

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

January 28, 2014

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Minutes of the Regular Meeting of the Power Authority of the State of New York held via videoconference at the following participating locations at approximately 10:00 a.m.

- 1) New York Power Authority, 123 Main Street, White Plains, NY
- 2) Video Conference Center: Ellicott Square Building, 295 Main Street, Suite 1098, Buffalo, NY

Members of the Board present were:

John R. Koelmel, Chairman – via video conference
Joanne M. Mahoney, Vice Chair
Eugene Nicandri, Trustee
Jonathan Foster, Trustee
R. Wayne LeChase, Trustee
Terrance P. Flynn, Trustee

Gil C. Quiniones	President and Chief Executive Officer
Judith C. McCarthy	Executive Vice President and General Counsel
Edward Welz	Chief Operating Officer
Donald Russak	Chief Financial Officer
Jill Anderson	Chief of Staff and Director of Energy Policy
Robert Lurie	Senior Vice President – Strategic Planning
William Nadeau	Senior Vice President and Chief Risk Officer
James Pasquale	Senior Vice President – Economic Development and Energy Efficiency
Joan Tursi	Senior Vice President – Corporate Support Services
John Canale	Vice President – Project Manager
Dennis Eccleston	Vice President – Information Tech/Chief Information Officer
Joseph Gryzlo	Vice President and Chief Ethics and Compliance Officer
Thomas Davis	Vice President – Financial Planning and Budgets
Michael Huvane	Vice President – Marketing – Business and Municipal Marketing
Joseph Leary	Vice President – Community and Government Relations
Lesly Pardo	Vice President – Internal Audit
Karen Delince	Corporate Secretary
Robert Hopkins	Director – Budgets
Michael Saltzman	Director – Media Relations
Guy Sliker	Director – Clean Energy Technology – Renewable Energy
Gary Schmid	Manager – Network Services Infrastructure
Ruth Colon	Senior Business Integration Project Manager
Andrea Luongo	Senior Project Engineer II – Facilities Modification
John Markowitz	Lead Research & Technology Development Engineer II
John Giumarra	Account Executive – Business Marketing and Economic Development
Sean Doyle	Real Estate Administrator – Purchasing
Sheila Baughman	Assistant Corporate Secretary
Richard Kauffman	Chairman – New York State Energy Research and Development Authority (“NYSERDA”) and Chairman of Energy and Finance – New York State
John Rhodes	President and Chief Executive Officer – NYSERDA
Kate Burson	Chief of Staff – New York State Energy and Finance

Vice Chair Mahoney presided over the meeting. Corporate Secretary Delince kept the Minutes.

Introduction

Vice Chair Joanne Mahoney welcomed the Trustees, guests and staff members who were present at the meeting. She said 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. **Adoption of the January 28, 2014 Proposed Meeting Agenda**

Upon motion made and seconded, the meeting Agenda was adopted.

2. **Consent Agenda:**

Upon motion made and seconded, the Consent Agenda was approved.

Vice Chair Mahoney and Trustee LeChase were recused from the vote on item #2g (Procurement (Services) Contract – CHA Consulting, Inc. – Contract Award).

a. **Approval of the Minutes**

The Minutes of the Regular Meeting held on December 17, 2013 were unanimously adopted.

**b. Poletti Power Plant Deconstruction –
Fuel Oil Yard Dike Wall Demolition –
Contract Extension**

The President and Chief Executive Officer submitted the following report:

“SUMMARY

The Trustees are requested to approve a one-year contract extension, at no additional funding at this time, to Purchase Order #4500229795, for Franklin Company Contractors, Inc. of College Point, New York for the Poletti Power Plant (‘Poletti’) Deconstruction – Fuel Oil Yard Dike Wall Demolition Project (‘Project’) at the Astoria Site.

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.

At the March 21, 2013 meeting, the Trustees approved award of a contract to Franklin Company Contractors, Inc. (‘FCC’), for the demolition of the ‘Fuel Oil Yard Dike Wall.’ Under a previous contract, four fuel oil storage tanks in the containment dike yard were deconstructed under a competitively bid contract in which FCC was the successful bidder. The containment dike pit was to be removed during a separate phase of the work after the tanks were successfully deconstructed. The containment dike wall also supports the Foamite piping that serves as the fire protection for the remaining two kerosene tanks and portions of fuel gas piping that support the 500 MW facility. To deconstruct the containment dike, new portions of the aforementioned systems will be constructed prior to the termination of the old system. When the new services are operational, the containment dike will be deconstructed.

DISCUSSION

The original contract to FCC was awarded for 10 months through January 31, 2014 but is effective through March 21, 2014 at a value of \$6,925,765. Deconstruction began in July 2013 and was scheduled for completion no later than March 2014. During deconstruction, it was discovered that the pipe supports could not be installed without significant modifications to the failing dike floor. Upon review of redesigning the pipe supports to meet this unforeseen condition, staff evaluated the kerosene piping route and determined that a more efficient route could be designed which would allow for the re-use of the existing kerosene piping. Additionally, the Fire Department of New York (‘FDNY’) is required to review any modifications to the fuel lines. Based on the FDNY’s comments and approval requirements, changes were deemed necessary. During installation of the redesigned systems, it was also discovered that previous as-built drawings did not properly represent field conditions and required additional design solutions.

The delays experienced by the unforeseen conditions, redesign of supports and piping systems and the FDNY approvals have significantly delayed the Project. FCC subsequently submitted a ‘no additional cost’ recovery schedule with completion in November, 2014. As such, Project Management is requesting a one-year extension for substantial completion in November 2014 with Contract completion (demobilization and closeout) by March 21, 2015.

FISCAL INFORMATION

Payments associated with this Project will be made from the Authority’s Operating Fund.

RECOMMENDATION

The Senior Vice President and Chief Engineer – Operations Support Services, the Vice President – Engineering, the Acting Vice President – Project Management, the Acting Vice President – Procurement and the Regional Manager – SENY recommend that the Trustees approve a one-year contract extension, at no change in

contract value, to Franklin Company Contractors, Inc. of College Point, NY for the Poletti Plant Fuel Oil Yard Dike Wall Demolition 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 award a one-year contract extension, at no change in contract value, to Franklin Company Contractors, Inc. of College Point, New York for the Poletti Deconstruction – Fuel Oil Yard Dike Wall Demolition Project as recommended in the foregoing report of the President and Chief Executive Officer

<u>Contractor</u>	<u>Contract Approval</u>
Franklin Company	One-Year
Contractors, Inc.	Contract Extension
College Point, NY	March 21, 2015
PO# 4500229795	

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, 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.

c. NYPA Fleet Vehicle – Transfer of Ownership to the New York State Office of General Services

The President and Chief Executive Officer submitted the following report:

“SUMMARY

The Trustees are requested to approve the transfer of ownership of one Authority fleet vehicle to the New York State Office of General Services (‘OGS’) for use by OGS in furtherance of its strategic goal to minimize state expenditures and become as efficient as possible in the use of all resources at their disposal.

DISCUSSION

Governor Cuomo has directed all New York State Agencies and authorities to achieve savings for the state, while improving efficiencies and streamlining government. A number of recommended costs savings measures and overhead reductions have been implemented by NYPA and staff continues to access new opportunities for continuous improvement.

In support of the Authority’s 2013 fleet replacement assessment, the Corporate Support Services Fleet department has identified a surplus replacement vehicle which was scheduled to be disposed of by public auction in accordance with Authority’s Guidelines for the Disposal of Personal Property (the ‘Guidelines’) and which has an appraised fair market value of \$11,000 (Exhibit ‘2c-A’).

By the attached letter, (Exhibit ‘2c-B’), OGS expressed interest in obtaining ownership of an Authority surplus vehicle as an addition to the state’s vehicle pool. The purpose of the vehicle transfer is to facilitate OGS’s expanded role in providing essential support and administrative services for the operations of state government, while reducing costs to New York taxpayers and increasing efficiencies across all agencies.

OGS advised that the current OGS fleet of vehicles is limited in size, constricted by high mileage and vehicle age and maintenance issues. OGS’s budget does not allow for the purchase of additional vehicles so the transfer of this vehicle to OGS will result in benefits to the public with the execution of these sustainable enterprise initiatives through cost reductions to the state, public authorities, local governments, school districts and the public.

Title 5-A of Article 9 of the Public Authorities Law (the ‘Act’) and the Authority’s Guidelines for the Disposal of Personal Property (the ‘Guidelines’) allow the Authority, with the approval of the Trustees, to dispose of Authority property by negotiation and for less than fair market value if the transferee is a government or other public entity and the terms and conditions of the transfer require that the ownership and use of the Property will remain with the government or any public entity.

The transfer is to be further conditioned upon the execution of an agreement between OGS and the Authority. The terms of such an agreement are to include transferring the vehicle in its ‘as is’ condition and such additional provisions that reasonably safeguard the Authority from future responsibility and liability.

FISCAL INFORMATION

In accordance with the foregoing, the vehicle will be transferred to the Office of General Services in accordance herewith.

RECOMMENDATION

The Senior Vice President – Enterprise Shared Services recommend that the Trustees approve the transfer of ownership of the Authority’s fleet vehicle to the New York State Office of General Services.

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 in order to accomplish the State's efficiency and budgetary goals expressed to the Authority by the New York State Office of General Services ("OGS") in Exhibit "2c-B" to the foregoing report, there is no reasonable alternative to OGS's proposal; and be it further.

RESOLVED, That pursuant to Title 5-A of Article 9 of the Public Authorities Law, the Guidelines for the Disposal of Personal Property and the Power Authority Act, the Trustees hereby approve the transfer of ownership of the fleet vehicle listed in Exhibit "2c-A" to the foregoing report to OGS for use by OGS in accordance with its vehicle use policies; and be it further

RESOLVED, That the Chairman, the Vice Chair, the President and Chief Executive Officer, and 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. Release of Funds in Support of the Residential Consumer Discount Program Incorporated in 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 2014 in support of the monthly Residential Consumer Discount Program incorporated in the Recharge New York ('Recharge NY') Power Program, as authorized by Chapter 60 of the Laws of 2011. The funds are to be released monthly, initially at a level of approximately \$8.3 million per month through July, declining to approximately \$5.8 million per month through the end of the year for a total of \$87.5 million. A portion of the \$87.5 million authorized for the Residential Discounts in 2014 is to be off-set, generally, from the sale of unallocated Recharge NY hydropower into the wholesale market such that the net cost to the Authority of the Discounts in 2014 is estimated to be approximately \$22.5 million. The release of these funds was anticipated and reflected in the Authority's 2014 Operating Budget approved by the Trustees at their December 17, 2013 meeting.

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,' (3) satisfy the requirements of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented ('Bond Resolution') and (4) 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 the Recharge NY Power Program that 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 of the 455 MW of 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 has been authorized, 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 \$22.5 million for 2014. Given the volatility in market prices, however, there is no assurance that the sale of this power will produce sufficient revenues to cover this 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 January 23, 2013 meeting. Under consideration today are payments for 2014. 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 \$87.5 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 \$87.5 million of the Residential Consumer Discount Program at this time.

FISCAL INFORMATION

Staff has determined that sufficient funds are available in the Operating Fund at this time to provide up to \$87.5 million in support of the Residential Consumer Discount Program authorized by the Recharge NY program 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 \$87.5 million associated with the Residential Consumer Discount Program payments was anticipated and reflected in the Power Authority's 2014 Operating Budget approved by the Trustees at their December 17, 2013 meeting. The net cost to the Authority, after consideration of the value of the unallocated power being sold into the wholesale market, is estimated to be \$22.5 million during 2014. These monthly payments will be recorded as an expense at the time of payment.

RECOMMENDATION

The Treasurer recommends that the Trustees affirm that the release of up to \$87.5 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 \$87.5 million from the Operating Fund during 2014 to support the monthly Residential Consumer Discount Program as authorized by the Recharge New York Power Program as set forth in Chapter 60 of the Laws of 2011 as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of up to \$87.5 million to be used for the Residential Consumer Discount Program 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 payments specified in the foregoing resolution, 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 Vice Chair, 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.

**e. Voice over IP Telephone System –
Capital Expenditure Authorization Request**

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to authorize capital expenditures in the amount of \$4,380,183 for the implementation of Information Technology’s Voice over IP (‘VoIP’) Telephone Communication System in 2014-2015 as per the Authority’s Expenditure Authorization Procedures (‘EAPs’). These expenditures have been included in the 2014 approved Capital budget.

BACKGROUND

In accordance with the Authority’s EAPs, the award of non-personal services or equipment purchase contracts in excess of \$3 million, as well as personal services contracts in excess of \$1 million if low bidder, or \$500,000 if sole-source or non-low bidder, requires the Trustees’ approval.

This capital expenditure authorization request (‘CEAR’) represents the funding required to implement a telephone communications system throughout NYPA. The system will be based upon the new VoIP technology that has already been implemented on a limited basis at the Niagara and Poletti Power Plants.

DISCUSSION

The implementation of the new VoIP system will include a new, updated phone system within NYPA that is built on its existing IP network infrastructure. The upgrade will replace the existing telephone system that is aging and built on antiquated technologies. The new system would use the Authority’s existing IP network and leverage the latest in telephony technologies and advancements.

The following lists the 2014-2015 VoIP Implementation costs:

• Voice over IP Telephone System	\$ 2,959,603
• Internal Labor	\$ 1,212,000
• HQ Overhead	<u>\$ 208,580</u>
Total	<u>\$ 4,380,183</u>

FISCAL INFORMATION

Payments associated with this project will be made from the Capital Fund.

RECOMMENDATION

The Chief Information Officer – Information Technology recommends that the Trustees approve the Capital Expenditure Authorization Request in the amount of \$4,380,183 for the Voice over IP (‘VoIP’) Telephone Communication System.

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 Capital Expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount and for the purpose listed below:

<u>Capital</u>	<u>Expenditure Authorization</u>
Voice over IP Telephone System	<u>\$4,380,183</u>

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, 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.

f. Funding for Preliminary Engineering and Environmental Clearance for the Niagara Gorge Corridor Project – Authorization

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to approve funding of up to \$2 million for preliminary engineering and environmental clearance for Phase I of the Niagara Gorge Corridor Project, extending from NYS Route 104 (Main Street) to Findlay Drive in Niagara Falls, NY.

Funding will be provided through an agreement with Niagara USA Development Corporation, a subsidiary of the Empire State Development Corporation.

BACKGROUND

In accordance with the provisions of the Niagara Redevelopment Act and as part of the Niagara Power Project construction, the New York Power Authority ('NYPA') built the Robert Moses Parkway ('RMP') from the North Grand Island Bridge to the International Bridge in the Town of Lewiston. During that time, the construction of the RMP was viewed as a necessary project by the people of the City of Niagara Falls and nearby communities to help transform the area into a tourist capital that emulated the Canadian side of the river. Jurisdiction over the roadway was originally held by New York State Office of Parks, Recreation and Historic Preservation ('NYSOPRHP'); however, since 1975, operations and maintenance of the RMP has been handled by the New York State Department of Transportation ('NYSDOT'). NYPA retains ownership of the sections of the RMP that exist on NYPA-owned land.

DISCUSSION

As originally conceived, the RMP was to provide a scenic and efficient route for vehicular travel between nearby parks, communities and attractions. Today, the needs and concerns of the region have changed significantly from the early 1960's. The population has decreased nearly 50% since 1960. The original 4-lane limited access highway is underutilized. Economic development and support for the local business community are now near the top of the list of community concerns. Preservation and restoration of the upper rim of the Niagara Gorge, as well as unimpeded pedestrian/bicycle access to the Gorge rim from neighborhoods adjoining the RMP (which for safety reasons are fully cut off in the City of Niagara Falls and portions of Lewiston, except at a few pedestrian overpasses) are now considered vital in promoting the City of Niagara Falls as a unique waterfront community and promoting the beneficial use of the area's natural resources. In addition, the growth in cycling and walking has led to increased efforts to provide suitable and sustainable multimodal routes.

The changes in community goals, decreases in population, efforts to promote the beneficial use of the natural environment, along with a nearby robust transportation system, have raised questions concerning the future usefulness of the RMP in its current state. Numerous economic development studies, City of Niagara Falls planning documents, and citizen group documents have debated its future. A need remains for a critical link between the state parks located along the gorge and the multitude of existing and proposed attractions in Niagara Falls, Lewiston and Youngstown. The parks and attractions located immediately along the RMP include The Reservation State Park, Whirlpool State Park, DeVeaux Woods State Park, Devil's Hole State Park, escarpment overlook areas, Artpark, and the commercial districts along Main Street in the City of Niagara Falls and the Village of Lewiston.

The need for reconfiguration or removal of this section of the RMP to help reconnect the City of Niagara Falls to the Niagara Gorge is greater now than it ever has been. The City has completed, or is in the process of completing many new projects that will help revitalize the local business districts and bring additional visitors to the area.

The project is officially designated as the Niagara Gorge Corridor ('NGC') Project (including the RMP and parallel roadways from Main Street in the City of Niagara Falls to Center Street in the Village of Lewiston. This Project is primarily a highway modification project identified by NYSDOT Project Identification Number ('PIN') 5757.91.121.

The Project seeks to develop an appropriately scaled transportation network to link together existing and proposed roadways, attractions, overlooks, trails and cultural/historic sites in a more natural, park-like setting along the corridor while improving vehicle, pedestrian and bicycle access and safety features along the NGC. It addresses the future transportation needs of park visitors, commuters and people from the surrounding communities while improving the park environment and providing additional access to the Niagara Gorge from the adjacent communities.

The Project also meets the Niagara Greenway Commission's vision to celebrate and interpret the unique natural, cultural, recreational, and scenic and heritage resources in the NGC and provides access to, and connections between, these important resources while giving rise to economic opportunities for the region.

With significant stakeholder input and participation, NYSOPRHP, in partnership with NYSDOT, the City of Niagara Falls, USA Niagara Development Corporation, and in cooperation with the Village of Lewiston, prepared a Final Scoping Report for the NGC Project.

Consensus stakeholder support exists for the removal of the RMP from NYS Route 104 (Main Street) to Findlay Drive in Niagara Falls, NY; landscape/habitat restoration of the Niagara Gorge rim landscape on land to be reclaimed from the RMP removal; and reconstruction of Whirlpool Street, which directly adjoins the current alignment of the Parkway, as a conventional, at-grade, landscaped street to provide all north-south access in this portion of the corridor.

Accordingly, the Trustees are requested to approve a funding agreement with the USA Niagara Development Corporation for preliminary engineering and environmental clearance for Phase I of the NGC Project, NYSDOT Project, PIN 5757.91.121, extending from NYS Route 104 (Main Street) to Findlay Drive in Niagara Falls, NY. The funds provided will pay for, among other things, the design and planning for:

- Design/planning for the removal of the current expressway facilities, bridges, and other associated features of the RMP in this segment;
- Design/planning for landscape/habitat restoration of the Niagara Gorge rim landscape on land to be reclaimed from the Parkway removal; and
- Design/planning for the full-depth reconstruction of the Whirlpool Street, which directly adjoins the current alignment of the Parkway, as a conventional, at-grade, landscaped street to provide all north-south access in this portion of the corridor.

FISCAL INFORMATION

The estimated cost is \$2 million for preliminary engineering and environmental clearance for Phase I of the Niagara Gorge Corridor Project.

RECOMMENDATION

The Vice President – Public, Government and Regulatory Affairs recommends that the Trustees approve the funding as described above.

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 a funding agreement with the USA Niagara Development Corporation as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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.

**g. Procurement (Services) Contract –
CHA Consulting, Inc. –
Contract Award**

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to approve the award of a procurement (services) contract to CHA Consulting, Inc. ('CHA,' formerly Clough Harbour & Associates) headquartered in Albany, NY to provide for on-call, as required civil and geotechnical engineering and design services, for a term of up to five years, and funding included in the previously-approved aggregate amount of \$5 million. A detailed explanation of the recommended award, including the nature of such services, the basis for the new award and the funding for this contract were previously set forth in Agenda Item 2d, at the December 17, 2013 Trustees' Meeting.

BACKGROUND

The proposed award to CHA, originally included in the aforementioned December Consent Agenda Item 2d, was not adopted by the Trustees because they were unable to attain the required number of votes based on conflicts of interest filed by some of the Board members. Therefore, the proposed award to this firm is resubmitted for the Board's consideration with the intent of achieving the required quorum for adoption.

DISCUSSION

A detailed summary of the recommended contract award was set forth in Item 2d at the December 17, 2013 meeting; a brief synopsis follows.

At their meeting of December 17, 2013, staff recommended the award of contracts to five firms (**Q13-5489**) to provide for "on-call, as required" engineering and design services to support the operation and maintenance of the Authority's hydroelectric, pumped storage and fossil power generation projects, as well as its transmission and other ancillary facilities throughout New York State. For the reasons stated above, the Trustees approved the award of contracts to four of these firms and an aggregate total amount of \$5 million. Staff now resubmits a request for approval to award a contract to the fifth firm, **CHA Consulting, Inc.**, to enable the Authority to utilize the firm's specialty skills, experience and expertise, as needed. The contract would become effective on or about February 1, 2014 for an intended term of approximately five years (through December 31, 2018, coterminous with the other four previously-approved contract awards), subject to the Trustees' approval, which is hereby requested. CHA would share in the previously-approved aggregate total.

FISCAL INFORMATION

Funds required to support contract services for the Operations Business Unit/Departments and Facilities have been included in the 2014 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

The Senior Vice President – Operations Support Services and Chief Engineer, the Senior Vice President – Power Generation, the Vice President – Engineering, the Acting Vice President – Procurement, the Vice President – Transmission, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York and the Regional Manager – Southeastern New York recommend that the Trustees approve the award of a multiyear procurement (services) contract to CHA Consulting for the purpose and in the amount discussed herein.

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 adopted with Vice Chair Mahoney and Trustee LeChase being recused from the vote.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multiyear procurement (services) contract to CHA Consulting, Inc., is hereby approved for the period of time indicated, in the amount and for the purpose listed below, as recommended in the foregoing report of the President and Chief Executive Officer and as further set forth in Agenda Item 2d at the December 17, 2013 Trustees' Meeting;

<u>Contractor</u>	<u>Contract Approval</u>	<u>Projected Completion</u>
CHA Consulting, Inc. On-call, as required civil and geotechnical engineering and design services to support the operation and maintenance of the Authority's hydroelectric, pumped storage and fossil power generation projects, transmission and other ancillary facilities throughout New York State	Included in the previously-approved aggregate total of \$5 million	12/31/18 (coterminous with the other four contracts previously approved for such services)

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, 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.

**h. Procurement (Services) Contract –
Long Island Sound Cable – Emergency
Y-49 External Damage Repair Project –
Contract Award**

The President and Chief Executive Officer submitted the following report:

“SUMMARY

The Trustees are requested to approve the award of a single-source contract to Prysmian Group, North Carolina in the amount of \$25 million for the emergency Y-49 External Damage Repair Project 2014 (‘Project’) on the Authority’s Long Island Sound Cable. Interim approval of \$1 million was authorized by the Chief Operating Officer on January 15, 2014 in accordance with the Authority’s Expenditure Authorization Procedures.

BACKGROUND

In accordance with the Authority’s Expenditure Authorization Procedures, the award of non-personal services or equipment contracts in excess of \$3 million, as well as personal services in excess of \$1 million if low bidder, or \$500,000 if sole-source or non-low bidder, require the Trustees’ approval.

The Long Island Sound Cable (Y-49) was placed in service on May 31, 1991 to increase electric reliability on Long Island. This cable is a 26.3 mile long 345 kV transmission line connecting Westchester County to Nassau County via an approximate 10.3 mile self-contained fluid filled (‘SCFF’) submarine cable below the Long Island Sound seabed. The original equipment manufacturer (‘OEM’) and installer is Pirelli Cable Corp. of Naples, Italy currently d/b/a Prysmian Group, North Carolina.

On January 6, 2014, the Authority was alerted to an unknown fault in the Y-49 cable with potential fluid loss in C-phase of the Y-49 cable. Within 72 hours, as confirmed by the US Coast Guard, it was determined that this fault was a result of external damage and fluid was leaking into the Long Island Sound. Miller Environmental was called for emergency spill response and Prysmian Group, the OEM, was contacted to provide fault evaluation and cable damage assessment. With the reported loss of the di-electric fluid, it was imperative to maintain pressure within the cable to prevent infiltration of salt water and heavy corrosion and damage to the transmission line.

A similar incident occurred in 2003 which required seven months to repair the cable at a total project cost of almost \$30 million. Prysmian has intimate knowledge of the operating and pressurization requirements, as well as the cable splicing and testing requirements for this cable and, as such, was hired to perform the 2003 cable repair. For these same reasons, it is recommended that a contract be awarded to Prysmian as a single-source contract to provide immediate engineering support services for the pressurization plant, as well as the repair work. The repair will be performed in two phases, Phase I: Lift, Cut and Cap; and Phase II: Repair and Test. Prysmian provided an estimated cost of \$25 million to provide these services.

The total project cost over a 9-month period is estimated at \$31 million, as follows:

	Preliminary Funding	Phase I: Contain & Capping	Phase II: Repair
Spill Response & Containment	\$0	\$3,600,000	\$400,000
Pressurization Plant Support	\$500,000	\$200,000	\$350,000
Engineering, Cutting & Capping	\$500,000	\$1,200,000	\$250,000
Repair	\$0	\$0	\$22,000,000
Die-Electric Fluid Delivery	\$0	\$200,000	\$0
Construction Oversight	\$0	\$250,000	\$850,000
Authority Direct/ Indirect	\$0	\$250,000	\$450,000
TOTAL \$31,000,000:	\$ 1,000,000	\$ 5,700,000	\$ 24,300,000

FISCAL INFORMATION

Payment associated with this Project will be made from the Authority's O&M Fund. Pending the final root cause analysis of the fault, the Authority may pursue cost-recovery through Third Parties.

RECOMMENDATION

The Senior Vice President and Chief Engineer – Operations Support Services, the Vice President – Engineering, the Acting Vice President – Project Management, the Acting Vice President – Procurement and the Regional Manager – SENY recommend that the Trustees approve a single-source contract to Prysmian Group of North Carolina for the emergency Y-49 External Damage Repair 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 Authority's Expenditure Authorization Procedures, approval is hereby granted to award a single-source contract to Prysmian Group of North Carolina for the emergency Y-49 External Damage Repair Project as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor

Contract Approval

**Prysmian Group
North Carolina**

\$25,000,000

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, 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.

**i. Procurement (Services) Contract –
On-Call Emergency Environmental
Spill Response Services –
Additional Funding Request**

The President and Chief Executive Officer submitted the following report:

“SUMMARY

The Trustees are requested to approve additional funding in the aggregate amount of \$8 million for four on-call emergency environmental spill response services contracts. These additional funds will bring the aggregate total for these contracts to \$11.75 million.

BACKGROUND

In accordance with the Authority’s Expenditure Authorization Procedures, cumulative change orders in excess of \$3 million require the Trustees’ approval.

At their meeting of June 30, 2009, the Trustees approved the award of on-call contracts to five firms to provide emergency environmental spill response services for the Authority’s facilities throughout the state for a term of up to five years in the total aggregate amount of \$3.75 million; contracts were awarded to four of these firms.

On January 6, 2014 at 7:02 A.M., the Authority was alerted to an unknown fault in the Y-49 transmission line (‘Y-49’) with potential di-electric fluid loss in C-phase of the Y-49 cable. The Authority implemented its Spill Prevention Control and Contingency Plan in response to the fault, and notified the United States Coast Guard (as well as other cognizant federal and state governmental agencies) of the incident. The Coast Guard initiated an investigation into the cause of the incident and worked with the Authority on the development and implementation of an Incident Action Plan. While the investigation is continuing, indications are that the fault resulted from external damage to the cable in the seabed under the Long Island Sound, causing an ongoing leak of di-electric fluid into the water. The Authority’s personnel responsible for emergency response, as well as marine support and response contractors, are working to identify the exact location of the fault and excavate the damaged section of the Y-49 cable from the seabed. Miller Environmental Group (‘Miller’) was called for emergency environmental spill response, and Prysmian Group, the original equipment manufacturer, was contacted to provide fault evaluation and cable damage assessment. With the reported loss of the di-electric fluid, it is imperative to maintain pressure within the cable to prevent infiltration of salt water and heavy corrosion and additional damage to the transmission line.

A release has been made to Miller in the amount of \$2.2 million against the existing on-call Contract, #4600002148, for emergency environmental spill response services previously approved by the Trustees. This release to Miller will exhaust the remaining funding of the originally authorized aggregate \$3.75 million for the on-call contracts. These emergency environmental spill response services are currently out for bid to procure new multiyear on-call contracts encompassing all Authority operating facilities. However, because of the recent Y-49 incident, it will be necessary to increase the compensation ceiling of the existing value of the contracts.

To date, Miller has expended approximately \$2 million responding to the Y-49 incident, which includes performing dive operations to locate the position of the leak along the cable, installing and maintaining hard and absorbent booms, and deploying an oil recovery skimmer vessel, as necessary, to protect shorelines such as those that are part of the Welwyn, East Lake and Sands Point Preserves. It is anticipated that Miller will require up to an additional \$8 million for emergency environmental spill response services.

FISCAL INFORMATION

Payment associated with this Project will be made from the Authority’s O&M Fund. The Authority may be able to obtain cost recovery from other entities.

RECOMMENDATION

The Senior Vice President and Chief Engineer – Operations Support Services, the Vice President – Environment, Health and Safety, the Vice President – Engineering, the Acting Vice President – Project Management, the Acting Vice President – Procurement, and the Regional Manager – SENY recommend that the Trustees approve additional funding for the On-Call Emergency Environmental Spill Response Services Contract.

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 approve additional aggregate funding for the four On-Call Emergency Environmental Spill Response Services Contracts set forth below, as recommended in the foregoing report of the President and Chief Executive Officer.

<u>Contractors</u>	<u>Contact Summary/Approval</u>	
Miller Environmental Group, Inc. (#4600002148)	\$ 3,750,000	- Original Aggregate Total
National Vacuum Corp. (#4600002156)	<u>\$ 8,000,000</u>	- Current Request
Op-Tech Environmental Services (#4600002133)	<u>\$11,750,000</u>	- New Aggregate Total
WRS Environmental Services, Inc. (#4600002149)		

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chair, 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.

Discussion Agenda:

3. Report of the President and Chief Executive Officer

President Quiniones said he would be providing a 2013 year-end report on the operations of the Authority to the Board. The Chief Operating Officer, Chief Financial Officer, Chief Risk Officer and Senior Vice President of Strategic Planning will also provide a review of activities in 2013 and an overview on some of the activities projected for 2014.

Referring to the Performance Scorecard, President Quiniones said last year the Authority met and succeeded in all of its Key Indicators. He said despite the challenges at the beginning of the year with the failure of the Y49 transmission line in Long Island, the Authority had a very good year operationally and financially.

Responding to a question from Trustee Foster, President Quiniones said the Risk Range as indicated on the Performance Scorecard, is the point at which the Authority does not want performance to go below. In response to further questioning from Trustee Foster, President Quiniones said each of the Key Performance Indicators has a Risk Range therefore, the Authority not only know where it stands from a “status perspective” but also from a “risk perspective” and also have a sense of its position within the spectrum.

President Quiniones continued that, with regard to the Milestone-Based measures, the Authority was slightly below its target in terms of Technical Training; however, the Chief Risk Officer will provide more details regarding the result of this measure in his report.

President Quiniones said that the Authority will be collaborating with other authorities and energy agencies on some of the initiatives that the Governor announced in his state of the state address:

Community Grids – This is a \$40 million project to facilitate communities in creating their own energy systems and build more integrated energy networks.

Renewable Heat NY with Biomass – The Authority anticipates that, with its BuildSmart NY Program, and in partnership with NYSERDA and LIPA, it will be able to assist the biomass industry, especially in Northern New York, with sustainable biomass projects that are cost-effective and beneficial.

Community Solar – In partnership with NYSERDA and LIPA, the Authority can spur solar projects, not only in its traditional customer base, such as public schools and municipal buildings, but the communities that surround those facilities.

State Energy Plan – *The State Energy Planning Board issued a Draft Energy Plan in January.*

Following the required public hearings across the state, a final report, setting the direction in terms of policies and programs for the state's energy policy, will be issued.

In conclusion, President Quiniones said the Trustees received a report summarizing the Authority's achievements in 2013. He said, as indicated in the report, the Authority had a very good year in advancing its programs such as BuildSmart NY. The Authority also expended approximately \$280 million in energy efficiency projects in municipal and state buildings, and made a number of hydropower allocations to businesses, especially in Western New York, through the Recharge New York program. He ended by saying that 2013 was a banner year for the Authority.

b. Report of the Chief Operating Officer

Mr. Brad Van Auken, Senior Vice President of Operations Support Services and Chief Engineer, provided highlights of the Chief Operating Officer's report to the Trustees. He said the report would cover the Operations Department's ("Operations") 2013 Performance Measures, highlights of its activities during the year and the issue surrounding the damage, failure, and repair efforts associated with the Authority's underwater Long Island Sound Cable.

Mr. Van Auken said, as evidenced in its performance metrics, Operations was successful in achieving its goals for 2013, and thanked the staff who worked very hard in order to meet the department's operational objectives.

Mr. Van Auken said that although Operations was successful in 2013, it is now experiencing significant challenges associated with the cold weather, icing at the Niagara Project, and the Y49 transmission line failure. He said staff will continue to monitor these closely, and report on them at the next Board meeting.

Mr. Van Auken then provided highlights of some of the major activities of Operations during 2013:
Lewiston Pump Generating Plant (LPGP) Life Extension Program (LEM)

Staff successfully returned the first of the LPGP LEM units to service in September. Project Management, Engineering, and Niagara Project staffs have started working on the second unit which will be returned to service in the Spring of 2014. This large capital program will run through 2020 with upgrade of the remaining 10 units. A total of 12 units are scheduled to be upgraded.

Emergency Management

As part of the Authority's Dam Safety Program, staff planned and conducted a Functional Exercise with the Federal Energy Regulatory Commission ("FERC") and the local emergency management agencies in Northern New York for its St. Lawrence Facility in the Fall. This exercise simulated a Dam Safety emergency at the Authority's St. Lawrence Project, and tested its readiness, notifications, and communication protocols. The event was planned in conjunction with Ontario Power Generation and the outside Emergency Responder agencies. The Authority received high marks from FERC, as well as positive feedback and appreciation from the surrounding communities' emergency management agencies.

Storm Response

Considerable emphasis is placed on utilities' response to storms. Operations have demonstrated the Authority's system-wide preparedness for multiple significant winter weather events. To date, there have been four such events including ice, significant snow, and very cold temperatures.

Operations was proactive by following the Authority's storm preparation guidelines, preparing and providing frequent status updates, and communicating staff's preparedness externally.

During 2014, Operations staff will continue to refine the Authority's Emergency Management processes and continue to place emphasis on preparedness.

Y49 Transmission Cable Failure

The Long Island Sound Cable, also referred to as Y-49, was placed in service in 1991. Y-49 is a 26-mile-long underground 345 kV transmission line connecting Westchester County to Nassau County via an approximate 10-mile-long submarine cable below the Long Island Sound.

On January 6, 2014, an unknown fault was experienced on this line in one of the four cables on the underwater portion. Of the four cables, three are used to carry electric load and the fourth is used as a spare.

The fault was a result of external mechanical damage and caused the Authority's line to trip out of service. Also, the dielectric fluid, which cools the cable, was leaking into the Long Island Sound.

Staff immediately took appropriate steps to minimize flows, and made the required notifications to external agencies including the DEC and the US Coast Guard. Staff is working collaboratively with those agencies, and also Con Edison and PSE&G Long Island to repair the fault.

NYPA's emergency spill response and the cables Original Equipment Manufacturer were also contacted and authorized to provide immediate support. The Authority has also authorized the original cable manufacturer to begin support and make preparations to cut and cap the leaking cable.

Staff is currently managing, through a spill response contract, a 24/7 diving operation to uncover the damaged portion of the cable which lies approximately 35 feet below the surface of the water, and buried 10 -15 feet below the seabed. Staff has identified the physical location of the leak, and visually confirmed the damage to the cable.

Staff is working vigorously to expedite the work to eliminate the leak, as well as execute plans for the final repair. On January 16, staff was able to return the cable to service using the spare underwater cable; the repair efforts continues and the Board will be kept apprised of the progress.

Responding to a question from Trustee Foster, Mr. Van Auken said the cause of the failure is still being investigated; however, some type of mechanical force may have caused the damage to the cable. He said in a prior incident, the damage to the cable was caused by an anchor drag; once the investigation is completed, the Authority may find a similar issue associated with this failure.

Responding to a question from Trustee Nicandri, Mr. Van Auken said the Authority conducted a probability analysis in the 1980s when they initially purchased the cable. As a result of this analysis the Authority decided to make the investment to purchase the spare cable which they were able to utilize and repair the damaged cable and put the line back in service.

Responding to a question from Chairman Koelmel, Ms. Judith McCarthy said eleven years ago when the cable was damaged there was accountability, and there is the potential for accountability for this incident. This will be discussed further with the Board during the executive session since it deals with litigation issues.

President Quiniones added that when the probability analysis was done, it was decided that it was prudent to purchase a spare cable. Also, by design, the distances of the four cables were spaced in such a way to account for the probabilities; this was cleared in the navigational maps, therefore, ships and other barges should be mindful of this when dropping anchor in that area.

c. Report of the Chief Financial Officer

Mr. Donald Russak provided highlights of the financial report to the Trustees. He said the Authority reported very positive results for 2013. The Authority is in the middle of its year-end audit; however, as reported throughout the year, the Authority has been on a very positive trajectory from a financial perspective.

Net Income (preliminary)

Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit)

- *Net income for the year was \$225 million, which was \$95 million higher than the budget. Higher net margins on sales (\$82 million) and lower other operating expenses (\$33 million) were partially offset by lower investment income (\$15 million).*
- *Positive variances in net margins at the hydro facilities were substantially attributable to increased generation and higher capacity prices. Energy prices were higher than forecast in the downstate market, resulting in higher margins at Flynn and the Small Clean Power Plants (“SCPPs”).*
- *HTP results were an offset to these positives due to lower activity than anticipated.*
- *Other operating expenses were lower, primarily due to the timing of Industrial Incentive Awards and certain economic development fund and market acceleration program expenditures. In addition, in December, an adjustment was booked decreasing the estimate of Power for Jobs rebates to be paid in the future as this program winds down and the final rebate estimates are trued-up to actuals.*
- *Investment income was lower due to the impact of a sharp increase in market interest rates on the market value of fixed rate investments in the Authority’s portfolio. Cash losses will not be realized as long as investments are held to maturity, which is generally the case.*

Responding to a question from Trustee Foster, Mr. Russak said there are a number of changes being taken by staff to address the issues with the HTP project.

Responding to a question from Trustee Nicandri, Mr. Russak said about 70% of the Blenheim-Gilboa (B-G) Project’s capacity is sold in the wholesale market; about 30% is directed to customers, and is reflected in the report.

Responding to further questioning from Trustee Foster, Mr. Russak said the Authority experienced small losses from B-G in 2011-12; prior to that, it was slightly positive, which is the goal of the Authority.

d. Report of the Chief Risk Officer

Mr. Frank Deaton, Director of Enterprise Risk Management, provided highlights of the Chief Risk Officer's Report to the Trustees.

2013 Year-end Report

- *A number of key building blocks were successfully implemented in 2013 including:*
 - *a fully aligned governance structure with reporting to Executive Management and the Trustees*
 - *a common definition of risk*
 - *an enhanced/clarified risk framework, and*
 - *the articulation of Enterprise level risks.*
- *Enterprise Risk did not meet one of its stretch goals for 2013 in that it did not successfully overlay key risk indicators ("KRI") for all of the Level 1 Performance Measures. It has, however, successfully overlaid risk indicators in the areas of Debt Coverage and Transmission System Reliability. As the strategic planning process clarifies the Authority's 2014 KPIs, Enterprise Risk will be looking to determine how best to overlay a forward view of risk where possible.*
- *Since the last Trustee meeting, Enterprise Risk's focus has been on executing the pilot projects as outlined to the Board by Mr. William Nadeau in December 2013. This effort is a proof of concept initiative to develop Risk Response Plans and Key Risk Indicators for two Top Risks. The Enterprise Risk team has partnered with Deloitte & Touche on this project. The two pilot risks, as selected by the Executive Risk Management Committee, are:*
 1. *Increasing O&M Expenditures*
 2. *Attract and Retain Workforce – narrowly focused on the SENY Region.*
- *The value of the process being developed is in its structure and objectivity. This is designed to ensure each risk is fully vetted and that action plans are appropriate and supported across the organization.*
- *The cross-functional teams assembled have committed a significant amount of time to complete a root cause assessment which is the foundation for the final deliverables. Staff is now completing a gap analysis to understand current mitigation/control actions and potential future strategies. A dashboard summarizing the root causes, mitigation and metrics for each risk is the final deliverable.*
- *Enterprise Risk uses heat maps to provide a graphical view of how risks relate to one another. This high level heat map uses circle size to represent the volume of risks in each rating area.*
- *There are 181 active risks in the inventory.*
- *The Top Risks have been summarized into 15 items to highlight the most significant risk areas to the organization.*
- *Many of these risk areas are discussed with the Trustees through management's regular updates. This is important to note as management continues to take actions to mitigate risks, even as the organization is working to mature risk as an activity and implement a structured process for formalizing written mitigation plans.*

Responding to a question from Trustee Nicandri, Mr. Russak said that the nature of the maintenance work on the Authority's projects due to the Life Extension and Modernization Programs has evolved from mechanical

to electronic. To this end, the Operations department has been working to align the proper skill sets to match up to the new approach.

Responding to further questioning from Trustee Nicandri, Mr. Welz said the Operations Department is starting to utilize its own employees on certain projects instead of using contractors. For example, during the Lewiston LPGP LEM program at the Niagara Project the Authority's own workforce were used to disassemble the machine. Operations was able to show that by using the Authority's own workforce, the job could be done more economically and staff is more productive; by doing this, Operations will ensure succession planning and knowledge management of its employees. Ultimately, Operations is leading towards a dashboard that going forward will summarize the risk events, root causes and metrics in terms of how the organization is going to monitor performance at the power projects.

Responding to a question from Trustee Flynn, Mr. Russak said when the Authority sold its two nuclear plants, that is the Indian Point 3 ("IP3") and James A. FitzPatrick ("JAF") plants, it decided to retain the nuclear decommissioning trust fund, the advantage being that the fund would continue to grow tax free. Also, the state, through the Authority, was able to have some influence on the decommissioning activities at the nuclear facilities. Mr. Russak continued that at the end of the license for each of those plants, 2014-15, the Authority has the right to pass the decommission trust fund back to Entergy, the entity that bought the plants from the Authority.

Responding to further questioning from Trustee Flynn, Mr. Russak said when the Authority sold the facilities to Entergy the contractual agreement stipulated that the Authority's liability is only the amount that's in the fund. Therefore, there is no additional financial liability for the Authority. Responding to still further questioning from Trustee Flynn, Mr. Russak said approximately \$1.2 billion is in the fund at this time, and reiterated that the Authority's obligation is only the amount up to what is in the fund.

In response to a question from Trustee Foster, Mr. Russak said cost estimates done at the time of the sale of the facilities are escalated at the NRC's rate of inflation; if the calculated cost of the decommissioning is less than what was in the fund, then the Authority would get the fund money back. Also, Entergy has given the Authority direction on how they would like to have it invested, that is, 35% equity and 65% fixed income. Based on the movement of the market over the last couple of years the fund has not been performing as originally projected, therefore, there is a probability that the Authority will not see any of that money back.

e. Report of the Senior Vice President of Strategic Planning

Mr. Robert Lurie provided highlights of the report to the Trustees. He said the proposed Mission Statement will align with the State's Energy Plan as it relates to economic growth, competitiveness, empowering customers, and innovation. Some of the drivers used in consideration of the form of the mission statement include:

Customer Value – Customer Services

- *Reducing customers energy use and cost*
- *Increasing resiliency as a result of climate change and severe weather events*
- *Increasing “green” options in customers energy purchases*

Infrastructure – Asset Management

- *Unpredictable demand patterns*
- *Decentralized power networks*

Workforce Planning

- *Need for new skills - skills NYPA will need in order to implement the Plan*
- *Changing employee goals – developing the skills, internally, to implement the Plan.*

In response to a question from Trustee Foster, Mr. Lurie said the contract between the employer and employee is different in that employees goals are not necessarily to stay with one company all of their career; therefore, NYPA has to consider how it can incorporate the changing nature of employee goals into a contract to ensure sure that it maintains the level of skills needed over a constant period of time. The workforce planning and knowledge management strategy takes into consideration this issue on how to deal with the changing employer/employee contract as well as maintaining the skills needed to succeed with the Authority's mission.

Mr. Lurie continued that staff has completed the business cases and metrics for the development of the business plan and is now in the process of drafting the overall strategic plan which will be provided to the Board for review and approval. Staff will also be requesting the Board's approval for funds, on a staggered basis, to implement the initiatives associated with the Plan.

Responding to a question from Chairman Koelmel, Mr. Lurie said staff is working with Mr. Russak and the Finance Department regarding the funding that will be required to support the proposed business plan. Mr.

Russak added that one of the items before the Board today will be a request for approval of capital projects reserve funds, a portion of which will be used for future initiatives.

Mr. Lurie then outlined some of the projects that are underway and/or proposed, which will fit within the strategic initiatives.

Projects Underway for 2014

- *BuildSmart NY: NYPA-led effort to implement Governor Cuomo's Executive Order 88, reducing energy use at government buildings 20% by 2020. Also includes energy master plans for five major cities.*
- *Energy Efficiency Innovation Collaborative: Move successful emerging technologies into mainstream markets, matching the needs of Build Smart public customers.*
- *NY Energy Manager: Collect and analyze real-time electric and thermal energy use from customers to identify opportunities for financial savings and consumption reductions.*
- *Transco: Form a partnership with NY transmission owners to build long-needed projects that eliminate transmission congestion (subject to legislation and additional board action)*
- *LPGP and Transmission Life Extension and Modernization: \$726 million transmission investment to rebuild and modernize infrastructure in Western, Central, and Northern NY.*

Projects in development for future evaluation by the Board

- *Advanced Grid Innovation Laboratory (AGILE): NYPA-built laboratory for next generation transmission smart grid technology research and development in collaboration with private and academic partners.*
- *Western NY Workforce Development Center: NYPA and other utilities collaborate with community colleges to train future utility technical workers. Will include statewide Troops to Energy Jobs program affiliation.*
- *NY-Sun Solar Market Acceleration Program (Solar MAP): Provide up to \$30 million over five years for solar photovoltaic (PV) research, training and demonstration projects to reduce balance of system costs of solar energy.*
- *Microgrids/Combined Heat and Power: Build two microgrid demonstration projects, one upstate and one downstate, that can allow large customers and nearby community to operate independently or integrated with the grid.*
- *NY-Sun NYPA Customer Solar Power: Financing, marketing, aggregation of solar projects for NYPA customers, integrated with "Solarize" program.*
- *Private/Green Bank financing: Evaluate use of private refinancing for energy efficiency in order to "recycle" NYPA capital for construction funding of new projects.*

4. Power Allocations:

a. Allocations of Western New York Hydropower

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to approve allocations of available hydropower totaling 640 kilowatts ('kW') to Ingram Micro, Inc. (130 kW) in Amherst, NY and Graphic Controls Acquisitions Corporation ('Graphic Controls') (510 kW) in Buffalo, NY as further described herein and in Exhibits '4a-A-1' and '4a-A-2.' These allocations, collectively, will support capital expansion of \$3.7 million in Western New York ('WNY') along with the creation of 125 new jobs and the retention of nearly 1,800 jobs in Erie County.

BACKGROUND

Under PAL §1005(13), the Authority may contract to allocate 250 megawatts ('MW') of firm hydroelectric power as Expansion Power ('EP') and up to 445 MW of Replacement Power ('RP') to businesses in the State located within 30 miles of the Niagara Power Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

Each application for an allocation of EP and RP must be evaluated under criteria that include, but need not be limited to, those set forth in PAL §1005(13)(a), which details general eligibility requirements. Among the factors to be considered when evaluating a request for an allocation of hydropower are the number of jobs created as a result of the allocation; the business' long-term commitment to the region as evidenced by the current and/or planned capital investment in the business' facilities in the region; the ratio of the number of jobs to be created to the amount of power requested; the types of jobs to be created, as measured by wage and benefit levels, security and stability of employment, and the type and cost of buildings, equipment and facilities to be constructed, enlarged or installed.

The Authority works closely with business associations, local distribution companies and economic development entities to garner support for the projects to be recommended for allocations of Authority hydropower. Discussions routinely occur with National Grid, Empire State Development Corporation, the Buffalo Niagara Enterprise and Niagara County Center for Economic Development and Erie County Industrial Development Agency to coordinate other economic development incentives that may help bring projects to New York State. Staff confers with these entities to help maximize the value of hydropower to improve the economy of WNY and the State of New York. Each organization has expressed support for the recommendations contained in this item.

DISCUSSION

At this time, 8,745 kW of unallocated EP and 32,828 kW of unallocated RP are available to be awarded to businesses under the criteria set forth in PAL Section 1005(13)(a).

1. INGRAM MICRO, INC.

Ingram Micro, Inc., located in the Town of Amherst in Erie County, has submitted an application for hydropower requesting 300 kW in connection with adding a second, 30,000-square-foot facility at 395 South Youngs Road to complement its existing headquarters at 1759 Wehrle Drive. A long-time Authority hydropower customer, Ingram Micro currently receives an allocation of 900 kW at its Wehrle Drive facility.

Ingram Micro, Inc. is the largest global wholesale technology distributor and a global leader in information technology supply-chain management and mobile device lifestyle services and logistics solutions. The company has operations in 26 countries and serves many other markets where it does not have an in-country presence.

The company distributes and markets a large variety of technology and mobility products from leading companies such as Acer, Apple, Cisco, Hewlett-Packard, IBM, Lenovo, Microsoft, Samsung and many others. The

company sells products and services to a global customer base of more than 190,000 customers in 145 countries. During the past 20 years, this facility in Amherst has become the largest sales office in the world and handles all sales within the United States.

The Wehrle Drive facility has become over-crowded to a point where there is a need for a second building. After long and difficult negotiations (negotiations which led the company to hire a consultant to consider relocating out-of-state), Ingram Micro signed a new, long-term lease for its current facility and for a second, 30,000-square-foot facility on South Youngs Road.

The company currently plans to invest \$2,750,000 to gut and renovate this facility in time to start operations in May 2014. The plans also include the potential to invest up to \$8,250,000 to renovate the Wehrle Drive building. There are also plans to expand the employee parking lot with the goal of integrating both buildings into one common workplace area. With this expansion, Ingram Micro will retain its existing 1,510 employees and hire 90 new employees to support its expanded business operations within two years.

The job creation ratio for a recommended amount of 130 kW is 300 new jobs per MW. This ratio is above the historic average of 22.6 new jobs per MW over the past four years. The total project investment of \$2,750,000 results in a capital investment ratio of \$9.1 million per MW. This ratio is below the four-year historic average of \$21.3 million per MW.

Empire State Development Corporation ('ESD') has offered an incentive package of up to nearly \$7.7 under the Excelsior Jobs Program. In addition, the Town of Amherst Industrial Development Agency has approved up to \$1 million in sales and mortgage tax breaks.

Staff recommends that an EP allocation totaling 130 kW be awarded to Ingram Micro, Inc. in exchange for a total of \$2,750,000 of capital investment and the creation of 90 well-paying new jobs, as detailed in Exhibit '4a-A-1.'

2. GRAPHIC CONTROLS ACQUISITION CORPORATION

Graphic Controls, located in the City of Buffalo in Erie County, has submitted an application for hydropower requesting 730 kW in connection with a potential expansion project within its current location. A long-time Authority hydropower customer, Graphic Controls currently receives three hydropower allocations totaling 600 kW and an allocation 310 kW under the Recharge New York program.

Graphic Controls is a global corporation with manufacturing operations and sales offices in the USA, Canada, Europe and the UK. The company ships to more than 60,000 customers in over 80 countries worldwide. A manufacturer of data recording, medical and life science products, thermal transfer ribbons and transactional media (like slot machine tickets), Graphic Controls continues to grow and has become a leading supplier of consumable products for the industrial, medical and gaming markets. The Buffalo manufacturing facility has been operating since 1957 and is considered the company's U.S. headquarters.

The company is in the initial phase of considering a plan to close down its German manufacturing facility and consolidate all of the syringe and industrial marker business in Buffalo. A total of \$950,000 would be invested at the Buffalo facility to upgrade the electrical system, modify and retrofit four existing molding machines and two Hutt machines, upgrade to a larger air compressor and upgrade the clean room, add new production equipment and additional infrastructure improvements. In addition, over \$2.6 million of severance costs obligations associated with closing the German plant would be incurred by the company if it were to move forward with this proposal.

If approved by its ownership, the plan calls for construction to start during the first quarter of 2014 and completed by December 2014. Partial operations would begin in July 2014. Thirty-five new jobs would be created as a result of this expansion project. Graphic Controls currently employs 283 fulltime workers.

The job creation ratio for a recommended amount of 510 kW is 70 new jobs per MW. This ratio is above the historic average of 22.6 new jobs per MW over the past four years. The total project investment of \$950,000

results in a capital investment ratio of \$1.9 million per MW. This ratio is below the four-year historic average of \$21.3 million per MW.

An allocation of hydropower will help offset some of the severance costs associated with this plan; therefore, staff recommends that an RP allocation totaling 510 kW be awarded to Graphic Controls in exchange for a total of \$950,000 of capital investment and the creation of 35 new jobs, as detailed in Exhibit '4a-A-2.'

Regarding contracts for the recommended allocations, as existing hydropower customers, Ingram Micro and Graphic Controls' existing WNY contracts allow for additional allocations and associated commitments to be folded into the contracts. The provision of electric service for these additional hydropower allocations will be subject to standard commercial terms applicable to all hydropower allocations including enforceable employment and usage commitments. Each of the recommended allocations would be sold to these companies pursuant to the Authority's Service Tariff No. WNY-1, which applies to all allocations of EP and RP. Transmission and delivery service would be provided by National Grid in accordance with its Public Service Commission-filed service tariffs.

RECOMMENDATION

The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocation of Expansion Power to Ingram Micro, Inc. (130 kW), as detailed in Exhibit '4a-A-1' and the allocation of Replacement Power to Graphic Controls Acquisition Corporation (510 kW), as detailed in Exhibit '4a-A-2.'

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 an allocation totaling 130 kW of Authority hydropower to Ingram Micro, Inc. as detailed in Exhibit "4a-A-1," and an allocation totaling 510 kW of Authority hydropower to Graphic Controls Acquisition Corporation as detailed in Exhibit "4a-A-2" be, and hereby are, approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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.

**b. Municipal and Rural Electric Cooperative
Economic Development Program –
Allocation to Village of Groton**

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to approve an allocation of 150 kW of hydropower under the Municipal and Rural Electric Cooperative Economic Development Program (“EDP”) to the Village of Groton.

BACKGROUND

The 1991 amendment to the power sales agreement between the Authority and the Municipal and Rural Electric Cooperative Systems set aside a block of 54 MW from the 752 MW of hydropower allocated to the systems for economic development in the systems’ service territories. The total allocation was increased to 764.8 MW as a result of additional power resulting from the Niagara Project upgrade.

Power from this block can be allocated to individual systems to meet the increased electric load resulting from eligible new or expanding businesses in their service area. Recommended allocations under the EDP will now be made using guidelines that were approved by the Trustees on September 23, 2008.

As of June 26, 2012, 32,720 kW of hydropower has been allocated. The Village of Groton has submitted this application for power under the Program for consideration by the Trustees.

DISCUSSION

An application has been submitted by the Village of Groton to the Authority on behalf of Challenge Workforce Solutions (“CWS”). CWS is dedicated to supporting individuals with disabilities and other employment barriers in developing their skills, interests and talents to meet the changing needs of today’s workplace and be productive and contributing members of their community.

Finger Lakes Fresh, a division of CWS, uses a workforce of employees with disabilities to provide high-quality, local vegetables year round at its Ithaca, New York facility. Grown in a hydroponics greenhouse, Finger Lakes Fresh produce is an environmentally friendly and healthy alternative to large-scale products shipped from distant locations. The company’s products are locally grown and sold through distributors and large retail grocery stores.

CWS plans an expansion of its business by building a new 18,000-squar-foot distribution center in the Village of Groton. This new facility will operate as a food hub and will be home to the relocated Lettuce packing operations. There will be new product lines developed under the “Finger Lakes Fresh” brand. This facility will also operate as a processing and repacking plant for other producers, supporting farm stability and agricultural growth. With guaranteed sales, farmers can anticipate demand for their products and plan for the future.

The expansion is estimated to create 28 new jobs (21 new full-time jobs and 7 full-time equivalents) and six relocated jobs from the Ithaca facility. In addition to the new jobs, six jobs will be retained in the Ithaca facility. The new facility will be operational in the first quarter of 2014; the target time frame is February 2014.

The expansion is expected to include a capital expenditure of approximately \$2,444,000 which will increase the region’s access to local foods and stimulate New York State agricultural growth. The expansion will add approximately 200 kW of new incremental load to the Village of Groton’s service territory. The Authority’s EDP guideline classifies this as an eligible business expansion because it is categorized as a not-for-profit business which purpose is to develop food products. Under the revised program, the first 100 kW allocated will be 100 % hydropower and any additional kW at 50% hydropower and 50% incremental power, making this EDP allocation award equal to 150 kW.

At the time of the application, local financial support for the Village of Groton's economic development application had been estimated to be above \$1.1 million. The support has come from various local, regional and state economic agencies: Office of Community Renewal – CDBG; Southern Tier Regional EDC – Rural Venture Fund; Empire State Development Economic Development; NYS AG & Markets Economic Development; and Tompkins County Area Development.

It is recommended that the Trustees approve an allocation of 150 kW of Municipal and Rural Electric Cooperative Economic Development power for the Village of Groton on behalf of CWS. The EDP guidelines require that a minimum of 50 jobs per MW of allocated hydropower should be attained; this allocation exceeds the aforementioned guidelines.

RECOMMENDATION

The Vice President – Marketing recommends that the Trustees approve an allocation of 150 kW of hydropower, under the Municipal and Rural Electric Cooperative Economic Development Program to the Village of Groton, in accordance with the above report.

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 allocation of hydropower to the Village of Groton under the Municipal and Rural Electric Cooperative Economic Development Program is hereby approved as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency or his designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate this allocation, subject to the approval of the form thereof by the Executive Vice President and General Counsel; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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.

5. Decrease in New York City Governmental Customer Fixed Cost Component – Notice of Adoption

The President and Chief Executive Officer submitted the following report:

“SUMMARY

The Trustees are requested to take final action to approve a decrease in the Fixed Cost component of the production rates by \$15.1 million or 9.9%, not including Astoria Energy II ('AE II') plant expenses, to be charged in 2014 to the New York City Governmental Customers ('Customers' or 'NYCGC'). The decrease would be effective with the January 2014 bills.

BACKGROUND

At their September 24, 2013 meeting, the Trustees directed the publication in the *New York State Register* ('*State Register*') of a notice that the Authority proposed to decrease the Fixed Costs component of the production rates by 5.3% to be charged in 2014 to the Customers. The *State Register* notice was published on October 16, 2013 in accordance with the State Administrative Procedure Act ('SAPA'). The public comment period was due to expire on December 2, 2013, but was extended by NYPA by written notice to the Customers through December 20, 2013. The City of New York ('City') is the only one of the eleven NYCGC who filed formal written comments.

As indicated in the September 24, 2013 memorandum to the Trustees, under the Customers' Long-Term Agreements ('LTAs'), the Authority must establish Fixed Costs based on Cost-of-Service ('COS') principles and may make changes only under a SAPA proceeding with the approval of the Trustees. As the memorandum also indicated, the LTAs establish two distinct cost categories: Fixed Costs and Variable Costs. Fixed Costs, which represent approximately 17.5% of the total production cost-of-service, include Operation and Maintenance ('O&M'), Shared Services, Capital Cost, Other Expenses (i.e., certain directly assignable costs) and a credit for investment and other income. Variable Costs, representing the remaining 82.5% of the total production costs, include items such as fuel, purchased power, transmission costs, etc.

DISCUSSION

Based on Customer comments received and staff's analysis, the final decrease in Fixed Costs sought by this action is \$15.1 million. This represents a \$7 million decrease from the proposed Fixed Costs estimate discussed at the September 24, 2013 Trustee meeting. Under the LTAs, Customers' concerns must be considered in a confidential process prior to presenting any proposed changes to the Fixed Costs to the Trustees or issuing them for public comment. In 2013, numerous Customer data requests were presented to staff, and in all cases, responses to relevant questions were provided to the Customers.

As part of the SAPA process, the City submitted formal written comments to NYPA. The City's comments in its entirety are attached as Exhibit '5-A.' In their comments, the City is of the opinion that while progress was made in 2013 and additional steps have been taken to moderate energy rates charged by NYPA to the City in 2014, more effort is needed. Below is staff's analysis and recommendations addressing the public comments received on the Fixed Costs proposal.

1. Staff Analysis of Public Comments on Fixed Costs and Recommendations

First, staff provides a review of the recently concluded annual process with the Customers that lead to the proposed 2014 Fixed Costs and the Final 2014 COS. Second, staff provides its analysis and recommendations regarding six issues raised by the City in their comments filed on December 20, 2013.

Staff Review of 2014 LTA Annual Process: During this cycle of the LTA annual process, NYPA staff has provided the Customers with abundant verifying information via the issuance of a comprehensive Preliminary 2014 COS and its accompanying, explanative, staff report and by responding to numerous data requests made during the discovery process.

After distribution of the Preliminary 2014 COS on May 23, 2013, the City and the Metropolitan Transportation Authority ('MTA') submitted numerous discovery requests. There were 38 discovery requests put forth by the City, many of which contained multiple parts resulting in a total of 69 responses and analysis being provided to the City. The MTA submitted 14 data requests which were all responded to. Responses and analyses were provided to the Customers throughout July and August 2013.

In addition to the formal data discovery, NYPA staff conducted conference calls with the NYCGCs and their consultants on various COS issues. On August 19, 2013, pursuant to the terms of the LTA, NYPA and the NYCGCs teleconferenced on Fixed Costs. Particular focus was placed on the O&M and Shared Services expenses with the NYCGCs voicing concerns over the level of Fixed Costs, the payback period of certain non-recurring costs, and the amortization of certain debt service expenditures. As a result of the August 19, 2013 teleconference, a total of 11 areas of interest were identified as requiring additional information. On October 7, 2013, NYPA provided information relating to 8 of those 11 areas of interest, with the remaining three items addressed either during the development of the Final COS or via response to the Customers formal comments received on December 20, 2013, contained herein.

An updated 2014 COS was sent to the Customers on December 6, 2013 and was followed up with details sent on December 12, 2013 concerning the O&M Expenses and Shared Services Expenses that were incorporated in the Fixed Costs. In response, the City and the MTA submitted additional discovery requests. These discovery requests were responded to on December 18, 2013.

The following is a summary of the NYCGCs comments filed under SAPA proceedings and NYPA's responses.

Issue 1: Blenheim-Gilboa Pumped Storage Facility Costs

Comments: The City proposes that the Board direct NYPA to change the effective rate at which NYCGCs are charged for capacity, stating that the effective rate charged should never be higher than the market price of capacity.

Staff Analysis: The LTA incorporates cost recovery of NYPA's generation portfolio as well as other economic assets that NYPA possesses in the New York Independent System Operator ('NYISO') marketplace, such as Transmission Congestion Contracts. With its generation and transmission portfolio, NYPA serves the Customers through competitive costs and rates, while also providing notable environmental benefits.

Production rate savings for the Customers have annually been realized at 20% to 30% less than what the Customers would pay for similar Con Edison service. In dollar terms these savings are estimated to range from \$200 million to nearly \$400 million annually, during the 2010 – 2012 period.

It is NYPA's entire portfolio as defined and agreed to in the LTA, not individual generation facilities or types, which engender a total lower cost than what competitors can offer. Individual assets within a portfolio may not be competitive every single year when compared to the NYISO marketplace, which has been the case with Blenheim-Gilboa Project ('B-G Project') during low-price capacity years. However, NYPA believes the City is incorrect in its interpretation of the B-G Project's economics in their comments to the Trustees. They failed to note the substantial positive economic benefits that the B-G Project actually provided in 2013, as well as the significant economic benefits embedded in the 2014 production rates.

The City advertises in their Table 3, 'Blenheim Costs and Revenues', Column 4, that they are absorbing significant costs above market. However, Column 4 ('Net Cost/Revenues') is mis-titled and as a result, misleading. All Column 4 calculates are the net effect of B-G energy sales and ancillary services sales assigned to the Customers as compared to the fixed expenses. What it fails to take into account, and which would produce a valid net cost figure, is that by purchasing B-G capacity the Customers receive 250 MW of capacity that they need not purchase in the NYISO capacity market. Once the opportunity value of the 250 MW is built into the equation there are years, specifically 2007 and 2008, in which the Customers received net benefits of about \$1 million per year. Granted, there are years where there are net costs, but the average annual cost is about \$2.2 million, not the \$7.0 million to \$9.5 million per year as shown by the City. Also, the City has omitted from its comments the sizable net benefits

the Blenheim-Gilboa arrangement has afforded them during the 2013 rate year, approximately \$5.5 million, and the projected \$7 million benefit that is built into the 2014 rates.

Recommendation: The Blenheim-Gilboa Project energy, ancillary services and capacity services are all part of the overall NYPA generation and transmission portfolio that serves the NYCGC. This portfolio has brought about substantial savings to the Customers over the course of the LTA's existence. The application of the assignment of fixed expenses offset by energy, ancillary services revenues and capacity benefits has remained consistent throughout the LTA contract term and is exactly the same treatment as NYPA applies to its other B-G Project contractual customer and it is also the way that NYPA accounts for the remainder of the un-contracted portion of the B-G Project's output that NYPA takes for its own account. This approach results in years with positive net revenues, while in other years revenue is negative. Given that NYPA is providing service to the Customers on a portfolio approach and that there has been steadfast non-discriminatory consistency in the application of the B-G Project products, staff sees no reason to change methodology at this time.

Issue 2: Operations and Maintenance Expenses

Comments: The City recognizes the efforts that the Authority has taken, to date, to reduce the Fixed Costs for 2014. However, the City feels additional reductions should be made. The City raised concerns regarding the level of O&M Expenses in the 2014 COS. The City states that the O&M Expenses are increasing by \$3.9 million, or 11.5 percent, and argues that although this increase may not seem large in comparison to the entire Fixed Costs, the O&M Expenses increase has not been justified by the Authority and the City's concerns should not be ignored.

Staff Analysis: Staff notes that the \$3.9 million increase in O&M cited by the City comes directly from the updated 2014 COS study sent to the Customers on December 6, 2013. NYPA provided substantive back-up and explanation for the O&M activities that are anticipated to take place in 2014. The provided cost data was a more detailed version of the budget figures presented to the Trustees during the 2014 budget briefings and subsequently approved by the Trustees at their December 2013 meeting.

A main factor in the increased O&M Expenses are activities of a non-recurring nature; activities that are of immediate necessity to keep NYPA assets operating reliably and efficiently. While staff did not have an exact dollar amount for those non-recurring activities until near the end of the budget process, it did provide the Customers during the summer of 2013 with a fairly detailed listing of what non-recurring activities were expected to be undertaken and why they were important. NYPA also provided estimated costs that turned out to be remarkably close to the approved budget.

Each year NYPA's Operations Business Unit rigorously justifies during the budget process the levels of O&M spending needed to keep its generators operating at a high availability standard and in a safe and reliable manner. The Trustees are the final arbiters of these annual spending levels and their necessity.

Comments: The City further contends that there is no basis to determine whether the proposed costs associated with the small hydroelectric facilities ('small hydros') are reasonable, particularly the rebuilding of Jarvis Unit #2, at a projected cost of \$339,400, and Jarvis Unit #1 at a similar cost. The City raises concerns that it appears as if NYPA conducted no analysis to determine whether rebuilding either Jarvis Unit would be cost-beneficial to the NYCGC. The City requests that prior to the approval of rebuilding either Jarvis Unit, the Board require NYPA to provide a cost-benefit analysis to the NYCGCs. Additionally, the City denies that the rebuilding of a turbine is a routine maintenance item but is rather a major capital investment in the plant, and, as such, these costs should be amortized over time. The City expresses its continuing concern that capital investments should be distinguished from O&M Expenses and recovered over the life of the equipment as this is a standard practice in the utility industry.

Staff Analysis: Similar to the Blenheim-Gilboa Project the Small Hydro Projects (which are comprised of the Ashokan, Crescent-Vischer Ferry and Jarvis facilities) are part of NYPA's contractually defined generation portfolio that serves the Customers. While the Small Hydro Projects are not presently individually profitable, the larger LTA-defined NYPA asset portfolio has provided considerable and consistent savings to the Customers.

As part of the portfolio, it is NYPA's Operations Business Unit's responsibility to maintain these facilities in working condition. The Jarvis #2 turbine failed in July 2012 and will return to service during 2014. As a result of lessons learned from this failure, improvements must be made to the Jarvis #1 turbine in order to forestall possible failure. Most of the Jarvis #1 work will take place in 2015 with the 2014 costs budget at only \$15,000.

The work that must be done on these turbines are non-recurring O&M by nature and cannot be claimed to be capital work as put forth by the City. NYPA follows standard accounting and utility practice when determining whether an expenditure is a 'capital' or 'maintenance' expense.

Comments: The City raises concerns regarding NYPA's use of consultants, the services these consultants are allegedly providing, how the sharing percentages were determined, and why maintenance work cannot be performed by NYPA employees.

Staff Analysis: NYPA is a utility with various plant configurations, equipment and systems. Because of the regulatory and governmental environment in which NYPA operates, there will always be a need for some outside technical support and expertise. As a rule, consultants are employed for specialized tasks that require skills that are not available or limited within NYPA; to accomplish special short-term or emerging tasks thus avoiding the need to hire personnel to meet a varied and inconsistent workload; or when an independent review/analysis is mandated or prudent

Staff has responded to data requests concerning consultant costs in the COS. In the Authority's most recent response, staff detailed the 2014 consultant support for the Small Hydro Facilities. There was a previous concern over consultant support for SENY and the AE II plant. The SENY consultant costs total one hundred and ninety thousand dollars, and the AE II costs are a mere twenty-seven thousand dollars. For AE II, the cost represents a share of fuel and hedging consultants that provide specialized analyses and services in support of these functions. The SENY consultants are associated with NYPA's hedging and risk functions.

Hedging consultants provide assistance and verification in the area of hedge effectiveness and portfolio management. This includes support for required testing, the approved hedge strategy that requires programmatic monthly hedges, the hedge simulator as to swaps, options and swaption instruments and in managing risk with a monitor-and-respond strategy.

Risk consultants provide expertise in the areas of credit, enterprise risk, the commodity risk system and independent validation of fair valuation. The credit consultants assist in reviewing the financial quality of NYPA's counterparties to hedge transactions to establish prudent credit lines with those counterparties as well as affording protection against the financial consequences of counterparty financial default.

As for fuel consultants, they provide needed expertise in emerging issues such as analyses that may be required to assess the economic impact of natural gas infrastructure developments on an interstate and local level.

Comments: The City also expresses concerns regarding the lack of information provided, giving the City no basis to determine whether the proposed costs are reasonable or appropriate, specifically the allocator percentages used for Shared Services Expense and NYPA's proposal to add a new line item to the COS and separate out charges for AEII Direct Support and Shared Services. The City requests that the Board require NYPA to provide more detailed explanations and justifications in regards to the costs and their allocations to the Customers.

Staff Analysis: As provided in past rate actions, the Customers received data explaining how Shared Services Expenses are functionalized and then allocated to NYPA's cost centers including those cost centers that are included in the Customers' cost service calculation and the rate development. The Customers received explanation about the AEII Direct Support Expenses through data requests responded to during the early summer of 2013; they received specific guidance on the AEII Shared Expenses through responses provided on October 7, 2013; and the Customers received a full exposition on December 12, 2013 on the calculation of labor ratios (*i.e., the allocator used for the cost center dispersion of the Shared Services Expenses*) for all NYPA cost centers based on the budget that the Trustees would ultimately approve at their December 2013 meeting. Included in the data provided were the derivation of labor ratios that serve the NYCGCs: the 500 MW Project; AEII Project; Small Hydro Projects, and SENY (which consists of headquarters personnel whose labor time is dedicated to the administration of the LTA).

NYPA's utilization of labor ratios for the functionalization of costs (i.e., generation versus transmission) is a standard utility practice and one mandated by the Federal Energy Regulatory Commission. The use of labor ratios to allocate Shared Services Expenses amongst NYPA's generation projects results from a series of court cases brought against NYPA by its hydropower customers during the 1980s and 1990s. The dispositive case requiring that labor costs be the allocation factor was *Village of Bergen v. Power Auth. of State of N.Y.*, 249 A.D.2d 902 (4th Dep't 1998), *appeal den'd*, 97 N.Y.2d 606 (2001). The Authority has been using this labor ratio approach for the allocation of its Shared Services Expenses for rate development purposes and for financial reporting purposes for over a decade.

Recommendation: Based on the recently completed 2014 budget approved by the Trustees, staff recommends that the O&M Expenses and Shared Services Expenses be further reduced by \$1.1 million and \$2.1 million, respectively, from the levels included in the Fixed Costs acted upon by the Trustees at their September 24, 2013 meeting.

In reviewing consultant costs, staff uncovered that the 2014 budget for the Government Customer Load Research Study was included in the Shared Services. Pursuant to a previously- agreed arrangement, these expenses will be recovered in a future COS cost based upon actual expenditures incurred. As a result, a seventy-five thousand dollar reduction is recommended.

Staff has made considerable efforts over the recent years to further the Customers understanding of how their allocation of Shared Services Expenses is determined. In an effort to provide a clearer understanding of the allocation methodology and why it is used, staff recommends that it conduct a seminar with the Customers at some point prior to the initiation of the 2015 COS cycle.

Issue 3: 500 MW Unit's Fixed Rate Debt Service Expense

Comments: The City requests that the Board extend the recovery period for the fixed rate debt service expense to no less than 30 years, similar to last year's extension of the variable debt service expenses, to enhance the economics of the 500 MW unit.

Staff Analysis: At this time, NYPA bears a certain amount of risk on these bonds since they currently mature in 2021-2025, which is well past the expiration of the LTA in 2017. The Customers are asking NYPA to further defer recovery of a significant amount of current actual debt service payments until after the expiration of the current LTA, thereby causing the Authority to take on even greater risk each year until the expiration of the LTA

Recommendation: Staff recommends no change in the 500 MW Project's fixed debt payment recovery amount.

Issue 4: Variable Debt Rates

Comments: The City states the interest rates charged to the NYCGCs by NYPA is 'unjust' and 'capricious.' The City provided two tables as comparison, Variable Debt Interest Rates ('Table 1') as they appeared in the 2014 COS and NYPA's Variable Debt Interest Rates ('Table 2') as they appeared in NYPA's financial statements. The City requests that the Board direct NYPA to recalculate and reduce the variable rate debt expenses included in the COS as these should be consistent with NYPA's actual borrowing costs.

Staff Analysis: The Variable Debt Interest Rates included in the COS were established based on forecasted market rates, including costs for liquidity and remarketing of the debt, at the time NYPA and the NYCGC's executed the LTA in 2005. As the debt service on the Variable Rate Debt is considered a component of Fixed Costs in the LTA, NYPA considered the Variable Debt Interest Rates to be locked in over the life of the LTA. NYPA recognized at the time, that future interest rates could be higher than those included in the COS and was willing to assume that risk. Likewise, if future rates were lower, the risk would be assumed by the NYCGCs. The rates established in 2005 have been included in each COS accepted by the NYCGCs since 2005 through 2013, without question.

It should also be noted that the rates the NYCGCs show as being included in NYPA's financial statements do not reflect the cost of liquidity (65 basis points) or remarketing (5 to 11.5 basis points) costs for the debt, or reflect that the Tax Exempt Commercial Paper Notes associated with the Small Hydro Projects were swapped to a fixed rate of 5.123%.

Recommendation: Staff recommends no change in the Variable Debt Interest Rate.

Issue 5: Poletti Decommissioning Costs

Comments: The City expresses concern regarding the Poletti decommissioning costs, stating that NYPA provided no explanation for the cost increase of \$400,000 between August and October 2013. The City requests that the Board require NYPA to produce a detailed and itemized list of all of the Poletti decommissioning costs, with references to supporting documents that justify each line item.

Staff Analysis: The limited dollar movement within the decommissioning budget is not unexpected as the effort proceeds from the planning stage to the actual decommissioning work. Nor is a slight movement within the planned work activities that surprising. The City mentions the \$400,000 change, but what is not mentioned is that this amount needs to be measured in context to the \$47 million decommissioning budget. The change is less than 1%.

The Customers take umbrage that the Poletti Project has been closed for nearly four years and they are paying decommissioning costs. However, the Poletti Project was solely dedicated to the service of Customers for nearly three and half decades and the Customers are responsible for its decommissioning costs. The Customers have not yet fully funded the estimated costs of the decommissioning project. Due to actual bids received in 2012 for the decommissioning work, NYPA lowered the annual charge for decommissioning cost recovery from \$3.9 million to \$1.8 million in the 2013 rates and will recover that same amount through the 2014 rates. Upon the completion of the project, the annual recovery charge will be trued up or down in order to guarantee that the customer pays no more than the actual decommissioning costs.

Recommendation: Upon the completion of the Poletti Plant's decommissioning, the Authority will provide a detailed itemized list and supporting documents, except those, if any, subject to confidentiality agreements with the contractors.

Issue 6: Decommissioning Cost and Corresponding Annual Asset Retirement for 500 MW Unit

Comments: The City requests that the Board reverse the increase in decommissioning costs related to the 500 MW unit, further reduce the cost estimate, and concomitantly reduce the annual asset retirement charge. Further, the City expresses that the decommissioning costs should be proportioned over the period rather than over collected in early years with a possible refund at the end, as there is no certainty that the NYCGCs will still be NYPA customers when the 500 MW unit is retired.

Staff Analysis: During this COS cycle, the Customer requested an updated estimate of the potential decommissioning costs of the 500 MW Project. NYPA's Cost Estimation engineering group, which has decades of valuation experience with NYPA generation and transmission assets, undertook and fulfilled the request. Their analysis determined that the 2013 potential decommissioning costs, absent salvage value, would be \$63.7 million in 2013 dollars. Contrary to the City's assertion that this is an increase in the decommissioning costs of the 500 MW Project, it actually represents a significant decrease in the decommissioning estimate previously used to determine the Customer's annual recovery payment. The previous decommissioning estimate was \$93.8 million in 2013 dollars, thus the new estimate is roughly \$30 million less than previously determined.

Recommendation: Taking into account the lowered decommissioning estimate and that the Customers need to be given a deduction for paying a higher annual cost recovery for the first nine years (2004-2013) of the 500 MW operation, NYPA will lower the annual recovery amount to \$2.2 million in the 2014 cost of service versus the previous annual cost recovery charge of \$3.7 million. Given the inherent volatility in materials and labor prices that can take place over a 30-year horizon, staff agrees with the City's suggestion that periodic reviews of the decommissioning estimate occur. NYPA will review the decommissioning estimates on a three-year cycle. The

Customers, however, should be aware that this could be a double-edged sword as such periodic review might increase the annual payment in the future years, if market conditions for material and labor have tightened.

The 500 MW Project has approximately 20 years of service life remaining. Given the volatility of material and labor costs that can take place over long-time horizons, it makes more sense to do the decommissioning study closer to the end of the project's service life. An internal periodic review by NYPA as proposed will suffice until the final stages of the 500 MW Project's operation.

2. Final Recommendation on 2014 Fixed Costs

Based on Customer comments received and further staff analysis, staff recommends that the Fixed Cost decrease be greater than that proposed in the Notice of Proposed Rulemaking that was noticed in the *State Register* pursuant to Trustees direction at their September 24, 2013 meeting. This is a \$7.0 million decrease from the costs appearing in the October 16, 2013 SAPA notice with O&M Expenses decreasing by \$1.1 million, Shared Service Expenses decreasing \$2.1 million, and Other Expenses (Decommissioning and OPEB) decreasing by \$3.9 million. Overall, the Fixed Costs for 2014 would decrease by \$15.1 million from the 2013 COS to \$138.3 million. The lower Fixed Costs will be reflected in the production rates effective with the January 2014 bills.

Description of Final 2014 COS and Customer Rates

Because the Variable Costs component (i.e., fuel and purchased power, risk management, New York Independent System Operator ('NYISO') ancillary services and O&M reserve, less a credit for NYISO revenues from Customer-dedicated generation) is developed in collaboration with the Customers in accordance with the provisions of the LTAs previously approved by the Trustees, staff is not requesting the Trustees' approval of the Variable Costs component of the production rates for 2014. Additionally, the Authority passes through all Variable Costs to the Customers by way of the 'Energy Charge Adjustment ('ECA') with Hedging' cost-recovery mechanism that the Customers collectively selected for 2014. This cost-recovery mechanism offered under the LTA employs a monthly charge or credit that reflects the difference between the projected Variable Costs of electricity (i.e., the Variable Costs recovered under the Customers' tariffs) and the monthly actual Variable Costs incurred by the Authority to serve the Customers.

For the Trustees' information, the projected Variable Costs are expected to decrease 1.1% from 2013 levels, and, in combination with the recommended Fixed Costs decrease and AEII costs, results in a final projected 2014 COS of \$790.4 million. At existing rates, revenues of \$807.2 million would be produced, resulting in an over recovery of \$16.8 million. As a result, staff is recommending that rates be revised downward by 2.1%. The current 2013 Customer rates and recommended 2014 Customer rates with the overall 2.1% decrease are shown in Exhibit '5-B.'

FISCAL INFORMATION

The adoption of the Fixed Costs decrease would result in an estimated \$15.1 million reduction in revenues to the Authority, which is offset by the forecasted reduction in costs. The Energy Charge Adjustment mechanism will protect NYPA from the effects of movements in Variable Costs above those projected.

RECOMMENDATION

The Director – Market Analysis and Administration, recommends that the Trustees authorize the Corporate Secretary to file a Notice of Adoption with the New York State Department of State for publication in the *New York State Register* for a decrease in Fixed Costs applicable to the New York City Governmental Customers under the Long-Term Agreements.

It is also recommended that the Corporate Secretary be authorized to publish a Notice of Adoption, consistent with the discussion herein, in the *State Register*.

The Trustees are also requested to authorize the Senior Vice President – Economic Development and Energy Efficiency, or his designee, to issue written notice of adoption and the revised tariff leaves, as necessary, to the affected customers.

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

Mr. Michael Lupo provided highlights of staff’s recommendation to the Trustees. In response to a question from Trustee Foster, Mr. Lupo said customers continually request decreases; however, in responding to these requests over the years, staff has endeavored to make the customers better understand the Authority’s business; this in turn has improved the level of questioning from the customers.

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

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency or his designee be, and hereby is, authorized to issue written notice of this final action by the Trustees to the affected customers; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file such notices as may be required with the New York State Department of State for publication in the *New York State Register* and to submit such other notice as may be required by statute or regulation concerning the rate decrease; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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 certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

6. Increase in Westchester County Governmental Customer Rates – Notice of Adoption

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to approve a modification in the rates for the sale of firm power to the Westchester County Governmental Customers ('Customers') in 2014. This proposed action is consistent with the rate-setting process set forth in the Supplemental Electricity Agreements executed by the Customers and the Authority and in accordance with the State Administrative Procedure Act ('SAPA').

This proposed final action seeks approval to increase the production rates of the Customers by 12.67% as compared to 2013 rates. The increase would be effective with the January 2014 bills.

BACKGROUND

At their meeting of September 24, 2013, the Trustees directed the publication in the *New York State Register* ('State Register') of a notice that the Authority proposed to increase the production rates by 12.67%. The *State Register* notice was published on October 16, 2013. In accordance with SAPA, a forty-five day comment period was established, ending on December 2, 2013. NYPA extended the public comment period to December 20, 2013, to allow Customers more time to review the proposed rate increase. There were no public comments received.

The final 2014 Cost-of-Service ('COS') projects a 16.38% rate increase, however, in order to not exceed NYPA's initial SAPA notice, staff is requesting to keep the initial 12.67% increase in production rates as was requested at the September meeting.

DISCUSSION

Based on further staff analysis, the final projected 2014 COS is \$39.05 million and the projected 2013 rate revenues are \$33.55 million, resulting in an under-recovery of \$5.50 million or 16.38%.

The increase from the preliminary COS is primarily attributable to increases in purchased power costs of the variable costs component. The increase in purchased power costs are mainly due to increased capacity costs related to the new Lower Hudson Valley zone. In addition, the final 2014 COS incorporated an updated 2014 sales and revenue forecast resulting in lower sales and revenues than was projected in the preliminary 2014 COS. The final 2014 rate revenues were calculated using the currently effective 2013 rates resulting in \$0.77 million decrease of projected 2014 revenues as compared to the preliminary 2014 COS.

The fixed costs are projected to decrease by 0.92% as compared to the preliminary COS. The decrease in the fixed costs is primarily due to the decrease in the Capital Costs.

In 2014, the Customers will continue to be subject to an Energy Charge Adjustment ('ECA'), under which the Authority passes through all actual variable costs to the Customers. This cost-recovery mechanism employs a monthly charge or credit that reflects the difference between the projected variable costs of electricity recovered by the tariff rates and the monthly actual variable costs incurred by the Authority. As staff is proposing that the Authority not raise the rates to the level needed to meet the final projected variable cost increase, it is expected that any difference in the projected and actual variable costs will be recovered from, or credited back to, the Customers through the monthly ECA process.

The current 2013 and final 2014 proposed rates with the 12.67% overall increase in revenues are shown in Exhibit '6-A.' The final 2014 proposed rates were developed using the updated 2014 sales and revenue forecast.

FISCAL INFORMATION

The adoption of the 2014 production rate increase would have no net effect on NYPA's financial position. The rate change would result in an estimated increase in revenues of \$4.25 million, which is offset by the forecasted increase in costs originally presented at the September 24, 2013 Trustee meeting. The Energy Charge Adjustment mechanism will protect NYPA's net revenues from the effects of movements in variable costs above those projected.

RECOMMENDATION

The Director – Market Analysis and Administration, recommends that the Trustees authorize the Corporate Secretary to file a Notice of Adoption with the New York State Department of State for publication in the *State Register* of an increase in production rates for the Westchester County Governmental Customers.

It is also recommended that the Senior Vice President – Economic Development and Energy Efficiency, or his designee, be authorized to issue written notice of adoption to the affected Customers.

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

Mr. Michael Lupo provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee Foster, Mr. Lupo said that after the Authority received additional information from the ISO, staff determined that the 12.67% increase as initially proposed was not high enough and updated it to 16%. The Board has the option to recommend the initial 12.67% increase and staff would have to recover any remaining costs not recovered by the increase through the energy charge adjustment recovery mechanism. Staff is, however, recommending that it is prudent that the Board approve the adjusted rate increase of 16% which would minimize the use of the energy charge adjustment recovery mechanism.

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

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency or his designee be, and hereby is, authorized to issue written notice of this final action by the Trustees to the affected Customers; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file such notices as may be required with the New York State Department of State for publication in the *New York State Register* and to submit such other notice as may be required by statute or regulation concerning the rate increase; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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 certificates, agreements and other documents to

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effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

7. Contribution of Funds to the State Treasury

“SUMMARY

The Trustees are requested to authorize the release of up to \$50 million in funds to the Empire State Development Corporation (‘ESD’) in support of the New York State Open For Business economic development initiative and the New York State Innovation Venture Capital Fund, as authorized by legislation approving the 2013-14 Budget of the State of New York (Chapter 57 of the Laws of 2013).

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. Any such contribution or transfer of funds must (1) be authorized by the law; (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’). In addition, as set forth in the Trustees’ Policy Statement dated May 24, 2011, a debt service coverage ratio of 2.0 is to 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 (a) withdrawals 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 State’s fiscal year (‘SFY’) 2013-14 Budget legislation authorizes the Authority as deemed ‘feasible and advisable by its trustees’ to provide up to \$90 million in contributions to the State’s general fund, or as otherwise directed in writing by the State’s director of the budget, whereupon such funds ‘will be utilized to support energy-related initiatives of the state or for economic development purposes.’ In addition, the Budget legislation specified that up to \$25 million is to be considered for payment by June 30, 2013 and with the remainder of any such contribution considered for payment by March 31, 2014.

At the request of the State’s director of the budget, the Authority deferred its decision on the initial ‘up to \$25 million’ amount until ‘on or before September 30, 2013’ with \$20 million to be transferred to the State’s General Fund and \$5 million transferred to ESD, in furtherance of ESD’s statewide economic development initiatives. In July 2013, the Trustees approved, and the Authority subsequently transferred such amounts. With regard to the remaining amount contemplated in the SFY 2013-14 Budget (\$65 million), staff made no recommendation at the time, but indicated that it would return to the Board with a recommendation when such contribution is to be considered for payment.

DISCUSSION

In accordance with Section 17 of Part HH of Chapter 57 of the Laws of 2013, the State’s director of the budget has formally requested that the Authority transfer on or before January 31, 2014 the sum of \$50 million to the credit of ESD in furtherance of ESD’s Statewide economic development initiatives. With regard to the remaining amount contemplated in the SFY 2013-14 Budget (\$15 million), staff is not recommending any action at this time, but will return to the Board by the end of the State’s fiscal year on March 31, 2014 with a recommendation as to that amount based on the financial circumstances of the Authority at the time such contribution is to be considered for payment.

The New York State Open for Business ('Open for Business') campaign was initiated to market New York State as an ideal place for businesses to invest and create jobs. A central component of this business development campaign is to promote the advantages of doing business in the State in order to retain and grow New York businesses as well as attract other businesses to New York from across the country and around the world. The New York State Innovation Venture Capital Fund ('IVCF') is a newly designed program to provide critical seed and early-stage funding to incentivize new business formation and growth in New York State and facilitate the transition from ideas and research to marketable products. The goal is to help nascent businesses develop to a stage where they can attract private sector financing. It is expected that \$45 million and \$5 million of the requested funding will be utilized for Open for Business and IVCF, respectively. Both the Open for Business and IVCF are being administered by ESD. The central tenet fits well with the Authority's Mission to promote economic development and job creation based directly on its legislatively authorized Expansion Power, Replacement Power, Preservation Power, and Recharge New York Power Programs, among the other economic development programs in which the Authority is authorized and directed to engage.

The low-cost power and other benefits the Authority makes available under its various programs are valuable economic development tools that the Authority desires to promote, and there exists significant amounts of unallocated power and other benefits available under these programs that can support economic development in the State. Accordingly, the Authority has an interest in promoting the effectiveness of ESD's Statewide economic development initiatives, thereby increasing the number and quality of businesses that apply for available benefits under the Authority's Programs.

Based on a recognition of the mutual goals of the Authority and ESD with respect to economic development and based on discussions with staff from ESD and the Division of Budget, it has been suggested that the Authority consider using a portion of the \$90 million authorized for a voluntary contribution to provide funding to directly support ESD's Statewide economic development initiatives. The Authority and ESD can work collaboratively to support the initiatives and the parties can also monitor and evaluate them to determine their impact on the Authority's low-cost power programs.

Staff has reviewed the effects of the release of \$50 million in State contributions at this time on the Authority's expected financial position and reserve requirements. In addition, in accordance with the Board's Policy Statement, staff calculated the impact of these transfer 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 release \$50 million at this time.

FISCAL INFORMATION

Staff has determined that sufficient funds are available in the Operating Fund to transfer \$50 million in contributions 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. Such transfer pursuant to the SFY 2013-14 Budget legislation was anticipated and is within the amount reflected in the Power Authority's 2014 Operating Budget approved by the Trustees at their December 17, 2013 meeting.

RECOMMENDATION

The Treasurer recommends that the Trustees affirm that the transfer of \$50 million to the Empire State Development Corporation is feasible and advisable and authorize such payment.

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

Mr. Brian McElroy provided highlights of staff's recommendation to the Trustees. Vice Chair Mahoney said Mr. Russak and his staff provided the Trustees detailed information, through individual briefings, regarding this contribution to the state treasury relative to the ongoing operations of the Authority.

In response to a question from Trustee Nicandri, Mr. McElroy said the \$50 million funding has been planned in the Authority's 2014 Operating Budget which was approved by the Trustees in December 2013.

Responding to further questioning from Trustee Nicandri, Mr. McElroy said the policy establishing the debt service coverage ratio of 2.0 was adopted in 2011, and the requested level of contributions went up to \$90 million – for the state's fiscal year 2013-2014 it was \$90 million; the Authority's calendar year 2013 it was \$65 million and calendar year 2014 it will be \$90 million. Also, the funds are allocated to specific projects that more align with the mission of the Authority.

Trustee Nicandri opined his concern about the escalation of the level of the requests, and questioned whether it continues to be advisable for the Board, even though the feasibility aspect of the test is met given the Authority's relationship with rating agencies and Wall Street. He said it raises the question of whether it proves the second test of advisability and feasibility standard as required in the statute and legislation.

Mr. Russak said that staff pays very close attention to the question of feasibility when contemplating the contributions to the state. He said maintaining its high bond rating is very important to the Authority as it lowers the cost of debt and therefore lowers costs to customers. He said this type of transfer to a parent organization is not unusual and the range of 3% of revenues is also typical. Staff believes the \$65 - \$90M range is manageable for the Authority and will continue to pay attention that it doesn't continue on an upward projector.

Trustee Foster said, following on Mr. Russak's point, at 2-1/2 - 3% of revenues, the Authority's debt rating seems fairly reasonable; it is not inconsistent with the private sector and therefore acceptable to him. Mr. Russak said the level of contributions will not have any effect on the Authority's ability to invest in its operating facilities or to carry out its mission. Looking ahead, the Authority will be able to fulfill its obligations, initiatives, and ongoing investment in its facilities.

Responding to a question from Trustee LeChase, Mr. Russak said he did not believe the contributions would affect the Authority's rating.

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

RESOLVED, That the Trustees hereby authorize a payment to the Empire State Development Corporation (“ESD”) in the amount of \$50 million from the Operating Fund as authorized by Chapter 57 of the Laws of 2013 as discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of \$50 million to ESD 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 payments specified in the foregoing resolution, on the day of such payments, 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 Vice Chair, 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 resolution, subject to approval as to the form thereof by the Executive Vice President and General Counsel.

8. Funding Plan for Strategic Initiatives and Energy Efficiency Investments

The President and Chief Executive Officer submitted the following report:

“SUMMARY

The Trustees are requested to approve the dedication of certain funds presently held in the Capital Project Reserve (‘CPR’) to meet a portion of the costs of major renewals, replacements, repairs, additions, betterments and other investments associated with the Authority’s strategic initiatives, capital plan and energy efficiency investments.

BACKGROUND

NYPA’s Mission is to provide clean, low-cost, and reliable energy consistent with its commitment to the environment and safety, while promoting economic development and job development, energy efficiency, renewables and innovation, for the benefit of its customers and all New Yorkers. Through this mission, NYPA:

- Invests in energy infrastructure in New York State
- Provides low-cost power to businesses, government and other consumers
- Promotes economic development and job creation through its power resources
- Supports energy efficiency improvements and the development of new technologies

NYPA’s corresponding Financial Goal is to preserve its financial strength to ensure access to low-cost capital in order to undertake the initiatives necessary to carry out its mission.

Throughout its history, NYPA has been able to respond effectively to many of the urgent, energy-related challenges that faced New York State by maintaining ready-access to the capital markets. Central to this access is the Authority’s credit rating, one of the key measures by which investors judge the safety of their investment. NYPA’s solid financial position has been recognized in the financial community with AA/Aa/AA- ratings from Fitch, Moody’s, and Standard and Poor’s, respectively.

Maintaining an AA rating has been demonstrated to be of critical importance. The disturbances in the credit markets in 2007-08 showed that lesser rated public authorities and municipalities had to pull back on planned debt issuances due to soft demand and higher costs. It was reported at the time that the A-rated Miami-Dade County, Florida deferred a \$540 million bond offering for its airport. Chicago cancelled a \$950 million offering and the A rated District of Columbia was reported as cancelling a \$350 million bond offering for its schools. At this same time, NYPA’s Series 2007 Bonds were being marketed with such attractive rates that it was able to add to the planned \$339 million offering (related to the Niagara and St. Lawrence relicensing and upgrades costs) another \$264 million to defease at a lower cost a large portion of the Series 2002 Bonds issued in support of the 500 MW Plant’s construction. NYPA’s high credit rating allowed for this refunding opportunity which saved its customers nearly \$10 million at a time when other issuers were pulling back from the market due to higher costs.

In order to maintain its AA rating, NYPA has targeted, among other measures, an earnings level that would set itself at or above the median coverage ratio for like entities. Fitch Ratings annually publishes its Public Power Peer Review in which it reports on financial metrics for various public power systems by ratings category. Over the last several years, Fitch reported that the median for AA rated wholesale public power entities was in the 1.7X to 2.1X range. Among its various ratings’ factors, Moody’s established a target of at least 2.0X for its AA rating category. With this in mind, the Trustees set forth in their Policy Statement dated May 24, 2011, that a debt service coverage ratio of 2.0 shall be used as a reference point in considering any such payments or transfer of funds outside of NYPA for other authorized lawful corporate purposes.

DISCUSSION

NYPA’s net revenues have traditionally been reinvested in support of its mission and the State’s energy infrastructure. Beginning in the mid-1990s, facing the on-set of deregulation, the Authority adopted a focused

strategy to properly position itself for the competitive energy market. This multifaceted program included, among other things, reinvesting in and modernizing its operating facilities and reducing its cost structure by paying down debt associated with its generation and transmission facilities.

As recently reported to the Finance Committee, since 1997, the Authority has lowered its debt burden by over \$1.3 billion (more than 40%) after having issued more than \$2 billion in new project debt. This new project debt supported the construction of the Small Clean Power Plants, the 500 megawatt combined cycle plant and investments of more than \$500 million to upgrade and modernize the Niagara and St. Lawrence hydroelectric facilities.

Over the last five years, NYPA's on-going core capital requirements would typically run \$150 - \$200 million per year. A similar amount was planned for investment in energy efficiency measures, so the total demand for funding resources averaged about \$345 million per year. Today, the Authority's five-year Plan calls for \$2.4 billion – or about \$480 million per year – to be invested in the various Authority facilities and in support of the Authority's energy efficiency efforts. This represents a 40% increase as compared to the past five years.

The Authority's Energy Services program is seeking to invest nearly \$1.2 billion during this period with a large percentage of this attributed to the \$800 million Build Smart New York initiative. Moreover, of the \$1.2 billion planned for the Authority's facilities, a significant portion is slated for the life extension and modernization ('LEM') work at the Lewiston Pumped Storage Plant (\$460 million in total) and Transmission LEM work (\$726 million in total), both previously approved by the Trustees. In addition to its planned capital and energy efficiency investments, other major capital projects may result from the Authority's on-going strategic planning process. While it is early in the study stages, nevertheless, the Authority may identify additional opportunities to provide benefits to the people of the state.

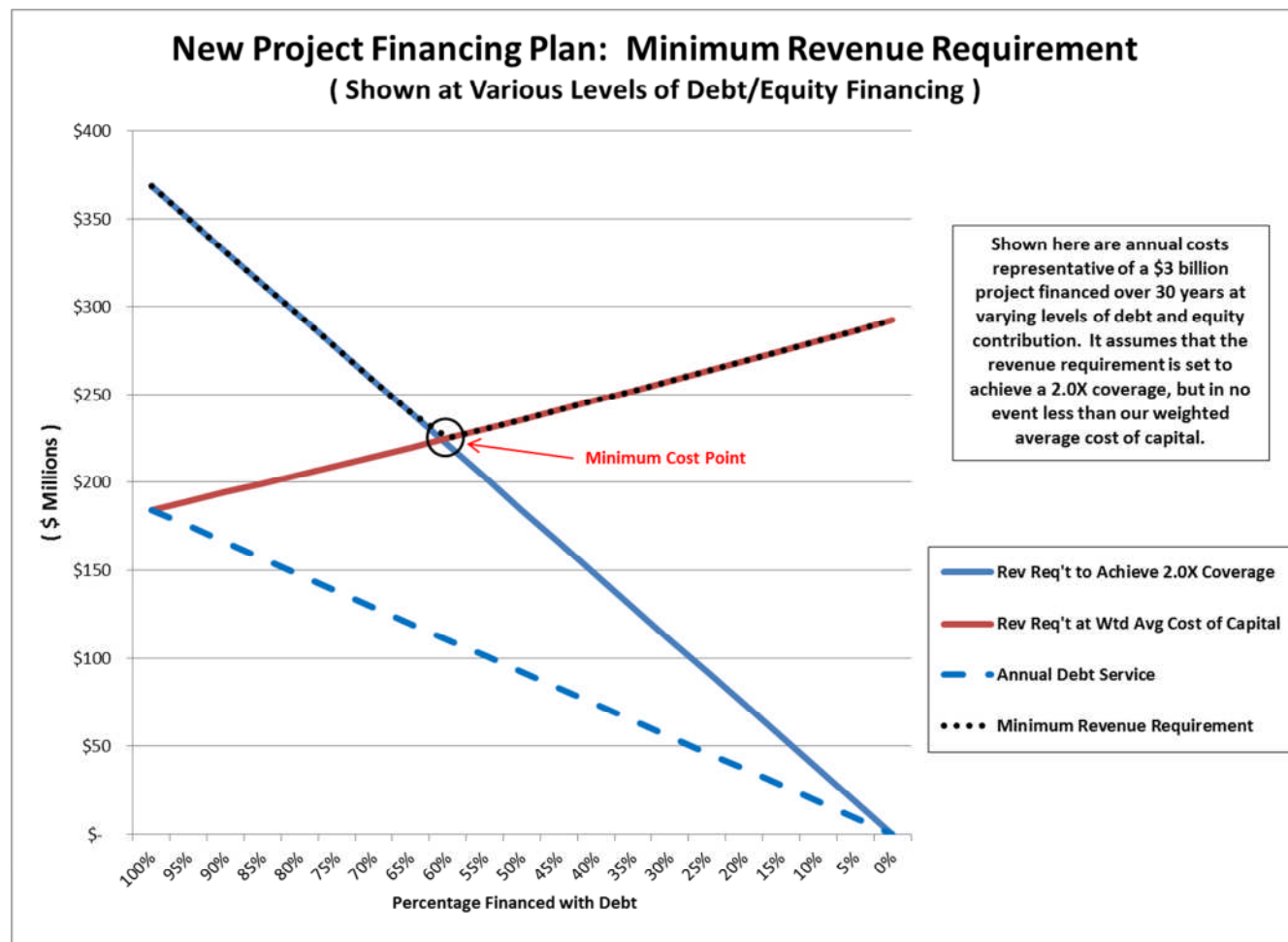
With the Authority's current outstanding debt levels of \$1.7 billion, to add as much as \$2.4 billion or more in additional debt financing could very well overburden the Authority financially. Here, a second financial metric of significance is considered. The Authority's debt as a percentage of capitalization is a low 31%. (Moody's, by comparison, benchmarks it AA ratings category with a level of at or below 50%). With 100% debt financing, the debt as a percentage of capitalization metric exceeds 50%.

In order to maintain the Authority's financial metrics at acceptable levels (and thereby maintain its AA credit rating), the Financial Plan calls for these investments to be funded with part debt and part internal funding sources (i.e., equity). As noted, it was being projected that the Authority's capital and energy efficiency requirements were going to significantly increase. In recognition of this expected growth in investments, combined with the conclusion of the accelerated debt retirement program, the Authority began to set aside funds to help support some of these major new investment(s) in energy infrastructure. At present, the Authority has a little over \$840 million in its Capital Project Reserve for this purpose.

In addition to protecting the Authority's financial standing and making necessary investments financeable, significant savings are available to NYPA's customers through the use of NYPA equity. For an illustrative example, if an assumed \$3 billion investment was to be 100% debt financed over 30 years, the annual debt service costs would be about \$185 million per year. In order for the Authority to maintain its 2.0X coverage, it would need to set rates to collect twice that or about \$370 million per year. If, on the other hand, NYPA was to use its reserves for one-third of this investment, annual debt service declines to less than \$125 million per year and the required rates would be set to recover \$245 million per year. This represents a savings of \$125 million per year for the customer.

As demonstrated in the chart below, at approximately two-thirds debt and one-third equity, the minimum cost point is achieved by drawing a balance between NYPA's weighted average cost of capital and its goal to maintain coverage at or above the median for comparable AA rated wholesale public power organizations. Any points to the right of the minimum cost point on the '2.0X Coverage Line' would represent an under collection on the part of NYPA in that it is less than the Authority's weighted average cost of capital taking into account the opportunity cost associated with NYPA's reserve funds. Conversely, any points to the left of the minimum cost point on the '2.0X Coverage Line' would represent an over collection on the part of NYPA in that it is greater than the Authority's weighted average cost of capital. Through the deployment of this CPR, the Authority maintains

access to low-cost capital markets and can deliver tremendous savings to its customers thereby furthering its mission.



Based on the foregoing it is recommended that the Trustees formally approve the dedication of funds presently held in the CPR to meet a portion of the costs of the following projects in the following amounts:

<u>Project</u>	<u>Dedicated CPR</u>	<u>Total Project Cost</u>
Transmission LEM	\$ 200 million	\$ 726 million
Lewiston Plant LEM:	\$ 125 million	\$ 460 million
Build Smart New York:	\$ 300 million	\$ 800 million
Other Strategic Initiatives:	\$ 150 million	-----
Total:	\$ 800 million	-----

FISCAL INFORMATION

Dedication of the CPR funds in support of the aforementioned strategic initiatives, capital plan and energy efficiency investments were anticipated and such funds are presently on deposit for this purpose in the Operating Fund. Until required, the monies will remain invested in the Authority's Operating Fund in accordance with the Authority's Investment Guidelines and will be available, if necessary, to meet any operating expenses or debt service payments.

RECOMMENDATION

The Executive Vice President and Chief Financial Officer recommends that the Trustees approve the dedication of \$800 million of funds presently held in the Capital Project Reserve to meet a portion of the costs of major renewals, replacements, repairs, additions, betterments and other investments associated with the Authority's strategic initiatives, capital plan and energy efficiency investments as set forth above.

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

Mr. Donald Russak provided highlights of staff's recommendation to the Trustees. In response to a question from Chairman Koelmel, Mr. Russak said the cost of debt was assumed to be 4-1/2 %, and the overall weighted average cost of capital is 6%.

Responding to a question from Trustee Nicandri, Mr. Russak said approval of the resolutions would encumber those funds for particular projects going forward and added that by this action the Board is not authorizing any expenditures at this time. The expenditures will follow the Authority's normal expenditure authorization procedures and the Board's approval.

Responding to question from Trustee Foster, Mr. Russak said changes in the expenditure allocations can be made by further resolution and they can be adopted and amended as circumstances change.

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

RESOLVED, That the Trustees hereby approved the dedication of \$800 million of funds presently held in the Capital Project Reserve in the Operating Fund to meet a portion of the costs of major renewals, replacements, repairs, additions, betterments and other investments associated with the Authority's strategic initiatives, capital plan and energy efficiency investments, as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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 resolution, subject to approval as to the form thereof by the Executive Vice President and General Counsel.

9. **Informational Item: NYS Draft Energy Plan**

Vice Chair Mahoney said the presentation on the NYS Draft Energy Plan will be tabled and presented at the next meeting of the Board.

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

Mr. Chairman, I move that the Authority conduct an executive session to consult with counsel. Upon motion made and seconded an Executive Session was held.

11. **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.

12. **Next Meeting**

The Regular Meeting of the Trustees will be held on **February 25, 2014, at 11:00 a.m., 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 1:00 p.m.

A handwritten signature in black ink, appearing to read "Karen Delince", written in a cursive style.

Karen Delince
Corporate Secretary

EXHIBITS

For

January 28, 2014

Regular

Trustees' Meeting

Equipment ID	Model year	Manufacturer ID	Model ID	Equipment description	Serial number	Fair Market Value
S461	2004	CHEV	TAHO	SUV-LD-4X4	1GNEK13Z44J279721	\$11,000



ANDREW M. CUOMO
GOVERNOR

ROANN M. DESTITO
COMMISSIONER

STATE OF NEW YORK
EXECUTIVE DEPARTMENT
OFFICE OF GENERAL SERVICES

MAYOR ERASTUS CORNING 2ND TOWER
THE GOVERNOR NELSON A. ROCKEFELLER EMPIRE STATE PLAZA
ALBANY, NEW YORK 12242

December 6, 2013

Mr. Gil Quiniones
President & Chief Executive Officer
New York Power Authority
123 Main Street
White Plains, New York 10601

Dear Mr. Quiniones:

On behalf of the NYS Office of General Services ("OGS"), I am requesting, for your consideration, transfer of one (1) vehicle from the New York Power Authority to OGS. The primary purpose of the transfer is to support the expanded role of OGS in providing essential services for the operation of state government. The vehicle will be placed into the OGS fleet of vehicles and will remain in public ownership.

The enacted 2013-2014 state budget dramatically expanded the role of the delivery of OGS services in support of State government. Following directives by Governor Cuomo, OGS is working to change the way State government does business to reduce costs to New York taxpayers and increase efficiencies across all State agencies. Most of the Governor's reforms focus on specific services and functions for which OGS is now accountable. OGS is now responsible for the development and implementation of the following statewide enterprise initiatives which have been or will be consolidated within the agency:

- Strategic Sourcing: transforming and centralizing of statewide procurement of commodities, services and technology to harness the state's full buying power to reduce costs to the state and local governments.
- Business Service Center: consolidating traditional back office operations commencing with Finance and Human Resources and their transactions to be overseen on behalf of state agencies by OGS to create efficiencies for agencies enabling them to focus on their core missions while improving customer service.
- Real Estate Center of Excellence: administering the portfolio of state properties and management of all state leases. Prior to the establishment of this new Center OGS continues to work on a statewide Real Estate Optimization project which is dramatically decreasing vacancy rates in state leased and owned building from just under 30% to an industry standard of under 9% yielding tens of millions of dollars in savings to taxpayers.

With this expanded portfolio of responsibilities the efficient delivery of services around the State is critical. State staff who will be implementing these initiatives and enterprises for OGS is expanding. The current OGS fleet of vehicles is limited in size, constricted by high mileage and vehicle age and maintenance issues. OGS budget constraints does not allow for the purchase of additional new vehicles. The transfer of this vehicle to OGS will result in benefits to the public from the management of these sustainable enterprise initiatives through cost reductions to the state, public authorities, local governments, school districts and the public

We thank the NYPA Board of Trustees for consideration of this transfer of a vehicle.

Sincerely,



Joseph J. Rabito
Executive Deputy Commissioner

Enclosure

cc: Judith McCarthy, Executive Vice President & General Counsel
Franklin Hecht, OGS Chief Financial Officer

President & Chief Executive Officer Report

Gil Quiniones

January 28, 2013

Board of Trustees Meeting

NYPA Overall Performance

December 2013

Quantified Measures

Goal	Measure	Year-to-Date 2013				Year 2014	
		Status	Trend	Target	Actual	Risk Range	
Maintain Infrastructure	Generation Market Readiness (%)			99.40	99.65		
	Transmission System Reliability (%)			96.08	96.14		
Financial Management	Debt Coverage (Ratio)			2.40	3.15*		
	O&M Budget Performance (\$ Millions)			366.7	365.2	<div>Risk Range</div> <div> Year-to-Date Actual</div> <div> Risk Threshold</div> <div>Projected risk ranges to be reported quarterly</div>	
Energy Services	MMBTU's Saved			400	473.8		
	Energy Efficiency Investment in State Facilities (\$ Millions)			57	74.5		
Workforce Management	Retention (# of Touchpoints)			460	805*		
Safety Leadership	DART Rate (Index)			0.78	0.76		
Environmental Responsibility	Environmental Incidents (Units)			32	31		

Status

Meeting or Exceeding Target

Below Target

Significantly Below Target

Trend

Improving

Stable

Worsening



Edward Welz
Chief Operating Officer

TO: NYPA BOARD OF TRUSTEES

FROM: EDWARD WELZ, CHIEF OPERATING OFFICER

DATE: JANUARY 10, 2014

SUBJECT: MONTHLY REPORT FOR THE BOARD OF TRUSTEES

This report covers performance of the Operations group in December 2013.

Operations

Plant Performance

Systemwide net generation¹ was 2,261,387 megawatt-hours² (MWh) for December which is above the projected net generation of 2,043,960 MWh for the month. For the year, net generation was 24,891,557 MWh which is above the projected target of 23,220,635 MWh.

The fleet availability factor³ was 87.42 percent in December and 87.63 percent for the year. Generation market readiness factor⁴ was 99.75 percent in December, which is better than the monthly target of 99.40 percent. Year-to-date generation market readiness factor was at 99.65 percent, which is above the annual target of 99.40%.

There were no significant forced outages⁵ in December.

Generation net revenue in December was \$21.8 million with a loss of revenue of \$0.05 million. For the year, net revenue was \$323.4 million while revenue loss remains at \$1.72 million.

Niagara River flows in December were slightly above the historical average and are expected to be near normal levels for the next two years. St. Lawrence River flows during December were at forecast level. River flows are expected to be near historical levels at the beginning of 2014, and then fall below average for the rest of the year.

Transmission Performance

Transmission reliability⁶ in December was 98.49 percent, which was above the target of 97.53 percent. The 2013 transmission reliability is 96.14 percent, above the target of 96.08 percent.

There were no significant unplanned transmission events⁷ in December to report.

Safety

The NYPA DART (Days Away, Restricted or Transferred) Rate for December was 1.60 compared to the target of 0.78. For the year, the DART Rate is 0.61.

The Operations DART Rate for December is 2.43 compared to the target of 1.08. For the year, the DART Rate is 0.79.

There were two lost time incidents in December that met the DART criteria. For the year, there have been 11 injuries that resulted in lost time and met the DART criteria.

Environmental

There were two reportable incidents in December:

1. At Vischer Ferry, a small oil leak was discovered from an unknown source when Unit 2 was shutdown. About 5 gallons of oil was released inside the unit.
2. At Niagara, 3 gallons of diesel fuel was released when a pipe was clipped during excavation at the fuel tanks.

For the year, there have been thirty-one (31) incidents. The annual target is 32 incidents.

Relicensing – Niagara Power Project

Design work for the Strawberry Island HIP continues. Foundation work for a new stairway at Art Park has been substantially completed and is now shutdown for the winter.

Support continues to be provided for the Maid of the Mist project which is progressing very well. Planning and coordination is being provided to minimize the disturbance and interruption of use of NYPA recreational facilities that are being affected by this undertaking.

Relicensing – St. Lawrence-FDR Power Project

Construction of this season's Adjoining Landowner Shoreline Stabilization projects will begin shortly. Experience has shown that this work is best done with frozen ground and low water levels.

Relicensing – Blenheim-Gilboa Project

Preparation of the preliminary licensing documents is complete and they have been distributed for executive review and approval. The formal FERC Relicensing process will commence in the first quarter of 2014. At this time, no significant regulatory issues that would impact relicensing have been identified.

Life Extension and Modernization Programs

Transmission LEM

T-LEM is a multiyear program that will upgrade the Authority's existing transmission system to maintain availability, increase reliability, and ensure regulatory compliance. The Program encompasses Authority transmission assets in the Central, Northern, and Western Regions. The Program is estimated to cost \$726 million and is comprised of several projects:

- St. Lawrence Breaker & Relay Replacement:
 - STL Breaker Installation: RFQ issued with bids due January 7, 2014.
 - STL Breaker Procurement: Contract issued to HVB for procurement of circuit breakers.
 - STL Station Service Upgrade Procurement: Procurement is on hold pending completion of assessment to determine replacement strategy.
 - Massena Substation Relay Replacement: Equipment is on order. Outages scheduled for February – March 2014.
 - 100MVAR Capacitor Banks: Award is being processed. CH2M is working on the final design package.
- CEC Autotransformer/Reactor Refurbishment:
 - ABB has completed the first reactor refurbishment (#1A).
- Massena Substation Reactor Refurbishment:
 - ABB has ordered long-lead materials to begin the first reactor refurbishment (#1A) in 2014.
- ADK Substation Spare Autotransformer Procurement:
 - The proposals have expired. Rebidding is pending resolution of MA1&2 upgrade as to whether the substation will remain at 230kV or be upgraded to 345kV.
- NIA, BG & CEC Relay Replacements:
 - The project team continues to design, procure equipment and install relays.
- Massena Substation Autotransformer Replacement:
 - The spare auto-transformer has arrived in the US. The vendor has encountered transportation issues due to lack of a rail car in order to move the equipment to Massena. A revised schedule is being developed by the vendor.
 - Remaining auto-transformers are scheduled for delivery and installation in 2014.

- Tower Modeling:
 - Tower modeling of the weathering steel structures and grillage was completed.
- Tower Painting :
 - Tower painting proposals were received and are being evaluated for work at STL and NATL starting in 2014; work has been deferred to 2015.
- NIA, STL, CEC & BG Switchyard LEM & STL Substation LEM:
 - The project team has assessed switchyard and substation equipment and determined the priority of equipment replacements.
 - Project Plans have been issued for review.
- PV-20 Submarine Cable Replacement:
 - Preliminary engineering activities are ongoing by CHA in collaboration with VELCO.

LPGP LEM

The spare GSU was delivered and swapped with the first new GSU in order to gain operation time under the warranty and was placed in service date on December 16, 2013. The second turbine assembly was completed and is scheduled to arrive on site in mid-January 2014 as planned. The assembly of the third and fourth turbines commenced in Hitachi's facility located in Japan. The new turbine blade design, "LBR3", will be incorporated into the fifth runner as previously reported; the new blade "mold castings" are presently being fabricated and the band and crown have been poured.

The second unit outage, Unit 5, commenced on October 15, 2013 as scheduled and the refurbishment work is well underway including the additional repairs to the stay ring and vanes and the installation of a custom turbine liner wall transitional stainless steel section, this was unexpected. Hitachi and their sub-contractor, Gracon, work crews are working multiple shifts, six days a week, in order to try and recover the schedule. The return to service date is May 23, 2014 which is one month shorter than the first unit. The LPGP LEM program is scheduled to be completed in 2020.

Technical Compliance – NERC Reliability Standards

- Enforcement Actions – Northeast Power Coordinating Council (NPCC):
 - Eleven (11) enforcement actions, related to various requirements.
 - The mitigation plans for the open enforcement actions were completed and are being reviewed by the NPCC enforcement staff.
- Internal Investigation of Possible Violations:
 - In December, one new possible violation was identified for investigation and one (1) was closed.
 - Three (3) investigations, relating to various requirements, are currently in progress.

- Other Compliance Activities:
 - ***Self-Certifications:*** There were no self-certifications of compliance due for standards applicable to NYPA in December.
 - ***Critical Infrastructure Protection (CIP) Standards - Version 5:*** On November 21, 2013 FERC approved the CIP Version 5 reliability standards and nineteen new or revised definitions related to the new standards. FERC's draft final rule also approved the implementation plan. NYPA must demonstrate compliance to the revised standards by April 1, 2016. Staff continues to perform a classification assessment of those assets that will be affected by the revised standards to confirm the scope and costs of the implementation plan that will ensure NYPA's compliance with the revised standards. Expenditure estimates for implementation of CIP version 5 have been included in the Operations budget plan for 2014-2016.
 - ***Compliance Management Agreements with Other Utilities:*** NYPA and Con Edison executed Memoranda of Understanding for management of compliance accountabilities and task responsibilities for the Transmission Owner reliability standards applicable to substations that NYPA owns and that Con Edison maintains and operates for NYPA; the Sprainbrook and Astoria Annex Substations.
 - ***NERC Reliability Assurance Initiative (RAI):*** NYPA, along with other generation and transmission companies in North America, including Large Public Power Council (LPPC) and American Public Power Association (APPA) members, has been actively supporting the North American Electric Reliability Corporation (NERC) and NPCC in moving this important program forward. NYPA continued to participate in two NPCC pilot programs to test new compliance monitoring and enforcement tools; one is focusing on methods for assessing a company's internal controls for managing compliance and one is focusing on new tools for processing minimal risk violations of the standards. These pilot programs are being conducted in several regions across the country to establish the basis for a more risk-based, continent-wide compliance monitoring process. Furthermore, at the request of NERC, NYPA staff has or is participating in three (3) Industry Focus Groups related this initiative.

Energy Resource Management

NYISO Markets

In December, Energy Resource Management (ERM) bid 2.44 million MWh of NYPA generation into the NYISO markets, netting \$62.7 million in power supplier payments to the Authority. Year-to-date net power supplier payments are \$586.8 million.

Fuel Planning & Operations

In December, NYPA's Fuels Group transacted \$31.8 million in natural gas and oil purchases, compared with \$26.5 million in December 2012. Year-to-date natural gas and oil purchases are \$324.3 million, compared with \$227.8 million at this point in 2012. The total \$96.5 million increase is mainly due to the higher cost of fuel and/or fuel consumption at the Astoria Energy II Plant (\$40.9 million), Small Clean Power Plants (\$13.2 million), Richard M. Flynn Power Plant (\$3.6 million), and the 500-MW Combined Cycle Plant (\$38.8 million).

GLOSSARY

¹ **Net Generation** – The energy generated in a given time period by a power plant or group of plants, less the amount used at the plants themselves (station service) or for pumping in a pumped storage facility. Preliminary data in the COO report is provided by Accounting and subject to revision.

² **Megawatt-hour (MWh)** – The amount of electricity needed to light ten thousand 100-watt light bulbs for one hour. A megawatt is equal to 1,000 kilowatts and can power about 800 homes, based on national averages.

³ **Availability Factor** – The Available Hours of a generating unit over the Period Hours (hours in a reporting period when the unit was in an active state). Available Hours are the sum of Service Hours (hours of generation), Reserve Shutdown Hours (hours a unit was not running but was available) and Pump Hours (hours a pumped storage unit was pumping water instead of generating power).

⁴ **Generation Market Readiness Factor** – The availability of generating facilities for bidding into the New York Independent System Operator (NYISO) market. It factors in available hours and forced outage hours that drive the results.

⁵ **Significant Unplanned Generation Events** – Those events (forced or emergency outages of individual generator units) of duration greater than 72 hours, or have a total repair cost of greater than \$75,000, or result in greater than \$50,000 of lost revenues.

⁶ **Transmission Reliability** - A measurement of the impact of forced and scheduled outages on the statewide system's ability to transmit power.

⁷ **Significant Unplanned Transmission Events** – Those events (forced or emergency outages of individual transmission lines) which directly affect the reliability of the state's transmission network, or affect the availability of any component of the state's transmission network for greater than 8 hours, or that have a repair cost greater than \$75,000.

Chief Financial Officer – Summary Report

For the year ended December 31, 2013

Executive Summary

■ Net Income (preliminary) *

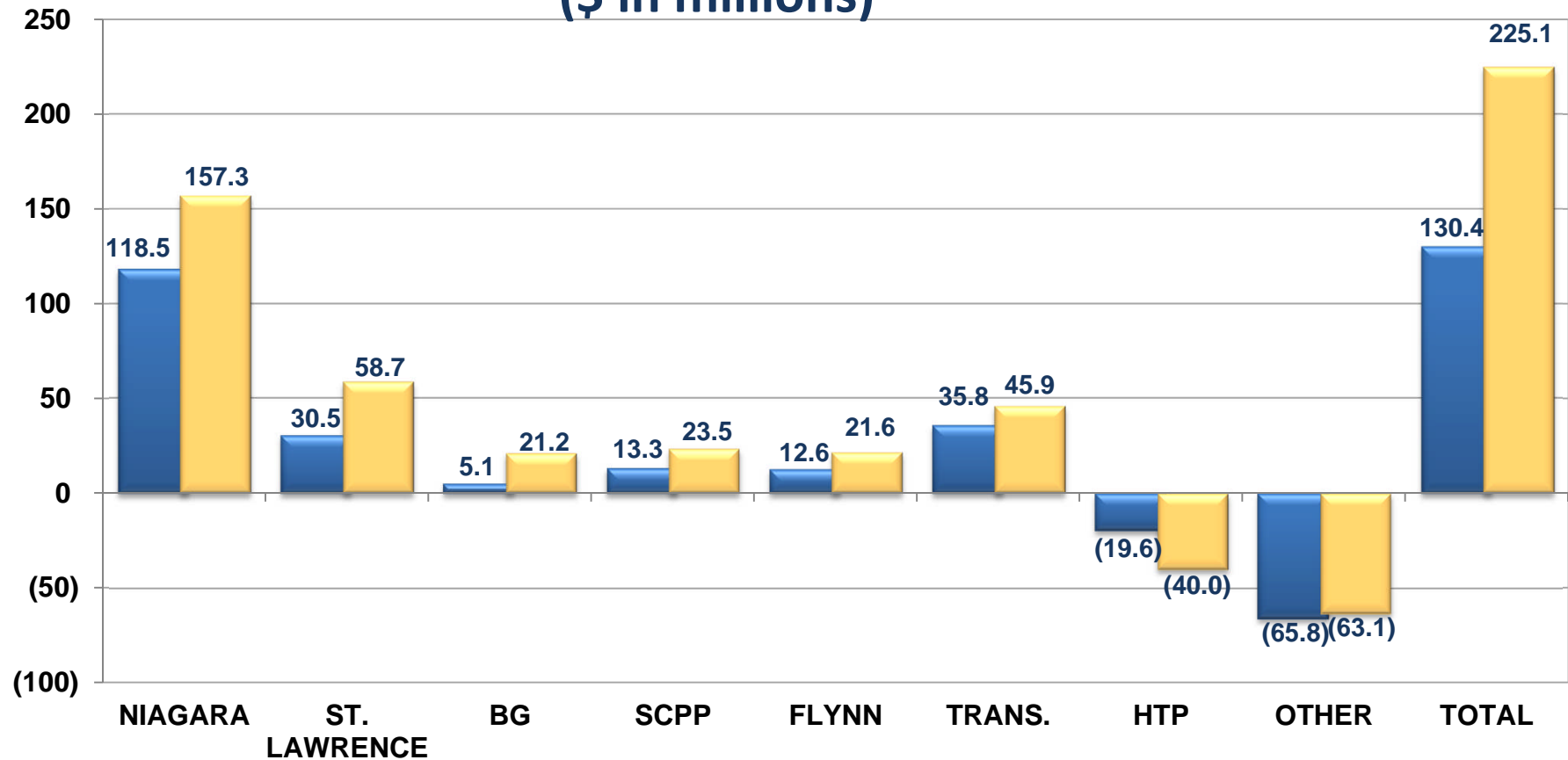
- Net income for the year was \$225 million, which was \$95 million higher than the budget. Higher net margins on sales (\$82 million) and lower other operating expenses (\$33 million) were partially offset by lower investment income (\$15 million).
- Positive variances in net margins at the hydro facilities were substantially attributable to increased generation and higher capacity prices. Energy prices were higher than forecast in the downstate market, resulting in higher margins at Flynn and the SCPP's.
- HTP results were an offset to these positives due to significantly lower activity than anticipated.
- Other operating expenses were lower primarily due to the timing of Industrial Incentive awards and certain economic development fund and market acceleration program expenditures. In addition, in December, an adjustment was booked decreasing the estimate of Power for Jobs rebates to be paid in the future as this program winds down and the final rebate estimates are trued-up to actuals.
- Investment income was lower due to the impact of a sharp increase in market interest rates on the market value of fixed rate investments in the Authority's portfolio. Cash losses will not be realized as long as investments are held to maturity, which is generally the case.

**Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

Net Income

Year ended December 31, 2013*
(\$ in millions)

■ BUDGET
■ ACTUAL



*Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.

Chief Risk Officer – Summary Report

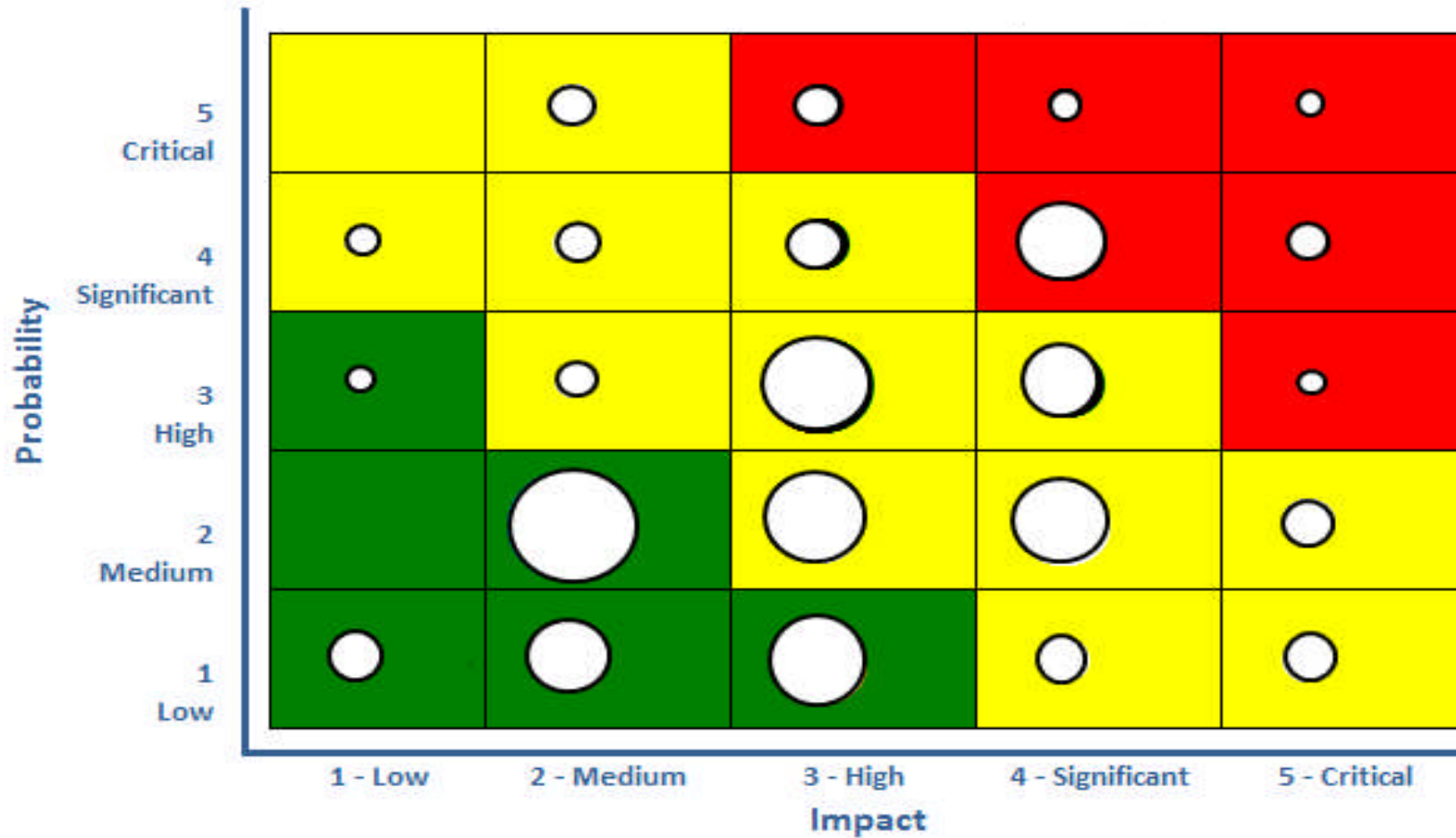
**January 28, 2014
Board of Trustees Meeting**

Frank Deaton, Director Enterprise Risk Management

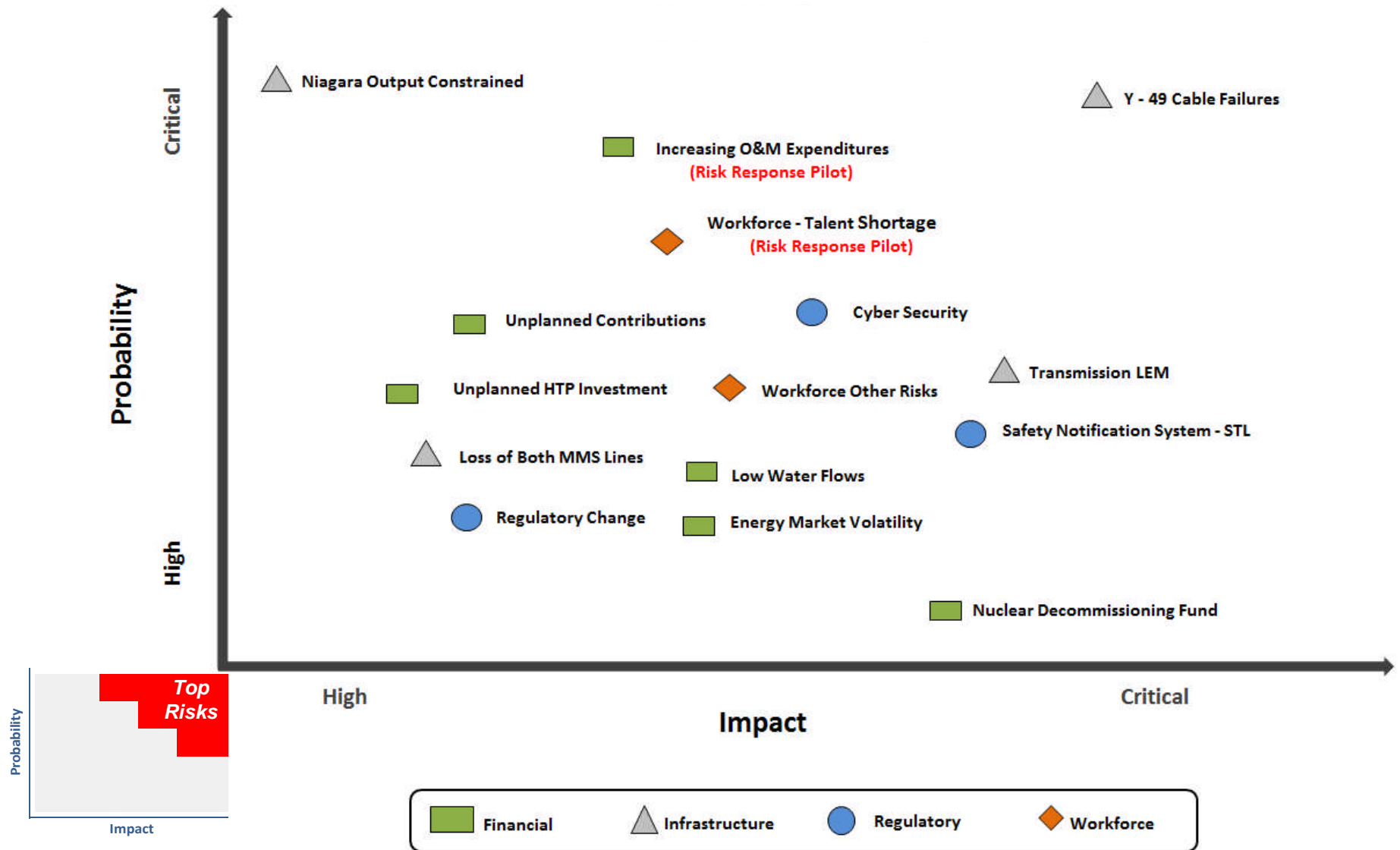
Chief Risk Officer – Summary Report

- Risk Response & Key Risk Indicator (KRI) Pilot
- Risk Inventory/Top Risk Update

Risk Inventory Heat Map



Top Risks – Summary Chart



January 28, 2014

3. Q&A on Reports from:

- e. Senior Vice President of Strategic Planning

PLACEHOLDER

Exhibit Number	Company Name	Program	City	County	Power Requested (kW)	Existing Jobs	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage & Benefits	Power Recommended (kW)	Contract Term
A-1	Ingram Micro, Inc .	EP	Amherst	Erie	300	1,510	90	\$2,750,00	\$59,500	130	7 Years
A-2	Graphic Controls	RP	Buffalo	Erie	730	283	35	\$950,000	\$37,332	510	7 Years
Total Hydropower Recommended							125	\$ 3,700,000		640	

APPLICATION SUMMARY
Expansion Power

Company:	Ingram Micro, Inc.
Project Location:	Amherst
County:	Erie
IOU:	National Grid
Business Activity:	Global wholesale technology distributor.
Project Description:	Expansion project to lease, upgrade and renovate an additional building and upgrade and renovate current facility on Wehrle Drive in Amherst.
Existing Allocation(s):	900 kW Expansion Power
Power Request:	300 kW
Power Recommended:	130 kW
Job Commitment:	
Existing:	1,510 jobs
New:	90 jobs
New Jobs/Power Ratio:	300 jobs/ MW
New Jobs - Avg. Wage and Benefits:	\$59,550
Capital Investment:	\$2,750,000 million
Capital Investment/MW:	\$9.1 million/ MW
Other ED Incentives:	ESD Excelsior Jobs Program up to \$7,697,825 and up to \$1 million in sales and mortgage tax breaks from the Town of Amherst Industrial Development Agency.
Summary:	Ingram Micro is the largest global wholesale technology distributor with operations in 26 countries and its Amherst facilities house the company's largest sales office in the world. It's these facilities that have been chosen for expansion (although there was consideration to relocate the entire operations out of state) to increase its U.S. sales force. Along with other economic development incentives, the hydro allocation would allow the Amherst facility to continue to grow in Western New York and expand on its current 1,510 well-paying jobs.

APPLICATION SUMMARY
Replacement Power

Company: Graphic Controls Acquisitions Corporation

Project Location: Buffalo

County: Erie

IOU: National Grid

Business Activity: Producer of charts and markers for the industrial and medical industries.

Project Description: The potential relocation of a facility that produces syringe and industrial markers to its Buffalo manufacturing facility.

Existing Allocation(s): 130 kW EP, 250 kW RP, 120 kW RP, 310 kW RNY

Power Request: 730 kW

Power Recommended: 510 kW

Job Commitment:

Existing: 283 jobs

New: 35 jobs

New Jobs/Power Ratio: 70 jobs/ MW

New Jobs - Avg. Wage and Benefits: \$37,332

Capital Investment: \$950,000

Capital Investment/MW: \$1.9 million/ MW

Other ED Incentives: None at this time

Summary: Graphic Controls has been under various owners since it first opened in Buffalo in 1957. **The proposal to potentially shut** down German operations and relocate its worldwide filtration business to its Buffalo facility is a continuation of their long-term plan to grow its manufacturing capabilities in the medical supply business. The plan still needs approval by its owners and there is a belief a hydropower allocation will help offset the expensive severance responsibilities in closing its German facility.

**Decrease in New York City Governmental Customer Fixed
Cost Component – Notice of Adoption**

**Exhibit “A”
Customer Comments**

December 20, 2013

VIA E-MAIL AND OVERNIGHT DELIVERY

Ms. Karen Delince
Corporate Secretary
New York Power Authority
123 Main Street, 11-P
White Plains, New York 10601

Re: SAPA No. PAS-42-13-00007-P – Rates for the Sale of Power and Energy

Dear Ms. Delince:

Enclosed please find the Comments of the City of New York on the New York Power Authority's proposal to decrease the Fixed Costs component of the production rates for its New York City Governmental Customers for 2014. These comments are submitted in response to the notice published in the State Register on October 16, 2013.

We note that NYPA provided some additional information to the City on December 18, 2013. Given the timing, the City only has briefly reviewed the information but has determined that the information provided does not resolve concerns raised in the comments. We note that this problem further demonstrates the need for modifications to the fixed cost review and comment process.

If you have any questions regarding these comments, please feel free to contact me.

Sincerely,

COUCH WHITE, LLP



Kevin M. Lang

KML:slg

Enclosure (via e-mail and U.S. Mail)

cc: Hon. Edna Wells Handy, Commissioner, DCAS

Mr. Mitch Gipson, First Deputy Commissioner, DCAS

Ms. Sally Renfro, Chief of Staff, DCAS

Ms. Kristin Barbato, Deputy Commissioner and Chief Energy Management Officer,
DCAS Energy Management

Ms. Karen Delince
December 20, 2013
Page 2

Ms. Susan Cohen, Assistant Commissioner, DCAS Energy Management
Dr. Sergej Mahnovski, Director, NYC Office of Long Term Planning and Sustainability
Gail Rubin, Esq., Chief, Affirmative Litigation, NYC Law Department

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**POWER AUTHORITY
OF THE STATE OF NEW YORK**

Rates for the Sale of Power and Energy

SAPA No. PAS-42-13-00007-P

**COMMENTS OF
THE CITY OF NEW YORK**

December 20, 2013

**COUCH WHITE, LLP
540 BROADWAY
ALBANY, NEW YORK 12207
Telephone: (518) 426-4600
Telecopier: (518) 426-0376**

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PRELIMINARY STATEMENT

While some progress was made in 2013, and additional steps have been taken for 2014, to moderate the energy rates charged by the New York Power Authority (“NYPA”) to the City of New York, (“City”), more effort is needed. NYPA’s financial health is tied to the Long Term Agreements (“LTA”) between it and the City and the revenues provided by the City. Published reports have indicated that the City and other downstate customers account for about two-thirds of NYPA’s revenues. As discussed herein, the City has numerous concerns with the level of costs that NYPA includes in the Cost-of-Service and with the process for determining the production rates. Given the importance of the City to NYPA, the City respectfully requests that the NYPA Board of Trustees (“Board”) continue to focus on controlling and reducing NYPA’s fixed costs.

In considering the proposed 2014 Cost-of-Service for the City at the September 24, 2013 Board meeting, no member of the Board raised any questions regarding the level of the fixed costs, nor was there discussion of the proposal. Rather, after summarily adopting NYPA’s Staff’s recommendation to issue the proposal for public comment, the Chairman commented that the Board could then “focus our time, effort, and energies where it really matters.”¹ The City respectfully submits that the decision to charge the City and other New York City Governmental Customers (“NYCGCs”) almost \$800 million in production costs for 2014 is worthy of the Board’s time and attention.

While the City appreciates the efforts taken to date to reduce the fixed costs for 2014, additional reductions should be made. The City respectfully urges the Board to carefully scrutinize the proposal before it and make the further adjustments discussed in these comments.

¹ <http://streaming1.expeditevcs.com:8080/NYPA/NYPA092413-003.htm>.

PROCEDURAL SETTING

In accordance with the LTAs, on May 23, 2013, NYPA distributed its *“Preliminary Staff Report – New York City Governmental Customers Annual Planning and Pricing Process Analysis, Including: Preliminary 2014 Cost-of-Service”* (“Preliminary Report”) to the NYCGCs. At the time the Preliminary Report was issued, NYPA advised the NYCGCs that its 2014 budget had not yet been developed, and that some of the costs were “placeholders” that simply reflected increases compared to the 2013 fixed costs.

Discovery on the Preliminary Report ensued. Between June 2013 and September 2013, the City sought additional information on and clarifications of the information in the Preliminary Report. At its September 24, 2013 meeting, the Board summarily approved the issuance of a notice of proposed rulemaking for the 2014 Cost-of-Service. On October 16, 2013, a notice of proposed rulemaking associated with the 2014 Cost-of-Service was published in the State Register (“October 16 Notice”). Pursuant to § 202 of the State Administrative Procedure Act (“SAPA”), the City submit these comments in response to that Notice.

The original deadline for submitting comments was December 2, 2013. On November 26, 2013, NYPA extended the comment deadline to December 20, 2013. On or about December 6, 2013, NYPA posted to its website revised figures for the 2014 Cost-of-Service. On December 12, 2013, NYPA provided some support for the revised figures. While the City acknowledges that the revised figures represent an overall reduction in the 2014 Cost-of-Service and appreciates the additional supporting documents, the latter raised additional questions and the City has not had sufficient time to properly analyze the changes and the information provided.

COMMENTS

POINT I

THE PROPOSED LEVEL OF OPERATIONS AND MAINTENANCE EXPENSES SHOULD BE REDUCED

On a total basis, the fixed costs in the 2014 Cost-of-Service are expected to be 9.8 percent lower than the fixed costs incorporated into 2013 rates. However, the Board must take note of the fact that the reduction is largely due to NYPA's partial restructuring of debt service to match the underlying life of assets, and to the end of the amortization of the Poletti debt expense. Within the overall Fixed Cost category, the operations and maintenance ("O&M") expenses are increasing by \$3.9 million, or 11.5 percent. While this amount may not seem large compared to the entire Fixed Costs, the increase has not been justified and the City's concerns should not be ignored.

One area of concern is the costs associated with the small hydroelectric facilities ("small hydros"). While the documentation provided on December 12 indicates that the O&M expenses for the small hydros has gone down compared to 2013, there is no basis to determine whether the amount proposed to be spent is reasonable. Indeed, the fact that the small hydros lose money each year calls into question the propriety of the expenditure level.

In particular, NYPA's plans for the Jarvis hydro warrant further consideration. NYPA explained to the NYCGCs earlier this year that Jarvis Unit #2 suffered some type of failure on June 29, 2012, and the turbine must be rebuilt at a cost now projected at \$339,400. As noted above, the small hydros are not economic even when fully operational. However, it appears that NYPA conducted no analysis to determine whether rebuilding this unit is cost-justified. Compounding this concern, NYPA revealed for the first time in the December 12 documentation that it now plans to rebuild Jarvis Unit #1, presumably at a similar cost. Again,

NYPA appears to have conducted no analysis to determine whether the rebuild makes economic sense.

In addition to the lack of justification, the recent information provided raises questions as to the manner in which NYPA intends to proceed. The original equipment was apparently of European design, and NYPA claims that it needs to reverse engineer the equipment in order to fabricate replacements. There is no explanation as to whether NYPA considered procuring replacement parts from the original equipment manufacturer, and the information also raises a question as to the prudence of NYPA's original actions and whether the NYCGCs should be responsible for the associated costs. Finally, the act of rebuilding a turbine is not a routine maintenance item; based on the description provided by NYPA, this work appears to be a major capital investment in the plant. As such, the costs of the work should be amortized over time.²

Before the Board approves the rebuild of either Jarvis Unit, it should require NYPA to prepare and present a cost-benefit analysis to the City and other NYCGCs. The decision to proceed should not occur until that analysis is completed and the City and other NYCGCs are given the opportunity to provide meaningful input into the matter.

Another specific concern pertains to NYPA's use of consultants, the costs of which are included in the O&M expenses. Specific inquiry was made regarding the nature and role of the consultants, and this matter was discussed during the August 19, 2013 meeting between the NYCGCs and NYPA. At that meeting, NYPA could not provide details regarding

² This has been a continuing concern to the NYCGCs. Capital investments should be distinguished from O&M expenses and recovered over the life of the equipment. This is standard practice in the utility industry. NYPA, however, refuses to separate capital investments from O&M expenses and improperly recovers the entire capital cost of projects from the NYCGCs when the projects are undertaken.

the consultants and agreed to circulate information at a later date. Again, while the amounts are not large compared to the entire Fixed Costs, the City's questions as to the services consultants are allegedly providing, how the sharing percentages were determined, and why repairs and maintenance work cannot be performed by NYPA employees have not been answered. The City's concerns should be addressed.³

Another part of the information provided on October 7 pertained to the derivation of the allocation percentages used for Shared Services Expense. That explanation indicated that the "HQ Managed O&M – 2014 Forecast" is \$208.6 million and that overheads are allocated based on labor ratios. No information was provided to show the derivation of the labor ratios, and the information shown is difficult to understand and track. The explanation suggests that only \$99.2 million of the \$208.6 million could be allocated directly to particular facilities. This suggests that almost 50 percent of the O&M costs represent administrative and general expenses – an unreasonably high percentage.⁴

³ On October 7, 2013, NYPA provided the following statements in apparent response to the City's request. Neither response is responsive to the question asked.

For AEII: "3. Listing of jobs/functions that consultants are involved with on behalf of City (shown at \$140k): *The consulting costs represent a share of the projected expenditures for developing and implementing hedge strategies and hedge effectiveness testing, as well as support for emerging issues impacting NYPA fuel supply.*"

For the small hydros: "6. Small hydros – list of consultants and descriptions of what function(s) they perform: *The projects that consultants were projected to work on at the time of the 2014 Preliminary COS preparation are as follows: Crescent Fish Guidance System, Crescent Tainter Gate Painting, Restoration of Crests on Dams A & B at Crescent, Transmission Tower repair at Vischer Ferry and Restoration of Crests on Dams D, E & F at Vischer Ferry.*" [Source: *2014 City Cost Of Service – Fixed Cost Follow-Up Items*, Email from Michael Quinn to the City, dated October 7, 2013.]

⁴ To try to better understand the information provided, the City reviewed the annual operating budgets approved by the Board. Doing so reinforced the City's concerns. The 2013 Operating Budget approved by the Board at its December 18, 2012 meeting shows a total budget of \$366.7 million, exclusive of AEII and HTP lease costs. The breakdown included on page 4 of 5 of the budget shows headquarters expenses, inclusive of research and

NYPA's proposal to add a new line item to the Cost-of-Service and separately charge for AEII direct support and shared services also raised a number of concerns. The derivation of the AEII direct support and shared services costs of \$2.1 million remains unexplained. NYPA could not provide any documentary support showing the legitimacy of the proposal, and its responses to information requests on this topic were contradictory and opaque. For example, in response to the City's information request 23, NYPA stated that it "absorbed these [the AEII] costs internally," but in the attachment to that response NYPA stated that the AEII costs "were either charged to the 500 MW [sic] or absorbed by other facilities." Thus, the

development costs, being about 31 percent of the total budget, not 50 percent. The breakdown also shows different allocations from those provided on October 7, raising a question as to why total O&M costs are allocated based on labor ratios for the Cost-of-Service when the budget reflects a different allocation of O&M costs. For example, the 2013 budget shows SENY costs at 1.94 percent of the total budget, but the October 7 document shows an allocation of 3.88 percent. Also, from comparing the two documents, it is impossible to discern what constitutes "HQ Managed O&M" – nothing in the 2013 budget supports such an allocation of the total budget.

The costs shown in the two documents should be reconcilable, and the inability to reconcile them raises a concern about the propriety of the fixed costs included in the Cost-of-Service. According to reports provided by NYPA to the City each year, NYPA has overcollected its fixed costs on a total basis in two of the last three years; no information is given on a facility or line item basis, making it impossible to know where overspending or underspending may be occurring. In contrast to the dearth of details provided by NYPA, Consolidated Edison Company of New York, Inc. provides extensive, project-by-project details on its budgeted and actual expenditures as part of its rate cases. NYPA should consider providing a similar level of detail to the NYCGCs.

The information provided by NYPA on December 12, 2013 buttresses these concerns. The 2014 budget information provided does not distinguish between O&M expenses and shared services, nor do the labor allocations. Moreover, the information indicates two separate categories of "SENY" costs but with no explanation for the different categories. There are no labor costs assigned to SENY with or without a "WBS" code, yet \$4.46 million of labor costs were assigned to SENY. The labor ratios also show duplicative allocations to the small hydros (under the "B" and "C" cost centers). While the information shows some decreases in 2014 compared to 2013, NYPA has not provided enough information to allow the City to reconcile the figures and ensure that costs are being properly allocated among NYPA's facilities.

City does not know what costs they were actually charged in the past, and it has no basis to determine whether the proposed costs are reasonable or appropriate.

In sum, NYPA has not properly justified its proposed O&M expense levels for the 2014 Cost-of-Service, and the City was not given sufficient information to confirm the reasonableness of the figures in the Preliminary Report. Moreover, the nature of this process is such that the City is not given the opportunity to comment on certain actual proposed spending levels when they replace earlier rough estimates that are primarily fixed percentage increases of the levels approved for the 2013 Cost-of-Service. Because of the insufficiency of the information provided, the City cannot opine on the reasonableness of the proposed O&M expenses. It is possible that further reductions to the allocations to the NYCGCs would be appropriate. Accordingly, the Board should require NYPA to provide more detailed explanations and justifications of the costs to it and to the NYCGCs, and it should ensure that the costs being properly allocated to the NYCGCs.

POINT II

NYPA SHOULD EXTEND THE RECOVERY PERIOD FOR THE 500 MW UNIT'S FIXED RATE DEBT SERVICE EXPENSE

Last year, the City asked the Board to improve the economics of the 500 MW unit by restructuring the unit's fixed and variable rate debt service expense to more closely reflect the expected life of the unit. The City appreciates that the Board favorably considered a part of this request and extended the recovery period for the variable rate debt service expense. That action helped, but it is not sufficient.

The economics of the 500 MW unit continue to be challenging and would be enhanced if the fixed rate debt service expense is restructured in a similar fashion to match the life of the plant. The detailed justification for doing so was provided by the City in the

December 17, 2012 comments submitted jointly with the other NYCGCs on the 2013 Cost-of-Service. That justification remains equally relevant this year, and in the interests of brevity, it is incorporated herein by reference.⁵ The City respectfully requests that the Board extend the recovery period for the fixed rate debt service expense to no less than 30 years.

POINT III

THE VARIABLE DEBT RATES CHARGED TO THE NYCGCS ARE EXCESSIVE AND UNREASONABLE

Based on publicly available information, it appears that the interest rates charged by NYPA for the variable rate debt for the 500 MW unit and the small hydroelectric facilities is an order of magnitude higher than NYPA's actual cost. The use of such rates is unjust and capricious.

The 2014 Cost-of-Service uses the following interest rates for the variable rate debt.

TABLE 1 Variable Debt Interest Rates per 2014 Cost-of-Service		
Figure	Title	Interest Rate
4E	500MW CCU – Variable Debt Service Expense Adjustable Rate Notes – Series 3 and 4	4.500 %
4F	500MW CCU - Variable Debt Commercial Paper Debt Service Expense	5.33 %
4I	Small Hydro - Variable Rate Debt Service Expense	4.94 % (weighted rate)

⁵ Copies of the relevant pages from the 2012 comments are included in Appendix A.

However, NYPA's financial statements report the following as its actual interest rates.

TABLE 2	
NYPA's Variable Debt Interest Rates	
Instrument	Interest Rate
Adjustable Rate Tender Notes – 2016	0.19 %
Adjustable Rate Tender Notes – 2020	0.19 %
Commercial Paper – EMCP (Series 1)	0.18 %
Commercial Paper – CP (Series 2)	0.16 %
Commercial Paper – CP (Series 3)	0.22 %
Source: NYPA Financial Statements, attached as Exhibit 3-A to the Minutes of the Regular Meeting of the Audit Committee on March 21, 2013	
Tax Exempt Commercial Paper – 1/1/14-12/31/14	0.25 % (assumed)
Taxable Commercial Paper – 1/1/14-12/31/14	0.50 % (assumed)
Tax Exempt Commercial Paper – 1/1/15-12/31/15	0.50 % (assumed)
Taxable Commercial Paper – 1/1/15-12/31/15	0.75 % (assumed)
Source: NYPA 2014-2017 Proposed Budget and Financial Plan ⁶	

A comparison of Table 2 and Table 3 reveals order of magnitude differences between the rates charged to the NYCGCs and NYPA's actual interest rates for variable rate debt. The interest rates included in the 2014 Cost-of-Service should be consistent with the NYPA's actual borrowing costs. Accordingly, the Board should direct NYPA to recalculate and reduce the variable rate debt expenses included in the Cost-of-Service.

⁶ The 2013-2016 Approved Budget and Financial Plan included similar interest rates as those shown above for the years in question.

POINT IV

THE COSTS FOR THE BLENHEIM-GILBOA PUMPED STORAGE FACILITY SHOULD BE REDUCED

Under the LTA, the NYCGCs' supply portfolio includes 250 MW from NYPA's Blenheim-Gilboa Pumped Storage Power Project ("Blenheim-Gilboa Facility"). As with the small hydros, the inclusion of the Blenheim-Gilboa Facility constitutes a net increase to the NYCGCs' production costs, whereas the initial purpose for including that output in the portfolio was to provide a benefit to the NYCGCs. The deficiency results from two factors.

First, NYPA has layered substantial transmission costs onto the costs of the Blenheim-Gilboa Facility. In recent years, the net revenues resulting from the sale of the Facility's output are insufficient to offset even the higher-than market capacity charge; adding these transmission costs only makes the economics worse for the City. The costs and revenues since the LTA was executed are shown in Table 3.

TABLE 3			
Blenheim-Gilboa Costs and Revenues			
Year	Gross Cost (\$ millions)	NYISO Revenues (\$ millions)	Net Cost/Revenues (\$ millions)
2005	10.47	(3.44)	7.03
2006	10.47	(2.79)	7.68
2007	10.47	(3.28)	7.19
2008	10.47	(3.40)	7.07
2009	10.47	(1.05)	9.42
2010	10.47	(1.61)	8.86
2011	10.47	(1.66)	8.81
2012	10.47	(2.44)	8.03

Second, NYPA charges the NYCGCs a rate that is too high for the cost of capacity. The rate of \$3.49/kW-month for the Blenheim-Gilboa Facility's capacity is reduced by

offsetting energy revenues, for a net capacity cost of just under \$3.00/kW-month over the past few years. Yet Rest-of-State capacity prices have been as much as \$1.00/kW-month to \$2.00/kW-month less than this net over this period. Every \$1.00/kW-month is an additional \$3 million above market costs for Rest-of-State capacity charged to the NYCGCs. There is no justification for the higher than market charges, and the Board should direct NYPA to immediately change the formula. At no time should the effective rate charged be higher than the market price of capacity.⁷

POINT V

COLLECTIONS FOR POLETTI DECOMMISSIONING COSTS ARE UNSUPPORTED

Notwithstanding the fact that the Charles A. Poletti Generating Station (“Poletti”) closed almost four years ago, NYPA continues to include Poletti-related costs in the Cost-of-Service. While some progress on this issue was made last year, the City’s concerns have not been fully addressed.

The City voiced its concerns with the Poletti decommissioning cost estimate to NYPA during the discovery phase of the process, and NYPA agreed to provide a clearer breakdown of the actual and anticipated costs. NYPA provided a revised breakdown, but instead of providing greater clarity, it compounded the concerns. According to the documents provided, the amounts in five of the six cost categories changed between August and October, and the overall decommissioning cost increased by \$400,000. However, NYPA provided no explanation for the changes or cost increase. To resolve these concerns, the Board should require NYPA to prepare and provide a detailed, itemized list of all of the Poletti decommissioning costs, with

⁷ The City is willing to discuss which market price should be used – strip, monthly, or spot.

references to supporting documents (*e.g.*, contracts, invoices, engineering plans) that justify each line item.

POINT VI

THE DECOMMISSIONING COST AND CORRESPONDING ANNUAL ASSET RETIREMENT CHARGE FOR THE 500 MW UNIT SHOULD BE ADJUSTED DOWNWARD

Very recently, NYPA advised the NYCGCs that adjustments had been made to annual asset retirement charge related to the decommissioning of the 500 MW unit. These adjustments lowered the charge by \$1.5 million, which is a positive step, but that action does not fully address the unreasonableness of the charge. Indeed, although the annual charge was lowered, NYPA increased the decommissioning cost. For the reasons discussed below, the Board should reverse this increase, further reduce the cost estimate, and concomitantly reduce the annual asset retirement charge.

The best evidence of the cost to decommission and dismantle the 500 MW unit would be a decommissioning study. The use of decommissioning studies has been long accepted in the utility industry. Recognizing that decommissioning costs can change over time, utilities review and update such studies periodically to ensure that their decommissioning funds are sufficiently funded. For example, NYPA and every other nuclear plant operator conducted decommissioning studies for their nuclear units to determine the appropriate level of their annual trust fund contributions. When nuclear plants were sold, the decommissioning studies were updated and corresponding adjustments were made to the purchase price to reflect the over- or under-funding of the decommissioning trusts.

To the City's knowledge, NYPA has never commissioned a decommissioning study for the 500 MW unit, so it has no reasonable basis to assume that either of its \$60 million

estimate in 2000 dollars provided in the Preliminary 2014 COS, or its \$63.7 million estimate in 2013 dollars provided in the Final 2014 COS, are valid or reasonable. In the absence of such a study, the Board should look to empirical data. The decommissioning cost of Poletti of \$47.3 million in current dollars is a reasonable and more rational data point to use.

As the Board is aware, the Poletti building is a substantially more robust structure than the building housing the 500 MW unit. The design and size of the boiler, the structural steel supporting it and the building, and the size and location of the building in relation to other buildings and equipment that are still operating all influence the decommissioning cost. Taking these factors into account, NYPA has advised the NYCGCs that the total decommissioning cost will be approximately \$47 million. The design of the 500 MW unit, particularly the design of the building and the relative location of the plant, should make its dismantlement easier and less expensive than Poletti. Therefore, there is no reasonable basis for NYPA's assumption that it will cost approximately 35 percent more to decommission the 500 MW unit (*i.e.*, \$47.3 million in 2013 dollars compared to \$63.7 million in 2013 dollars).

Last year, based on the decommissioning costs for Poletti provided by NYPA, the NYCGCs argued that the assumed total cost and annual asset retirement charge for decommissioning the 500 MW unit were too high and should be reduced. In response to these assertions, NYPA claimed to the Board that there is high volatility in such costs, decommissioning would not occur for decades, and if the actual decommissioning costs are lower than projected, collections from the NYCGCs may be reduced in the future.⁸ In its recent explanation of the changes made to the calculation of the annual charge, NYPA again asserted that the costs will be reconciled when the facility is decommissioned, and the NYCGCs will be

⁸ Minutes from the February 26, 2013 Board meeting, p. 25.

responsible only for the actual costs once they are known. NYPA's assertions lack merit, and the Board should not accept it or allow the NYCGCs to be overcharged for this item.

The problem with NYPA's position is that it is not appropriate to over collect the decommissioning costs each year. Moreover, the plant is expected to continue to operate for at least two decades. The cost should be collected ratably over the period, not overcollected in earlier years, subject to potential refund at the end. Further, there is no certainty that the City and other NYCGCs will be NYPA customers when the 500 MW unit is retired. Therefore, it would be arbitrary and irrational for the Board to continue to overcharge the NYCGCs, and to refuse to consider adjusting the annual charge on the basis that the City possibly could be made whole 20 or more years from now.

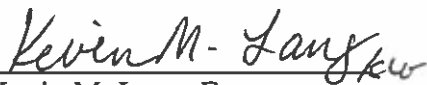
The charges included in the 2014 Cost-of-Service for decommissioning the 500 MW unit are unjust, unreasonable, and unsupportable. Therefore, the Board should, at a minimum, set the total decommissioning cost at no more than \$47.3 million in current dollars, and use that figure as the basis for annual asset retirement charges. Applying the same calculations used in Figure 5B of the Preliminary Report results in an annual asset retirement charge of \$1.067 million.

CONCLUSION

The City respectfully requests that the NYPA Board of Trustees adjust the level of fixed costs for the 2014 Cost-of-Service and adopt other changes in accordance with the discussion and recommendations set forth herein.

Dated: December 20, 2013
Albany, New York

Respectfully submitted,


Kevin M. Lang, Esq.
Couch White, LLP
Counsel for the City of New York
540 Broadway
P.O. Box 22222
Albany, New York 12201-2222
Tel: 518-426-4600
Email: klang@couchwhite.com

**Decrease in New York City Governmental Customer Fixed Cost
Component – Notice of Adoption**

Exhibit “B”

**Current 2013 and Proposed 2014
Customer Production Rates**

NEW YORK CITY GOVERNMENTAL CUSTOMERS

EXHIBIT "B"

Service Tariff No. 100 Rate Comparison (Current vs. Proposed)

Service Classification	Demand (\$/kW)		ENERGY (¢/kWh)											
			SUMMER		SUMMER ON PEAK		SUMMER OFF PEAK		WINTER		WINTER ON PEAK		WINTER OFF PEAK	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
SC 62 Conventional	\$0.00	\$0.00	7.746	7.516					7.267	7.032				
SC 65 Conventional	\$8.15	\$8.67	6.051	5.887					5.581	5.413				
SC 66 Conventional	\$0.00	\$0.00	5.937	5.908					5.937	5.908				
SC 68 Conventional	\$17.56	\$15.68	5.637	5.651					5.158	5.167				
SC 68 TOD	\$18.42	\$14.22			6.782	6.249	4.688	4.135			5.702	5.040	4.668	4.211
SC 69 Conventional	\$12.50	\$11.86	5.869	5.773					5.391	5.290				
SC 69 TOD	\$13.23	\$12.93			6.935	6.918	4.887	4.839			5.878	5.730	4.866	4.914
SC 69 KIAC TOD	\$13.23	\$12.93			5.125	5.403	3.077	3.324			4.068	4.214	3.057	3.399
SC 80 Conventional	\$1.72	\$1.77	5.461	5.326					5.461	5.326				
SC 82 Conventional	\$11.88	\$10.56	5.898	5.999					5.418	5.515				
SC 85 Conventional	\$11.36	\$13.36	6.043	5.817					5.577	5.347				
SC 91 Conventional	\$11.44	\$10.11	5.988	6.031					5.509	5.548				
SC 91 TOD	\$14.60	\$13.64			6.985	6.920	4.892	4.806			5.906	5.711	4.872	4.882
SC 93 Conventional	\$7.94	\$8.02	6.013	6.299					5.539	5.821				
SC 98 Conventional	\$5.42	\$4.82	5.845	6.435					5.366	5.953				
SC 98 TOD	\$10.21	\$10.13			6.994	6.898	4.936	4.820			5.932	5.710	4.916	4.895

Service Tariff No. 100 Demand Standby Rate Comparison (Current vs. Proposed)

Service Class	CONTRACT DEMAND (\$/KW per month)				AS USED DEMAND (\$/KW per day)			
	High Tension		Low Tension		High Tension		Low Tension	
	2013	2014	2013	2014	2013	2014	2013	2014
SC68 TOD	\$1.388	\$1.071	\$1.473	\$1.137	\$0.525	\$0.405	\$0.557	\$0.430
SC69 TOD	\$1.014	\$0.991	\$1.059	\$1.034	\$0.384	\$0.375	\$0.400	\$0.391
SC91 TOD	\$1.100	\$1.028	\$1.168	\$1.091	\$0.416	\$0.389	\$0.442	\$0.412
SC98 TOD	\$0.782	\$0.777	\$0.817	\$0.810	\$0.296	\$0.294	\$0.309	\$0.306

Service Tariff No. 100 Energy Credit Standby Rate Comparison (Current vs. Proposed)

Tension	ENERGY CREDIT (¢/kWh)							
	SUMMER ON PEAK		SUMMER OFF PEAK		WINTER ON PEAK		WINTER OFF PEAK	
	2013	2014	2013	2014	2013	2014	2013	2014
High Tension	5.575	5.471	3.565	3.593	5.134	5.332	3.978	3.963
Low Tension	5.298	5.200	3.388	3.415	4.880	5.068	3.781	3.767

**Increase in Westchester County Governmental Customer Rates –
Notice of Adoption**

Exhibit “A”

**Current 2013 and Proposed 2014
Customer Production Rates**

WESTCHESTER GOVERNMENTAL CUSTOMERS

EXHIBIT "A"

Service Classification	Demand (\$/kW)		ENERGY (¢/kWh)											
			SUMMER		SUMMER ON PEAK		SUMMER OFF PEAK		WINTER		WINTER ON PEAK		WINTER OFF PEAK	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
SC 62 Conventional	\$0.00	\$0.00	5.531	6.034					5.052	5.550				
SC 66 Conventional	\$0.00	\$0.00	4.701	5.081					4.701	5.081				
SC 68 Conventional	\$2.14	\$2.26	5.946	6.611					5.466	6.127				
SC 69 Conventional	\$1.69	\$1.79	5.993	6.829					5.514	6.347				
SC 69 TOD	\$2.32	\$2.58			6.813	7.440	4.755	5.361			5.751	6.251	4.734	5.436

Service Tariff No. 200 Demand Standby Rate Comparison (Current vs. Proposed)

Service Class	CONTRACT DEMAND (\$/KW per month)				AS USED DEMAND (\$/KW per day)			
	Low Tension		High Tension		Low Tension		High Tension	
	2013	2014	2013	2014	2013	2014	2013	2014
SC69 TOD	\$0.186	\$0.207	\$0.178	\$0.198	\$0.070	\$0.078	\$0.067	\$0.075

Service Tariff No. 200 Energy Credit Standby Rate Comparison (Current vs. Proposed)

Tension	ENERGY CREDIT (¢/kWh)							
	SUMMER ON PEAK		SUMMER OFF PEAK		WINTER ON PEAK		WINTER OFF PEAK	
	2013	2014	2013	2014	2013	2014	2013	2014
High Tension	5.569	5.467	3.562	3.593	5.134	5.332	3.978	3.963
Low Tension	5.336	5.238	3.413	3.443	4.919	5.109	3.812	3.798