in transmission by providing reasonable healthy returns on capital that is invested. The problem is that, due to the uncertainty, although there are a lot of players interested in putting capital in transmission, until those barriers become clearer, that capital is going to stay on the sidelines.

"The growth in electric sales is relatively flat and being driven by improvements in efficiency and growing self-generation. We are experiencing a larger gap between peak demand and energy consumption which is creating lower rates of utilization and putting stress on the grid and that increases the risk of power quality issues. Investing in the transmission grid can help mitigate those issues, but we are in an unfavorable regulatory climate. Recent technology developments are opening another avenue to address these issues.

4. <u>Energy storage</u>

Energy storage is rapidly becoming economically attractive.

Electricity is typically a 'use-it-or-lose-it' commodity. Unlike oil, you cannot put it in a big strategic reserve for use on a rainy day. Either that electron is put to work lighting a room or cooling food, or it's immediately dissipated as heat. Electricity storage, which can come in the form of many different technologies, promises to change that. By allowing customers to buy power when it's cheap and use that cheap power later rather than buying expensive power, lets customers conduct a sort of intra-day arbitrage.

There are certain customers who would find it profitable today to engage in electrical storage. What makes the difference between those who would profit and those who would not, is their pattern of energy usage and the daily swings in electricity costs. Because NYC is so capacity constrained, there are large price swings for large customers – which is why most of the profitable applications are in NYC. What is important is that investors expect the costs of storage to drop by 10% per year; so, as that cost comes down, customers will find it profitable to store electricity and lower their peak energy usage.

As storage penetrates the market, it presents both opportunities and risks for NYPA. On the opportunity side, the Authority can help its customers take advantage of this technology to boost their resiliency and lower their electricity as well as reduce the peak stress on the grid. However, from a risk perspective, increased storage may also lower the value of NYPA's "peakier" plants. It will be some time before storage becomes large enough to have an impact on those plants; however, it is a longer term risk NYPA should be aware of.

Over the coming months, NYPA will be engaging with storage and other technologies that help manage peak demand (including data analytics and efficiency upgrades) to determine where NYPA should be investing and how it can mitigate the risks these new technologies pose."

In response to a question from Chairman Koelmel, Mr. Brudnick said, with the concept of electricity storage, consumers would buy energy when it's cheap and use it when it's expensive

rather than paying for it when it is expensive. In terms of storage, there are different applications – batteries, or pumped-storage such as the Authority's facility at B-G. Typically, when looking at the new trends in storage we are referring to customer-sited storage based on batteries.

President Quiniones added that the current technology leader in this phase is Lithium Ion. However, the question has been asked whether Lithium Ion is the one that will be scalable for use in the grid since there are other chemical technologies that are being looked into, including liquid chemicals that can store vast amounts of electricity. Mr. Lurie also added that, as peak demand continue to grow, the system could get less efficient; and a lot of the capacity needed to satisfy peak demand is not used most of the time. Therefore, instead of building more capacity in the system to handle the growing peak demand, one way to deal with it is to use technologies like storage to store that electrical power until it is needed during peak demand, instead of creating more wires, etc. to move the power from several sources. If this becomes more economic and the cost of battery comes down, the Authority will have an opportunity, not only to make the system more efficient, but also to lower the cost of satisfying customers' peak power needs.

President Quiniones also added that, at the present time, the Authority is the largest storage provider in NYS with the Lewiston-pumped generating plant which is part of the Niagara Power Project that is a large storage facility and the Blenheim-Gilboa Power Plant, with almost 1200 MW of pumped-storage.

In response to a question from Trustee Nicandri, Mr. Brudnick said the $25 billion over the 30 years for Transmission Life Extension Modernization ("T-LEM") investments, as previously mentioned, is to ensure that the grid will still work for the next century. New York City has only a couple of lines coming into it; the congestion cost is estimated to be about $9 billion of waste and this is an opportunity for NYPA to invest in to improve the grid.

5. "Investment trends

Investment trends suggest that most of the future growth will be downstream. Most of the profit is in generation and regulated utilities and transmission/ distribution. Retail and services, which, today, are not very large industries, are expected to grow significantly

over the next few years and address many of the problems facing the utility industry in terms of cleanliness, affordability, and reliability.

<u>Generation</u>: flat demand and low prices are limiting the upside, but NYPA's generation has some of the lowest costs in the world; so, while the Authority will face some difficulty, there is no risk of it being forced out of the market.

<u>Transmission</u>: this is helpful for addressing the issues that the Authority faces and capital is ready for replacement; however, regulatory environment means the Authority has to take an opportunistic stance and invest where it can.

<u>Retail and services</u>: this is where innovation is happening, and storage is just one of the technologies about to come into its own. The ability of these customer-sited models to help ensure cheap, reliable, and clean power has been part of the conversation for a while, but it is exciting to see it come to fruition. NYPA's existing initiatives, such as the Customer Services group and New York Energy Manager, provide a strong base to build on.

Overall, the Authority is in a strong position to navigate these changing trends. NYPA's financial and operational positions give it the freedom and security to manage the shifts in the industry. The Authority is in a unique position to maintain what it has; not only does it have the capability to invest in high growth areas, but it's part of its core mission to provide New Yorkers with cheap, reliable, and clean electricity. Going forward, the Authority plans to continue to evaluate opportunities downstream while maintaining its core business in the generation and transmission space.

In summary, the Authority is well-positioned in the market. NYPA has cheap generation which protects it from price shocks and it owns about one-third of the transmission space. Downstream, the Authority's Customer Solutions group and the New York Energy Manager initiatives provide a strong base to build on should the Authority decide to invest further in that space. Technologies are offering new solutions to match supply and demand and they provide both opportunities and risks to the Authority's

business model. These will be discussed at the strategy meeting in March and reported to the Board at the May meeting."

6. <u>Informational Item:</u>

<u>New Corporate Performance Metrics</u>

Mr. Doug McMahon, Vice President of Strategy, provided the following highlights of the new Corporate Performance Metrics and current efforts to revamp the Authority's corporate performance metric regime.

"Quantifying success for an organization such as NYPA is not as easy as it may first appear:

- ***NYPA is a non-profit organization which means that typical financial metrics such as profit and increase in share price are not the most appropriate measures of success;***

- ***NYPA has two arms to its generation sales business: the first, contract sales, is driven by the need to provide low-cost energy to customers and the second, merchant sales, is driven by market energy prices – defining a meaningful revenue target is also fraught with difficulty;***

- ***NYPA's business spans the energy value chain (generation, transmission and customer), each with different, and sometimes conflicting, objectives.***

This makes it challenging for NYPA to develop a set of corporate metrics that addresses potentially conflicting goals (for example, low-cost and financial strength).
NYPA has a solid set of well-defined corporate metrics that staff already report on to the Executive Management Committee ("EMC") and Trustees. However, with the implementation of its 2020 strategic vision / plan and rapidly changing marketplace throwing out new challenges for NYPA to manage, the current set of corporate metrics may no longer be 100% "fit for purpose."

The following is a list of good practice characteristics that staff expects the corporate metrics to exhibit:

1. ***Metrics should be output focused, demonstrating the value that NYPA delivers to both its customers and the broader State of New York;***

2. ***Metrics should influence business decisions in a timely manner;***

3. ***Metrics should utilize the increasing amount of business data that is available;***

4. ***Metrics should provide a balanced view on business performance – for example, weighing financial performance vs the value NYPA deliver to its customers and the State;***

5. ***Metrics should promote transparency and accountability across the business; and***

6. ***Metrics should be tightly aligned to NYPA's strategic vision and goals.***

The Authority's corporate metrics will help to ensure that every person at NYPA is working towards the same vision and set of goals, and that every NYPA employee clearly understands the importance of the role they are playing in the delivery of its business strategy.

NYPA's corporate metrics provide an integral link between its strategic vision / goals and the strategic effectiveness of its business units / employees.

During the next phase of the corporate metrics project, staff will be working with the business units to develop level 2 (business unit level) metrics, and throughout the remainder of year will work with Human Resources and the rest of the business units to cascade these metrics downward to individual employees' annual objectives, as appropriate.

<u>Corporate Goals</u>

NYPA has three corporate goals in support of its 2020 Strategic Plan. These goals will explain what the Authority needs to focus on in order to successfully deliver its Strategic Plan.

The first, <u>Financial Effectiveness</u>, focuses on maximizing the amount of financial capacity NYPA has at its disposal to make the investments required to achieve its strategic ambition. This metric is about giving the Authority the means (or tools) to run a healthy, impactful business.

The second, <u>Operational Effectiveness</u>, focuses on ensuring that NYPA is running a lean operation without compromising risk.

The final goal, <u>Value from Energy</u>, focuses more on the broader value that the Authority's customers receive from the energy it produces and services it delivers.

The importance of the first two goals to the ongoing health of the Authority is only likely to increase as low gas prices continue to impact the Authority's net income margins.

Focusing on one of these goals at the expense of the others will not result in the realization of NYPA's strategic vision. Therefore, each of these goals will have to be delivered collectively and in a balanced manner if the Authority's strategic vision is to be realized.

In order to achieve this, staff has taken the existing set of corporate metrics and attempted to improve on them. Staff is proposing a set of nine corporate metrics that, if developed further in conjunction with the business and measured appropriately, will best define success for NYPA.

Five of these metrics directly align to NYPA's three corporate goals.

1. ***<u>Financial Effectiveness</u> – Economic Value Added. This is a measure of financial performance based on the concept that all capital has a cost and that earning more than the cost of capital (in this case the weighted average cost of capital) creates value that can be utilized by the Authority in other ways. This concept has been rolled-out at the business unit level over the last few months as part of the financial acumen training project. It will now be rolled-up into a corporate level metric and used to measure the overall healthiness of the Authority's capital investment project portfolio.***

2. ***<u>Operational Effectiveness</u> – staff is proposing three metrics:***

    i. ***<u>Non Fuel O&M cost per mwh</u> – this is a measure of operating efficiency as it relates to NYPA's production of electricity, and is essentially a measure of how lean NYPA'S operations are.***

ii. <u>Commercial Availability</u> – This is similar to the existing metric NYPA has for generation market readiness and transmission reliability – but in this case, NYPA is exploring whether it can add a weighting component to the metric based on the "value" of energy during periods where it is unable to serve the market place. At various times in the year (winter and summer) and even at times during the day (for example when we head home from work), the value of energy is typically higher. Therefore, the impact on the State (and to NYPA) of not being able to serve the market at these times is also higher. If NYPA can define this metric correctly, it will weight these periods of higher value appropriately, therefore, providing NYPA with a more realistic view on the impact of planned and unplanned outages.

iii. <u>Load Factor Optimization</u> – this is a slightly more complicated metric that looks to measure the economic efficiency of NYPA's electricity generation. It is an expression of how much energy is used in a time period by NYPA's customers, versus how much energy would have been used if the power had been left on during a period of peak demand. This ratio of consumption to peak demand (expressed as a percentage) is an important energy affordability indicator. The more NYPA is able to work with its customers to suppress/avoid using energy during peak periods, the lower the cost of each unit of energy that flows through the system. In this case, the higher the load factor percentage, the more affordable energy is to NYPA's customers.

3. <u>Value from Energy</u> – the value of carbon reduction. This measure is the value of avoided, created, carbon based on NYPA's efforts to run clean generation assets, to manage energy efficient facilities, and to deliver energy efficiency and other related services through its Customer Energy Solutions business. In essence, this looks to exhibit to what extent NYPA is contributing to some of the State's clean energy and carbon reduction targets (e.g. CPP and 50 by 30).

There are four more traditional metrics that do not specifically align to NYPA's strategic goals but are no less important to the success of the Authority. Staff will be working with the various subject matter experts across the Authority for each of these metrics to see if they can improve on the existing measures that are in place.

The combination of these four metrics and the five previously indicated will work together to provide a balanced perspective on NYPA's performance.

- ***Balancing the need to implement projects that provide a return to NYPA vs. the cleanliness, reliability and affordability benefits that these projects deliver to its customers / the State.***

- ***Balancing the need to run a lean operation versus the need to manage operational risk.***

- ***Balancing NYPA's need to provide low-cost energy and be financially strong.***

The metrics are a work in progress and staff has recently started to reach out to the Business Units for support. Metric calculations and targets will be set through a series of workshops with the Business Units over the forthcoming weeks and staff will continue to revise the metrics until they a have set that best serve the needs of the Authority.

In parallel, staff also need to start developing a tier two / Business Unit metrics and work with Enterprise Risk to integrate key risk indicators into the corporate metric regime.

The corporate metric regime is only as strong as the employees understanding and belief in them. The more employees believe that the business has put in place the right set of corporate metrics, and the more employees clearly understand the role each play in impacting performance against the metrics, the more successful the business will be and more likely NYPA will achieve its 2020 Strategic Plan.

Staff plans to start reporting on the revised set of metrics at the end of Q1 2016."

In response to a question from Chairman Koelmel, Mr. McMahon said the team will need to spend some time understanding what are the most appropriate targets to be set against the new metrics because firstly, staff have not, historically, collected data on some of the areas; and secondly, some of the things that staff is looking to measure are very new for NYPA. There are a lot of overlaps between the current set of corporate metrics and what staff is proposing. Therefore, staff will run the two sets of metrics in parallel for a few months during the presentations to the Board.

President Quiniones added that the goal is that by March, at the annual meeting, staff will present a parallel set of metrics – the scorecard previously used and the new metrics. In May, staff plans to transition to the new format of scorecards. Also in May, the Board will be given a peak preview on the business unit level metrics. This will not be a part of the reporting at the Board meetings, but is just to inform the Board that the Authority has a corporate level and a Business Unit level metrics. In March, the Board will be provided a parallel presentation so that members will understand exactly where the Authority is and where it is moving to.

In response to further questioning from Chairman Koelmel, Mr. Lurie said with the new metrics the Authority is attempting to align the business with the strategic plan and goals and to better describe the effectiveness of its current business with the new measures, e.g., the commercial availability metric. The Authority is also trying to better refine the availability of its plants during the period when it is needed the most by the State, and capture it in a metric. The Authority is also trying to improve the way it measures its core business and capture the progress made toward its strategic plan goals. In addition, new metrics have been added to better align the Authority's financial capacity to realize its strategic plan, value being provided to customers, and the ability to match the supply and demand, particularly peak and off-peak times.

In response to still further questioning from Chairman Koelmel, President Quiniones said the new metrics is more aligned with, and allows for, direct visibility to achieving the specific strategic initiatives that the Authority has set forth in its strategy 20/20 plan. Mr. Lurie added that it is also in alignment with state and national policy goals as well as carbon reduction goals, and is therefore a major step for the Authority.

In response to another question from Chairman Koelmel, Mr. McMahon said the Authority is creating its own metrics as well as leveraging other industry metrics and performance criteria to allow the Authority to better compare itself or be compared to. Staff has also looked to other industries for examples, particularly in the operational effectiveness area, that the Authority could draw on to come up with its metrics.

Mr. Lurie added that, in addition, the Economic Value Added metric enables the Authority to provide some financial comparability to other organizations that have different levels of an asset base. The commercial Availability Metric, for example, is being used by other utilities and non-utility companies because it better reflects the market place. The metrics regarding peak demand and carbon reduction are more emerging metrics in the industry.

In response to a question from Trustee Kress, Mr. McMahon said staff collaborated with the various Business Units in developing the set of metrics presented to the Trustees today. The next stage will be to sketch out a Business Unit-level version of the metrics by identifying to what extent the business unit can contribute to the metrics through the activities that they undertake. To that end, staff will be conducting a series of workshops with the business units within the next couple of months in parallel to setting targets and measuring the top-tier metrics in order to report on both levels at the May meeting.

Mr. Lurie added that at the March meeting, staff plans to introduce the concepts for the "second-level" metrics without the numbers or targets attached to them. At that time, staff will be able to describe how those metrics align to the corporate-level metrics and then present the full regime to the Board at the May meeting. He continued that the need for alignment of the next level metrics will allow employees to understand how their departments contribute to the corporate metrics; and also a third level that allows individuals to understand how they, personally, or their work function contributes to the departmental and the corporate metrics is the goal for this year.

In response to a comment from Chairman Koelmel, President Quiniones said although this is an opportunity to engage the broader workforce, the metrics has to be a combination of "bottom-up" as well as "top down" – it starts at the corporate level, next, the business unit level,

and then it will be embedded in the annual performance plans and development plans for the Authority's employees.

7. Motion to Conduct an Executive Session

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §105 to discuss an ongoing investigation, contract negotiations, labor negotiations, and matters leading to the promotion or demotion of a particular person. Upon motion made and seconded an Executive Session was held.

8. Motion to Resume Meeting in Open Session

Mr. Chairman, I move to resume the meeting in Open Session. Upon motion made and seconded, the meeting resumed in Open Session.

9. <u>Next Meeting</u>

The Annual meeting of the Trustees will be held on March **29, 2016 at the Clarence D. Rappleyea Building, White Plains, New York,** unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

Upon motion made and seconded, the meeting was adjourned by the Chairman at approximately 12:35 p.m.

Karen Delince
Corporate Secretary

EXHIBITS

For

January 26, 2016

Regular Meeting

Minutes

New York Power Authority
Contracts for the Sale of Expansion - Transmittal to the Governor

Exhibit "2b i-A"
January 26, 2016

Line	Company Name	Program	City	County	Trustee Public Hearing Authorization Date	Allocation (kW)	New Jobs	Total Job Commitment	Capital Investment	Proposed Direct Sale Contract Term
1	RockTenn CP, LLC	EP	North Tonawanda	Niagara	9/29/2015	300	9	128	$7,503,000	7 Years

Exhibit 2b i-B

POWER AUTHORITY

OF THE

STATE OF NEW YORK

30 South Pearl Street
10^{th} Floor
Albany, New York 12207-3425

AGREEMENT FOR THE SALE
OF EXPANSION POWER AND/OR REPLACEMENT POWER
To

ROCKTENN CP, LLC

The POWER AUTHORITY OF THE STATE OF NEW YORK ("Authority"), created pursuant to Chapter 772 of the New York Laws of 1931 and existing under Title I of Article V of the New York Public Authorities Law ("PAL"), having its office and principal place of business at 30 South Pearl Street, 10th Floor, Albany, New York 12207-3425, hereby enters into this Agreement for the Sale of Expansion Power and/or Replacement Power ("Agreement") with RockTenn CP, LLC ("Customer") with offices at 51 Robinson Street, North Tonawanda, New York, 14120. The Authority and the Customer are from time to time referred to in this Agreement as "Party" or collectively as "Parties" and agree follows:

RECITALS

WHEREAS, the Authority is authorized to sell hydroelectric power produced by the Niagara Power Project, Federal Energy Regulatory Commission ("FERC") Project No. 2216, known as "Expansion Power" (or "EP"), as further defined in this Agreement, to qualified businesses in New York State in accordance with PAL § 1005(5) and (13);

WHEREAS, the Authority is authorized to sell hydroelectric power produced by the Niagara Power Project, FERC Project No. 2216, known as "Replacement Power" (or "RP"), as further defined in this Agreement, to qualified businesses in New York State in accordance with PAL § 1005(5) and (13);

WHEREAS, EP consists of 250 megawatts ("MW") of firm hydroelectric power and associated firm energy produced by the Niagara Power Project;

WHEREAS, RP consists of 445 MW of firm hydroelectric power and associated firm energy produced by the Niagara Power Project;

WHEREAS, the Authority is authorized pursuant to PAL § 1005(13)(a) to award EP and/or RP based on, among other things, the criteria listed in the PAL, including but not limited to an applicant's long-term commitment to the region as evidenced by the current and planned capital investment; the type and number of jobs supported or created by the allocation; and the state, regional and local economic development strategies and priorities supported by local units of governments in the area in which the recipient's facilities are located;

WHEREAS, the Customer applied to the Authority for an allocation of hydropower to support operations at a new and/or expanded facility to be constructed and operated by the Customer (defined in Section I of this Agreement as the "Facility");

WHEREAS, on September 29, 2015, the Authority's Board of Trustees ("Trustees") approved a 300 kilowatt ("kW") allocation of EP to the Customer for a seven (7) year term (defined in Section I of this Agreement as the "Allocation") in connection with the construction and operation of the Facility as further described in this Agreement;

WHEREAS, on September 29, 2015, the Trustees authorized the Authority to, among other things, take any and all actions and execute and deliver any and all agreements and other documents necessary to effectuate its approval of the Allocation;

WHEREAS, the provision of Electric Service associated with the Allocation is an unbundled service separate from the transmission and delivery of power and energy to the Customer, and delivery service will be performed by the Customer's local electric utility in accordance with the Utility Tariff;

WHEREAS, the Parties have reached an agreement on the sale of the Allocation to the Customer on the terms and conditions provided for in this Agreement;

WHEREAS, the Authority has complied with requirements of PAL § 1009 which specifies the approval process for certain contracts negotiated by the Authority; and

WHEREAS, the Governor of the State of New York has approved the terms of this Agreement pursuant to PAL § 1009(3).

NOW THEREFORE, in consideration of the mutual covenants herein, the Authority and the Customer agree as follows:

NOW THEREFORE, the Parties hereto agree as follows:

I. Definitions

A. **Agreement** means this Agreement.

B. **Allocation** refers to the allocation of EP and/or RP awarded to the Customer as specified in Schedule A.

C. **Contract Demand** is as defined in Service Tariff No. WNY-1.

D. **Electric Service** is the Firm Power and Firm Energy associated with the Allocation and sold by the Authority to the Customer in accordance with this Agreement, Service Tariff No. WNY-1 and the Rules.

E. **Expansion Power** (or **EP**) is 250 MW of Firm Power and associated Firm Energy from the Project eligible to be allocated by the Authority for sale to businesses pursuant to PAL § 1005(5) and (13).

F. **Facility** means the Customer's facilities as described in Schedule A to this Agreement.

G. **Firm Power** is as defined in Service Tariff No. WNY-1.

H. **Firm Energy** is as defined in Service Tariff No. WNY-1.

I. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).

J. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which became effective September 1, 2007 after expiration of the Project's original license which became effective in 1957.

K. **Hydro Projects** is a collective reference to the Project and the Authority's St. Lawrence-FDR Project, FERC Project No. 2000.

L. **Load Serving Entity** (or **LSE**) means an entity designated by a retail electricity customer (including the Customer) to provide capacity, energy and ancillary services to serve such customer, in compliance with NYISO Tariffs, rules, manuals and procedures.

M. **NYISO** means the New York Independent System Operator or any successor organization.

N. **NYISO Tariffs** means the NYISO's Open Access Transmission Tariff or the NYISO's Market Administration and Control Area Services Tariff, as applicable, as such tariffs are modified from time to time, or any successor to such tariffs.

O. **Project** means the Niagara Power Project, FERC Project No. 2216.

P. **Replacement Power** (or **RP**) is445 MW of Firm Power and associated Firm Energy from the Project eligible to be allocated by the Authority for sale to businesses pursuant to PAL § 1005(5) and (13).

Q. **Rules** are the applicable provisions of Authority's rules and regulations (Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as may be modified from time to time by the Authority.

R. **Service Tariff No. WNY-1** means the Authority's Service Tariff No. WNY-1, as may be modified from time to time by the Authority, which contains, among other things, the rate schedule establishing rates and other commercial terms for sale of Electric Service to Customer under this Agreement.

S. **Schedule A** refers to the Schedule A entitled "Expansion Power and/or Replacement Power Allocations" which is attached to and made part of this Agreement.

T. **Schedule B** refers to the Schedule B entitled "Expansion Power and/or Replacement Power Commitments" which is attached to and made part of this Agreement.

U. **Schedule C** refers to the Schedule C entitled "Takedown Schedule" which is attached to and made part of this Agreement.

V. **Substitute Energy** means energy that the Authority provides at the request of the Customer to replace hydroelectricity that would otherwise have been supplied to the Customer under this Agreement. Unless otherwise agreed upon by the Parties, Substitute Energy refers to energy purchased by the Authority for the Customer from markets administered by the NYISO.

W. **Taxes** is as defined in Service Tariff No. WNY-1

X. **Unforced Capacity (or "UCAP")** means the electric capacity required to be provided by LSEs to serve electric load as defined by the NYISO Tariffs, rules, manuals and procedures.

Y. **Utility Tariff** means the retail tariff(s) of the Customer's local electric utility filed and approved by the PSC applicable to the delivery of EP and/or RP.

II. Electric Service

A. The Authority shall make available Electric Service to enable the Customer to receive the Allocation in accordance with this Agreement, Service Tariff No. WNY-1 and the Rules. The Customer shall not be entitled to receive Electric Service under this Agreement for any EP and/or RP allocation unless such EP and/or RP allocation is identified on Schedule A.

B. The Authority will provide, and the Customer shall pay for, Electric Service with respect to the Allocation specified on Schedule A. If Schedule C specifies a Takedown Schedule for the Allocation, the Authority will provide, and the Customer shall take and pay for, Electric Service with respect to the Allocation in accordance with such Takedown Schedule.

C. The Authority shall provide UCAP in amounts necessary to meet the Customer's NYISO UCAP requirements associated with the Allocation in accordance with the NYISO Tariffs. The Customer shall be responsible to pay the Authority for such UCAP in accordance with Service Tariff No. WNY-1.

D. The Customer acknowledges and agrees that Customer's local electric utility shall be responsible for delivering the Allocation to the Facility specified in Schedule A, and that the Authority has no responsibility for delivering the Allocation to the Customer.

E. The Contract Demand for the Customer's Allocation may be modified by the Authority if the amount of Firm Power and Firm Energy available for sale as EP or RP from the Project is modified as required to comply with any ruling, order, or decision of any regulatory or judicial body having jurisdiction, including but not limited to FERC. Any such modification will be made on a pro rata basis to all EP and RP customers, as applicable, based on the terms of such ruling, order, or decision.

F. The Contract Demand may not exceed the Allocation.

III. Rates, Terms and Conditions

A. Electric Service shall be sold to the Customer based on the rates, terms and conditions provided for in this Agreement, Service Tariff No. WNY-1 and the Rules.

B. Notwithstanding any provision of this Agreement to the contrary, the power and energy rates for Electric Service shall be subject to increase by Authority at any time upon 30 days prior written notice to Customer if, after consideration by Authority of its legal obligations, the marketability of the output or use of the Project and Authority's competitive position with respect to other suppliers, Authority determines in its discretion that increases in rates obtainable from any other Authority customers will not provide revenues, together with other available Authority funds not needed for operation and maintenance expenses, capital expenses, and reserves, sufficient to meet all requirements specified in Authority's bond and note resolutions and covenants with the holders of its financial obligations. Authority shall use its best efforts to inform Customer at the earliest practicable date of its intent to increase the power and energy rates pursuant to this provision. Any rate increase to Customer under this subsection shall be on a non-discriminatory basis as compared to other Authority customers after giving consideration to the factors set forth in the first sentence of this subsection. With respect to any such increase, Authority shall forward to Customer with the notice of increase, an explanation of all reasons for the increase, and shall also identify the sources from which Authority will obtain the total of increased revenues and the bases upon which Authority will allocate the increased revenue requirements among its customers. Any such increase in rates shall remain in effect only so long as Authority determines such increase is necessary to provide revenues for the purposes stated in the preceding sentences.

IV. Expansion Power and/or Replacement Power Commitments

A. Schedule B sets forth the Customer's specific "Expansion Power and/or Replacement Power Commitments." The commitments agreed to in Schedule B are in addition to any other rights and obligations of the Parties provided for in the Agreement.

B. The Authority's obligation to provide Electric Service under this Agreement, and the Customer's obligation to take and pay for such Electric Service, are expressly conditioned upon the Customer's timely completion of the commitments described in Schedule B.

C. In the event of partial completion of the Facility which has resulted in such Facility being partly operational and the partial attainment of the Base Employment Level, the Authority may, upon the Customer's request, provide Electric Service to the Customer in an amount determined by the Authority to fairly correspond to the completed portion of the Facility, provided that the Customer demonstrates that the amount of requested Electric Service is needed to support the operations of the partially completed Facility.

D. The Customer shall give the Authority not less than ninety (90) days' advance notice in writing of the anticipated date of partial or full completion of the Facility. The Authority will inspect the Facility for the purpose of verifying the completion status of the Facility and notify Customer of the results of the inspection. The Authority will thereafter commence Electric Service within a reasonable time after verification based on applicable operating procedures of the Authority, the Customer's local electric utility and the NYISO.

E. In the event the Customer fails to complete the Facility by September 29, 2018 (*i.e.*, within three (3) years of the Authority's award of the Allocation), the Allocation, at the option and discretion of the Authority, may be canceled or reduced by the total amount of kilowatts determined by the Authority to fairly correspond to the uncompleted portion of the Facility, provided that in such event, and upon request of the Customer, such date may be extended by the Authority in its sole discretion.

V. Rules and Service Tariff

Service Tariff No. WNY-1, as may be modified or superseded from time to time by the Authority, is hereby incorporated into this Agreement with the same force and effect as if set forth herein at length. In the event of any inconsistencies, conflicts, or differences between the provisions of Service Tariff No.WNY-1 and the Rules, the provisions of Service Tariff No. WNY-1 shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of this Agreement and Service Tariff No. WNY-1, the provisions of this Agreement shall govern.

VI. Transmission and Delivery of Firm Power and Firm Energy; Responsibility for Charges

A. The Customer shall be responsible complying with all requirements of its local electric utility that are necessary to enable the Customer to receive delivery service for the Allocation. Delivery of the Allocation shall be subject to the Utility Tariff.

B. The Customer shall be solely responsible for paying its local electric utility for delivery service associated with the Allocation in accordance with the Utility Tariff. Should the Authority incur any charges associated with such delivery service, the Customer shall reimburse the Authority for all such charges.

C. The Customer understands and acknowledges that delivery of the Allocation will be made over transmission facilities under the control of the NYISO. The Authority will act as the LSE with respect to the NYISO, or arrange for another entity to do so on the Authority's behalf. The Customer agrees and understands that it shall be responsible to the Authority for all costs incurred by the Authority with respect to the Allocation for the services established in the NYISO Tariff, or other applicable tariff ("NYISO Charges"), as set forth in Service Tariff No. WNY-1 or any successor service tariff, regardless of whether such NYISO Charges are transmission-related. Such NYISO Charges shall be in addition to the charges for power and energy.

D. By entering into this Agreement, the Customer consents to the exchange of information between the Authority and the Customer's local electric utility pertaining to the Customer that the Authority and the local electric utility determine is necessary to provide for the Allocation, sale and delivery of EP and/or RP to the Customer, the proper and efficient implementation of the EP and/or RP programs, billing related to EP and/or RP, and/or the performance of such parties' obligations under any contracts or other arrangements between them relating to such matters.

E. The provision of Electric Service by the Authority shall be dependent upon the existence of a written agreement or other form of understanding between the Authority and the Customer's local electric utility on terms and conditions that are acceptable to the Authority.

F. The Customer understands and acknowledges that the Authority may from time to time require the Customer to complete forms, provide documentation, execute consents and provide other information (collectively, "Information") which the Authority determines is necessary for the provision of Electric Service, the delivery of EP and/or RP, billing related to the EP and/or RP program, the effective and proper administration of the EP and/or RP program, and/or the performance of contracts or other arrangements between the Authority and the Customer's local electric utility. The Customer's failure to provide such Information shall be grounds for the Authority in its sole discretion to withhold or suspend Electric Service to the Customer.

VII. Billing and Billing Methodology

A. The billing methodology for the Allocation shall be determined on a "load factor sharing" basis in a manner consistent with the Utility Tariff and any agreement between the Authority and the Customer's local electric utility. An alternative basis for billing may be used provided the Parties agree in writing and the local electric utility provides its consent if such consent is deemed necessary.

B. The Authority will render bills by the 10^{th} business day of the month for charges due for the previous month. Such bills shall include charges for Electric Service, NYISO Charges associated with the Allocation (subject to adjustment consistent with any later NYISO re-billings to the Authority), and other applicable charges.

C. The Authority may render bills to the Customer electronically.

D. The Authority and the Customer may agree in writing to an alternative method for the rendering of bills and for the payment of bills, including but not limited to the use of an Authority-established customer self-service web portal.

E. The Authority will charge and collect from the Customer all Taxes (including local, state and federal taxes) the Authority determines are applicable, unless the Customer furnishes the Authority with proof satisfactory to the Authority that (i) the Customer is exempt from the payment of any such Taxes, and/or (ii) the Authority is not obligated to collect such Taxes from the Customer. If the Authority is not collecting Taxes from the Customer based on the circumstances described in (i) or (ii) above, the Customer shall immediately inform the Authority of any change in circumstances relating to its tax status that would require the Authority to charge and collect such Taxes from the Customer.

F. Unless otherwise agreed to by the Authority and the Customer in writing, if the Customer fails to pay any bill when due, an interest charge of two percent (2%) of the amount unpaid shall be added thereto as liquidated damages, and thereafter, as further liquidated damages, an additional interest charge of one and one-half percent (1 1/2%) of the sum unpaid shall be added on the first day of each succeeding billing period until the amount due, including interest, is paid in full.

G. Unless otherwise agreed to by the Authority and the Customer in writing, in the event the Customer disputes any item of any bill rendered by Authority, the Customer shall pay such bill in full within the time provided for by this Agreement, and adjustments, if appropriate, will be made thereafter.

H. If at any time after commencement of Electric Service the Customer fails to make complete and timely payment of any two (2) bills for Electric Service, the Authority shall have the right to require the Customer to deposit with the Authority a sum of money in an amount equal to all charges that would be due under this Agreement for Electric Service for two (2) consecutive calendar months as estimated by the Authority. Such deposit shall be deemed security for the payment of unpaid bills and/or other claims of the Authority against the Customer upon termination of Electric Service. If the Customer fails or refuses to provide the deposit within thirty (30) days of a request for such deposit, the Authority may, in its sole discretion, suspend Electric Service to the Customer or terminate this Agreement.

I. All other provisions with respect to billing are set forth in Service Tariff No. WNY-1 and the Rules.

J. The rights and remedies provided to the Authority in this Article are in addition to any and all other rights and remedies available to Authority at law or in equity.

VIII. Hydropower Curtailments and Substitute Energy

A. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of the Authority's firm power customers served by the Authority from the Hydro Projects, curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy associated with the Allocation to which the Customer is entitled shall be applied on a *pro rata* basis to all firm power and energy customers served from the Hydro Projects, consistent with Service Tariff No. WNY-1 as applicable.

B. The Authority shall provide reasonable notice to Customer of any curtailments referenced in Section VIII.A of this Agreement that could impact Customer's Electric Service under this Agreement. Upon written request by the Customer, the Authority will provide Substitute Energy to the Customer to replace the Firm Power and Firm Energy that would otherwise have been supplied pursuant to this Agreement.

C. For each kilowatt-hour of Substitute Energy supplied by the Authority, the Customer will pay the Authority directly during the billing month: (1) the difference between the market cost of the Substitute Energy and the charge for firm energy as provided for in this Agreement; and (2) any NYISO charges and taxes the Authority incurs in connection with the provision of such Substitute Energy. Billing and payment for Substitute Energy shall be governed by the Billing and Payments provision of the Authority's Rules (Section 454.6) and shall apply directly to the Substitute Energy service supplied to the Customer.

D. The Parties may enter into a separate agreement to facilitate the provision of Substitute Energy, provided, however, that the provisions of this Agreement shall remain in effect notwithstanding any such separate agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

IX. Effectiveness, Term and Termination

A. This Agreement shall become effective and legally binding on the Parties upon execution of this Agreement by the Authority and the Customer.

B. Once commenced, Electric Service under the Agreement shall continue until the earliest of: (1) termination by the Customer with respect to its Allocation upon ninety (90) days prior written notice to the Authority; (2) termination by the Authority pursuant to this Agreement, Service Tariff No. WNY-1, or the Rules; or (3) expiration of the Allocation by its own term as specified in Schedule A.

C. The Customer may exercise a partial termination of the Allocation upon at least thirty (30) days' notice prior written notice to the Authority. The termination shall be effective commencing with the first billing period as defined in Service Tariff No. WNY-1.

D. The Authority may cancel service under this Agreement or modify the quantities of Firm Power and Firm Energy associated with the Allocation: (1) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency); or (2) as otherwise provided in this Agreement, Service Tariff No. WNY-1, or the Rules.

X. Additional Allocations

A. Upon proper application by the Customer, the Authority may in its discretion award additional allocations of EP or RP to the Customer at such rates and on such terms and conditions as the Authority establishes. If the Customer agrees to purchase Electric Service associated with any such additional allocation, the Authority will (i) incorporate any such additional allocations into Schedule A, or in its discretion will produce a supplemental schedule, to reflect any such additional allocations, and (ii) produce a modified Appendix to Schedule B, as the Authority determines to be appropriate. The Authority will furnish the Customer with any such modified Schedule A, supplemental schedule, and/or a modified Appendix to Schedule B, within a reasonable time after commencement of Electric Service for any such additional allocation.

B. In addition to any requirements imposed by law, the Customer hereby agrees to furnish such documentation and other information as the Authority requests to enable the Authority to evaluate any requests for additional allocations and consider the terms and conditions that should be applicable of any additional allocations.

XI. Notification

A. Correspondence involving the administration of this Agreement shall be addressed as follows:

To: The Authority

New York Power Authority

123 Main Street
White Plains, New York 10601
Email:
Facsimile: ______
Attention: Manager – Business Power Allocations and Compliance

To: The Customer

RockTenn CP, LLC
51 Robinson Street
North Tonawanda, New York 14120
Email:
Facsimile:
Attention:

The foregoing notice/notification information pertaining to either Party may be changed by such Party upon notification to the other Party pursuant to Section XI.B of this Agreement.

B. Except where otherwise herein specifically provided, any notice, communication or request required or authorized by this Agreement by either Party to the other shall be deemed properly given: (1) if sent by U.S. First Class mail addressed to the Party at the address set forth above; (2) if sent by a nationally recognized overnight delivery service, two (2) calendar days after being deposited for delivery to the appropriate address set forth above; (3) if delivered by hand, with written confirmation of receipt; (4) if sent by facsimile to the appropriate fax number as set forth above, with written confirmation of receipt; or (5) if sent by electronic mail to the appropriate address as set forth above, with written confirmation of receipt. Either Party may change the addressee and/or address for correspondence sent to it by giving written notice in accordance with the foregoing.

XII. Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act (16 USC §§836, 836a).

XIII. Venue

Each Party consents to the exclusive jurisdiction and venue of any state or federal court within or for Albany County, New York, with subject matter jurisdiction for adjudication of any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement.

XIV. Successors and Assigns; Resale of Hydropower

A. The Customer may not assign or otherwise transfer an interest in this Agreement.

B. The Customer may not resell or allow any other person to use any quantity of EP and/or RP it has purchased from the Authority under this Agreement.

C. Electric Service sold to the Customer pursuant to this Agreement may only be used by the Customer at the Facility specified in Schedule A.

XV. Previous Agreements and Communications

A. This Agreement shall constitute the sole and complete agreement of the Parties hereto with respect to the subject matter hereof, and supersedes all prior negotiations, representations, warranties, commitments, offers, contracts and writings, written or oral, with respect to the subject matter hereof.

B. Except as otherwise provided in this Agreement, no modification of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XVI. Severability and Voidability

A. If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

B. Notwithstanding the preceding paragraph, if any provision of this Agreement is rendered void or unenforceable or otherwise modified by a court or agency of competent jurisdiction, the entire Agreement shall, at the option of either Party and only in such circumstances in which such Party's interests are materially and adversely impacted by any such action, be rendered void and unenforceable by such affected Party.

XVII. Waiver

A. Any waiver at any time by either the Authority or the Customer of their rights with respect to a default or of any other matter arising out of this Agreement shall not be deemed to be a waiver with respect to any other default or matter.

B. No waiver by either Party of any rights with respect to any matter arising in connection with this Agreement shall be effective unless made in writing and signed by the Party making the waiver.

XVIII. Execution

To facilitate execution, this Agreement may be executed in as many counterparts as may be required, and it shall not be necessary that the signatures of, or on behalf of, each Party, or that the signatures of all persons required to bind any Party, appear on each counterpart; but it shall be sufficient that the signature of, or on behalf of, each Party, or that the signatures of the persons required to bind any Party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the Parties hereto. The delivery of an executed counterpart of this Agreement by email as a PDF file shall be legal and binding and shall have the same full force and effect as if an original executed counterpart of this Agreement had been delivered.

[SIGNATURES FOLLOW ON NEXT PAGE]

AGREED:

ROCKTENN CP, LLC

By: ____

Title: ____

Date: ____

AGREED:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: ____
John R. Koelmel, Chairman

Date: ____

SCHEDULE A TO AGREEMENT FOR THE SALE OF EXPANSION POWER AND/OR REPLACEMENT POWER TO CUSTOMER

EXPANSION POWER AND/OR REPLACEMENT POWER ALLOCATIONS

Customer: RockTenn CP, LLC **Type of Allocation**	**Allocation Amount (kW)**	**Facility**	**Trustee Approval Date**	**Expiration Date**
Expansion Power	300	51 Robinson Street, North Tonawanda, NY 14120	September 29, 2015	Seven (7) years from commencement of Electric Service of any portion of this Allocation.

SCHEDULE B TO AGREEMENT FOR THE SALE OF EXPANSION POWER AND/OR REPLACEMENT POWER TO CUSTOMER

EXPANSION POWER AND/OR REPLACEMENT POWER COMMITMENTS

I. Employment Commitments

A. Employment Levels

The provision of EP and/or RP to the Customer hereunder is in consideration of, among other things, the Customer's creation and/or maintenance of the employment level set forth in the Appendix of this Schedule (the "Base Employment Level"). Such Base Employment Level shall be the total number of full-time positions held by: (1) individuals who are employed by the Customer at Customer's Facility identified in the Appendix to this Schedule, and (2) individuals who are contractors or who are employed by contractors of the Customer and assigned to the Facility identified in such Appendix (collectively, "Base Level Employees"). The number of Base Level Employees shall not include individuals employed on a part-time basis (less than 35 hours per week); provided, however, that two individuals each working 20 hours per week or more at such Facility shall be counted as one Base Level Employee.

The Base Employment Level shall not be created or maintained by transfers of employees from previously held positions with the Customer or its affiliates within the State of New York, except that the Base Employment Level may be filled by employees of the Customer laid off from other Customer facilities for *bona fide* economic or management reasons.

The Authority may consider a request to change the Base Employment Level based on a claim of increased productivity, increased efficiency or adoption of new technologies or for other appropriate reasons as determined by the Authority. Any such change shall be within Authority's sole discretion.

B. Employment Records and Reports

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority, of the total number of Base Level Employees who are employed at or assigned to the Customer's Facility identified in the Appendix to this Schedule, as reported to the United States Department of Labor (or as reported in such other record as agreed upon by the Authority and the Customer). Such report shall separately identify the individuals who are employed by the Customer, and the individuals who are contractors or who are employed by contractors of the Customer, and shall be certified to be correct by an officer of the Customer, plant manager or such other person authorized by the Customer to prepare and file such report and shall be provided to the Authority on or before the last day of February following the end of the most recent calendar year. The Authority shall have the right to examine and audit on reasonable advance written notice all non-confidential written and electronic records and data concerning employment levels including, but not limited to, personnel records and summaries held by the Customer and its affiliates relating to employment in New York State.

II. Reductions of Contract Demand

A. Employment Levels

If the year-end monthly average number of employees is less than 90% of the Base Employment Level set forth in this Schedule B, for the subject calendar year, the Authority may reduce the Contract Demand subject to Article II.D of this Schedule. The maximum amount of reduction will be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average monthly employment during the subject calendar year divided by the Base Employment Level. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, the Agreement shall automatically terminate.

B. Power Utilization Levels

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority on or before the last day of February following the end of the most recent calendar year, of the maximum demand utilized each month in the Facility receiving the power covered by the Agreement. If the average of the Customer’s six (6) highest Billing Demands (as such term is described in Service Tariff No. WNY-1) for Expansion Power and/or Replacement Power is less than 90% of the Customer’s Contract Demand in such calendar year the Authority may reduce the Contract Demand subject to Article II.D of this Schedule. The maximum amount by which the Authority may reduce the Contract Demand shall be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average of the six (6) highest Billing Demands for in such calendar year divided by the Contract Demand. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, this Agreement shall automatically terminate.

C. Capital Investment

The Customer agrees to undertake the capital investment set forth in the Appendix to this Schedule.

Notwithstanding any other provision of the Agreement, the Customer shall provide the Authority with such access to the Facility, and such documentation, as the Authority deems necessary to determine the Customer’s compliance with the Customer’s obligations provided for in this Schedule B.

D. Notice of Intent to Reduce Contract Demand

In the event that the Authority determines that the Contract Demand will be wholly or partially reduced pursuant to this Schedule , the Authority shall provide the Customer with at least thirty (30) days prior written notice of such reduction, specifying the amount of the reduction of Contract Demand and the reason for the reduction, provided, however, that before making the reduction, the Authority may consider the Customer's scheduled or unscheduled maintenance or Facility upgrading periods when such events temporarily reduce plant employment levels or electrical demand as well as business cycle.

III. Energy Efficiency Audits; Information Requests

Unless otherwise agreed to by the Authority in writing, the Customer shall undergo an energy efficiency audit of its Facility and equipment at which the Allocation is consumed at the Customer's expense at least once during the term of this Agreement but in any event not less than once every five years. The Customer will provide the Authority with a copy of the audit or, at the Authority's option, a report describing the results of the audit, and provide documentation requested by the Authority to verify the implementation of any efficiency measures implemented at the Facility.

The Customer agrees to cooperate to make its Facility available at reasonable times and intervals for energy audits and related assessments that the Authority desires to perform, if any, at the Authority's own expense.

The Customer shall provide information requested by the Authority or its designee in surveys, questionnaires and other information requests relating to energy efficiency and energy-related projects, programs and services.

The Customer may, after consultation with the Authority, exclude from written copies of audits, reports and other information provided to the Authority under this Article trade secrets and other information which if disclosed would harm the competitive position of the Customer.

APPENDIX TO SCHEDULE B

BASE EMPLOYMENT LEVEL

Within three (3) years of commencement of Electric Service, the Customer shall employ at least one hundred twenty-eight (128) full-time employees ("Base Employment Level") at the Customer's Facility. The Base Employment Level shall be maintained thereafter for the term of the Allocation in accordance with Article I of Schedule B.

CAPITAL INVESTMENT

The Customer shall make a total capital investment of a minimum of $7,503,000 to renovate and furnish the Facility (the "Capital Investment"). The Capital Investment for the Facility is expected to consist of the following specific expenditures:

Bobst DRO 1632 Rapidset:	$2,500,000
Geo Martin Stacker, Bundle Lines:	$1,316,000
ACS Conveyor:	$1,137,000
New Electrical Service:	$1,300,000
Other Equipment, Lighting:	$1,250,000
Total Capital Investment:	**$7,503,000**

The Capital Investment shall be made, and the Facility shall be completed and fully operational, no later than September 29, 2018 (*i.e.*, within three (3) years of the date of the Authority's award of the Allocation). Upon request of the Customer, such date may be extended in the sole discretion of the Authority.

SCHEDULE C TO AGREEMENT FOR THE SALE OF EXPANSION POWER AND/OR REPLACEMENT POWER TO CUSTOMER

TAKEDOWN SCHEDULE

N/A

POWER AUTHORITY OF THE STATE OF NEW YORK

30 SOUTH PEARL STREET

ALBANY, NY 12207

Schedule of Rates for Sale of Firm Power to Expansion and Replacement Customers located In Western New York

Service Tariff No. WNY-1

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

Table of Contents

Schedule of Rates for Firm Power Service **Leaf No.**

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

Schedule of Rates for Firm Power Service

I. Applicability

To sales of Expansion Power and/or Replacement Power (as defined below) directly to a qualified business Customer (as defined below) for firm power service.

II. Abbreviations and Terms

- kW kilowatt(s)
- kW-mo. kilowatt-month
- kWh kilowatt-hour(s)
- MWh megawatt-hour(s)
- NYISO New York Independent System Operator, Inc. or any successor organization
- PAL New York Public Authorities Law
- OATT Open Access Transmission Tariff

Agreement: An executed "Agreement for the Sale of Expansion and/or Replacement Power and Energy" between the Authority and the Customer (each as defined below).

Annual Adjustment Factor or **AAF**: This term shall have the meaning set forth in Section V herein.

Authority: The Power Authority of the State of New York, a corporate municipal instrumentality and a political subdivision of the State of New York created pursuant to Chapter 772 of the New York Laws of 1931 and existing and operating under Title 1 of Article 5 of the PAL, also known as the "New York Power Authority."

Customer: A business customer who has received an allocation for Expansion Power and/or Replacement Power from the Authority and who purchases Expansion Power and/or Replacement Power directly from the Authority.

Electric Service: The power and energy provided to the Customer in accordance with the Agreement, this Service Tariff and the Rules.

Expansion Power and/or **Replacement Power**: Firm Power and Firm Energy made available under this Service Tariff by the Authority from the Project for sale to the Customer for business purposes pursuant to PAL § 1005(5) and (13).

Firm Power: Capacity (kW) that is intended to be always available from the Project subject to the curtailment provisions set forth in the Agreement between the Authority and the Customer and this Service Tariff. Firm Power shall not include peaking power.

Firm Energy: Energy (kWh) associated with Firm Power.

Load Serving Entity or **LSE**: This term shall have the meaning set forth in the Agreement.

Load Split Methodology or **LSM**: A load split methodology applicable to a Customer's allocation. It is usually provided for in an agreement between the Authority and the Customer's local electric utility, an agreement between the Authority and the Customer, or an agreement between the Authority, the Customer and the Customer's local electric utility, or such local utility's tariff, regarding the delivery of WNY Firm Power. The load split methodology is often designated as "Load Factor Sharing" or "LFS" , "First through the Meter" or "FTM", "First through the Meter Modified" or "FTM Modified", or "Replacement Power 2" or "RP 2".

Project: The Authority's Niagara Power Project, FERC Project No. 2216.

Rate Year or **RY**: The period from July 1 through June 30 starting July 1, 2013, and for any year thereafter.

Rules: The Authority's rules and regulations set forth in 21 NYCRR § 450 *et seq*., as they may be amended from time to time.

Service Tariff: This Service Tariff No. WNY-1.

Target Rate: This term shall have the meaning set forth in Section III herein.

All other capitalized terms and abbreviations used but not defined herein shall have the same meaning as set forth in the Agreement.

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

III. Monthly Rates and Charges

A. Expansion Power (EP) and Replacement Power (RP) Base Rates

Beginning on July 1, 2013, there will be a 3-year phase-in to new base rates. The phase-in will be determined by the rate differential between the 2012 EP/RP rates and a "Target Rate." The Target Rate, specified in Section III.A.1. below, is based on the rates determined by the Authority to be applicable in RY 2013 for sales of "preservation power" as that term is defined in PAL § 1005(13). The following Sections III.A.1-4 describe the calculation and implementation of the phase-in.

1. The initial rate point will be established by the EP/RP rates ($/kW and $/MWh), determined by mid-April 2012 and made effective on May 1, 2012 in accordance with the Authority's then-applicable EP and RP tariffs. The Target Rate (*i.e.* demand and energy rates) for RY 2013 shall be $7.99/kW and $13.66/MWh.

2. The difference between the two rate points is calculated and divided by 3 to correspond with the number of Rate Years over which the phase-in will occur. The resulting quotients (in $/kW and $/MWh) are referred to as the "annual increment."

3. The annual increment will be applied to the base rates for the 3-year period of the 2013, 2014 and 2015 Rate Years, which shall be as follows:

   RY 2013: July 1, 2013 to June 30, 2014
   RY 2014: July 1, 2014 to June 30, 2015
   RY 2015: July 1, 2015 to June 30, 2016

   The annual rate adjustments normally made effective on May 1, 2013 under then-applicable EP and RP tariffs will be suspended, such that demand and energy rates established in 2012 shall be extended through June 30, 2013.

4. Effective commencing in RY 2013, the Annual Adjustment Factor ("AAF") described in Section V herein, shall be applied as follows:

   A. For the RY 2013 only, the AAF will be suspended, and the RY 2013 rate increase will be subject only to the annual increment.

   B. For the RYs 2014 and 2015, the AAF will be applied to the demand and energy rates after the addition of the annual increment to the rates of the previous RY rates. Such AAF will be subject to the terms and limits stated in Section V herein.

   C. Beginning in RY 2016, the AAF will be applied to the previous RY rates, and the annual increment is no longer applicable.

B. EP and RP Rates no Lower than Rural/Domestic Rate

At all times the applicable base rates for demand and energy determined in accordance with Sections III.A and V of this Service Tariff shall be no lower than the rates charged by the

Authority for the sale of hydroelectricity for the benefit of rural and domestic customers receiving service in accordance with the Niagara Redevelopment Act, 16 U.S.C. § 836(b)(1) and PAL § 1005(5) (the "Rural/Domestic Rate"). This provision shall be implemented as follows: if the base rates, as determined in accordance with Sections III.A and V of this Service Tariff, are lower than the Rural/Domestic Rate on an average $/MWh basis, each set of rates measured at 80% load factor which is generally regarded as representative for EP and RP Customers, then the base rates determined under Sections III.A and V of this Service Tariff will be revised to make them equal to the Rural/Domestic Rate on an average $/MWh basis. However, the base rates as so revised will have no effect until such time as these base rates are lower than the Rural/Domestic Rate.

C. Monthly Base Rates Exclude Delivery Service Charges

The monthly base rates set forth in this Section III exclude any applicable costs for delivery services provided by the local electric utility.

D. Minimum Monthly Charge

The minimum monthly charge shall equal the product of the demand charge and the contract demand (as defined herein). Such minimum monthly charge shall be in addition to any NYISO Charges or Taxes (each as defined herein) incurred by the Authority with respect to the Customer's Allocation.

E. Estimated Billing

If the Authority, in its sole discretion, determines that it lacks reliable data on the Customer's actual demand and/or energy usage for a Billing Period during which the Customer receives Electric Service from the Authority, the Authority shall have the right to render a bill to the Customer for such Billing Period based on estimated demand and estimated usage ("Estimated Bill").

For the purpose of calculating a Billing Demand charge for an Estimated Bill, the demand charge will be calculated based on the Customer's Load Split Methodology as following:

- For Customers whose allocation is subject to a Load Factor Sharing/LFS LSM, the estimated demand (kW) will be calculated based on an average of the Customer's Billing Demand (kW) values for the previous three (3) consecutive Billing Periods. If such historical data is not available, then the estimated demand (kW) value for the Estimated Bill will equal the Customer's Takedown (kW) amount.

- For Customers whose allocation is subject to a First through the Meter/ FTM, FTM Modified, or RP 2 LSM, the estimated demand (kW) value will equal the Customer's Takedown (kW) amount.

For the purpose of calculating a Billing Energy charge for an Estimated Bill, the energy charge will be calculated based on the Customer's Load Split Methodology as following:

- For Customers whose allocation is subject to a Load Factor Sharing/LFS LSM, the estimated energy (kWh) will be based on the average of the Customer's Billing Energy (kWh) values for the previous three (3) consecutive Billing Periods. If such historical data is not available, then the estimated energy value (kWh) will be equal to the Takedown (kW) amount at 70 percent load factor for that Billing Period.

- For Customers whose allocation is subject to a First through the Meter/FTM, FTM Modified, or RP 2 LSM, the estimated energy (kWh) will be equal to the Takedown (kW) amount at 100 percent load factor for that Billing Period.

If data indicating the Customer's actual demand and usage for any Billing Period in which an Estimated Bill was rendered is subsequently provided to the Authority, the Authority will make necessary adjustments to the corresponding Estimated Bill and, as appropriate, render a revised bill (or provide a credit) to the Customer.

The Minimum Monthly Charge provisions of Section III B.D. shall apply to Estimated Bills.

The Authority's discretion to render Estimated Bills is not intended to limit the Authority's rights under the Agreement.

F. Adjustments to Charges

In addition to any other adjustments provided for in this Service Tariff, in any Billing Period, the Authority may make appropriate adjustments to billings and charges to address such matters as billing and payment errors, the receipt of actual, additional, or corrected data concerning Customer energy or demand usage.

G. Billing Period

Any period of approximately thirty (30) days, generally ending with the last day of each calendar month but subject to the billing cycle requirements of the local electric utility in whose service territory the Customer's facilities are located.

H. Billing Demand

The billing demand shall be determined by applying the applicable billing methodology to total meter readings during the billing period. See Section IV.E, below.

I. Billing Energy

The billing energy shall be determined by applying the applicable billing methodology to total meter readings during the billing period. See Section IV.E, below.

J. Contract Demand

The contract demand of each Customer will be the amount of Expansion Power and/or Replacement Power, not to exceed their Allocation, provided to such Customer by the Authority in accordance with the Agreement.

IV. General Provisions

A. Character of Service

Alternating current; sixty cycles, three-phase.

B. Availability of Energy

1. Subject to Section IV.B.2, the Authority shall provide to the Customer in any billing period Firm Energy associated with Firm Power. The offer of Firm Energy for delivery shall fulfill the Authority's obligations for purposes of this provision whether or not the Firm Energy is taken by the Customer.

2. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of NYPA's Firm Power customers served from the Hydro Projects, hydropower curtailments (*i.e.* reductions) in the amount of Firm Power and Energy to which the Customer is entitled shall be applied on a *pro rata* basis to all Firm Power and Energy customers served from the Hydro Projects. Reductions as a percentage of the otherwise required Firm Power and Energy sales will be the same for all Firm Power and Energy customers served from the Hydro Projects. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to the Customer in later billing periods. The Customer will receive appropriate bill credits as provided under the Rules.

C. Delivery

For the purpose of this Service Tariff, Firm Power and Firm Energy shall be deemed to be offered when the Authority is able to supply Firm Power and Firm Energy to the Authority's designated NYISO load bus. If, despite such offer, there is a failure of delivery caused by the Customer, NYISO or local electric utility, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D. Adjustment of Rates

To the extent not inconsistent with the Agreement, the rates contained in this Service Tariff may be revised from time to time on not less than thirty (30) days written notice to the Customer.

E. Billing Methodology and Billing

Unless otherwise specified in the Agreement, the following provisions shall apply:

1. The billing methodology to be used to render bills to the Customer related to its Allocation shall be determined in accordance with the Agreement and delivery agreement between the Authority and, as applicable, the Customer or local electric utility or both.

2.Billing Demand –The Billing Demand charged by the Authority to each Customer will be the highest 15 or 30-minute integrated demand, as determined by the local utility, during each Billing Period recorded on the Customer's meter multiplied by a percentage based on the Load Split Methodology provided for in any contract between the Authority and the Customer's local electric utility, any contract between the Authority and the Customer, or any contract between the Authority, the Customer and the Customer's local electric utility for delivery of WNY Power. Billing Demand may not exceed the amount of the Contract Demand.

3.Billing Energy –The kilowatt-hours charged by the Authority to each Customer will be the total number of kilowatt-hours recorded on the Customer's meter for the Billing Period multiplied by a percentage based on the methodology provided for in any contract between the Authority and the Customer's local electric utility for delivery of WNY Power.

F. <u>Payment by Customer to Authority</u>

1.<u>Demand and Energy Charges, Taxes</u>

The Customer shall pay the Authority for Firm Power and Energy during any billing period the higher of either (i) the sum of (a), (b) and (c) below or (ii) the monthly minimum charge as defined herein:

a. The demand charge per kilowatt for Firm Power specified in this Service Tariff or any modification thereof applied to the Customer's billing demand (as defined in Section IV.E, above) for the billing period; and

b. The energy charge per MWh for Firm Energy specified in this Service Tariff or any modification thereof applied to the Customer's billing energy (as defined in Section IV.E, above) for the billing period; and

c. A charge representing reimbursement to the Authority for all applicable Taxes incurred by the Authority as a result of providing Expansion Power and/or Replacement Power allocated to the Customer.

2.<u>Transmission Charge</u>

The Customer shall compensate the Authority for all transmission costs incurred by the Authority with respect to the Allocation, including such costs that are charged pursuant to the OATT.

3.<u>NYISO Transmission and Related Charges ("NYISO Charges")</u>

The Customer shall compensate the Authority for the following NYISO Charges assessed on the Authority for services provided by the NYISO pursuant to its OATT or other tariffs (as the provisions of those tariffs may be amended and in effect from time to time) associated with providing Electric Service to the Customer:

A. Ancillary Services 1 through 6 and any new ancillary services as may be defined and included in the OATT from time to time;

B.Marginal losses;

C. The New York Power Authority Transmission Adjustment Charge ("NTAC");

D. Congestion costs, less any associated grandfathered Transmission Congestion Contracts ("TCCs") as provided in Attachment K of the OATT;

E. Any and all other charges, assessments, or other amounts associated with deliveries to Customers or otherwise associated with the Authority's responsibilities as a Load Serving Entity for the Customers that are assessed on the Authority by the NYISO under the provisions of its OATT or under other applicable tariffs; and

F. Any charges assessed on the Authority with respect to the provision of Electric Service to Customers for facilities needed to maintain reliability and incurred in connection with the NYISO's Comprehensive System Planning Process (or similar reliability-related obligations incurred by the Authority with respect to Electric Service to the Customer), applicable tariffs, or required to be paid by the Authority in accordance with law, regardless of whether such charges are assessed by the NYISO or another third party.

The NYISO Charges, if any, incurred by the Authority on behalf of the Customer, are in addition to the Authority production charges that are charged to the Customer in accordance with other provisions of this Service Tariff.
The method of billing NYISO charges to the Customer will be based on Authority's discretion.

4. Taxes Defined

Taxes shall be any adjustment as the Authority deems necessary to recover from the Customer any taxes, assessments or any other charges mandated by federal, state or local agencies or authorities that are levied on the Authority or that the Authority is required to collect from the Customer if and to the extent such taxes, assessments or charges are not recovered by the Authority pursuant to another provision of this Service Tariff.

5. Substitute Energy

The Customer shall pay for Substitute Energy, if applicable, as specified in the Agreement.

6. Payment Information

Bills computed under this Service Tariff are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by the Authority. In the event that there is a dispute on any items of a bill rendered by the Authority, the Customer shall pay such bill in full. If necessary, any adjustments will be made thereafter.

G. Rendition and Payment of Bills

1. The Authority will render bills to the Customer for Electric Service on or before the tenth (10^{th}) business day of the month for charges due for the previous Billing Period. Bills will reflect the amounts due and owing, and are subject to adjustment as provided for in the Agreement, Service Tariff No. WNY-1 and the Rules. Unless otherwise agreed to by the Authority and the Customer in writing, the Authority shall render bills to the Customer electronically.

2. Payment of bills by the Customer shall be due and payable by the Customer within twenty (20) days of the date the Authority renders the bill.

3. Except as otherwise agreed by the Authority in writing, if the Customer fails to pay any bill when due an interest charge of two percent of the amount unpaid will be added thereto as liquidated damages, and thereafter, as further liquidated damages, an additional interest charge of one and one-half percent of the sum unpaid shall be added on the first day of each succeeding Billing Period until the amount due, including interest, is paid in full.

4. If at any time after commencement of Electric Service the Customer fails to make complete payment of any two (2) bills for Electric Service when such bills become due pursuant to Agreement, the Authority shall have the right to require that the Customer deposit with the Authority a sum of money in an amount equal to all charges that would be due under this Agreement for Electric Service for two (2) consecutive calendar months as estimated by the Authority. Such deposit will be deemed security for the payment of unpaid bills and/or other claims of the Authority against the Customer upon termination of Electric Service. The failure or refusal of the Customer to provide the deposit within thirty (30) days of a request for such deposit will be grounds for the Authority in its sole discretion to suspend Electric Service to the Customer or terminate this Agreement.

H. Adjustment of Charges

1. Distribution Losses

   The Authority will make appropriate adjustments to compensate for distribution losses of the local electric utility.

I. Conflicts

The Authority's Rules shall apply to the Electric Service provided under this Service Tariff. In the event of any inconsistencies, conflicts or differences between the provisions of this Service Tariff and the Rules, the provisions of this Service Tariff shall govern.

J. Customer Resales Prohibited

The Customer may not resell any quantity of Expansion Power and/or Replacement Power.

V. Annual Adjustment Factor

A. Adjustment of Rates

1. The AAF will be based upon a weighted average of three indices described below. For each new Rate Year, the index value for the latest available calendar year ("Index Value for the Measuring Year") will be compared to the index value for the calendar year immediately preceding the latest available calendar year (the Index Value for the Measuring Year -1"). The change for each index will then be multiplied by the indicated weights. As described in detail below, these products are then summed, producing the AAF. The AAF will be multiplied by the base rate for the current Rate Year to produce the base rates for the new Rate Year, subject to a maximum adjustment of ±5.0% ("±5% Collar"). Amounts outside the ±5% Collar shall be referred to as the "Excess."

   Index 1, "BLS Industrial Power Price" (35% weight): The average of the monthly Producer Price Index for Industrial Electric Power, commodity code number 0543, not seasonally adjusted, as reported by the U.S. Department of Labor, Bureau of Labor Statistics ("BLS") electronically on its internet site and consistent with its printed publication, "Producer Price Index Detailed Report". For Index 1, the Index Value for the Measuring Year will be the index for the calendar year immediately preceding July 1 of the new Rate Year.

   Index 2, "EIA Average Industrial Power Price" (40% weight): The average weighted annual price (as measured in cents/kWh) for electric sales to the industrial sector in the ten states of CT, MA, ME, NH, NJ, NY, OH, PA, RI and VT ("Selected States") as reported by Coal and Electric Data and Renewables Division; Office of Coal, Nuclear, Electric and Alternate Fuels; Energy Information Administration ("EIA"); U.S. Department of Energy Form EIA-861 Final Data File. For Index 2, the Index Value for the Measuring Year will be the index for the calendar year two years preceding July 1 of the new Rate Year.

   Index 3, "BLS Industrial Commodities Price Less Fuel" (25% weight): The monthly average of the Producer Price Index for Industrial Commodities less fuel, commodity code number 03T15M05, not seasonally adjusted, as reported by the U.S. Department of Labor, BLS electronically on its internet site and consistent with its printed publication, "Producer Price Index Detailed Report". For Index 3, the Index Value for the Measuring Year will be the index for the calendar year immediately preceding July 1 of the new Rate Year.

2. Annual Adjustment Factor Computation Guide

   Step 1: For each of the three Indices, divide the Index Value for Measuring Year by the Index Value for the Measuring Year-1.

   Step 2: Multiply the ratios determined in Step 1 by percentage weights for each Index. Sum the results to determine the weighted average. This is the AAF.

   Step 3: Commencing RY 2014, modifications to the AAF will be subject to ±5% Collar, as described below.

   a) When the AAF falls outside the ±5% Collar, the Excess will be carried over to the subsequent RY. If the AAF in the subsequent RY is within the ±5% Collar, the current RY Excess will be added to/subtracted from the subsequent Rate Year's AAF, up to the ±5% Collar.

b) Excesses will continue to accrue without limit and carry over such that they will be added to/subtracted from the AAF in any year where the AAF is within the ±5% Collar.

Step 4: Multiply the current Rate Year base rate by the AAF calculated in Step 2 to determine the new Rate Year base rate.

The foregoing calculation shall be performed by the Authority consistent with the sample presented in Section V.B below.

3. The Authority shall provide the Customer with notice of any adjustment to the current base rate per the above and with all data and calculations necessary to compute such adjustment by June 15th of each year to be effective on July 1 of such year, commencing in 2014. The values of the latest officially published (electronically or otherwise) versions of the indices and data provided by the BLS and EIA as of June 1 shall be used notwithstanding any subsequent revisions to the indices.

4. If during the term of the Agreement any of the three above indices ceases to be available or ceases to be reflective of the relevant factors or of changes which the indices were intended by the Parties to reflect, the Customer and the Authority shall mutually select a substitute Index. The Parties agree to mutually select substitute indices within 90 days, once notified by the other party that the indices are no longer available or no longer reflect the relevant factors or changes with the indices were intended by the Parties to reflect. Should the 90-day period cover a planned July 1 rate change, the current base rates will remain in effect until substitute indices are selected and the adjusted rates based on the substitute indices will be retroactive to the previous July 1. If unable to reach agreement on substitute indices within the 90-day period, the Parties agree to substitute the mathematic average of the PPI—Intermediate Materials, Supplies and Components (BLS Series ID WPUSOP2000) and the PPI-- Finished Goods (BLS Series ID WPUSOP3000) indices for one or more indices that have ceased to be available and shall assume the percentage weighting(s) of the one or more discontinued indices as indicated in Section V.A.1.

B. Sample Computation of the AAF (hypothetical values for July 1, 2014 implementation):

STEP 1

Determine the Index Value for the Measuring Year (MY) and Measuring Year - 1 (MY-1) for Each Index

- Index 1 - Producer Price Index, Industrial Power

	Measuring Year (2013)	Measuring Year - 1 (2012)
January	171.2	167.8
February	172.8	167.6
March	171.6	168.2
April	173.8	168.6
May	175.1	171.6
June	185.7	180.1
July	186.4	182.7
August	184.7	179.2
September	185.5	181.8
October	175.5	170.2
November	172.2	168.8
December	171.8	166.6
Average	177.2	172.8
Ratio of MY/MY-1		**1.03**

- Index 2 – EIA Industrial Rate

State	Revenues ($000s)	Sales (MWh)	Avg. Rate (cents/kWh)
Measuring Year (2012)			
CT	590,972	6,814,757	
MA	1,109,723	13,053,806	
ME	328,594	4,896,176	
NH	304,363	2,874,495	
NJ	1,412,665	15,687,873	
NY	2,001,588	26,379,314	
OH	3,695,978	78,496,166	
PA	3,682,192	63,413,968	
RI	152,533	1,652,593	
VT	155,903	2,173,679	
TOTAL	13,434,511	215,442,827	**6.24**
Measuring Year -1 (2011)			
CT	579,153	6,678,462	
MA	1,076,431	12,662,192	
ME	310,521	4,626,886	
NH	298,276	2,817,005	
NJ	1,370,285	15,217,237	
NY	1,891,501	24,928,452	
OH	3,622,058	76,926,243	
PA	3,571,726	61,511,549	
RI	144,144	1,561,700	
VT	152,785	2,130,205	
TOTAL	13,016,880	209,059,931	**6.23**
	Ratio of MY/MY-1		**1.00**

- Index 3 – Producer Price Index, Industrial Commodities Less Fuel

	Measuring Year (2013)	Measuring Year -1 (2012)
January	190.1	187.2
February	190.9	188.0
March	191.6	188.7
April	192.8	189.9
May	194.7	191.8
June	195.2	192.3
July	195.5	192.3
August	196.0	193.1
September	196.1	193.2
October	196.2	193.8
November	196.6	193.7
December	196.7	194.0
Average	194.4	191.5
Ratio of MY/MY-1		**1.02**

STEP 2

Determine AAF by Summing the Weighted Indices

Index	Ratio of MY to MY-1	Weight	Weighted Factors
PPI Industrial Power	1.03	0.35	0.361
EIA Industrial Rate	1.00	0.40	0.400
PPI Industrial Commodities less fuel	1.02	0.25	0.255
AAF			**1.016**

STEP 3

Apply Collar of ±5.0% to Determine the Maximum/Minimum AAF.

-5.0% < 1.6% < 5.0%; collar does not apply, assuming no cumulative excess.

STEP 4

Apply AAF to Calculate the New Rate Year Base Rate

	Demand $/kW-mo.	Energy $/MWh
Current Rate Year Base Rate	7.56	12.91
New Rate Year Base Rate	7.68	13.12

NEW YORK STATE POWER AUTHORITY
Public Hearing

January 5, 2016

METSCHL
AND ASSOCIATES
COURT REPORTERS • LEGAL VIDEO SERVICES
Buffalo, NY: 716 856-1906
Rochester, NY: 585 697-0969
Toll Free: 800 397-1796

Original File 010516bab.txt

NEW YORK STATE POWER AUTHORITY

Tuesday, January 5, 2016

2:30 P.M. - 6:30 P.M.

Niagara Power Project Visitors' Center

5777 Lewiston Road

Lewiston, New York 14092

APPEARANCES:

LORNA JOHNSON,
NYSPA Senior Associate Corporate Secretary

KAREN DELINCE,
NYSPA Corporate Secretary

MARIBEL CRUZ-BROWN,
NYSPA Manager of Business Power Allocations and Compliance

PRESENT:

BARBARA BUYERS, CSR, RPR,
Notary Public.

INDEX TO SPEAKERS

MS. DELINCE: Good afternoon. This is a public hearing required by law and authorized by the New York Power Authority's Board of Trustees on the proposed direct sale contract for the sale of hydropower to RockTenn CP, LLC.

My name is Karen Delince and I'm the authority's corporate secretary.

New York State Public Authorities Law Section 1009 sets forth procedures for executing certain contracts negotiated by the authority. First, prior to the hearing it requires that notice of the hearing be provided. Therefore, a notice was sent to the governor, the senate's president pro temp, the senate's minority leader, the senate's finance committee chair, the assembly speaker, the assembly minority leader and the assembly ways and means committee chair.

In addition, notices appeared in the following newspapers once a week for the four weeks leading up to this hearing: Niagara Gazette, Buffalo News, Buffalo Business First, Lewiston-Porter Sentinel, Albany Times-Union and the Dunkirk Observer.

The public was also given access to the

proposed contract on the authority's Web site and at the authority's White Plains office during the thirty-day period prior to today's hearing.

After the hearing, the public will be given access to the hearing transcript once it is completed at www.nypa.gov and at the White Plains office. The next step in the process set forth in Section 1009 will be for NYPA's trustees to reconsider the proposed contract in light of public comments. Once the trustees have completed their final review, the contract will be forwarded to the governor for his consideration and approval.

If you plan to make an oral statement at this hearing, I ask that you so indicate on the sign-in sheet. Also, if you have a written statement, please give a copy to Lorna Johnson and one to the reporter. Written statements may be of any length and will appear in the record of the hearing in addition to oral statements. The record of the hearing will remain open for additional comments through close of business Wednesday, January 6, 2016.

Additional comments should be mailed, faxed or e-mailed to the corporate secretary at 123 Main Street, 11-P, White Plains, New York, 10601 or 914-390-8040 or secretarys.office@nypa.gov.

At this point, I would like to introduce Maribel Cruz-Brown, the authority's business power allocations and compliance manager, who will provide additional details on the proposed direct sale contract. Thank you.

Ms. Brown?

MS. CRUZ-BROWN: Thank you, Ms. Delince. Good afternoon. My name is Maribel Cruz-Brown and I'm the manager of the business power allocations and compliance group within NYPA's Economic Development and Energy Efficiency Department. I'm here today to present a summary of one proposed hydropower contract.

Regarding the contract, under the Public Authorities Law Section 1005, Subsection 13, the authority may allocate and sell directly or by sale-for-resale 250 megawatts of expansion power, known as EP, and 445 megawatts of replacement power, known as RP, to businesses located within thirty miles of the Niagara Power Project provided that the amount of EP allocated to businesses in Chautauqua County on January 1st, 1987 shall continue to be allocated in Chautauqua County.

One company has been awarded a hydropower allocation by the authority's trustees in return for commitments made to create or expand their businesses in Western New York. Specifically, RockTenn CP, LLC, a producer of container board packaging, was awarded 300 kilowatts of EP in support of upgrading its manufacturing equipment at its North Tonawanda facility in Niagara County. RockTenn will invest at least seven point five million dollars and create at least nine new jobs, above its base jobs of 119.

To summarize some of the pertinent provisions of the proposed contract, first, the contract provides for the direct billing of all hydropower supply charges, all New York Independent System Operator, Inc., New York ISO, charges and taxes.

The contract includes the customer's agreed-upon commitments with respect to employment and capital investment. The contract retains the authority's right to reduce or terminate a customer's allocation if employment, power utilization or capital investment commitments are not met.

For example, the contract includes an annual job reporting requirement and a job compliance threshold of ninety percent. Should a company's average annual employment fall below the compliance threshold of ninety percent of the employment commitment, the authority has the right to reduce the allocation on a pro rata basis.

The contract compels the company to perform an energy audit at the facility at least once within five years, helping to ensure the customer uses the hydropower efficiently. Additionally, to accommodate nonpayment risk that could result from the direct billing arrangement, the contract includes commercially-reasonable provisions concerning the authority's ability to charge late payment fees and to require deposits in the event of customer failure to make payments for any two monthly bills. These contract provisions are consistent with other authority direct sale contracts, including the Recharge New York sales contracts.

The contract will serve the allocations in accordance with the authority's service tariff WNY-1 which specifically -- which specifies the rates and other terms applicable to all EP and RP allocations. The service tariff specifies a three-year rate phase-in to a target rate based on the rate of the authority's other hydropower program, Preservation Power, to ultimately ensure consistency among the authority's three hydropower programs. Transmission and delivery service for these allocations will be provided by National Grid or NYSEG in accordance with the utilities' Public Service Commission approved delivery service tariffs.

As Ms. Delince stated earlier, the authority will accept your comments on the proposed contracts until the close of business on Wednesday, January 6th, 2016.

I will now turn the floor back to Ms. Delince.

MS. DELINCE: Thank you, Ms. Cruz-Brown. We will recess now and reconvene when speakers arrive.

(A recess was then taken.)

MS. DELINCE: The January 5, 2016 public hearing on the proposed direct sale contract to RockTenn CP, LLC is now officially closed.

As I previously stated, the record of the hearing will remain open for additional comments through close of business Wednesday, January 6, 2016.

Thank you and good night.

(The hearing concluded at 6:30 P.M.)

STATE OF NEW YORK
COUNTY OF ERIE

I, Barbara Buyers, a Notary Public in and for the State of New York, do hereby certify:

That the witness whose testimony appears herein before was, before the commencement of his deposition, duly sworn to testify to the truth, the whole truth and nothing but the truth; that such testimony was taken pursuant to notice at the time and place herein set forth; that said testimony was taken down in shorthand by me and thereafter under my supervision transcribed into the English language, and I hereby certify the foregoing testimony is a full, true and correct transcription of the shorthand notes so taken.

I further certify that I am neither counsel for nor related to any parties to said action, nor in any way interested in the outcome thereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 12th day of January, 2016.

Barbara A. Buyers

Notary Public
State of New York

President & Chief Executive Officer Report

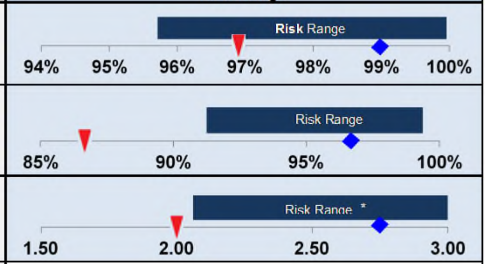
Gil Quiniones

January 26, 2016

NYPA Overall Performance December 2015

Goal	Measure	Year-End 2015 Status	Year-End 2015 Target	Year-End 2015 Actual
Maintain Infrastructure	Generation Market Readiness *(%)*	■	99.40	**99.15**
	Transmission System Reliability *(%)*	▲	96.23	**96.83**
Financial Management (PRELIMINARY)	Debt Coverage *(Ratio)*	▲	2.70	**2.78**
	O&M Budget Performance *($ Millions)*	▲	474.0	**437.1**
Energy Services	MMBTU's Saved	▲	400.1	**501.6**
	Energy Efficiency Investment in State Facilities *($ Millions)*	▲	50.4	**53.7**
Workforce Management	Retention *(# of Touchpoints)* **	▲	995	**1813**
Safety Leadership	DART Rate *(Index)*	■	0.78	**0.92**
Environmental Responsibility	Environmental Incidents *(Units)*	▲	32	**26**

Year 2016 Risk Range



Risk Range

◆	Year-End Actual
▼	Risk Threshold

Projected risk ranges to be reported quarterly

Corporate Performance

Status	
▲	Meeting or Exceeding Target
■	Below Target
●	Significantly Below Target

*Debt Coverage KRI Range from Q2; measure under revision

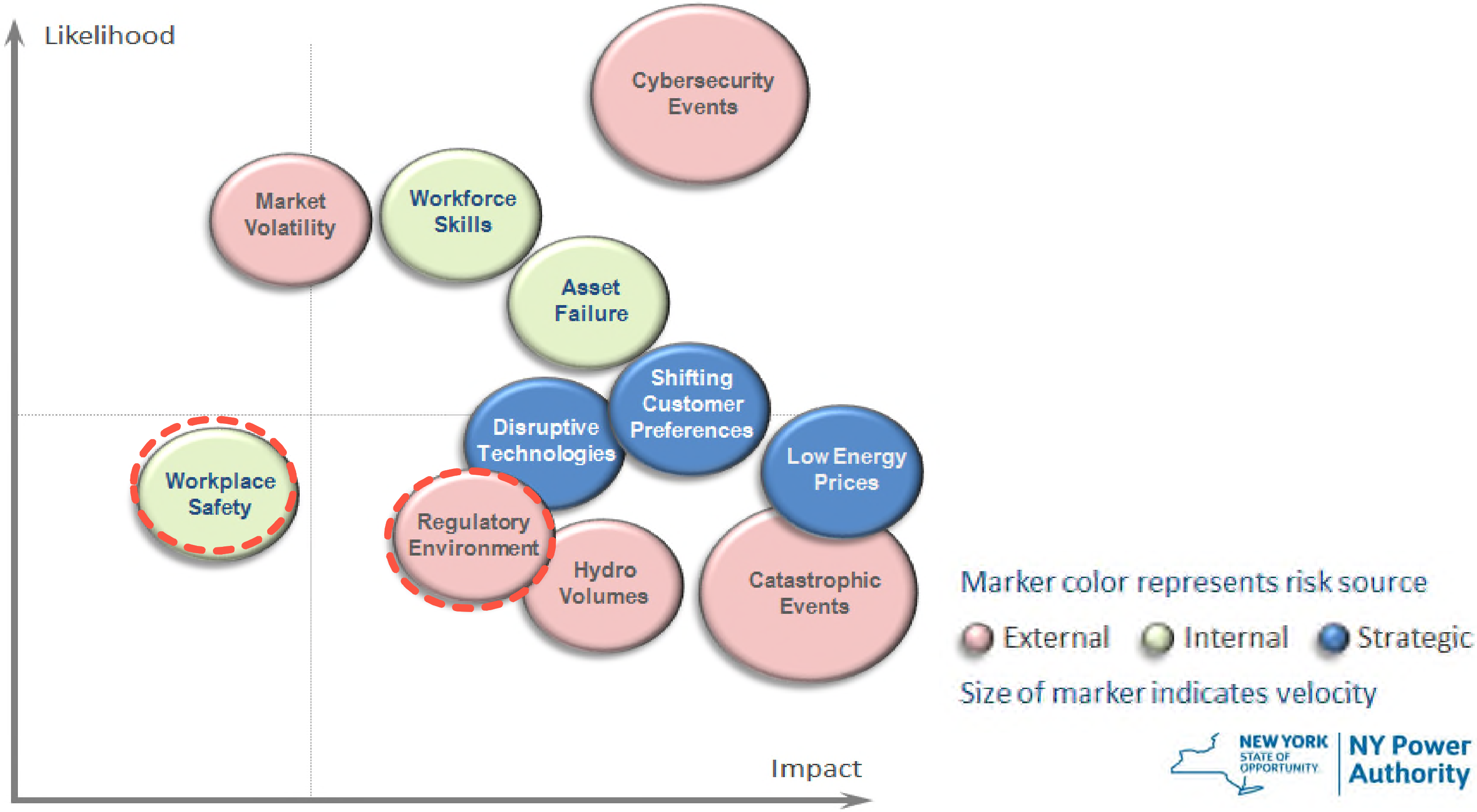
** Quarterly measure

Chief Risk Officer Report

Soubhagya Parija
SVP & Chief Risk Officer

January 26, 2016

Top Enterprise Risks



NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Enterprise Risk Dashboard

	Top Risks	Primary Impact on Corporate Goals	Exposure
External	Cyber & Physical Security	Financial, **Operational**, Value	Increasing
External	Catastrophic Events	**Financial**, **Operational**, Value	
External	Low Hydro Flow Volumes	**Financial**, Operational, Value	Decreasing
External	Regulatory Environment	Financial, **Operational**, Value	
External	Commodity Market Volatility	**Financial**, Operational, Value	
Internal	Critical Asset Failure	**Financial**, **Operational**, Value	
Internal	Failure to Attract & Retain Qualified Workforce	Financial, **Operational**, Value	
Internal	Workplace Safety	Financial, **Operational**, Value	
Strategic	Sustained Low Energy Prices	**Financial**, **Operational**, **Value**	
Strategic	Shifting Customer Preferences	**Financial**, **Operational**, **Value**	
Strategic	Disruptive Technologies	**Financial**, **Operational**, **Value**	

ILLUSTRATIVE

RISKS TO BE ASSESSED

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Risk Management Activities

Cyber & Physical Security Risk

December
- Work continues to determine:
  - *Impact on Public Trust & Reputation*
  - *Appropriate mitigation plans*

May
Findings to be presented to the Board

Top Risks Assessment

January
- *Engage Top Risks Sponsors*
- *Establish cross-functional Core Team*
- *Publish survey*

February to April
- *Analyze survey data*
- *Risk Management to facilitate workshops*
- *Core Team to present findings to Sponsors*

May
- *Sponsors to share insights with the Risk Committee*
- *CRO to share consolidated results with the CEO/Board*

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Risk Management Activities - Continued

Commodity Risk Portfolio Review

- Project to understand & assess all exposures associated with the Authority's assets
- Determine optimal portfolio management guided by risk-reward principles

Close Partnerships with Other Business Units

- Maintain continued alignment with Strategy & Audit
- Review of Long-Term Contract Negotiations with Finance & Marketing
- Assist in risk analysis of Customer Energy Services Projects

Monitoring Metrics

- Key Risk Indicators to be built on findings from Top Risks Assessments
- To be aligned with the KPIs being developed by the Strategy team

Senior Director of Enterprise Risk

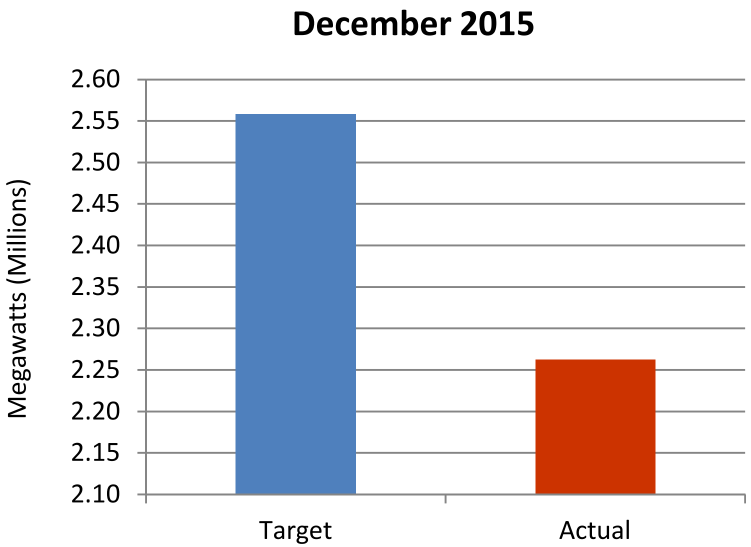
- New hire to Start on February 24

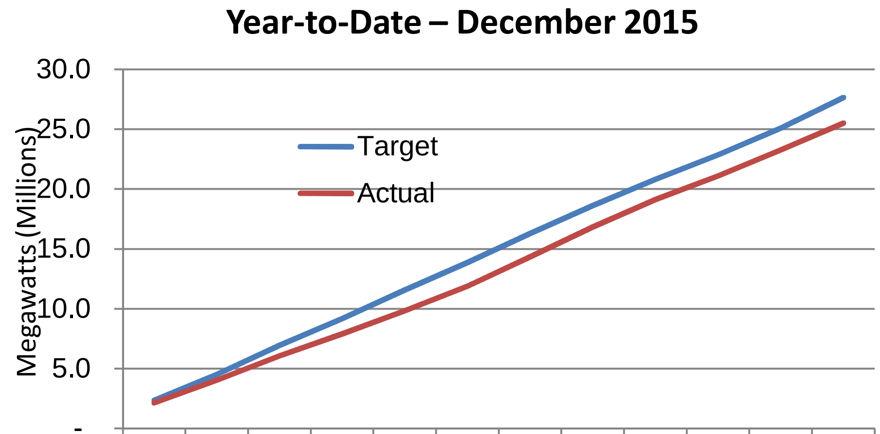
Chief Operating Officer Report

December 12, 2015

Operations - System Net Generation

- **Systemwide Net Generation in December was 2,262,390 MWh (megawatt-hours) which is below the projected net generation of 2,558,083 MWh. For the year, net generation was 25,521,803 MWh which is below the projected target of 27,645,648 MWh.**



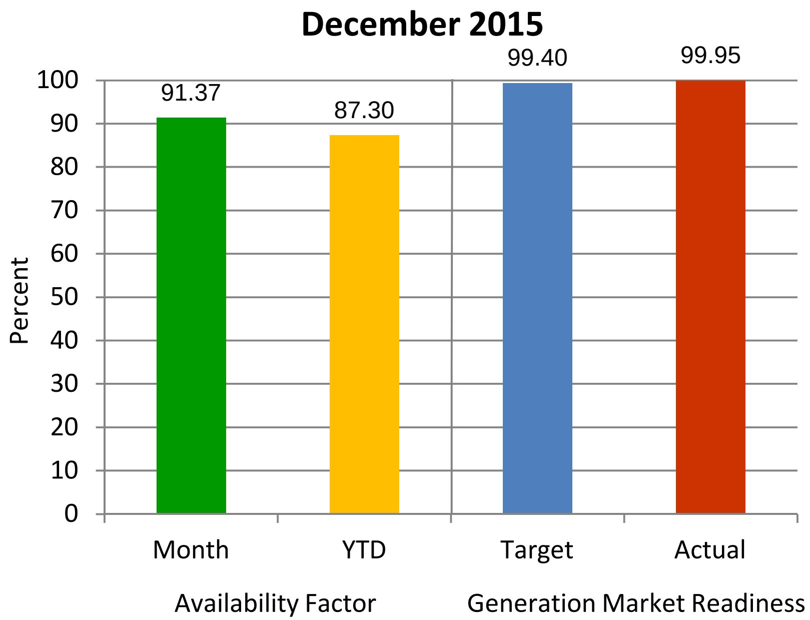


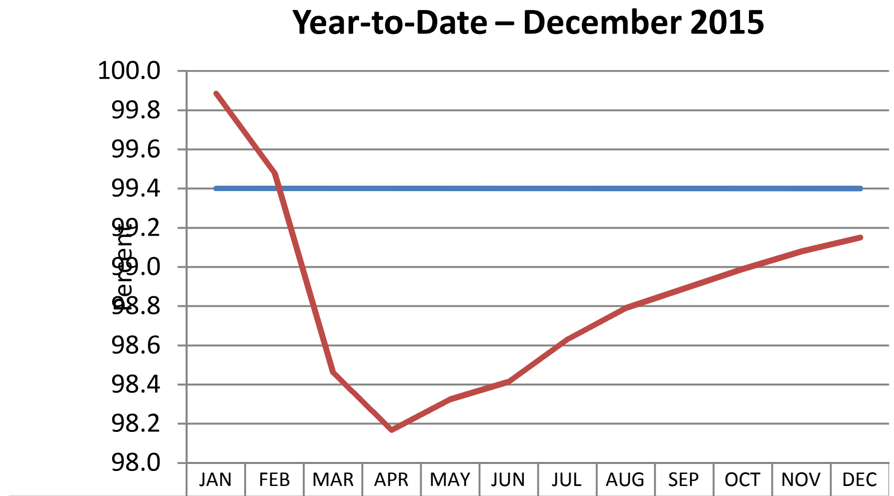
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Target	2.36	4.52	6.96	9.17	11.56	13.86	16.30	18.62	20.80	22.87	25.09	27.65
Actual	2.15	4.03	6.08	7.88	9.83	11.89	14.36	16.82	19.13	21.10	23.26	25.52

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Operations – Plant Performance

- **The fleet availability factor in December was 91.37 percent, and was 87.30 percent for the year. Generation Market Readiness factor in December was 99.95 percent, which is higher than the target of 99.40 percent. Year-to-date Generation Market Readiness factor was at 99.15 percent, which is below the annual target of 99.40 percent.**





	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
GMR-Target	99.40	99.40	99.40	99.40	99.40	99.40	99.40	99.40	99.40	99.40	99.40	99.40
GMR-Actual	99.89	99.48	98.46	98.17	98.32	98.42	98.63	98.79	98.89	98.99	99.08	99.15

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Operations – Plant Outages

- **There were no significant forced outage events in December.**

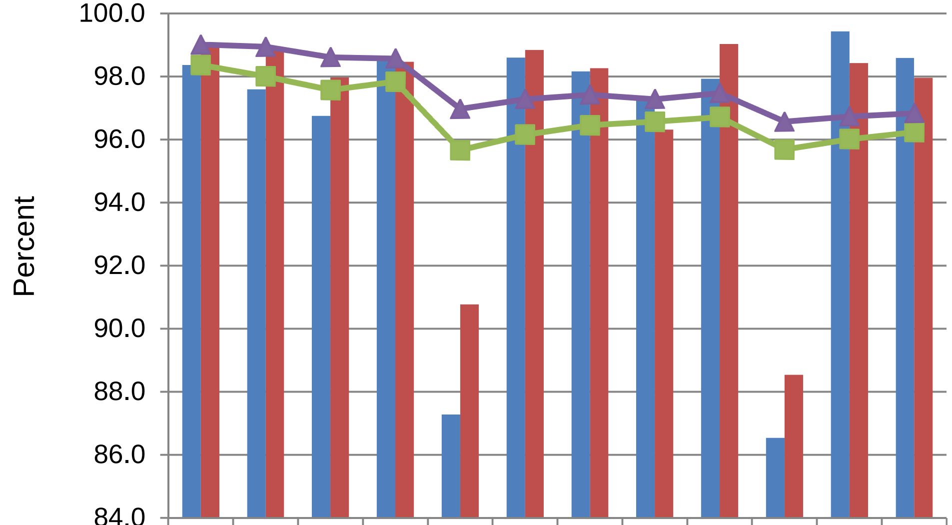
Niagara/St. Lawrence River Flows

- **Niagara River flows in December were above the historical average and will be above normal levels throughout the following year. St. Lawrence River flows for December were above historical levels and are expected to be above the historical average flow over the next year.**

Transmission System Reliability

- **Transmission reliability in December was 97.96 percent, which was below the monthly target of 98.59 percent. Final year transmission reliability is 96.83 percent, above the target of 96.23 percent.**

- **There were no significant unplanned transmission outages in December.**

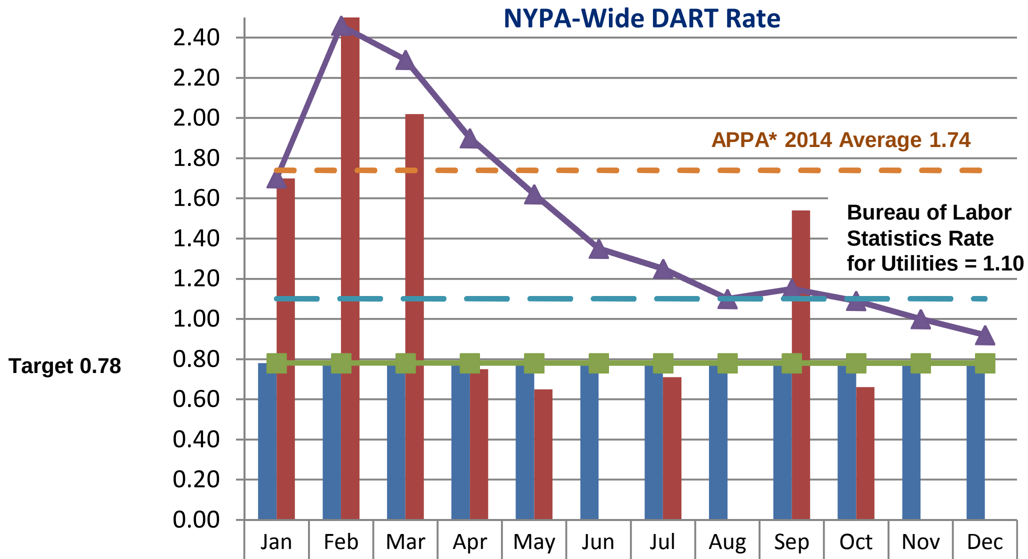


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Target	98.36	97.59	96.75	98.63	87.28	98.60	98.16	97.37	97.93	86.53	99.43	98.59
Monthly Actual	99.01	98.86	97.97	98.46	90.77	98.84	98.26	96.31	99.03	88.53	98.42	97.96
YTD Target	98.36	98.00	97.57	97.83	95.66	96.15	96.45	96.56	96.71	95.68	96.01	96.23
YTD Actual	99.01	98.94	98.61	98.57	96.97	97.28	97.42	97.28	97.47	96.56	96.73	96.83

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Safety DART Rate

- The NYPA DART (Days Away, Restricted or Transferred) Rate for December is 0.00. For the year, the DART Rate is 0.92 compared to the target of 0.78.
- There were no lost time incidents in December that met the DART criteria.
- For the year, there have been 15 injuries that resulted in lost time and met the DART criteria.

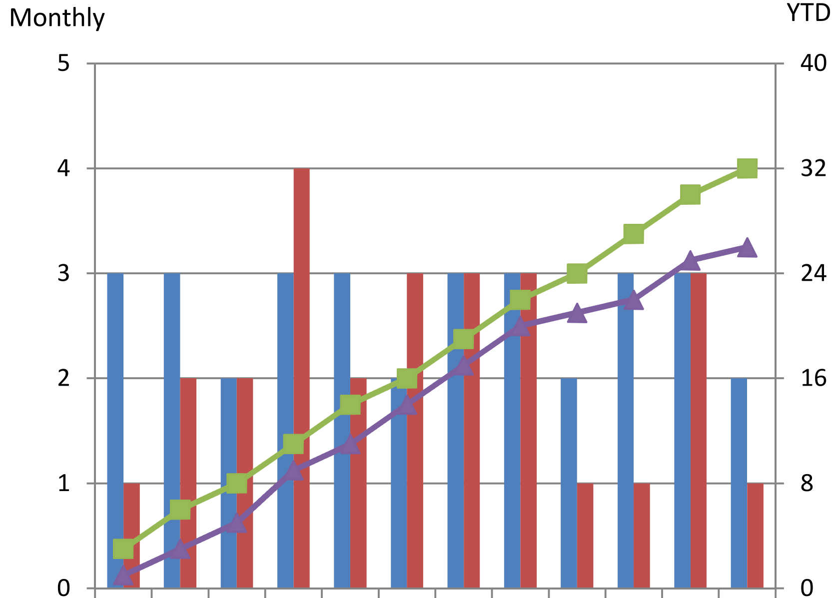


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Target	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78
Monthly Actual	1.70	3.17	2.02	0.75	0.65	0.00	0.71	0.00	1.54	0.66	0.00	0.00
YTD Target	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78
YTD Actual	1.70	2.46	2.29	1.90	1.62	1.35	1.25	1.10	1.15	1.09	1.00	0.92
BLS	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
APPA	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Environmental Incidents

- There was one reportable incident in December:
  - At Niagara, a water discharge permit excursion occurred which was promptly reported to NYSDEC.
- For the year, there have been 26 incidents. The annual target is 32 incidents.

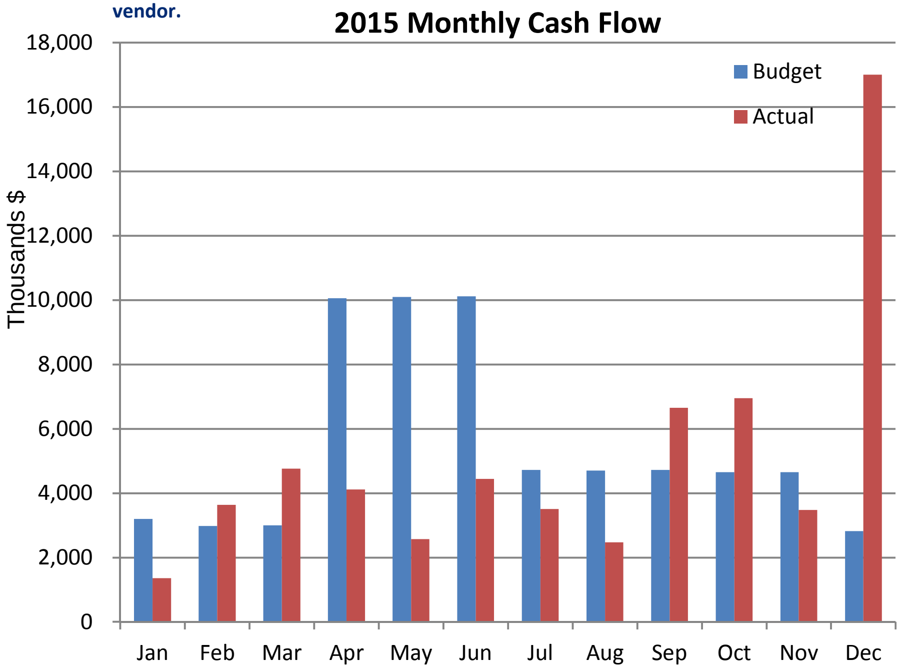


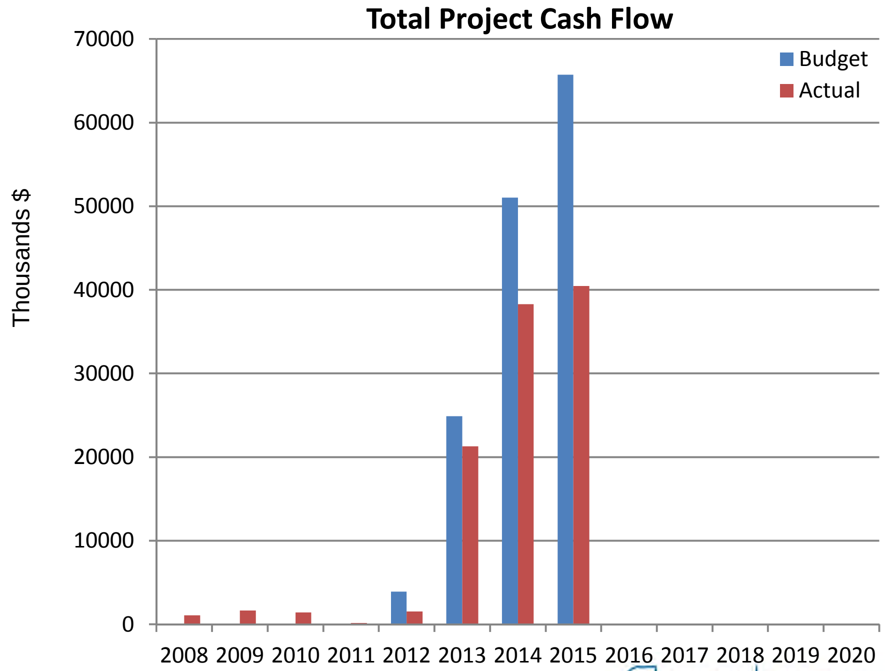
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Target	3	3	2	3	3	2	3	3	2	3	3	2
Monthly Actual	1	2	2	4	2	3	3	3	1	1	3	1
YTD Target	3	6	8	11	14	16	19	22	24	27	30	32
YTD Actual	1	3	5	9	11	14	17	20	21	22	25	26

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Life Extension and Modernization Programs – Transmission LEM

- Niagara – Southeast bus and disconnect replacement completed and placed in service. Bay 18 Disconnect Switch, Instrument Transformers, Bus, Breaker 1802 and Gardenville 180 relay upgrade is complete. Bay 15 breaker 1522 with three associated disconnects and Instrument transformer replacement is in progress with completion scheduled in January 2016 . Massena Substation - Installation of Auto Transformer 1X in progress with completion scheduled for February 2016. Refurbishment of reactors 1X and 1B completed. St Lawrence RM Switchyard – Cables and ancillary equipment associated with Capacitor Bank 7 installed; cutover of the SAMAC relays in progress. Detailed engineering underway for the Marcy and BG Switchyard LEM with construction scheduled to begin in 2016. STL Tower Painting complete . Niagara Tower Painting to begin in 2016. PV-20 Submarine Cable Replacement - Design package submitted by vendor.

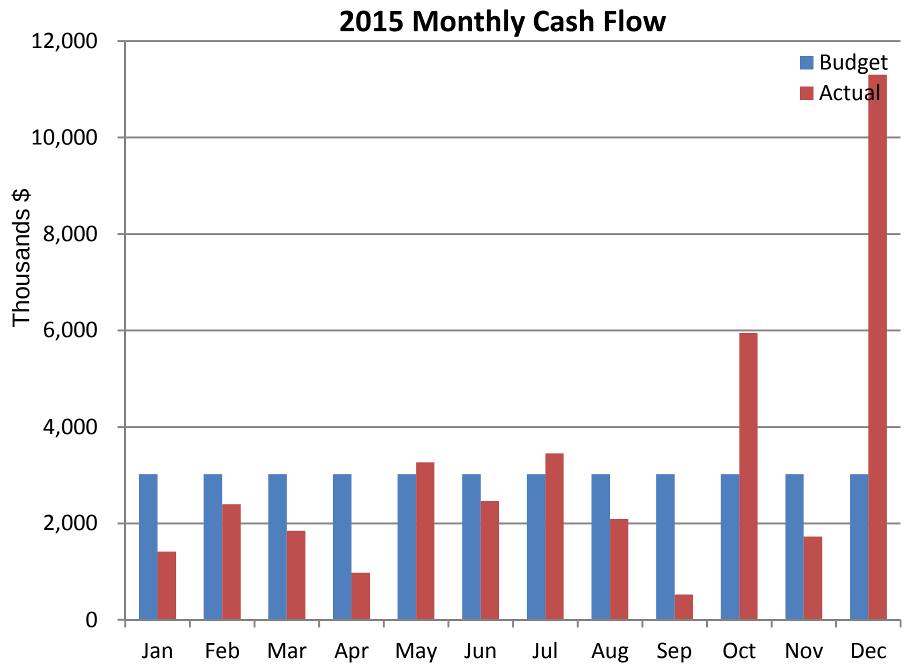


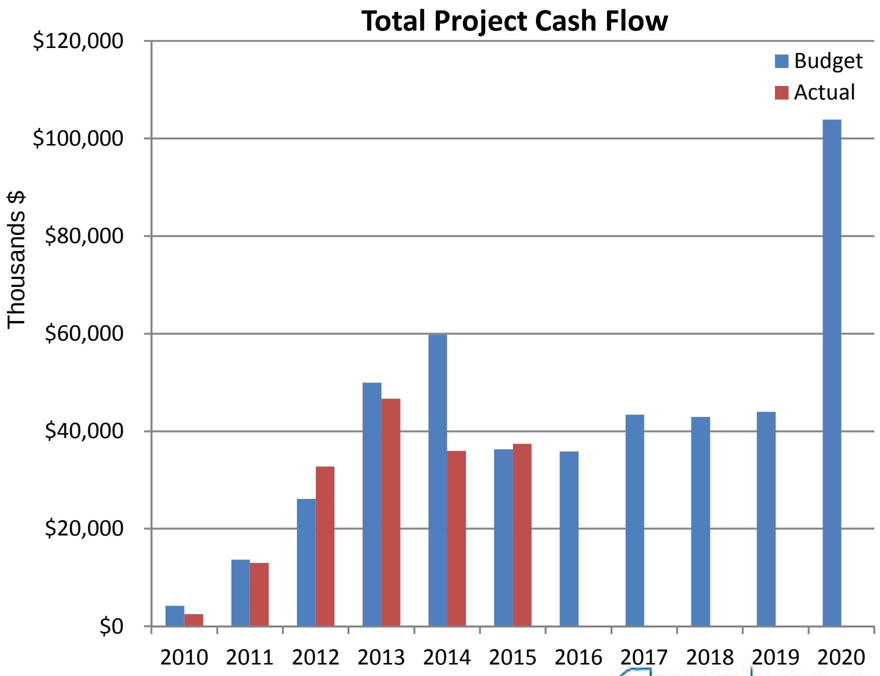


NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Life Extension and Modernization Programs – LPGP LEM

- **The fifth unit outage (Unit 6) started on November 19, 2015, as scheduled, along with the restart of the motor generator contract work by Andritz Hydro Corp. The actual spending for 2015 slightly exceeded the project total budgeted amount and the project's cash flow in 2020 will be re-allocated next year.**





NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Technical Compliance – NERC Reliability Standards

New Bulk Electric System (BES) Definition

- The Moses-Alcoa 115kV transmission lines and the Plattsburgh 115 kV capacitor banks 5 and 6 exclusion exception requests (EER) have been moved through the initial review stage and into the substantive review stage by NPCC.
- NERC, NPCC, Alcoa and NYPA agreed to temporarily suspend the Moses-Alcoa 115kV transmission lines EER to allow NPCC to evaluate the reliability impact of these and other transmission lines on the BES.
- Staff continues to have discussions with the NYISO to clarify NYPA's and the NYISO's Transmission Planning (TP) responsibilities for NYPA's assets.

CIP-014-2 Physical Security - Implementation

- The NYISO, acting as the independent third party verifier under Requirement 2 of the CIP-014-2 Physical Security Standard, completed its final review of NYPA's risk assessment report on December 18 and verified that it is consistent with the methodology developed by the NYCA Transmission Owners and the NYISO.

Critical Infrastructure Protection (CIP) Standards - Version 5

- NYPA's CIP Version 5 (V5) Implementation Project team continued to execute the plan to achieve compliance with the new cyber security standards before the April 1, 2016 enforcement date.
- Following the completion of the plan's priority activities, the team will start conducting Internal Readiness Assessments in early 2016 to rate NYPA's compliance posture and identify any further actions required to complete the transition to CIP V5.

NERC Risk-Based Compliance Monitoring and Enforcement Program

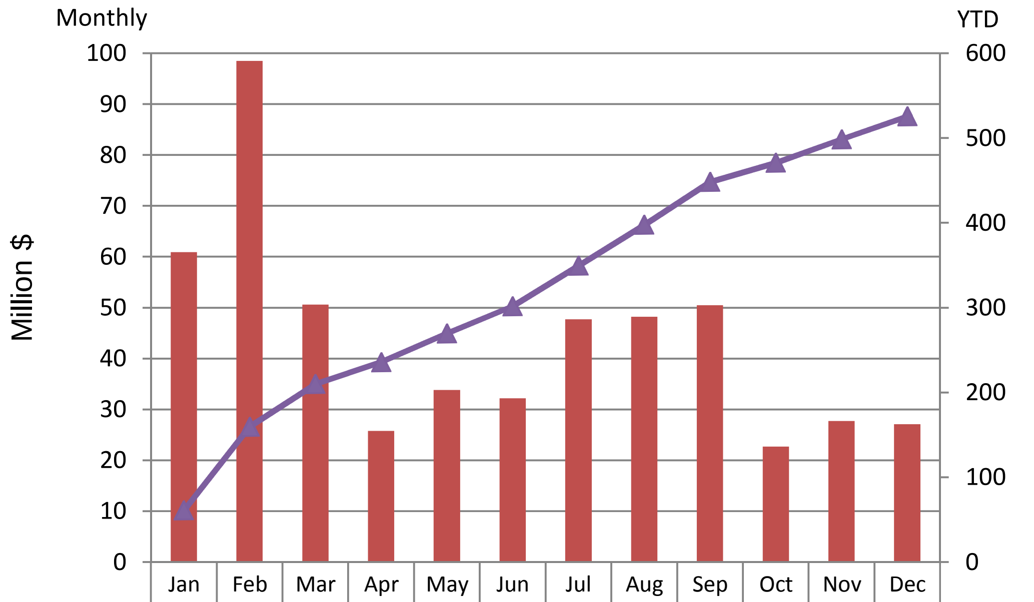
- The NYPA's Standards-Specific Internal Controls Evaluation (ICE) information was submitted to NPCC in November.
- NPCC confirmed NYPA's internal control process flow diagram template to be used for documenting NYPA's process flows for applicable NERC Compliance Standards.
- It is anticipated that NPCC will complete its review of NYPA's ICE documentation by mid-January 2016 and schedule an on-site visit in late-January/early February 2016.

Energy Resource Management

NYISO Markets

- In December, Energy Resource Management (ERM) bid 2.46 million MWh of NYPA generation into the NYISO markets, netting $27.1 million in power supplier payments to the Authority. Year-to-date net power supplier payments are $525.5 million.

- Auction 30 of the Regional Greenhouse Gas Initiative was held on December 2, 2015. Auction 30 cleared at $7.50 and NYPA was not awarded any allowances in this auction. To date, NYPA has secured sufficient allowances to cover its compliance obligation for 2015, 2016 and the beginning of 2017. Since inception, NYPA has purchased about 27.5 million RGGI allowances for a total cost of approximately $100.3 million, averaging $3.65 per allowance.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	60.9	98.5	50.6	25.8	33.8	32.2	47.7	48.2	50.5	22.7	27.7	27.1
YTD Actual	60.9	159.4	209.9	235.7	269.5	301.7	349.4	397.6	448.1	470.8	498.5	525.5

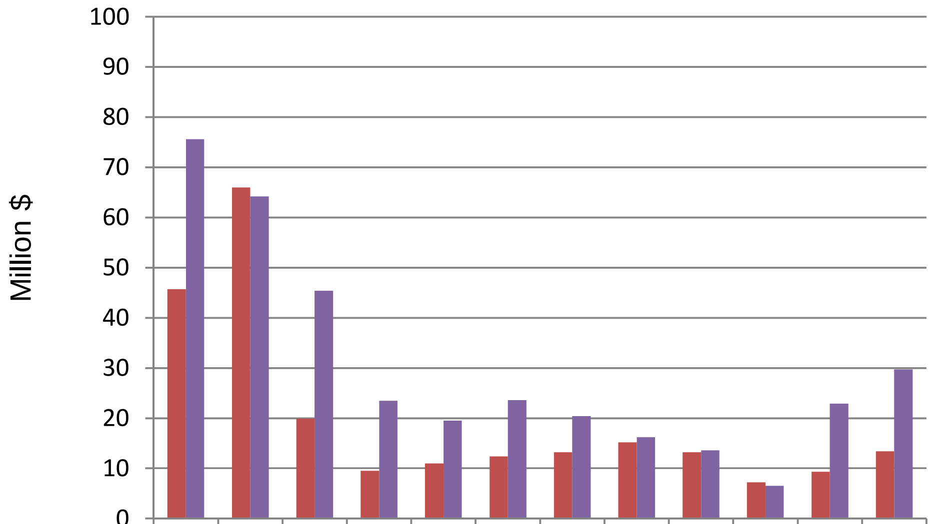
NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Energy Resource Management

Fuel Planning & Operations:

- **In December, NYPA's Fuels Group transacted $13.4 million in natural gas and oil purchases, compared with $29.7 million in December 2014. Year-to-date natural gas and oil purchases are $235.9 million, compared with $361.4 million at this point in 2014.**

- **The total (-$125.5) million decrease is due to the lower cost of fuel and / or fuel consumption at the Astoria Energy II Plant (-$43.4 million), 500-MW Combined Cycle Plant (-$50.9 million), Richard M. Flynn Power Plant (-$25.2 million), and Small Clean Power Plants (-$6.0 million).**



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	45.70	66.00	19.90	9.50	11.00	12.40	13.20	15.20	13.20	7.20	9.30	13.40
2014	75.60	64.20	45.40	23.50	19.50	23.60	20.40	16.20	13.60	6.50	22.90	29.70

NEW YORK STATE OF OPPORTUNITY. | NY Power Authority

Chief Financial Officer Report

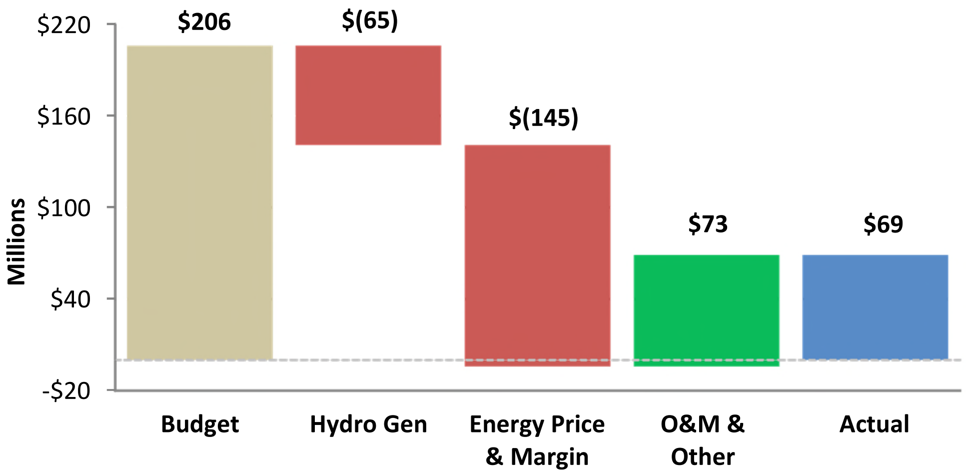
January 26, 2016

Net Income*

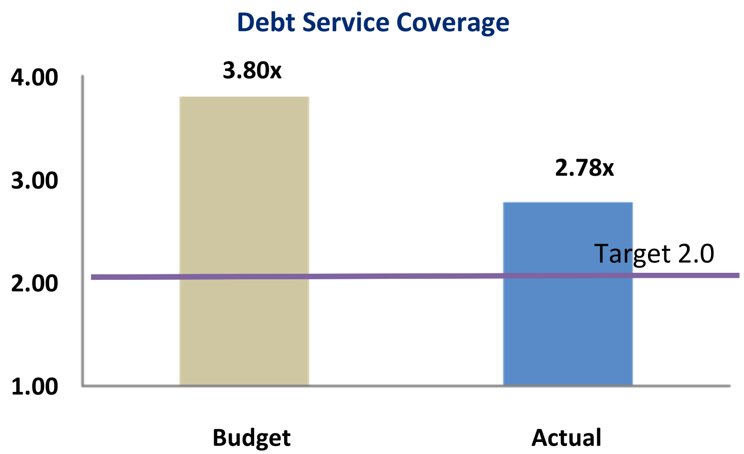
- Net income for the year was $69.3 million, which was $136.3 million lower than budgeted due to lower hydro production ($65 million), and lower market energy prices ($145 million), partially offset by lower O&M and other expenses ($73 million). Lower production resulted from low precipitation and a less than normal winter ice thaw early in the year. Lower O&M and other expenses reflect underspending in programs including Five City Master Plan, Western NY Workforce Development and Customer Energy Solutions.

- During the month of December, the Authority experienced a net loss of $5.9 million, which was $23.1 million worse than the budgeted $17.2 million net income. These results were due primarily to a lower net margin on sales ($17.4 million) and a mark-to-market loss on the Authority's investment portfolio ($2.8 million, higher than anticipated market interest rates). The lower net margin on sales was primarily attributable to significantly lower prices on market sales of hydro energy into the ISO market.

Year Ended December 31, 2015



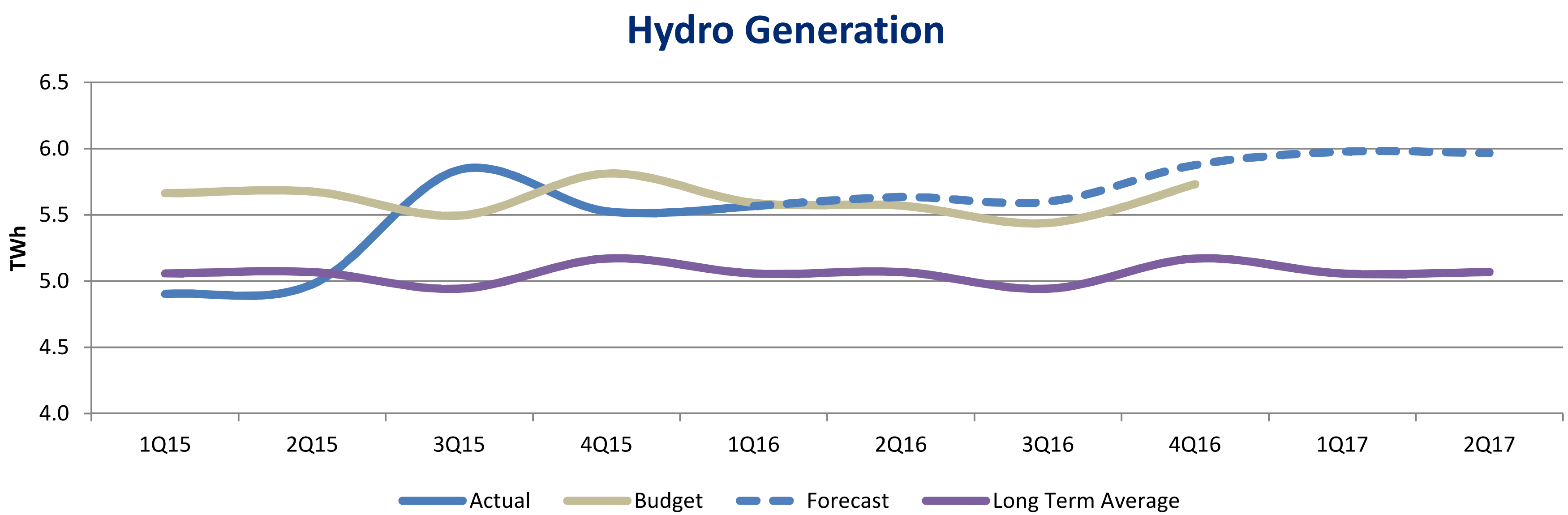
December 2015



NEW YORK STATE OF OPPORTUNITY | NY Power Authority

*Preliminary amounts subject to adjustment based on the true-up of estimated sales and accruals.

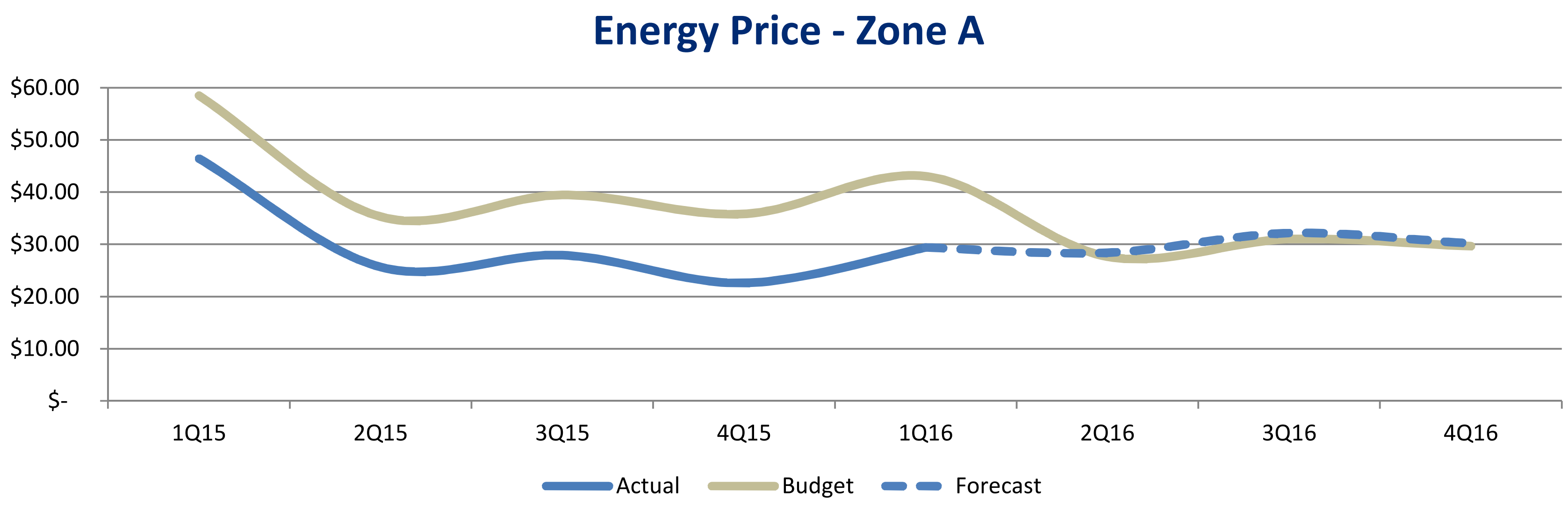
Hydro Generation



Hydro generation was 6% below budget for the year. Increased hydro volume expected for 2016.

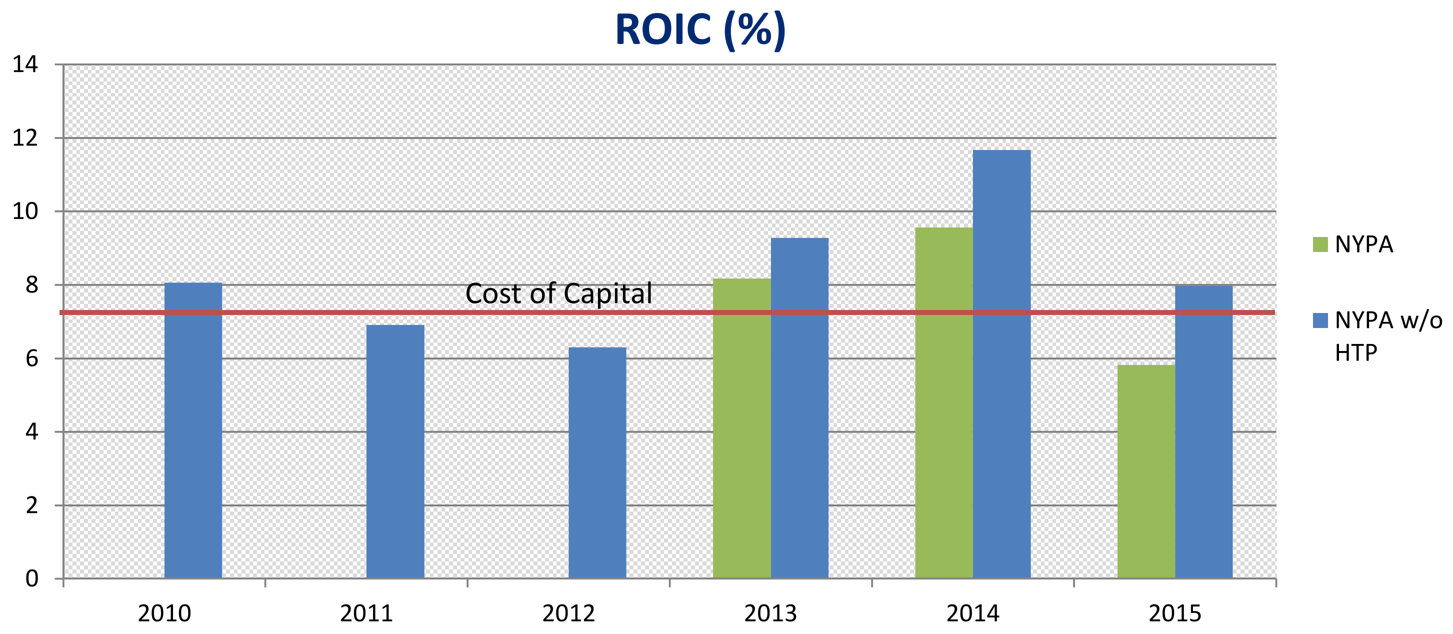
NEW YORK STATE OF OPPORTUNITY | NY Power Authority

Energy Price Forecast



Energy Zone A (Western NY) prices continue to be significantly below budget. Zone A price for the year was 28% below the budget.

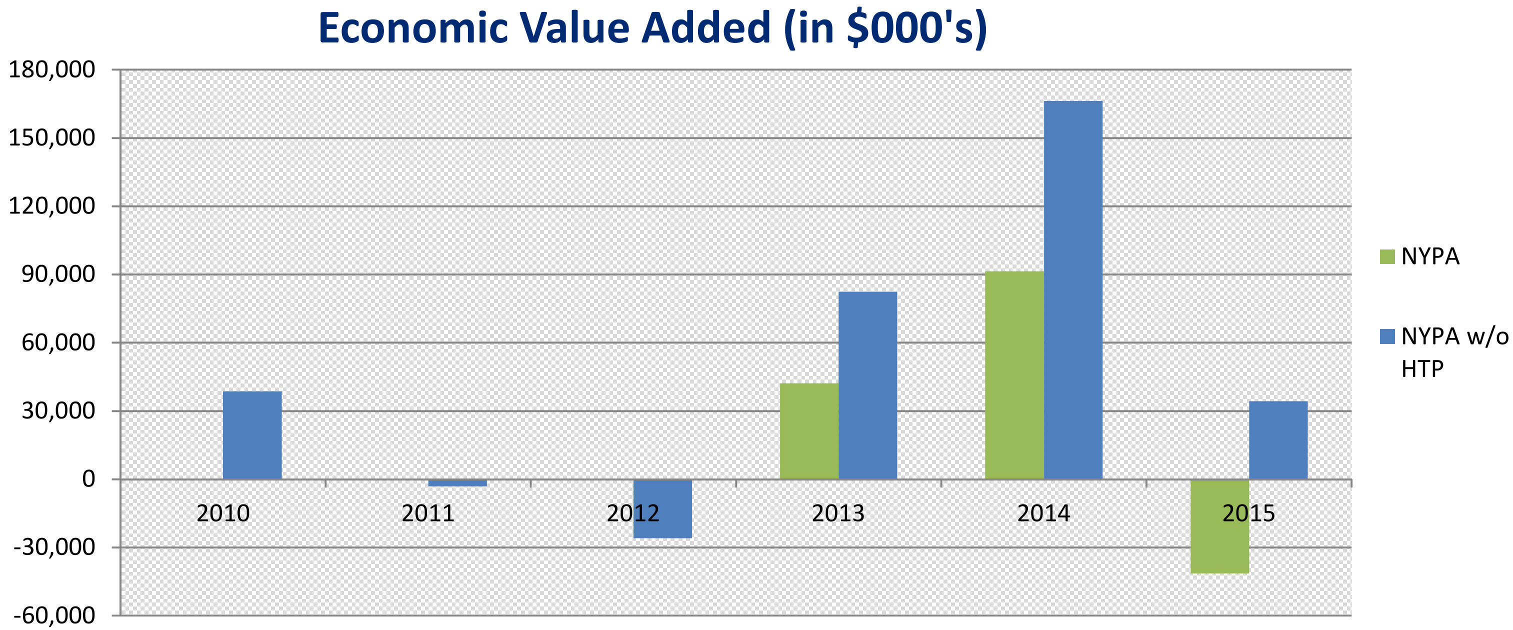
NYPA Return on Invested Capital (2010-2015)



Notes:
ROIC and EVA charts exclude the impact of various “other expenses” which are not considered part of regular O&M as they fund State requested programs and non-revenue producing initiatives including:
Energy Projects, including Battery Charging Stations, and others;
Economic Development, including WNY Workforce Development, Five Cities Master Plan, and others;
Legislative Mandates, including the NYSERDA Strategic Fuel Reserve, and others.

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

NYPA Economic Value Added (2010-2015)



Notes:
ROIC and EVA charts exclude the impact of various "other expenses" which are not considered part of regular O&M as they fund State requested programs and non-revenue producing initiatives including:
Energy Projects, including Battery Charging Stations, and others;
Economic Development, including WNY Workforce Development, Five Cities Master Plan, and others;
Legislative Mandates, including the NYSERDA Strategic Fuel Reserve, and others.

NEW YORK STATE OF OPPORTUNITY | NY Power Authority

EXHIBIT 4a-A

Non-Compliance with Job Commitments – Proposed Reductions in Contract Demands and Hydropower Allocations with Adjustments to Job Commitments

1. Globe Metallurgical, Inc. (Niagara Falls, Niagara County)

Allocation:	7,353 kilowatts ("kW") of Expansion Power ("EP") and 32,647 kW of Replacement Power ("RP")
Contract Demand:	7,353 kW of EP and 32,647 kW of RP
Power Utilization:	98%
Capital Spending:	$3,028,604 or 90%
Job Commitment:	500 jobs
Jobs Reported:	105 jobs, or 21%

Background: Globe Metallurgical, Inc. ("Globe") manufactures silicon metal products at four U.S. facilities including Niagara Falls.

The above-table reflects information reported by Globe for 2014, the calendar year for which compliance action is being recommended. The year-end monthly average number of employees reported by Globe for 2014 is 105, or 21% of the Base Employment Level of 500 (Globe's contractual job commitment).

Recommendation: *Globe currently receives two allocations (7,353 kW of EP and 32,647 kW of RP) for a total hydropower allocation of 40,000 kW (the "Allocation"). Staff recommends that the Trustees authorize a reduction in the contract demand and Allocation by 21,600 kW, which would result in a revised contract demand and Allocation of not less than 18,400 kW. Staff further recommends that Staff be authorized to reduce Globe's job commitment by 400 jobs, which would result in a revised job commitment of not less than 100 jobs.*

DANNIBLE & McKEE, LLP
Certified Public Accountants and Consultants

Exhibit "4a-B"

#00-13PA

NEW YORK POWER AUTHORITY
AGREED UPON PROCEDURES PROGRAM

CONTACT INFORMATION:

CUSTOMER NAME:	**Globe Metallurgical, Inc.**
NYPA CUSTOMER #:	**7617**
DATE:	**11/12/2015**
TWELVE MONTH PERIOD:	**January 2013 through December 2013**
PROGRAM:	**Western New York (WNY) Hydropower Power Program**
LOCATION VISITED:	**3807 Highland Ave.** **Niagara Falls, NY 14305**
CONTACT NAME/TITLE:	**Lee Payssa, Corp Direct of Human Resources** **Michelle Mycek, Corporate Benefits Administrator**
TELEPHONE NUMBER:	**716-278-6103**
EXPANSION POWER	**7.353 MW**
REPLACEMENT POWER	**32.647 MW**
TOTAL ALLOCATED POWER	**40.000 MW**
TOTAL COMMITTED JOBS:	**500.00**
REQUIRED JOB RATIO:	**90.0%**
TOTAL JOBS PER JOB REPORT:	**126.00**
TOTAL JOBS PER D&M:	**99.18**
PREPARED BY:	**Alida Schillinger/** **Alanna J Abreu**
REVIEWED BY:	**Charla Roth/Peggy Rowe**

DANNIBLE & McKEE, LLP
Certified Public Accountants and Consultants

Exhibit "4a-B"

#00-14PA

NEW YORK POWER AUTHORITY
AGREED UPON PROCEDURES PROGRAM

CONTACT INFORMATION:

CUSTOMER NAME:	**Globe Metallurgical, Inc.**	
NYPA CUSTOMER #:	**7617**	
DATE:	**11/12/2015**	
TWELVE MONTH PERIOD:	**January 2014 through December 2014**	
PROGRAM:	**Western New York (WNY) Hydropower Power Program**	
LOCATION VISITED:	**3807 Highland Ave.** **Niagara Falls, NY 14305**	
CONTACT NAME/TITLE:	**Lee Payssa, Corp Direct of Human Resources** **Michelle Mycek, Corporate Benefits Administrator**	
TELEPHONE NUMBER:	**716-278-6103**	
EXPANSION POWER	**7.353**	**MW**
REPLACEMENT POWER	**32.647**	**MW**
TOTAL ALLOCATED POWER	**40.000**	**MW**
TOTAL COMMITTED JOBS:	**500.00**	
REQUIRED JOB RATIO:	**90.0%**	
TOTAL JOBS PER JOB REPORT:	**105.50**	
TOTAL JOBS PER D&M:	**101.10**	
PREPARED BY:	**Alanna J Abreu**	
REVIEWED BY:	**Charla Roth/Peggy Rowe**	

DANNIBLE & MCKEE, LLP
Certified Public Accountants and Consultants

Exhibit "4a-B"

#00-15PA

NEW YORK POWER AUTHORITY
AGREED UPON PROCEDURES PROGRAM

CONTACT INFORMATION:

CUSTOMER NAME:	**Globe Metallurgical, Inc.**
NYPA CUSTOMER #:	**7617**
DATE:	**11/12/2015**
TWELVE MONTH PERIOD:	**January 2015 through September 2015**
PROGRAM:	**Western New York (WNY) Hydropower Power Program**
LOCATION VISITED:	**3807 Highland Ave. Niagara Falls, NY 14305**
CONTACT NAME/TITLE:	**Lee Payssa, Corp Direct of Human Resources Michelle Mycek, Corporate Benefits Administrator**
TELEPHONE NUMBER:	**716-278-6103**
EXPANSION POWER	**7.353 MW**
REPLACEMENT POWER	**32.647 MW**
TOTAL ALLOCATED POWER	**40.000 MW**
TOTAL COMMITTED JOBS:	**500.00**
REQUIRED JOB RATIO:	**90.0%**
TOTAL JOBS PER JOB REPORT:	**N/A**
TOTAL JOBS PER D&M:	**99.28**
PREPARED BY:	**Alanna J Abreu**
REVIEWED BY:	**Charla Roth/Peggy Rowe**

NYPA Business Intelligence Program

Q1 2016 Energy Industry Update

Introduction and objectives

This is the first in a new series of quarterly industry updates that will be provided to the board and senior staff on an ongoing basis…

Q1	Q2	Q3	Q4
Broad Industry Update	Specific Topic 1	Specific Topic 2	Specific Topic 3

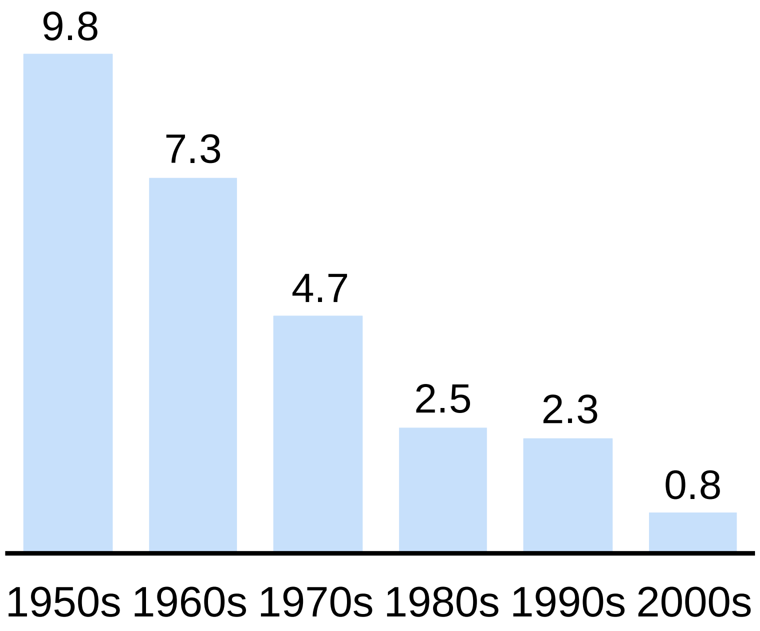
Objectives of Today's Session

- Kick-off quarterly strategy industry updates
- Review material from prior session
- Explain the implications of the trends on NYPA's business strategy
- Summarize key messages

Growth in electricity sales has been shrinking for decades and is now showing signs of flattening

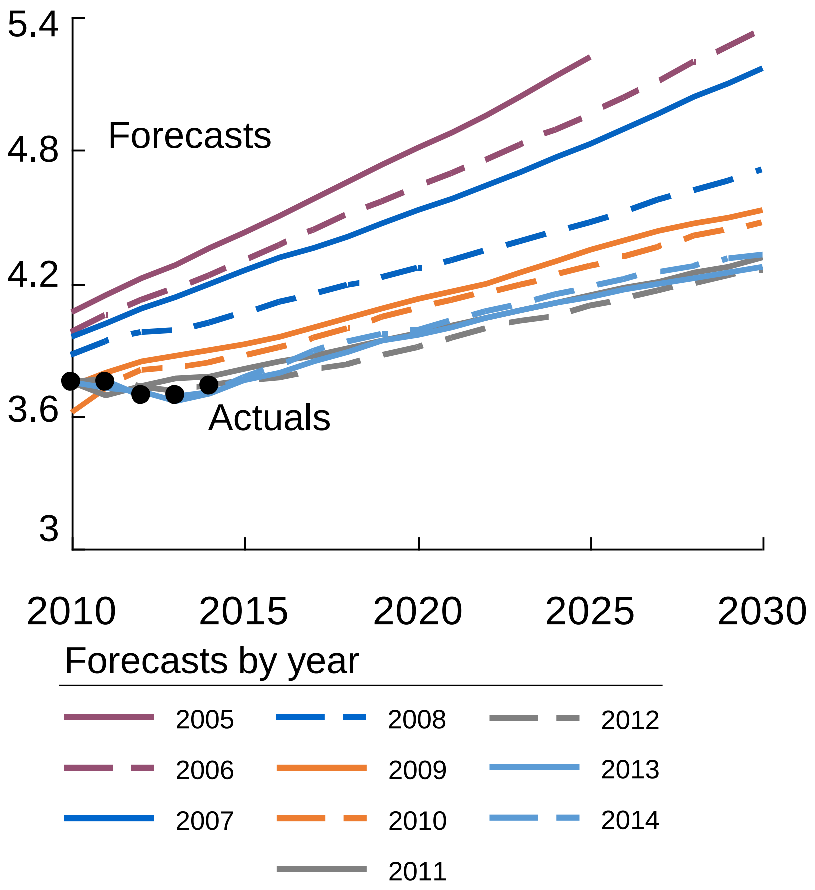
US Central Power Generation Growth

Percent, ten-year CAGRs



US Electric Sales Forecasts for 2010-2030

TWh

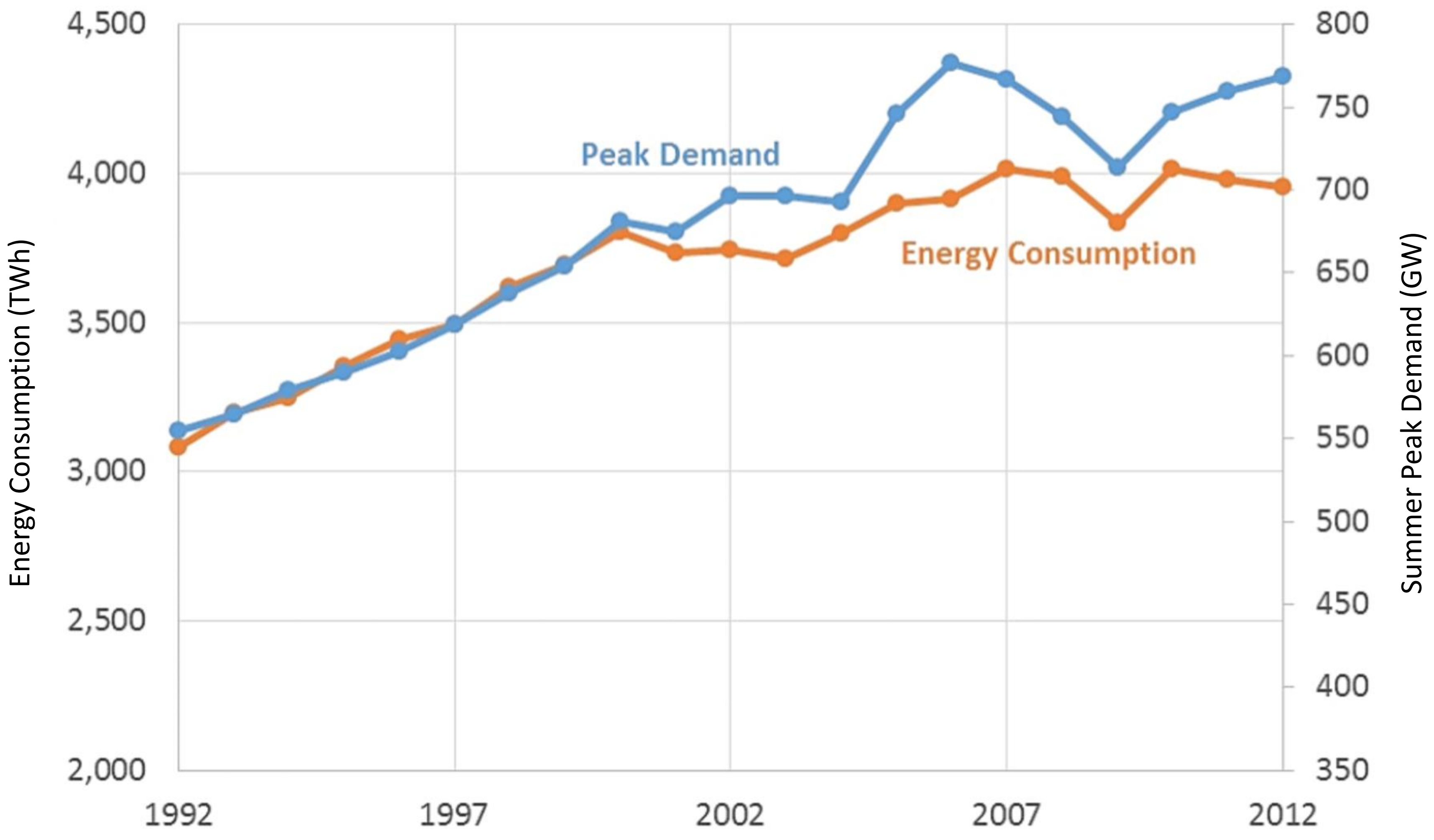


- Growth in central power generation has been dropping for decades
- Analysts still expect sales growth, but have revised forecasts downward
- NYPA's power is among the cleanest and cheapest in NY, providing cover in any future demand scenario
- Significant revenue growth is unlikely to come from power sales in the foreseeable future
- *Impacts of this trend on revenue growth opportunities for NYPA will be addressed during our annual 2016 offsite*

Source: EIA

Peak demand is rising while energy consumption is relatively flat

Total U.S. Electricity Consumption and Peak Demand Over Time



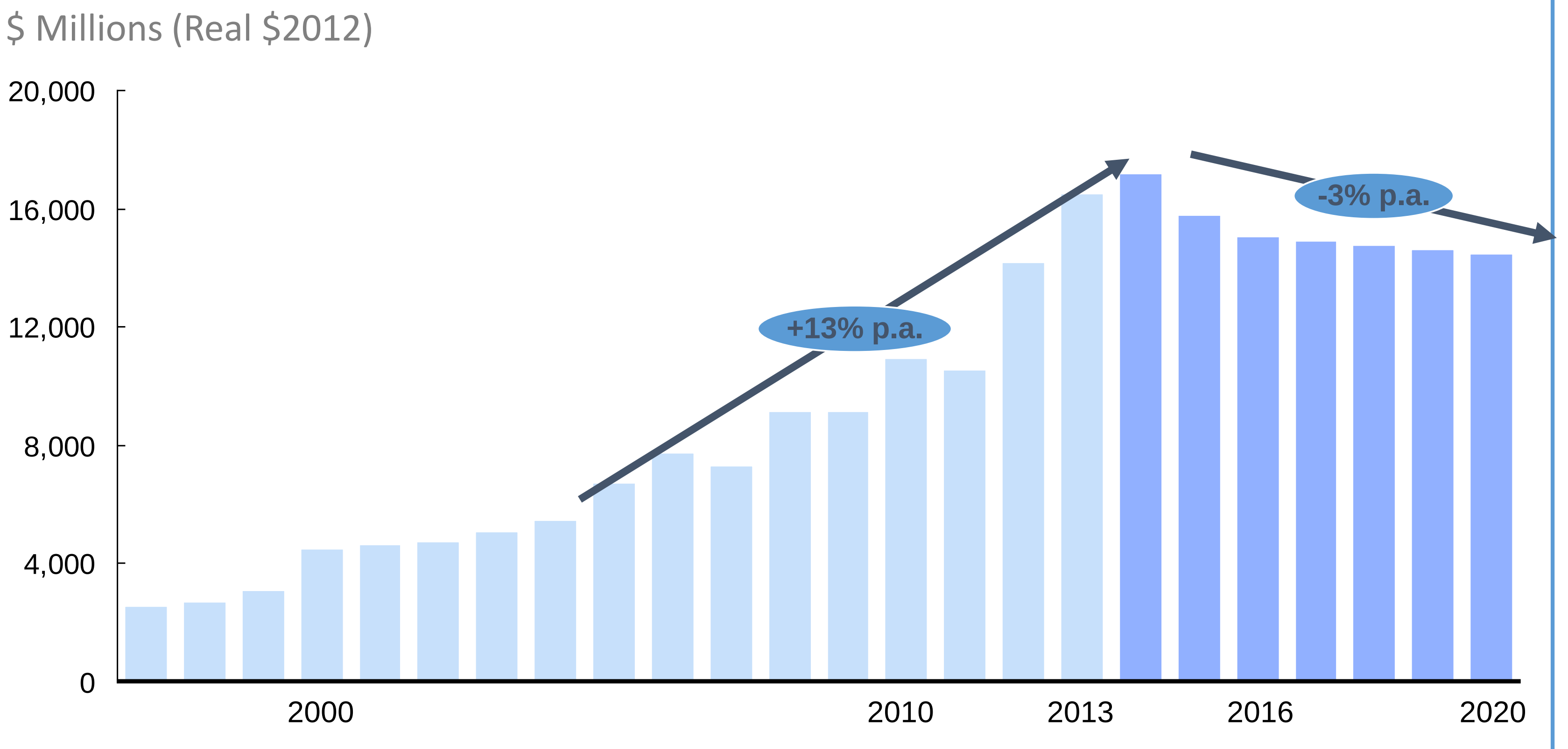
- Since 2000, peak demand has grown three times as much as energy consumption[1]
- This delinking means that peak demand is significantly higher than average demand
- The mismatch of peak and average demand reduces grid utilization and causes affordability and reliability challenges
- *NYPA's Customer Energy Services group is in a strong position to investigate approaches to addressing peak demand*

1 As measured by percentage change

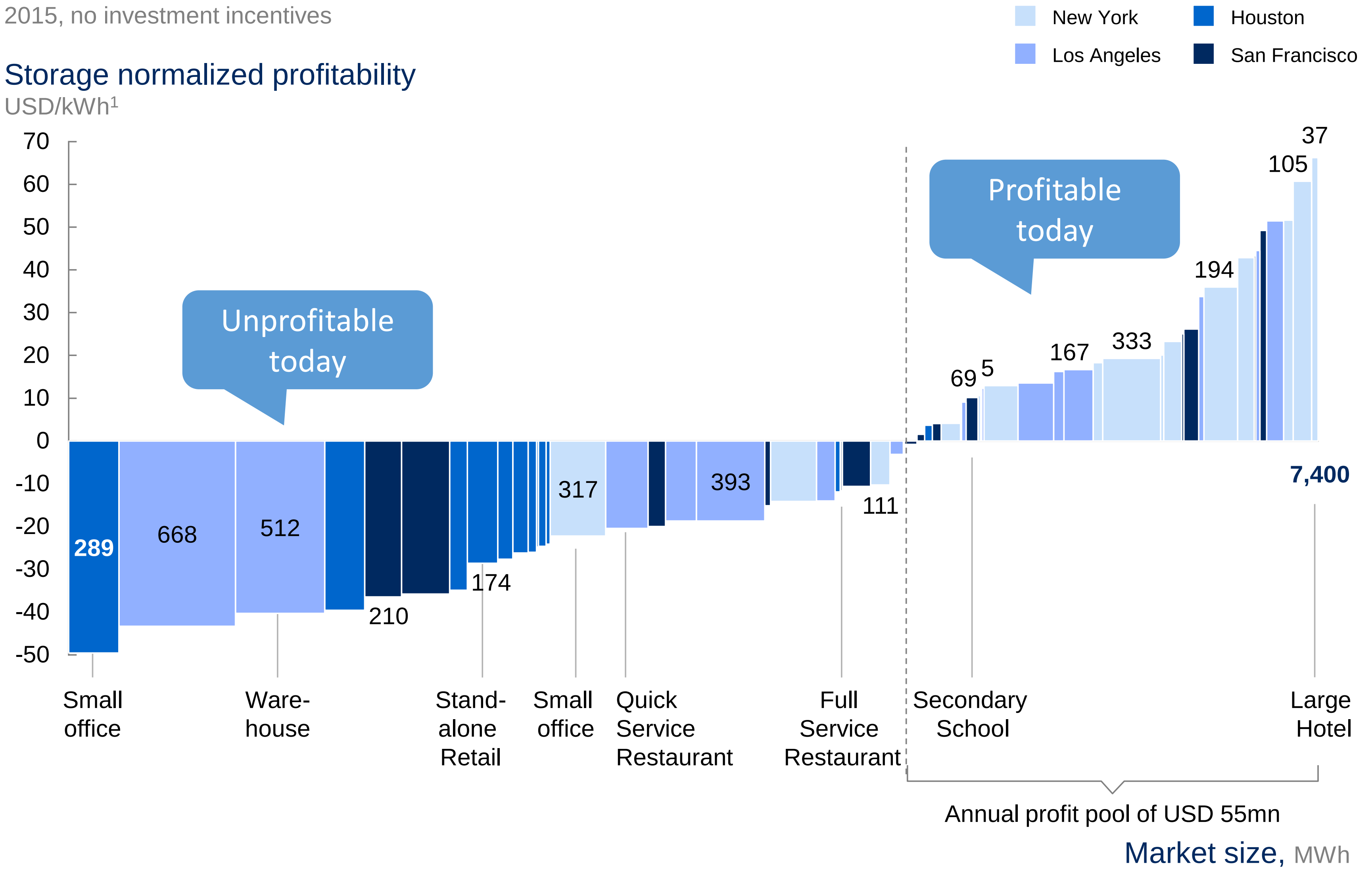
The transmission system requires investment, but timing and economics are currently uncertain

- Cheap gas-fired electricity and the Clean Power Plan's call for renewables mean that the need for transmission is not going away
- NYISO forecasts the need for ~$25B in transmission investment across NYS by 2045
- Private markets are not addressing this need, creating a potential opportunity for NYPA
- NYPA is subject to the same regulatory and business uncertainties holding back private investment
- *Our Smart G&T and Asset Management initiatives are putting in place the tools and skills required to support future investment in the state's transmission grid*

Historical and forecasted transmission capex from Investor-owned utilities (1990-2016)



Energy storage is rapidly becoming economically attractive

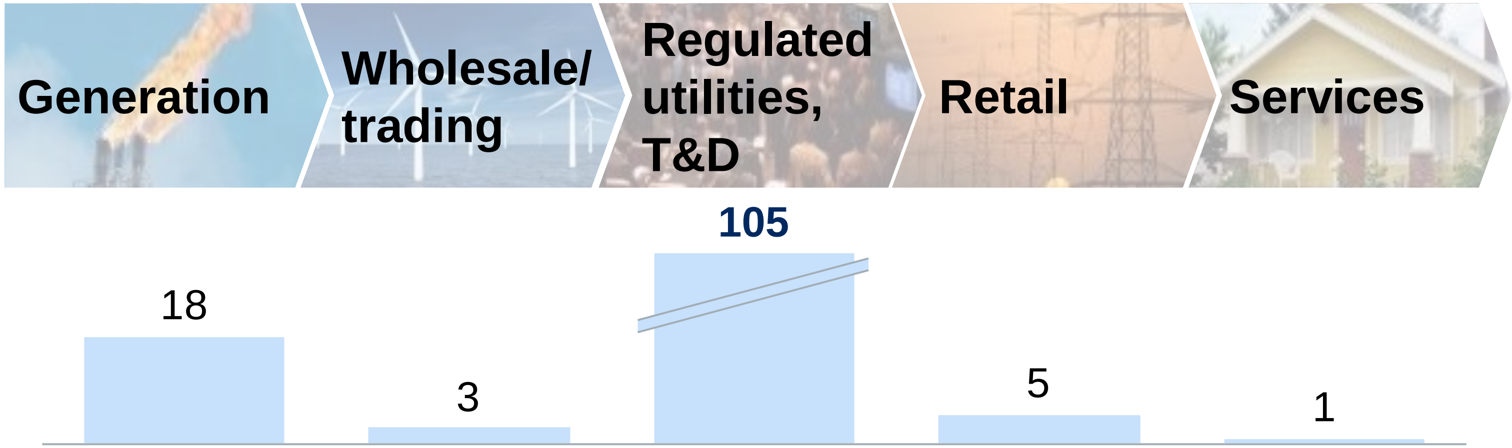


- Storage provides value by letting customers buy energy during low-cost periods, store it, and use it when energy prices rise later that day[2]
- In certain applications, investments in storage are profitable today
- Investors expect the cost of storage to drop by ~10-15% per year
- As storage penetrates the market, it may lower the value of NYPA's peaker plants[3]
- *NYPA will continue to evaluate opportunities to participate in the emerging storage economy, at both customer and grid scales*

1 Annual value created in USD/kWh_installed Note: 4% WACC
2 Energy prices can rise during peak-demand periods (e.g., when people come home from work) and when time-of-use rates are present
3 Peaker Plants are central generation stations that can turn on and off quickly (minutes) to address fluctuations in demand

Investment trends suggest strong future growth in downstream sectors

U.S. profit pool today (EBITDA)
$ Billion



Annual growth rate projected (5 years)
%

2% 1% 5% 8% 14%

- *Slowing demand*
- *Centralized renewables positive*
- *Shale gas kills margins*

- *Renewal/upgrade of T&D grid*
- *Smart grid and DER investments*
- *Rising competitive switching (Retail)*
- *Expansion of “behind the meter” services*

Significant regulatory and legislative restructuring is accompanying this value shift

- Expect future growth to be focused downstream in retail and services
- NYPA is in a strong financial and operational position to manage the industry transition
- NYPA’s downstream initiatives, such as the Customer Solutions group, are a strong base to build on
- *NYPA will continue to evaluate opportunities in downstream areas while maintaining its core business*

NEW YORK STATE OF OPPORTUNITY. | NY Power Authority

In Summary

NYPA is well positioned to navigate changes taking place in the market

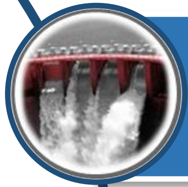
Technologies that offer novel solutions to matching supply with demand present opportunities and risks

The team will provide an update on these opportunities and risks after the 2016 Strategy Offsite Session in March

NYPA Corporate Performance

2016 Revised Corporate Metrics

Three objectives of this presentation…



Explain the rationale for why we are proposing changes to our corporate metric regime

Present the proposed set of nine revised NYPA corporate metrics

Outline next steps – and in particular when we will start reporting 2016 performance against the proposed set of revised metrics

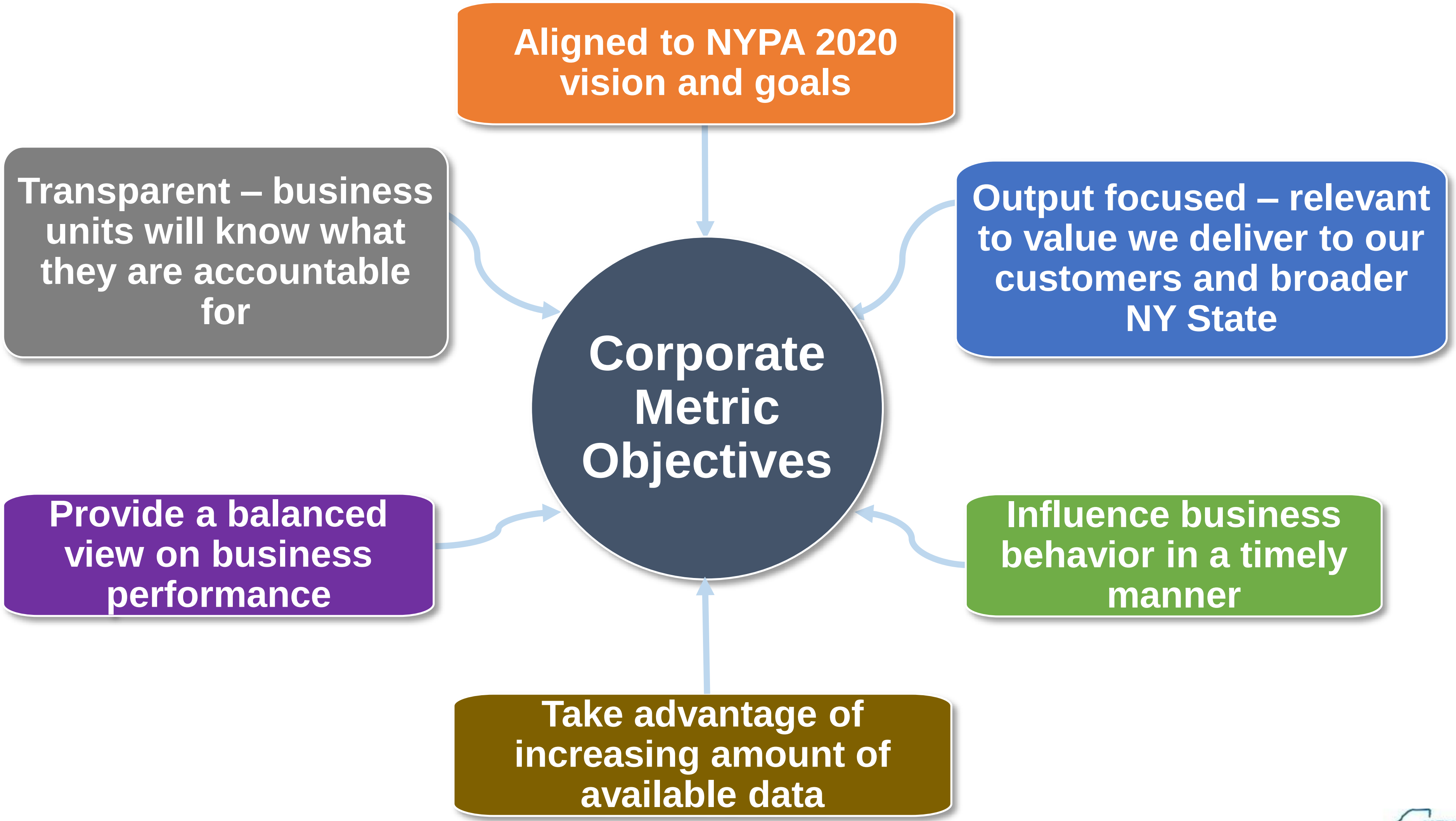
NYPA is facing some challenges around its corporate metric regime…

- Given the nature and mandate of our business, it is very difficult to clearly define what success means for NYPA
- We have a new 2020 strategic vision / plan and our current set of metrics may not be fit for purpose
- The industry is changing rapidly and NYPA is facing new challenges that it hasn't had to manage in the past

We have therefore developed a revised set of corporate metrics that we are looking to role out in 2016

Corporate Metrics - Background

The following set of design principles were applied in the development of the revised set of corporate metrics



Corporate Metrics - Background

Corporate metrics will help ensure that every NYPA employee is working towards NYPA's 2020 strategic vision …

NYPA

Industry Trends & Customer Energy Preferences → **Mission & Vision** → **Corporate Goals** → Corporate Metrics → Business Unit & Employee Performance

An energy landscape that is

- Clean
- Affordable
- Reliable / Resilient

"Our vision is a Power Authority that enables a thriving New York state through the provision of sustainable, affordable energy, stewardship of the state's natural resources, and leadership in innovative technologies and energy efficiency services"

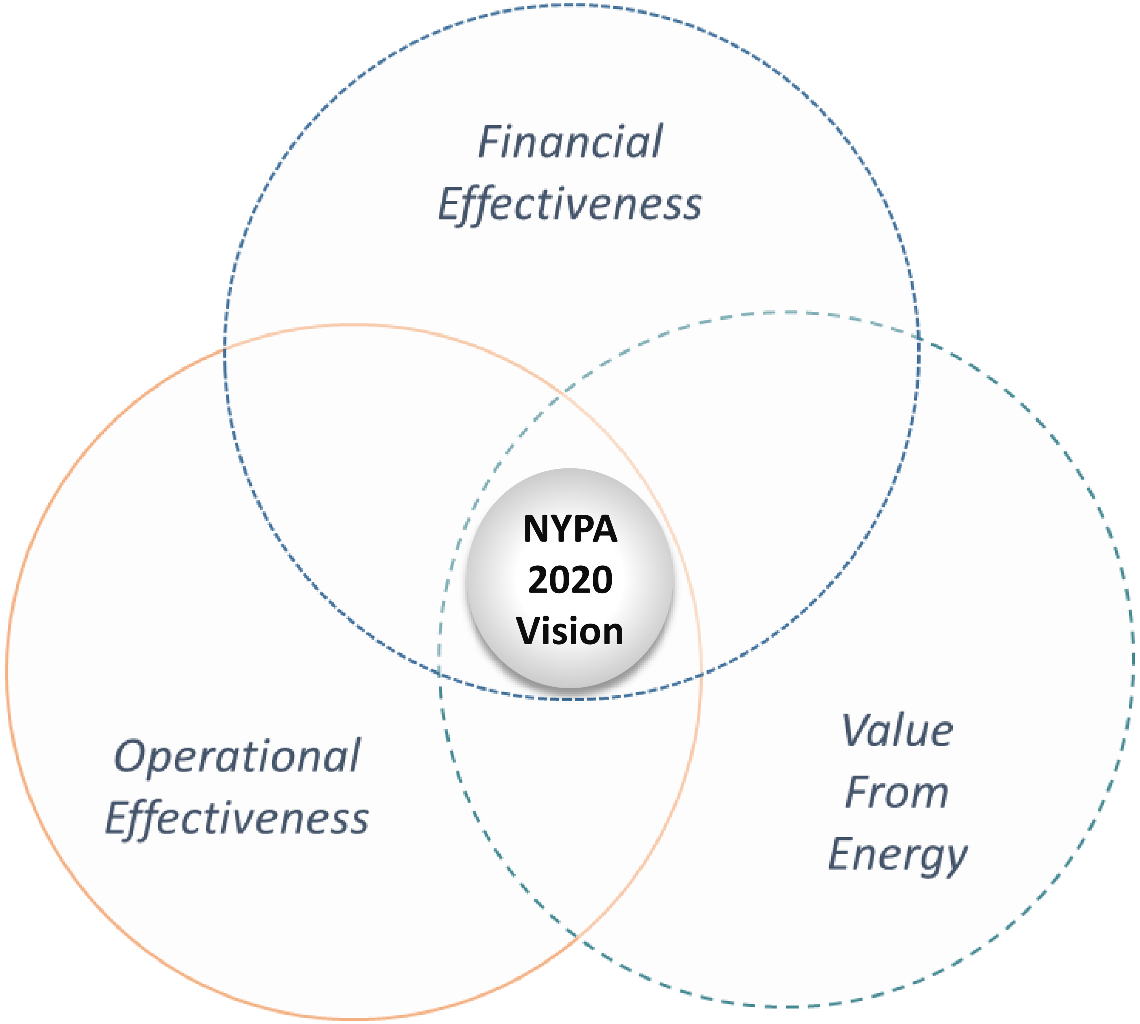
- Financial Effectiveness
- Operational Effectiveness
- Value From Energy

Introduce in 2016

Introduce in 2016

Corporate Metric Dashboard - Goals

NYPA has three corporate goals that work collectively in delivering our strategic 2020 vision…



Financial Effectiveness

Maximize our financial capacity to make capital investments that help achieve our goals

Operational Effectiveness

Maximize the efficiency, reliability and flexibility of our assets and organization

Value From Energy

Ensure that we provide the state with reliable, affordable, and sustainable energy

Corporate Metric Descriptions

Core Performance Metrics	Metrics that are clearly aligned to our strategic goals and continue to deliver additional value to customers and the broader State of New York even when the target is exceeded.

Goal	Metric	Description
Financial Effectiveness	Economic Value Added ($)	Measures economic value delivered through our capital investments
Operational Effectiveness	Non-Fuel O&M Cost / MWH ($)	Measures operating efficiency as it relates to our production of electricity
	Commercial Availability %	Measures reliability of our assets with a particular focus on most valuable periods
	Load Factor Optimization (%)	Measures economic efficiency of our electricity generation (average load vs. peak load)
Value From Energy	Value of Carbon Reduction ($)	Measures economic value of carbon reduction delivered through NYPA's operations and customers

Corporate Metric Descriptions

Threshold Metrics

Metrics that are simply focused on meeting a threshold target. Either we meet the target or do not meet the target. Furthermore, they do not directly help us achieve our strategic goals

Goal	Metric	Description
n/a	Bond Rating	Measures NYPA's ability to draw on financial capacity for capital investments and projects
	Safety (DART Rate)	Measures NYPA's ability to limit the severity of recordable incidents resulting from NYPA operations
	Environmental Incidents	Measures NYPA's ability to limit the number of environmental violations resulting from NYPA operations
	Workforce Alignment	Measures whether we have the right workforce to deliver NYPA's 2020 strategic vision and plan

Corporate Metrics

Next Steps…

Commence historic / current data collection and set targets

Build out business unit level metrics to support corporate metrics

Report on Q1 performance against proposed set of new metrics in March 2016