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

January 25, 2011

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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 11:40 a.m.

1) New York Power Authority, 123 Main Street, White Plains, NY
2) New York Power Authority, 95 Perry Street, Buffalo, NY

The Members of the Board were present at the following locations:

Michael J. Townsend, Chairman (White Plains, NY)
Jonathan F. Foster, Vice Chairman (White Plains, NY)
D. Patrick Curley, Trustee (Buffalo, NY)
Eugene L. Nicandri, Trustee (White Plains, NY)
Mark O'Luck, Trustee (White Plains, NY)

Richard M. Kessel	President and Chief Executive Officer
Gil C. Quiniones	Chief Operating Officer
Francine Evans	Executive Vice President, Chief Administrative Officer and Chief of Staff
Elizabeth McCarthy	Executive Vice President and Chief Financial Officer
Edward A. Welz	Executive Vice President and Chief Engineer – Power Supply
Thomas Antenucci	Senior Vice President – Power Supply Support Services
Jordan Brandeis	Senior Vice President – Power Resource Planning and Acquisition
Steve DeCarlo	Senior Vice President – Transmission
Bert Cunningham	Senior Vice President – Corporate Communications
Thomas DeJesu	Senior Vice President – Public and Governmental Affairs
Paul Finnegan	Senior Vice President – Public, Governmental and Regulatory Affairs
James F. Pasquale	Senior Vice President – Marketing and Economic Development
Donald A. Russak	Senior Vice President – Corporate Planning and Finance
Paul Belnick	Acting Senior Vice President – Energy Services and Technology
John L. Canale	Vice President – Project Management
Thomas Davis	Vice President – Financial Planning and Budgets
Dennis Eccleston	Vice President – Information Technology/Chief Information Officer
Michael Huvane	Vice President – Marketing
John Kahabka	Vice President – Environmental, Health and Safety
Joseph Leary	Vice President –Community and Government Relations
Christine Pritchard	Vice President – Media Relations and Corporate Communications
Francis Ryan	Vice President – Emergency Management
Scott Scholten	Vice President and Chief Risk Officer
John Suloway	Vice President – Project Development, Licensing and Compliance
Arthur Cambouris	Deputy General Counsel – Litigation
Karen Delince	Corporate Secretary
Brian McElroy	Treasurer
Mike Lupo	Director – Marketing Analysis and Administration
Mark O'Connor	Director – Real Estate
Helle Maide	Director – Key Accounts and Business Development
Michael Saltzman	Director – Media Relations
Sarah Barish-Straus	Special Assistant – Project Development, President's Office
Andy Cline	General Manager – Transmission Maintenance
Rick Turner	Regional Manager, Northern New York – Site Administration, STL
Steve Lockfort	Manager, Risk Reporting – Energy Risk Assessment and Control
Timothy Muldoon	Manager – Business Power Allocations and Compliance
Kevin O'Keeffe	Manager Video Production Services – Corporate Communications
Ricardo DaSilva	Electrical Engineer II – Generation and Facility Improvements
Lorna M. Johnson	Assistant Corporate Secretary
Egel Travis	Pricing and Power Contract Analyst II – Marketing Analysis and Administration

Sheila Baughman	Senior Secretary – Corporate Secretary's Office
Michael R. Press	Executive Director – M.R. Press Consulting LLC
Michael T. Bailey	Trustee – Incorporated Village of Malvern

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

1. Consent Agenda

Chairman Michael Townsend said that at the Finance Committee Meeting held earlier, members voted to move the item "Decrease in New York City Governmental Customer Fixed Cost Component – Notice of Adoption" from the Consent Agenda to the Discussion Agenda.

Chairman Townsend also said that the Economic Development Power Allocation Board had recommended that the Authority's Trustees approve item 1d (Temporary Assignment and Transfer of Economic Development Power) at their meeting held earlier today.

a. **Approval of the Minutes**

The Minutes of the Regular Meeting held on December 13, 2010 were unanimously adopted.

b. Village of Mayville – Revised Retail Rates – Notice of Adoption

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Board of the Village of Mayville ('Village Board') has requested the Trustees to approve revisions to the Village's retail rates for several customer service classifications. This will result in a redistribution of revenues generated from existing retail rates among several customer classes and will not change the Village's total annual revenue.

BACKGROUND

"The Village Board has requested the proposed rate revisions to more accurately reflect the cost of providing service to individual classes. The proposed revisions are based upon a cost-of-service study which revealed that the rates presently charged to the residential and large commercial-secondary classes are 2.5% and 9.9% below the electric department's cost of providing service to those classes, respectively. On the other hand, the rate charged to the large non-commercial class, is above cost by about 14.7%. Furthermore, the Village Board also requested that a third tier be added to the current residential winter inverted rate structure, to promote energy conservation. The additional tier will isolate those customers using over 2,000 kWh each month, forcing the electric department to purchase more expensive power to meet the group's additional demand. The proposed residential rate is designed to allocate the additional cost to serve customers within the new tier. The current rates have been in effect since August 1999.

"It is recommended that the rates for residential, large commercial-secondary and large non-commercial classes be set at the cost of providing service to these classes.

"The Village Board has planned upgrades to the electric system amounting to $1.4 million, which are included in the cost-of-service study. The Village needs to relocate one of the two substations to safer grounds and upgrade its distribution substation equipment, poles, fixtures and street lighting system. The Village is planning to debt-finance about 50% of its capital program by issuing a new bond.

"Under the new rates, an average residential customer that currently pays about 5.4 cents per kWh will pay about 5.5 cents per kWh after the increase; a large commercial-secondary customer will see the rate increased from 4.6 cents per kWh to 5.1 cents per kWh and the large non-commercial customer rate will decrease from 8.5 cents per kWh to 7.2 cents per kWh.

DISCUSSION

"The proposed rate revisions are based on a cost-of-service study requested by the Village and prepared by Authority staff. A public hearing was held by the Village on September 14, 2010. No ratepayer comments were received at the public hearing. The Village Board has requested that the proposed rates be approved.

"Pursuant to the approved procedures, the Senior Vice President – Marketing and Economic Development requested that the Corporate Secretary file a notice for publication in the *New York State Register* of the Village's proposed revision in its retail rates. Such notice was published on November 17, 2010. No comments concerning the proposed action have been received by the Authority's Corporate Secretary.

"An expense and revenue summary, comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits '1b-A,' '1b-B' and '1b-C,' respectively.

RECOMMENDATION

"The Director – Marketing Analysis and Administration recommends that the attached schedule of rates for the Village of Mayville be approved as requested by the Board of the Village of Mayville to take effect beginning with the first full billing period following the date this resolution is adopted.

"It is also recommended that the Trustees authorize the Corporate Secretary to file a notice of adoption with the Secretary of State for publication in the *New York State Register* and to file such other notice as may be required by statute or regulation.

"The Chief Operating Officer, the Senior Vice President – Marketing and Economic Development and I concur in the recommendation."

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

RESOLVED, That the proposed rates for electric service for the Village of Mayville, as requested by the Board of the Village of Mayville, be approved, to take effect with the first full billing period following this date, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, authorized to file a notice of adoption with the Secretary of State for publication in the *New York State Register* and to file any other notice required by statute or regulation; and be it further

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

Exhibit "1b-A"
January 25, 2011

Village of Mayville
Expense and Revenue Summary

	Four-Year Average	2009	Proposed[1]
Purchase Power Expense (NYPA hydro and incremental)	$ 716,358	$ 815,003	$ 730,406
Distribution Expense (Village-owned facilities)	210,828	223,633	238,700
Depreciation Expense (On all capital facilities and equipment)	96,543	116,857	159,694
General and Administrative Expenses (Salaries, insurance, management services and Administrative expenses)	233,812	256,960	287,798
Total Operating Expenses	$1,257,541	$1,412,453	$1,416,598
Net Rate of Return – (Four year average - 8.0%, 2009 – 8.1%, proposed - 7.0%) (includes debt service on current and planned debt, cash reserves and contingencies)	190,836	209,122	191,867
Total Cost of Service	$1,448,377	$1,621,575	$1,608,465
Revenue at Present Rates			1,608,465
Deficiency at Current Rates			0
Revenue at Proposed Rates			$1,608,465
Increase % at Proposed Rates			0%

[1]Based on five years historical and projected data.

Exhibit "1b-B"
January 25, 2011

Village of Mayville

Comparison of Present and Proposed Annual Total Revenues

SERVICE CLASSIFICATION	PRESENT REVENUE	PROPOSED REVENUE	% INCREASE
Residential SC1	$ 637,763	$ 653,847	2.5%
Small Commercial SC2	92,897	92,897	0.0%
Large Commercial-Primary SC3	289,816	289,816	0.0%
Large Commercial-Secondary SC3	243,560	267,688	9.9%
Large Non-Commercial SC4	273,429	233,217	(14.7%)
Security Lighting SC5	8,857	8,857	0.0%
Street Lighting SC6	62,143	62,143	0.0%
Total	$ 1,608,465	$ 1,608,465	0.0%

Exhibit “1b-C”
January 25, 2011

Village of Mayville

Comparison of Present and Proposed Net Monthly Rates

Present[1] Rates		Proposed [1] Rates
Non-Winter (May-October)	**Residential SC 1**	Non-Winter (May-October)
$ 2.25	Customer Charge	$ 3.91
$ .03400	Energy Charge, per kWh.	$ .04490
Winter (November-April		Winter (November-April)
$ 2.25	Customer Charge	$ 3.91
	Energy Charge, per kWh.	
$ .03400	First 1,000 kWh	$ .04490
$ .04910	1,000 – 2,000 kWh	$ .05860
$ .04910	Over 2,000 kWh	$ .06747
Non-Winter (May-October)	**Small Commercial SC 2**	Non-Winter (May-October)
$ 2.75	Customer Charge	$ 4.25
$ .04730	Energy Charge, per kWh.	$ .05640

[1] Average annual purchased power adjustment (PPA) reflected in present and proposed rates.

Exhibit "1b-C"
January 25, 2011

Village of Mayville

Comparison of Present and Proposed Net Monthly Rates

Present[1] Rates		Proposed [1] Rates
Winter (November-April)	**Small Commercial SC 2**	Winter (November-April)
$ 2.75	Customer Charge	$ 4.25
$ .05280	Energy Charge, per kWh.	$ .06397
	Large Commercial - Primary SC 3	
$ 3.50	Demand Charge, per kW	$ 3.25
$ .02080	Energy Charge, per kWh.	$ .03393
	Large Commercial - Secondary SC 3	
$ 3.75	Demand Charge, per kW	$ 4.75
$ .02090	Energy Charge, per kWh.	$ .03461
	Large Non-Commercial SC 4	
$ 3.50	Demand Charge, per kW	$ 5.00
$ .06530	Energy Charge, per kWh.	$ .05125

[1] Average annual purchased power adjustment (PPA) reflected in present and proposed rates.

Exhibit "1b-C"
January 25, 2011

Village of Mayville

Comparison of Present and Proposed Net Monthly Rates

Present [1] Rates		Proposed [1] Rates
	Security Lighting SC 5 (Charge per lamp, per month)	
$ 2.30	150 High Pressure Sodium	$ 2.88
$ 3.88	250 High Pressure Sodium	$ 4.32
$ 0.00	400 Mercury Vapor	$ 4.32
$ .02010	Energy Charge, per kWh.	$ .02519
	Street Lighting SC 6	
$ 4.75	Facility Charge (per lamp)	$ 5.82
$ .02300	Energy Charge, per kWh.	$ .02820

[1] Average annual purchased power adjustment (PPA) reflected in present and proposed rates.

c. Decrease in Westchester County Governmental Customers 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 2011. 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 decrease the production rates of the Customers by 16.37% as compared to 2010 rates. The decrease would be effective with the February 2011 bills.

BACKGROUND

"At their meeting of September 28, 2010, the Trustees directed the publication in the *New York State Register* ('*State Register*') of a notice that the Authority proposed to decrease the production rates by 16.37%. The *State Register* notice was published on October 20, 2010 and revised to correct an error and republished on November 10, 2010 in accordance with SAPA. Since this proposal would decrease revenues to the Authority, a public forum was not held. There were no public comments received and the public record was closed on December 27, 2010.

"In addition to the rate decrease, in 2011 the Customers will be subject to an Energy Charge Adjustment, 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. This billing mechanism is already in effect and will continue through 2011.

DISCUSSION

"As stated in the Notice of Proposed Rulemaking ('NOPR'), the Customers' production rates are based on the 2011 *pro forma* Cost-of-Service ('COS'). The projected 2011 COS is $39.76 million and the current or 2010 rate revenues are $47.55 million, resulting in an over-recovery of $7.78 million, or 16.37%. There have been no changes to the 2011 COS or projected revenues since the NOPR. The 2010 and final 2011 proposed rates with the 16.37% reduction are shown in Exhibit '1c-A.'

FISCAL INFORMATION

"The adoption of the 2011 production rate decrease would have no net effect on the Authority's financial position and would result in an estimated reduction in revenues of $7.78 million, which is offset by the forecasted reduction in costs. The Energy Charge Adjustment mechanism will protect the Authority's net revenues from the effects of movements in variable costs above those projected.

RECOMMENDATION

"The Director – Market Analysis and Tariff 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* of a decrease in production rates for the Westchester County Governmental Customers.

"The Trustees are also requested to authorize the Senior Vice President – Marketing and Economic Development, or his designee, to issue written notice of adoption to the affected customers.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Corporate Planning and Finance and I concur in the recommendation."

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

RESOLVED, That the Senior Vice President – Marketing and Economic Development 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 Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all 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, or the designee.

WESTCHESTER COUNTY GOVERNMENTAL CUSTOMERS
PRODUCTION RATES

CONVENTIONAL		Demand Rates $/kW-mo.		Base Energy Rates Cents/kWh	
Service Class	Description	2010 Current	2011 Final	2010 Current	2011 Final
62	General Small	n/a	n/a	9.598	8.027
64	Commercial & Industrial Redistribution	13.09	10.95	4.941	4.132
66	Westchester Street Lighting	n/a	n/a	8.068	6.747
68/82	Multiple Dwellings Redistribution	11.57	9.68	5.097	4.263
69	General Large	9.54	7.98	5.338	4.464

TIME OF DAY		Demand Rates $/kW-mo.		Base Energy Rates			
				On-Peak Cents/kWh		Off-Peak Cents/kWh	
Service Class	Description	2010 Current	2011 Final	2010 Current	2011 Final	2010 Current	2011 Final
64	Commercial & Industrial Redistribution	10.75	8.99	7.124	5.958	3.940	3.295
68/82	Multiple Dwellings Redistribution	10.37	8.67	7.365	6.159	4.034	3.374
69	General Large	7.90	6.61	7.618	6.371	3.967	3.318
Rider A	Back-up and Maintenance power			15.173	12.689	2.756	2.305

The on-peak period for energy is weekdays from 7:00AM to 7:00PM, excluding holidays.
The off-peak period for energy is all other hours.

SC Notes:

In addition to the base energy rates, a monthly energy charge adjustment will apply.
The on-peak period for demand is weekdays from 8:00AM to 6:00PM, including holidays.
The on-peak period for energy is weekdays from 8:00AM to 10:00PM, including holidays.
The off-peak period for demand and energy is all other hours.

d. Temporary Assignment and Transfer of Economic Development Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve a temporary assignment and transfer of 3,150 kW of unutilized Economic Development Power ('EDP') to Wenner Bread Products Inc. ('Wenner')

BACKGROUND

"EDP applications are evaluated under criteria that include, but need not be limited to, those set forth in Public Authorities Law Section 184, which sets forth general eligibility requirements. Among the factors to be considered when evaluating a request for an allocation of EDP for business expansion purposes 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; and the security and stability of employment.

"An EDP allocation may also be approved for the purpose of job retention when an applicant, on behalf of a business, demonstrates that the business plans to relocate out-of-state resulting in the loss of a substantial number of jobs, as well as demonstrating its commitment to new investments, among other considerations. The Town of Islip Industrial Development Agency has submitted a job retention EDP application on behalf of Wenner, a substantial Long Island employer with 450 employees at their facilities in Bayport and Ronkonkama, NY.

"The value of a new allocation of EDP is limited due to the current sourcing of EDP through electricity market purchases. However, Authority staff has identified an existing EDP customer that is not currently using its full allocation. Upon the recommendation of the Economic Development Power Allocation Board ('EDPAB'), on August 29, 1989 the Authority approved an allocation of 12,000 kilowatts ('kW') of EDP to Computer Associates International, Inc., now known as CA, Inc. ('CA'). CA, also located on Long Island, has indicated that they are willing to assist Wenner by agreeing to a temporary assignment and transfer of a portion of their EDP allocation that they are not currently using.

"EDPAB is charged with, among many things, evaluating and recommending allocations and approving transfers of EDP. At its meeting of January 25, 2011, EDPAB approved and recommended the Authority approve a temporary assignment and transfer of 3,150 kW of EDP to Wenner.

DISCUSSION

"Wenner, a family-owned company since its inception in 1956, currently employs 450 persons at its bakery facilities located in Bayport and Ronkonkama, NY. The company competes nationally in the frozen dough and bread products market, distributing its products all over the country through major grocery operators including Winn-Dixie and Wal-Mart.

"Although preferring to remain on Long Island, Wenner is seriously considering relocating its facilities to the south due to significant competitive cost pressures as a New York State manufacturer. Aside from the cost of wheat, which increased significantly last year, the high cost of electricity is a major production cost component. Electricity purchases comprise 7.2% of the company's total cost of production. The company manufactures lower margin products in a highly competitive market and they are further constrained in their ability to pass cost increases to their large, national company customer-base, such as Wal-Mart.

"Several years ago, to proactively manage the company's future, Wenner began to aggressively explore ways of reducing costs. The company commissioned a study to design and build a new plant in Davidson County, North Carolina. The final design was submitted with the application. During the process the company also received incentive offers totaling millions of dollars from various economic development entities to relocate its business to North Carolina.

"As an alternative to relocation out-of-state, the company is looking at consolidating bakery operations into one plant in its leased property in Ronkonkama. If Wenner decided to consolidate into one plant, it would invest $2 million in new energy efficient manufacturing equipment including high-efficiency refrigeration and spiral freezers. The company would spend an additional $500,000 in construction costs in renovating 72,000 square feet of currently available space in the Ronkonkama facility. Wenner estimates an additional $750,000 in relocation and moving expenses for total project cost of $3.25 million. The consolidated and modernized plant would provide cost and manufacturing efficiencies that, along with a lower-cost power allocation, would make the plan economically viable.

"CA is currently not using all of its EDP allocation, and has agreed, contingent upon approval, to a temporary assignment and transfer of 3,150 kW in order to assist Wenner. The temporary assignment and transfer, if approved, would run from February 1, 2011 through May 15, 2011, the expiration date of the allocation's associated Energy Cost Savings Benefits ('ECSB') rate discount. The power and energy associated with the transferred amount would be provided at the same Authority tariff rate applicable to CA's EDP allocation. If ECSB were to be extended beyond May 15, 2011, the assignment and transfer could be extended to a new ECSB expiration date upon mutual agreement.

"A temporary transfer of 3,150 kW of unutilized EDP will help Wenner decide to move forward with consolidation plans in New York State instead of relocating the company and its 450 jobs to North Carolina. Acknowledging that this transfer would be a short-term solution to a decision that requires a long-term investment, the company is hopeful that a new statewide economic development power program is created. Wenner believes that if the company is able to participate in a new, longer term program offering, it would be able to grow the business and create 50 new jobs in addition to the 450 jobs that would be retained in New York State with this temporary assignment and transfer.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the temporary assignment and transfer of 3,150 kW of unutilized Economic Development Power to Wenner Bread Products Inc. as detailed in Exhibit '1d-A' and as provided for in this memorandum.

"The Senior Vice President – Marketing and Economic Development, the Vice President – Marketing and I concur in the recommendation."

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

RESOLVED, That the temporary assignment and transfer of 3,150 kW of Economic Development Power, as detailed in Exhibit "1d-A," be, and hereby is, 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 Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel, or the designee.

January 25, 2011
Exhibit "1d-A"

APPLICATION SUMMARY

Economic Development Power
Business Retention Application

Company:	Wenner Bread Products Inc.
Location:	Bayport, New York
Submitting Agency:	Town of Islip Industrial Development Agency
Business Activity:	Manufacturer of frozen dough and baked bread products
Project Description:	Project involves consolidating bakery facilities into one plant by upgrading and renovating vacant space at Wenner's leased Ronkonkama facility; installing $2 million worth of equipment, including new refrigeration and spiral freezers and relocating all facility operations to Ronkonkama.
Existing Allocations:	None
Power Request:	4,300 kW
Power Recommended:	3,150 kW (Temporary assignment and transfer from unutilized portion of existing allocation)
Job Commitment:	450 Jobs
Job Retention/Power Ratio:	143 Jobs/MW
Capital Investment:	$3.25 million
Other Assistance:	ESDC grant; support from the Town of Islip
Summary:	Wenner Bread Products Inc. ("Wenner") is seriously considering relocating its facilities south due to significant competitive cost pressures as a New York State manufacturer. As an alternative to relocation, the company is looking at consolidating bakery operations into one facility. Wenner would invest $3.25 million in new manufacturing equipment, construction and relocation costs. A temporary assignment and transfer of 3,150 kW of currently unutilized Economic Development Power will help Wenner decide to move forward with consolidation plans in New York State. The temporary transfer would save the company an estimated $68,500 through May 15, 2011. If Wenner receives the temporary allocation, it will commit to investing in New York instead of relocating the company and its 450 jobs to North Carolina.

e. Municipal and Rural Electric Cooperative Economic Development Program – Allocation to the Village of Ilion

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve an allocation of 3,250 kW of hydropower under the Municipal and Rural Electric Cooperative Economic Development Program ('Program') to the Village of Ilion ('Village').

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. Also, in limited situations where businesses are at risk of closing or moving out-of-state, consideration is given on a case by case basis for the retention of the business in New York. Recommended allocations under the Program will now be made using guidelines that were approved by the Trustees on September 23, 2008. Under the revised program, the first 100 kW allocated will be from 100% hydropower and any additional kW at 50% hydropower and 50% incremental power.

"As of October 2010, 26,585 kW have been allocated. The Village has submitted an application for power under the Program for consideration by the Trustees.

DISCUSSION

"An application has been submitted to the Authority by the Village on behalf of Remington Arms Company, Inc. ('Remington Arms'). Remington Arms, founded in upstate New York in 1816, is one of America's continuously operating manufacturers. Remington Arms is part of the Freedom Group Inc. ('FGI') which is owned by Cerberus Capital Management ('Cerberus'); (FGI and Cerberus may be referred to herein as the 'Company').

"The Company currently conducts its business operations through its two main operating subsidiaries, Remington and Bushmaster. The Company designs, produces and sells sporting goods products for the hunting and shooting sports markets, as well as military, government and law enforcement markets. The Company maintains ten manufacturing locations and two research facilities within the U.S. and distributes its products throughout the U.S. and 55 foreign countries. In addition to Remington Arms, the Company owns nine other firearms brands. The Company competes in the global marketplace. In addition, as part of the Company's multi-state network of manufacturing facilities in the U.S., Remington Arms' Ilion plant competes with the Company's other locations in Kentucky, Arkansas, Missouri and Maine on a comprehensive cost basis.

"In December 2007, the Company acquired Marlin Firearms Company of North Haven, CT. In May 2010, the Company announced that the Marlin facility would be closed and that selected relocation sites were Hickory, Kentucky and Ilion, NY. Remington Arms, although located within the franchise area of the Village's electric system, currently receives its electric service from National Grid due to the terms of a unique historical agreement. Remington Arms has requested that it be annexed to the Village's electric system and advised that the cost of electricity is one of the major factors of consideration within its relocation model. The Company is considering two options for the Remington Arms Ilion facility: the first is serious consideration to closing the entire facility and relocating out-of-state where competitive cost advantages on fundamental inputs such as electricity can be obtained and the second is to invest approximately $7.5 million to upgrade and expand its existing one million square-foot production facility in Ilion, including payment of exit fees to National Grid, so that service of the company's electric load can be obtained from the Village which has committed to provide a significantly lower electric rate to

Remington Arms. Remaining and expanding in Ilion means the addition of 70 new jobs to the existing 900 jobs, an overall job retention of up to 970 jobs. The expanded electric load will increase by approximately 1000 kW from an average monthly peak of 5400 kW to 6400 kW.

"The presence of Remington Arms in Ilion since 1816 has been vital to the Village and Central New York. The history and economic development of the Village has been shaped almost exclusively by Remington Arms and the jobs and tax revenue it generates. Empire State Development ('ESD') has offered Remington Arms an Incentive Proposal valued at $1.455 million, subject to final board approval; NYS Empire Zone benefits of up to $788,000 may be available.

"It is recommended that the Trustees approve an allocation of 3,250 kW of Municipal/Cooperative Economic Development Power to the Village on behalf of Remington Arms. This allocation is equivalent to 298 jobs per MW of hydropower. Per the program guidelines, a minimum of 200 jobs per MW of hydropower should be attained.

"In accordance with the Authority's marketing arrangement with the municipal and cooperative customers, the hydropower will be added to the recipient system's contract demand at the time the project becomes operational and the additional jobs and load commitments are reached. The hydropower earmarked for this Program is presently sold to the municipal and rural electric cooperative customers on a withdrawable basis.

RECOMMENDATION

"The Vice President – Marketing, recommends that the Trustees approve the allocation of power under the Municipal and Rural Electric Cooperative Economic Development Program to the Village of Ilion in accordance with the above.

"The Senior Vice President – Marketing and Economic Development and I concur in the recommendation."

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

RESOLVED, That the allocation of power to the Village of Ilion 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 – Marketing and Economic Development 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, or the designee; and be it further

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

f. Lease of Office Space – New York City Office – 501 Seventh Avenue

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize the execution of a Lease Modification Agreement with 501 Seventh Avenue Associates (Landlord) for office space on the 9th floor of 501 Seventh Avenue, (Building), New York, New York. This Lease Modification would extend for an additional one-year period, the Authority's lease of 7,185 rentable square feet from September 1, 2011 to August 31, 2012 at a fixed annual rental of $276,622.50 ($38.50 per rentable square foot).

BACKGROUND

"At their meeting of December 14, 1999, the Trustees approved the execution of a lease between the Landlord's predecessor-in-interest and the Authority which certain lease dated March 3, 2000 demised to the Authority the entire 8th and 9th floors in the building. The Trustees subsequently approved, by action dated March 23, 2010, a Lease Modification Agreement and Partial Lease Surrender Agreement which was executed on May 4, 2010 pursuant to which, among other things, Tenant surrendered the entire 8th floor and the majority of the 9th floor then being leased by the Authority. Further, it allowed the Authority to lease 7,185 rentable square feet located on the 9th floor of the Building for the period May 1, 2010 through August 31, 2011. The annual rental for this term was $276,622.50.

DISCUSSION

"The Authority has had a long-term presence in the New York City area. Until 1988, it held leasehold premises at 10 Columbus Circle located off Central Park West. Thereafter, it maintained office space at 1633 Broadway and since 2000, the Authority has maintained swing office space at 501 7th Avenue. Major users of this swing office space include Marketing and Economic Development and Energy Services and Technology. Other users include the Authority's Legal, Public and Governmental Affairs, Executive Office and Power Supply Departments. These groups find it useful to maintain this swing office space for operations in and around the New York City area.

FISCAL INFORMATION

"The Authority pays its lease obligations out of its Operating Fund. The fixed annual rental for 7,185 rsf without electricity, taxes and operating expenses will be $276,622.50.

RECOMMENDATION

"The Director – Real Estate and the Director – Corporate Support Services recommend that the Trustees approve entering into a Lease Modification Agreement with 501 Seventh Avenue Associates for commercial office space at 501 Seventh Avenue, New York, New York, on terms substantially in accordance with the foregoing.

"The Vice President – Enterprise Shared Services and I concur in the recommendation."

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

RESOLVED, That the President and Chief Executive Officer and the Vice President – Enterprise Shared Services hereby are, authorized to enter into a Lease Modification Agreement for office space at 501 Seventh Avenue, New York, New York, with 501 Seventh Avenue Associates on substantially the terms set forth in the foregoing report of the President and Chief Executive Officer and subject to the

approval of the Lease Modification Agreement documents by the Executive Vice President and General Counsel, or the designee; and be it further

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

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

g. Marcy -South Static Wire Rehabilitation – Contract Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to award a two-year contract to Michels Power of Neenah, WI in the amount of $431,307 to rehabilitate four sections of overhead ground wire ('OHGW') on the Marcy-South Transmission Line ('M-S Line').

BACKGROUND

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

The M-S Line is a 207 mile-long 345 kV transmission line that was placed into service in 1988 and interconnects the Authority's Marcy Substation with five multi-utility substations.

"During the winter season, the M-S Line experienced numerous outage events because of insufficient clearance between the OHGW and conductor from elongation and loss of elasticity caused by ice loading. At this time, there are four spans requiring rehabilitation to improve its performance and avoid outages during ice loading events.

DISCUSSION

"The Authority issued an advertisement to procure bids in the New York State *Contract Reporter* and bid packages were available as of September 13, 2010. The bid documents were downloaded by 40 firms; five firms participated in a site visit on September 28, 2010.

The following two proposals were received on October 26, 2010:

Bidder	**Location**	**Base Bid (includes bonds)**
Michels Power	Neenah, WI	$431,307
Hawkeye, LLC	Hauppauge, NY	$616,900

"Following a review of the proposals, Authority staff recommends an award to the lowest-priced and technically-qualified bidder, Michels Power. Michels Power was founded in 1949 and has executed overhead transmission work for other utilities. Michels Power has experience in line relocations, re-conductoring and live-line work.

"The work will be performed over a two-year period with the two most critical spans being performed in 2011 and the remaining spans in 2012.

FISCAL INFORMATION

"Payments will be made from the Authority's Operating Fund.

RECOMMENDATION

"The Senior Vice President – Power Supply Support Services, the Senior Vice President – Transmission, the Vice President – Project Management and the Vice President – Procurement, recommend that the Trustees authorize the amount of $431,307 for the award of a contract to Michels Power of Neenah, WI, to rehabilitate four sections of overhead ground wire on the Marcy-South Transmission Line.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Executive Vice President and Chief Engineer – Power Supply and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a contract to Michels Power of Neenah, WI, in the amount of $431,307, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount listed below:

Contractor	**Contract Approval**
Michels Power, Neenah, WI	**$431,307**

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

h. <u>Energy Commodity Risk Analysis Software Solution</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize expenditures of $0.8 million for the implementation, hosting and support of an Energy Commodity Risk Analysis Software Solution in 2011. The Trustees are also requested to provide authorization for an additional expenditure of $1.1 million for continued hosting and support of the system through 2015.

"In accordance with the Authority's Expenditure Authorization Procedures, Trustees' approval is required for the award of personal services contracts in excess of $1 million, if low bidder, or $500,000 if sole-source or non-low bidder.

"On August 2, 2010, the Authority solicited bids for an Energy Commodity Risk Analysis Software Solution under Request for Proposal ('RFP') inquiry Q10-4834dg. Interested vendors were requested to submit proposals for implementation, support and hosting of a software solution to provide an executive risk metrics dashboard and associated risk reports. The software solution would include a database for energy commodity market forward prices and existing risk hedge transactions, as well as provide for automatic daily updates quantifying energy related commodity market risk, counterparty default exposure and Authority collateral requirement risks. Availability of this risk information should enable Authority staff to more efficiently manage these risks.

BACKGROUND

"At their meeting of September 28, 2010, the Trustees approved the revised Governing Policy for Energy Risk Management (the 'Policy'). The Policy established an Executive Risk Management Committee ('ERMC'), chaired by the Executive Vice President – Chief Financial Officer and consisting of the chair and four other Authority executives appointed by the President and Chief Executive Officer. The Policy authorized the ERMC to establish and administer a well-structured and controlled set of activities for mitigating unwanted effects of volatility in the energy commodity markets to which the Authority and its customers are routinely exposed. These activities are collectively referred to as the Energy Risk Management Program (the 'Program').

"At their meeting of October 22, 2010, the ERMC established the Procedures Regarding Risk Management outlining all management authorizations, directives, mandates, discretion and controls necessary and appropriate to conduct the Program within the guiding principles set forth in the Board-approved Policy. Implementation of the Program requires the timely and consistent quantification of commodity market risk, counterparty default exposure and Authority collateral requirement risks and the management of those risks. At present, staff maintains an internally developed database detailing commodity forward market prices and existing hedge transactions and utilizes a combination of desktop risk software and spreadsheets to analyze commodity risk. The current approach precludes the update frequency considered necessary under the Program and requires that resources be dedicated to computational efforts rather than review and management of the implications of that risk.

DISCUSSION

"On August 2, 2010, the Authority solicited bids for an Energy Commodity Risk Analysis Software Solution under RFP Q10-4834dg. The RFP outlined requirements for a risk system to be implemented and hosted by the vendor during the period beginning in 2011 and continuing at the Authority's option either through 2013 or 2015. Bidders were initially requested to respond by September 14, 2010; in response to bidder requests, the response date was extended to September 21, 2010.

"The RFP was downloaded from the Authority's website by fifty interested respondents of which six submitted a proposed software solution. The technical sections of all six bids, without pricing details, were distributed to an evaluation team consisting of representatives from the Authority's departments most closely involved with the Program work processes. In addition, an outside consultant advisor to the ERMC assisted the evaluation team. The team determined that two of the bids did not fully respond to requirements of the RFP and these bids were eliminated from further consideration. The remaining four bidders were invited to present/demonstrate details of their proposed software solution. The evaluation team was provided details of the proposed costs associated with each of the remaining bidders. Based on the information provided within the proposals and during the presentation/demonstrations, the evaluation team determined that two of the remaining bidders did not adequately demonstrate that the various software products, proposed as the software solution, could be seamlessly integrated with one another and were thus eliminated from further consideration. The evaluation team was fully confident that either of the two remaining bidders could implement and support the software solution sought under the Authority's RFP. The evaluation team presented its assessment to the ERMC and recommended an award to Pace Global Energy Risk Management, LLC ('Pace Global') of Fairfax, VA, the lowest-cost qualified bidder. The ERMC supports this recommendation.

FISCAL INFORMATION

"Payments associated with this project will be made from the Operating Fund. The expenditures for system implementation, hosting and support during the current year have been included in the 2011 approved O&M budget. Expenditures for future years will be included in future year budgets.

RECOMMENDATION

"The Manager – Risk Reporting recommends that the Trustees approve the award of $1.9 million to Pace Global Energy Risk Management, LLC for the implementation, support and hosting of the Energy Commodity Risk Analysis Software Solution solicited under Request For Proposal ('RFP') inquiry Q10-4834dg. The duration of the recommended services contract is through 2015.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Corporate Planning and Finance, the Vice President – Enterprise Shared Services and I concur in the recommendation."

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

RESOLVED, That 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 of $1.9 million for the purpose of the implementation, support and hosting services associated with an Energy Commodity Risk Analysis Software Solution as recommended for award under the Request For Proposal ("RFP") inquiry No Q10-4834dg; and be it further

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

i. Information Technology Initiatives –
<u>Capital Expenditure Authorization Request</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize capital expenditures of $4.725 million for the implementation of Information Technology ('IT') Initiatives in 2011 as per the Authority's Expenditure Authorization Procedures ('EAPs'). These expenditures have been included in the 2011 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 Trustees' approval.

"For each of the past 12 years, in concert with the Business Units, IT has developed a list of initiatives designed to meet business needs by taking advantage of evolving technology applications. These application developments have been funded from a capital program called IT Initiatives. This capital program, which has often totaled less than $3 million annually, has been approved by the Trustees in the Authority's Capital budget each December with funds later authorized and released by the President and Chief Executive Officer during the budget year. Since the request for 2011 is greater than $3 million, Trustee approval is requested as per the Authority's EAPs.

DISCUSSION

"The following lists the 2011 IT Initiatives, along with the estimated cost of each:

- **SAP – Human Capital Management Initiative** **$ 850,000**
  The SAP R/3 environment will be configured to add new features to the existing HR system to include an upgrade of the Human Capital Management module, succession planning, performance metrics and compensation management. These enhancements will facilitate a reduction of paper, improved workflow and greater efficiencies in HR operations.

- **Enterprise Business Warehouse** **$ 600,000**
  This represents the next phase of an effort to provide all staff access to corporate information in readily available 'Data Marts' designed for their use. This includes the rollout of new desktop tools and training.

- **Comprehensive Emergency Management Plan (CEMP) communication backbone** **$ 450,000**
  Implementation of new integration equipment to provide the ability to have inter-operability of communication between Authority facility sites and the surrounding communities in the form of phone, data, radio and video in the event of an emergency.

- **Facility conference room communication enhancements** **$ 500,000**
  Major expansion of the Authority's internal communication capabilities to allow video conferencing, 'smart boards' and web meetings to be conducted in all major conference rooms. These enhancements will improve meetings and reduce the need for travel time and costs.

- **Asset Investment Decision Optimization System** **$ 250,000**
  Support tool for use, within Power Supply, in prioritization and selection of capital and non-recurring projects. Analysis software for effective investment decision-making, which will allow staff to quantify benefits, project risks and consider additional impacts if projects are deferred.

- **Information Resource Center (IRC) record keeping migration project** **$ 250,000**
  Migration of paper records to electronic media including the development of archive structures, software and processes. Identification of the appropriate 'meta data,' retention schedule, scanning facilities and the process for filing the electronic media to the LiveLink records management system.

- **Application/Network Monitoring Fault Manager** **$ 400,000**
  New implementation of a software product to monitor production systems, provide end-to-end performance statistics and alerting capabilities to any faults with an impact assessment and facilitate corrective actions to be taken.

- **Internal Labor** **$ 1,200,000**

- **HQ Overhead** **$ 225,000**

Total **$4,725,000**

FISCAL INFORMATION

"Payments associated with these projects will be made from the Capital Fund.

RECOMMENDATION

"The Vice President Information Technology/Chief Information Officer recommends that the Trustees approve the Capital Expenditure Request for $4.725 million for Information Technology Initiatives.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Executive Vice President – Energy Marketing and Corporate Affairs, the Vice President – Enterprise Shared Services and I concur in the recommendation."

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:

Capital	**Expenditure Authorization**
Information Technology Initiatives 2011	**$4,725,000**

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

2. Discussion Agenda

a. Report of the President and Chief Executive Officer

President Richard Kessel reported that the Authority is in a strong financial position despite the economy and the challenges it faced. Its ratings have been reaffirmed; Operations is doing well and critical positions are being filled. He also reported that after a two-year effort Alcoa was opening its Eastern Plant and it should be fully operational by summer of this year. The Authority is also in discussions with Alcoa to expedite the process for the expansion and modernization of the facility. President Kessel said that he is looking forward to working with the Board in the New Year.

President Kessel's community outreach activities include:

- ***Speaker Argyle Forum (12/14)***
- ***Meeting with Alcoa; Chief Randy Hart of Akwasasne Mohawks, Rich Marshall, Friends of Nature Center (12/16)***
- ***News Conference with PEP on Expansion and Replacement Power hydro contracts; meeting with Mayor Byron Brown of Buffalo (12/22)***
- ***Meeting with TDI (1/4)***
- ***Meeting with Governor's office re: Alcoa; State of the Senate (1/5)***
- ***News Conference with Lt. Governor Duffy and Alcoa's Thuestadt (1/7)***
- ***Survey damage at Harlem River Plant (1/12)***
- ***Meeting with environmentalists (1/13)***
- ***Meeting with Mayor Miner; meeting with County Executive, Joanie Mahoney (1/20)***

Trustees' Meeting

January 25, 2011

New York Power Authority

2a. Monthly Report

Richard M. Kessel

President & Chief Executive Officer

Key Issues

Alcoa

Alcoa Massena East Plant Restart: 120 Jobs Expected – On January 7, Lt. Gov. Robert Duffy, Trustee Eugene Nicandri, Richard Kessel and top Alcoa executives announced that East Plant operations will restart in March. NYPA extended terms of its Alcoa agreement that will return 239 MWs of hydroelectricity for East Plant operations. The allocation was diverted in 2008 when the plant was shut with the understanding that it would be returned when Alcoa was ready to restart it. The East Plant restart will lead to the reemployment of furloughed Alcoa workers, and clears the way for Alcoa to move forward with additional investments in its Massena operation.

Key Activities

Community Outreach – Upstate/Downstate

December

- 14 – Speaker Argyle Forum
- 16 – Meeting with Alcoa; Chief Randy Hart of Akwasasne Mohawks, Rick Marshall, Friends of Nature Center
- 22 – News conference w/PEP on Expansion and Replacement Power hydro contracts; meeting w/Mayor Byron Brown of Buffalo

January

- 4 – Meeting w/TDI
- 5 – Meeting w/Governor's office re: Alcoa; State of the Senate
- 7 – News conference w/Lt. Governor Duffy and Alcoa's Thuestadt
- 12 – Survey damage Harlem River Plant
- 13 – Meeting w/environmentalists
- 20 – Meeting Mayor Miner, meeting County Executive Joanie Mahoney

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

Mr. Gil Quiniones provided highlights of the report to the Trustees.

In response to a question from Trustee Eugene Nicandri, Mr. Quiniones said that the primary indicator for flows come from the snow, rainfall and the Great Lakes flowing into the Authority's power projects; however, it is not the major driver for water levels.

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New York Power Authority

Gil C. Quiniones
Chief Operating Officer

TO: NYPA BOARD OF TRUSTEES

FROM: GIL C. QUINIONES, CHIEF OPERATING OFFICER

DATE: JANUARY 25, 2011

SUBJECT: MONTHLY REPORT FOR THE BOARD OF TRUSTEES

****

This report covers the performance of the Operations group in December 2010 as well as year-end highlights.

Facing some early challenges, including unanticipated outages and below-average energy markets, the Operations group achieved significant milestones in 2010, such as completion of the Life Extension and Modernization program at the Blenheim-Gilboa Pumped Storage Power Project, and other remediation projects to improve conditions of the Authority's generation assets.

In 2011, the Operations group looks forward to advancing Life Extension and Modernization programs at the St. Lawrence-Franklin D. Roosevelt Power Project and Lewiston Pump Generating Plant at the Niagara Power Project, developing the New York Transmission Initiative to increase transmission capacity between Canada and downstate New York, and assisting the Astoria II project in Queens toward commercial operation.

Power Supply

Plant Performance

Systemwide net generation[1] in December was 2,271,628 megawatt-hours[2] (MWh), compared to projected net generation of 2,283,903 MWh. In 2010, actual net generation was 24,369,223 MWh, which was below the net generation target of 25,526,844 MWh.

The fleet availability factor[3] was 98.8 percent in December and 95.7 percent in 2010. Generation market readiness factor[4] was 99.7 percent in December, above the monthly target of 99.4 percent. Generation market readiness factor was 99.8 percent in 2010.

There was one significant unplanned generation event[5] in December. At the Pouch Terminal Gas Turbine facility on Staten Island, a cable was damaged during an excavation of the sidewalk. This resulted in the unit being out of service for over two weeks and a loss of revenue of $0.15 million.

There was $0.32 million in lost opportunity cost from unscheduled outages in December, compared with generation revenue of $161.3 million. In 2010, lost opportunity cost was $1.26 million, which was about 0.06 percent of annual generation revenue of $1,980.0 million.

River flows at the Niagara project were below forecast in December, and they are forecast to be well below normal for the next year due to low precipitation in the Great Lakes Basin that has continued since December 2009. At the St. Lawrence-FDR project, flows were slightly above forecast in December and are expected to be slightly above average at the start of 2011. Flows are expected to be below normal from spring 2011 through the next two years.

Transmission Performance

Transmission reliability[6] in December was 96.61 percent, which was above the target of 96.48 percent. The 2010 actual reliability was 95.82 percent, below the target of 96.01 percent. This performance metric was affected early in the year by some unanticipated outages, several forced outages[7], and some scheduled outages[8] that were longer than expected. Despite these early difficulties, NYPA's transmission reliability metric was above target for six of the last seven months of 2010.

There were no significant unplanned transmission events[9] in December.

Life Extension and Modernization Program

Work on Unit 24 at the St. Lawrence-FDR project, the 14th of the 16 units, continues as part of the project's Life Extension and Modernization[10] (LEM) program. The upgrade is expected to be completed in May 2011. The 2013 scheduled completion date for the LEM project remains unchanged.

Civil Remediation Work at Niagara Power Project

Replacement of deteriorated concrete for both the interior and exterior of a particularly crucial area of the dam at the Niagara Power Project was completed successfully on December 29, on-time and within the $2.2 million budget. NYPA staff and contractors worked extended days under an aggressive, compressed work schedule that established working hours when electrical loads are traditionally the lowest, to avoid significant outages on transmission lines connecting the U.S. and Canada. This required the exterior civil work to be performed at times when the weather was the most inclement. The willingness to work through schedule constraints assured the timely return of crucial transmission lines in time for anticipated 2011 winter peak heating loads.

Environmental

There were two reportable events in December. A failed demineralizer[11] trailer valve at the Kent Gas Turbine facility in Brooklyn resulted in a release entering the New York City combined sewer system and violating a site permitted value. The second event occurred when the sump pumps of Unit 19 at the St. Lawrence-FDR Power Project failed and the turbine pit flooded. The rising water flooded a reservoir holding lubricating oil and caused approximately 100 gallons of oil to be spilled, but all of the oil was contained in the turbine pit.

The 2010 number of recordable environmental incidents was 26, exceeding the target of 25.

Transmission Initiative

NYPA is continuing to work with National Grid, Con Edison, and the Long Island Power Authority (LIPA) regarding a proposed transmission line that would deliver power from Canada and upstate renewable energy projects to New York City. NYPA staff anticipates additional comments on the economic studies from Con Edison in mid-January. Scopes of work for additional System Planning Studies and the Project Evaluation Study have been prepared in conjunction with National Grid. An executive-level meeting between NYPA, National Grid, Con Edison and LIPA to further discuss the Transmission Initiative is scheduled for February 18.

Technical Compliance – NERC Reliability Standards

In December, Power Supply submitted two responses to Alerts issued by the North American Electric Reliability Corporation[12] (NERC). On December 9, NYPA responded to an Alert related to the management of system frequency response of the North American Interconnections. NERC asked for information and settings for generator governors for all generators rated 20 MVA or higher, or plants that aggregate to a total of 75 MVA or greater net rating at the point of interconnection (i.e., wind farms). On December 13, NYPA submitted information in response to NERC's Alert Recommendation to Industry urging entities to consider and implement identified mitigation elements that NERC classified into two broad categories – "Protection and Control Engineering Practices" and "Electronic and Physical Security Mitigation Measures" – to address specific vulnerabilities in their equipment.

On December 10, the Northeast Power Coordinating Council[13] (NPCC) notified Alcoa of a pending registration action. In 2010, NPCC required the municipal power entities for which NYPA had been registered as the Load Serving Entity[14] (LSE) to become registered LSEs. When this registration action is completed, NPCC will delist NYPA as an LSE. NYPA is also currently registered as the LSE for Alcoa, and NPCC has scheduled a meeting with Alcoa on January 27 to discuss the registration changes. NPCC has informed Technical Compliance that because of these registration actions, NYPA will not be audited in 2011 for NERC LSE standards.

On December 16, NYPA received a Notice of Dismissal from NPCC for one of the potential violations related to the Physical Security of Critical Cyber Assets that NYPA itself reported in July. The matter is now closed with NYPA not found in violation of the standard and not assessed any penalty.

Also in December, Internal Audits completed its audit of the standards not related to NERC's Critical Infrastructure Program. They prepared a draft report including one substantive recommendation pertaining to work processes for maintaining operator log data required by the standards.

Energy Resource Management

NYISO Markets

In December, Energy Resource Management bid more than 2.2 million MWh of NYPA generation into the New York Independent System Operator (NYISO) markets, netting $58.2 million in power supplier payments to the Authority. While energy prices were higher in December relative to last year, they remained below the historical average. Total net power supplier payments in 2010 were over $496 million.

In December, production at the Niagara Power Project was 1.9 percent lower relative to its four-year average, and it received $16.6 million in power supplier payments. At STL-FDR, production was 3.5 percent higher than the four-year average and the project received $10.2 million in power supplier payments. Blenheim-Gilboa received $0.5 million in power supplier payments.

The Small Clean Power Plants (SCPP's) and the 500-MW Combined Cycle Plant are exceeding their year-to-date forecasted net margins.

Fuel Planning & Operations

In December, NYPA's Fuels Group transacted $29 million in natural gas and oil purchases, compared with $37 million in December 2009. In 2010, natural gas and oil purchases were $224 million, compared with $365 million in 2009; the $141 million reduction is mainly attributed to cessation of operations at the Poletti Power Project (-$80 million year-over-year) and lower cost of fuel to meet higher generating output for the 500-MW unit (-$70 million). Decreased costs at the Richard M. Flynn Power Plant (-$10 million) due to outages were offset by higher costs associated with increased generation at the SCPP's (+$19 million).

Office of the Chief Operating Officer

Sustainability Action Plan

In 2010, NYPA completed 40 milestones established by the Sustainability Action Plan, exceeding the target goal of completing 35 milestones. More details will be provided in NYPA's first Sustainability Progress Report, targeted for release in 2011. The Progress Report will provide an update on all 41 action items and will include a number of performance indicators set forth by the Global Reporting Initiative[15].

GLOSSARY

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[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 l00-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** – Forced or emergency outages of individual generator units of duration greater than 72 hours, or with a total repair cost of greater than $75,000, or resulting 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] **Forced Outages –** Outages that require immediate removal of a unit from service, automatically. Such outages are considered Unplanned and Unscheduled.

[8] **Scheduled Outages –** An outage is Scheduled if it was either submitted in advance (Planned) or can be delayed a few days (Maintenance).

[9] **Significant Unplanned Transmission Events** –Forced or emergency outages of individual transmission lines that 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 eight hours, or have a repair cost greater than $75,000.

[10] **Life Extension and Modernization Program** — A major undertaking in which all the turbines at the St. Lawrence-Franklin D. Roosevelt project are being replaced and the generators and other components significantly refurbished. The program is intended to ensure that the project operates at maximum efficiency far into the future.

[11] **Demineralizer** – A component that removes minerals from water so that it can be used in industrial machines, such as the cooling system of a gas turbine power plant. Using pure water helps avoid corrosion in machines and pipes.

[12] **North American Electric Reliability Corporation (NERC) –** The organization that develops and enforces mandatory reliability standards for the bulk power system in the United States, issues long-term and seasonal reliability forecasts and monitors the power system. (NERC standards are also mandatory and enforceable in parts of Canada.)

[13] **Northeast Power Coordinating Council (NPCC) -** The Northeast Power Coordinating Council, Inc. (NPCC) is the cross-border regional entity and criteria services corporation for Northeastern North America. NPCC's mission is to promote and enhance the reliable and efficient operation of the international, interconnected bulk power system in Northeastern North America pursuant to an agreement with the Electric Reliability Organization (ERO), which designates NPCC as a regional entity and delegates authority from the U.S. Federal Energy Regulatory Commission (FERC), and to Memoranda of Understanding with applicable Canadian provincial regulatory and/or governmental authorities. The ERO to which NPCC reports is the North American Electric Reliability Corporation (NERC).

[14] **Load Serving Entity (LSE)** – An entity designated by a retail electricity customer to provide capacity, energy and ancillary services to serve such customer, in compliance with NYISO tariffs, rules, manuals and procedures.

[15] **Global Reporting Initiative (GRI) –** An organization that developed the world's most widely used sustainability reporting framework through a consensus-seeking process engaging participants from business, civil society, labor, and professional institutions. The GRI framework includes a standardized approach to sustainability reporting and sector-specific supplemental frameworks, including one for the electric utility sector.

c. Report of the Chief Financial Officer

Ms. Elizabeth McCarthy provided highlights of the financial report to the Trustees.

In response to a question from Chairman Michael Townsend, Ms. McCarthy said that the Authority is in a very strong liquidity position despite the low flows and low energy prices.

New York Power Authority

Report of the Chief Financial Officer

For the Year Ended December 31, 2010

New York Power Authority

Report of the Chief Financial Officer
For Year Ended December 31, 2010*
Executive Summary

Results of Operations

Net income for the year ended December 31, 2010, was $182.0 million which was $126.0 million lower than the budget. For the year, negative variances attributable to lower margins on sales ($100.7 million) and a higher than anticipated voluntary contribution to New York State ($40 million) were partially offset by positive variances including lower non-operating expenses ($13.5 million) and lower other operating expenses ($2.3 million). The net margin on sales was $84.7 million lower at Niagara primarily due to lower production (6%) and lower prices on market-based sales (11%). Negative variances in margins were also significant at St. Lawrence ($10.8 million, lower prices) and Blenheim-Gilboa ($19.5 million, lower volumes sold and lower capacity prices). Non-operating expenses were lower due to lower costs on variable rate debt resulting from a decrease in market interest rates. The positive variance in other operating expenses is primarily attributable to: (1) a reduction in anticipated Power for Jobs program obligations accrued in prior years based on current expectations ($12.0 million); and (2) lower than anticipated 2010 Power For Jobs rebates ($15.3 million) due to lower market energy prices; partially offset by (3) the loss from the early transfer of Tri-Lakes assets to National Grid ($6.7 million) (4) an increase in retiree health benefit costs ($7.1 million) based on an updated actuarial valuation, and (5) recognition of the cost of the early retirement incentive program($4.0 million).

Net income for the year ended December 31, 2010 was $71.6 million lower than the year ended 2009 ($253.6 million) primarily due to higher voluntary contributions to New York State during the period ($77 million) partially offset by higher non-operating income ($3.7 million, primarily mark-to-market gains) and a lower interest expense ($1.9 million) due to lower market interest rates. Margins on sales were $4.7 million higher in 2010 reflecting improved performance by the Small Clean Power Plants ($35 million) offset by a lower margin at Niagara ($31 million) due to lower production. Generation at the SCPP's was higher in 2010 as the plants had experienced several planned and unplanned outages in 2009.

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

Cash & Liquidity

The Authority ended the year with total operating funds of $1.069 billion as compared to $907 million at the end of 2009. The increase of $162 million was primarily attributed to positive net cash provided by operating activities and the value sharing payment of $72 million received from Entergy partially offset by voluntary contributions to New York State totaling $159.5 million and scheduled debt service payments.

Energy Risk

At December 31, 2010, the fair market value of outstanding energy derivatives was an unrealized loss of $244 million for financial contracts extending through 2017. Financial energy derivative settlements for the year resulted in a realized net loss of $64 million. The amount of these losses is subject to virtual full cost recovery, whereby the resulting hedge settlements are incorporated into and recovered through customer rates.

RESULTS OF OPERATIONS

Net Income*
Year ended December 31, 2010
($ in millions)

	Actual	Budget	Variance
Niagara	$101.8	$189.1	($87.3)
St. Lawrence	47.7	56.8	(9.1)
Blenheim-Gilboa	(7.4)	14.1	(21.5)
SENY	60.4	50.7	9.7
SCPP	24.8	28.8	(4.0)
Market Supply Power	(41.5)	(55.8)	14.3
Flynn	12.1	15.4	(3.3)
Transmission	20.8	25.1	(4.3)
Non-facility*	(36.7)	(16.2)	(20.5)
Total	**$182.0**	**$308.0**	**($126.0)**

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

Major Factors	**Better (Worse)**
Niagara Lower net margins on sales ($84.7) primarily due to (a) lower generation volumes (6%), (b) lower average prices for sales into the market (11% below budgeted - $42/mwh actual vs. $47/mwh budgeted), and (c) lower customer revenues due to the continuation of the hydro rate freeze.	($87.3)
St. Lawrence Lower net margins ($10.8) resulting from lower prices on sales into the market partially offset by lower O&M ($2.6).	(9.1)
Blenheim-Gilboa Lower net margin due to lower energy sales (limited price differential between peak and off-peak energy prices) and lower capacity prices.	(21.5)
SENY Higher net margin due to lower fuel costs and lower ISO ancillary service and congestion charges.	9.7
Market Supply Power Includes positive variance due to lower Power for Jobs rebates (based on lower market prices).	14.3
Transmission Primarily the accelerated recognition of the non-cash write-off related to the Tri-Lakes transmission line ($6.7), partially off set by lower O&M and lower variable rate debt costs.	(4.3)
Other facilities Includes negative variance at Flynn ($3.3, extended outage) and the SCPP's ($4.3, primarily higher O&M due to emergent work at Hell Gate and Harlem River).	(7.3)
Non-facility (including investment income) Additional $40 voluntary contribution to NY State in August and retirement incentive accrual ($4) partially offset by a positive variance in net non-operating income ($9.9, mark-to-market gain on Authority's investment portfolio and lower interest expense), and a reduction in anticipated PFJ obligations accrued in prior years ($12).	(20.5)
Total	**($126.0)**

Net Income
Years Ended December 31, 2010 and December 31, 2009
($ in millions)

	2010*	2009	Variance Favorable/ (Unfavorable)
Operating Revenues	**$2,585.1**	**$2,595.3**	**($10.2)**
Operating Expenses			
Fuel consumed - oil & gas	223.8	365.3	141.5
Purchased power and ancillary services	933.9	904.4	(29.5)
Wheeling	533.4	436.3	(97.1)
	1,691.1	1,706.0	14.9
Net Margin	**894.0**	**889.3**	**4.7**
Operations and maintenance	310.7	299.7	(11.0)
Other expenses	139.4	143.6	4.2
Depreciation and amortization	162.9	164.2	1.3
Allocation to capital	(9.8)	(9.2)	.6
Net Operating Income	**290.8**	**291.0**	**(.2)**
Investment and other income	130.9	146.2	(15.3)
Mark to Market Adjustment	6.1	(12.9)	19.0
Total Nonoperating Income	**137.0**	**133.3**	**3.7**
Contributions to New York State	147.0	70.0	(77.0)
Interest and other expenses	98.8	100.7	1.9
Total Nonoperating Expenses	**245.8**	**170.7**	**(75.1)**
Net Nonoperating Income (Loss)	**(108.8)**	**(37.4)**	**(71.4)**
Net Income	**$182.0**	**$253.6**	**($71.6)**

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

Net income for the year ended December 31 2010 ($182.0) was $71.6 lower than the year ended 2009 ($253.6). The negative impact of higher voluntary contributions to New York State during the period ($77) was partially offset by higher investment income ($3.7) due to mark-to-market gains.

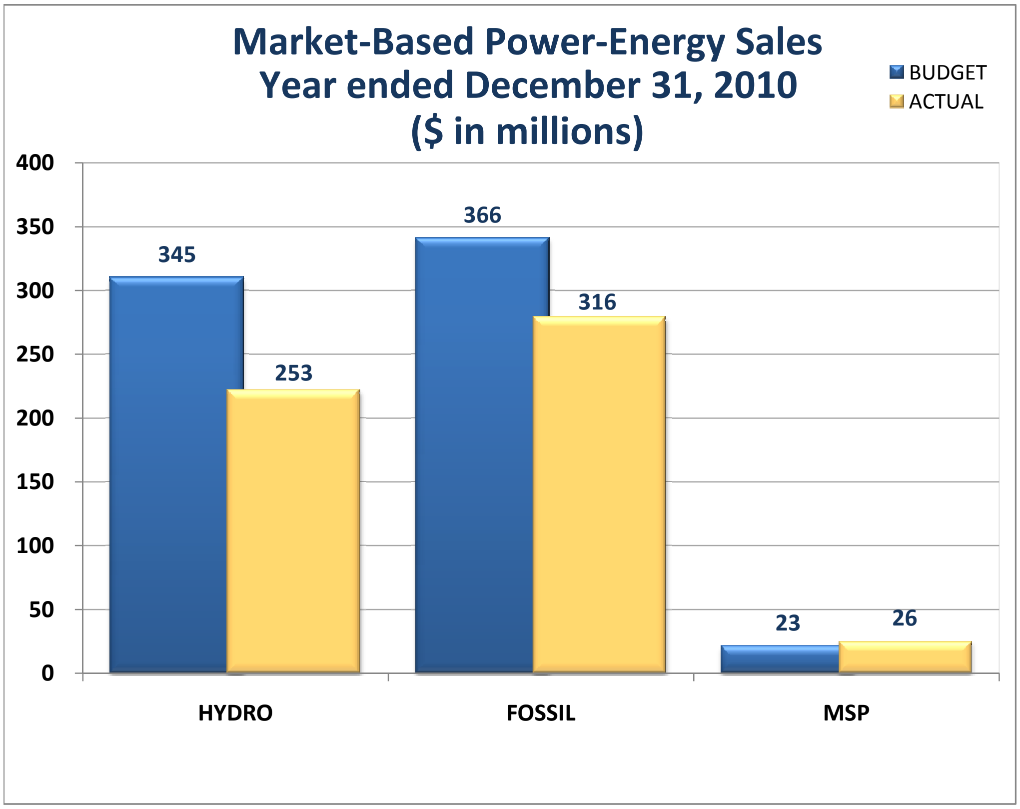
Lower fuel costs and higher purchased power expenses in 2010 were substantially attributable to changes in the resources utilized to serve the SENY governmental customers necessitated by the retirement of the Poletti plant. Wheeling expenses increased due to a Con Ed rate increase for delivery service. The majority of these cost variations are offset through revenues as variances are passed through to customers through rates. On a net basis, margins on sales were $4.7 higher in 2010 reflecting improved performance by the Small Clean Power Plants ($35) offset by a lower margin at Niagara ($31) due to lower production. Generation at the SCPP's was higher in 2010 as the plants had experienced several planned and unplanned outages in 2009.

Higher non-operating income in 2010 reflects a higher mark-to-market adjustment on NYPA's investment portfolio due to lower market interest rates partially offset by lower investment income. Other income in 2009 also included non-recurring insurance recoveries related to 2008 events.

Non-operating expenses in 2010 were higher than the prior year ($75.1) due to higher voluntary contributions to the State. A voluntary contribution of $70 was made in 2009. Voluntary contributions to the State in 2010 include $107 made in March for the State's 2009/10 fiscal year and $40 made in August for the State's 2010/2011 fiscal year.

New York Power Authority

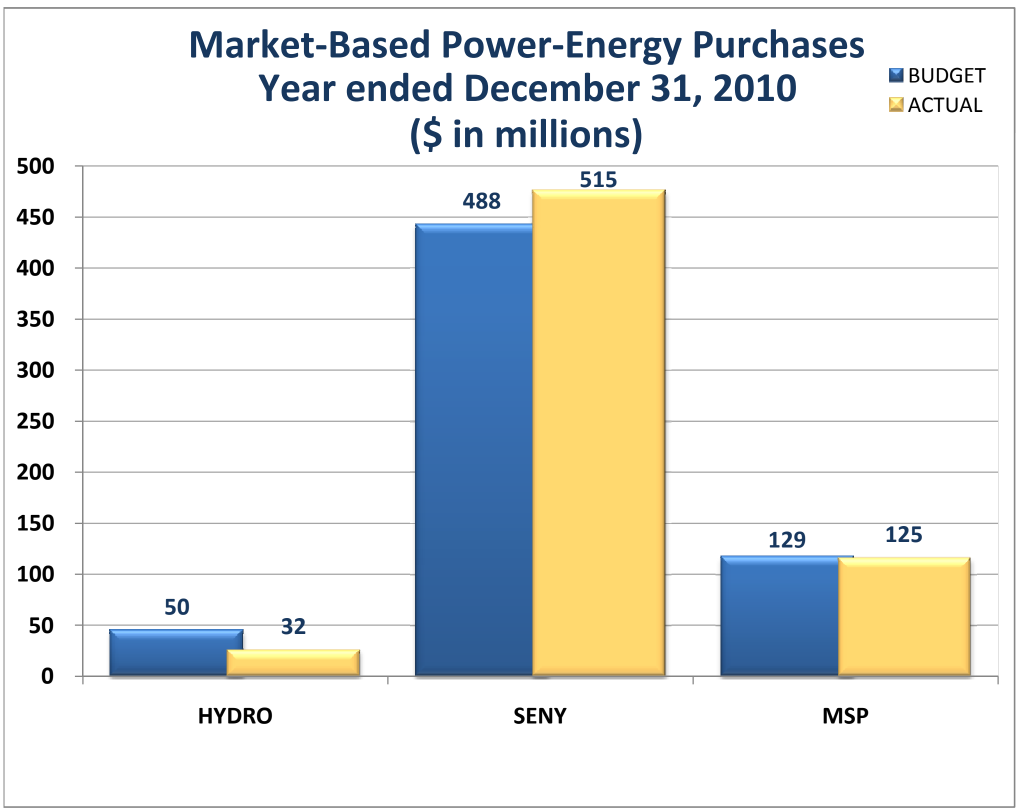
RESULTS OF OPERATIONS



REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	6,006,576	5,141,178
Fossil	3,894,853	4,021,171
MSP	533,350	628,222
TOTAL	10,434,779	9,790,571
PRICES ($/MWH)		
Hydro*	$57.52	$49.18
Fossil	$94.05	$78.46
MSP	$42.91	$41.83
AVERAGE	$70.39	$60.73

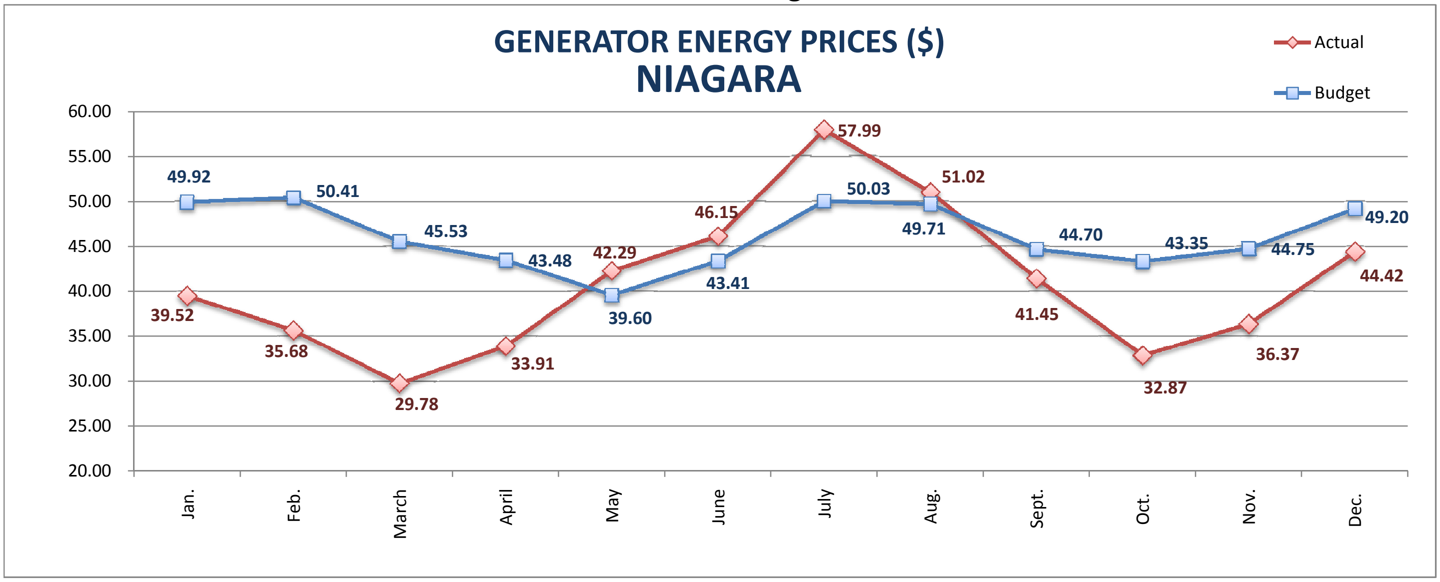
** Includes Niagara, St. Lawrence, B-G, and Small Hydro.*

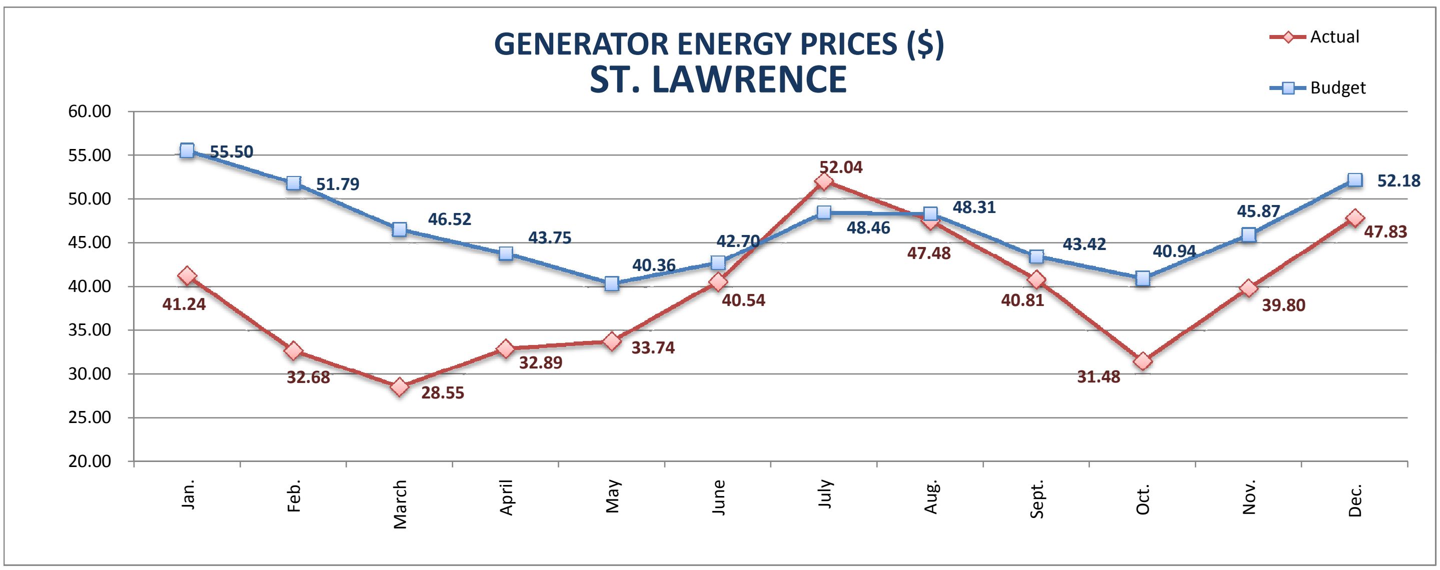
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Niagara	2,677,546	2,238,703
St. Law.	2,391,890	2,412,671
PRICES ($/MWH)		
Niagara	$46.81	$41.64
St. Law.	$44.23	$40.13

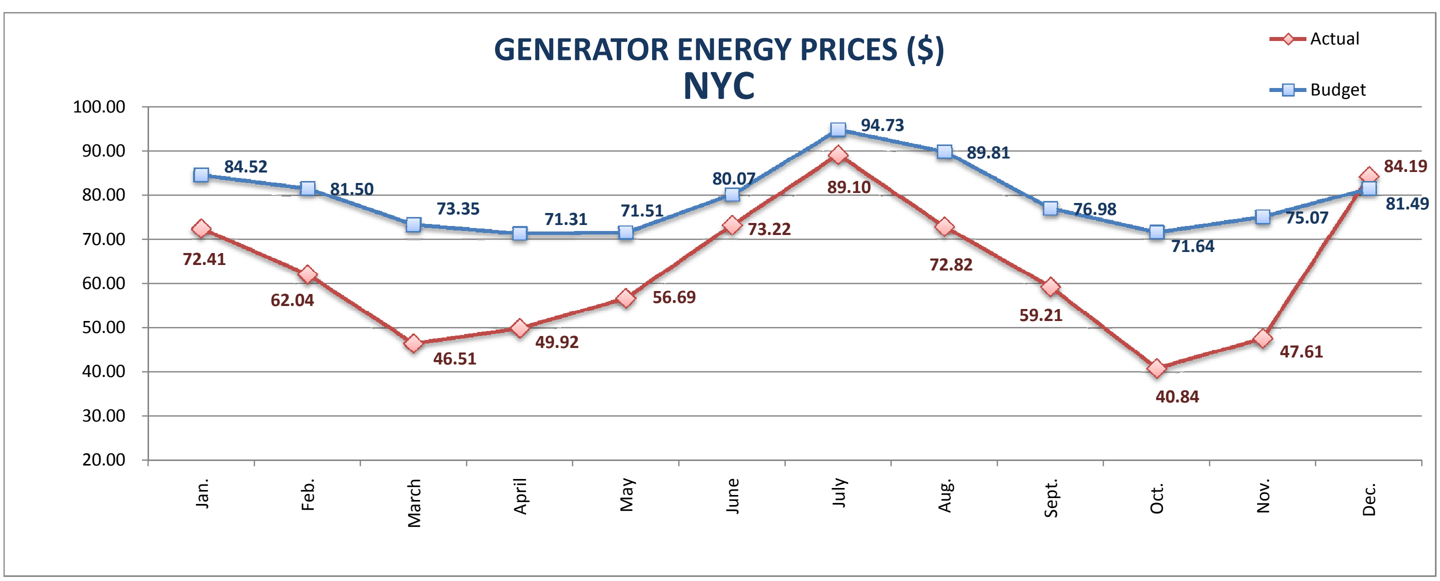


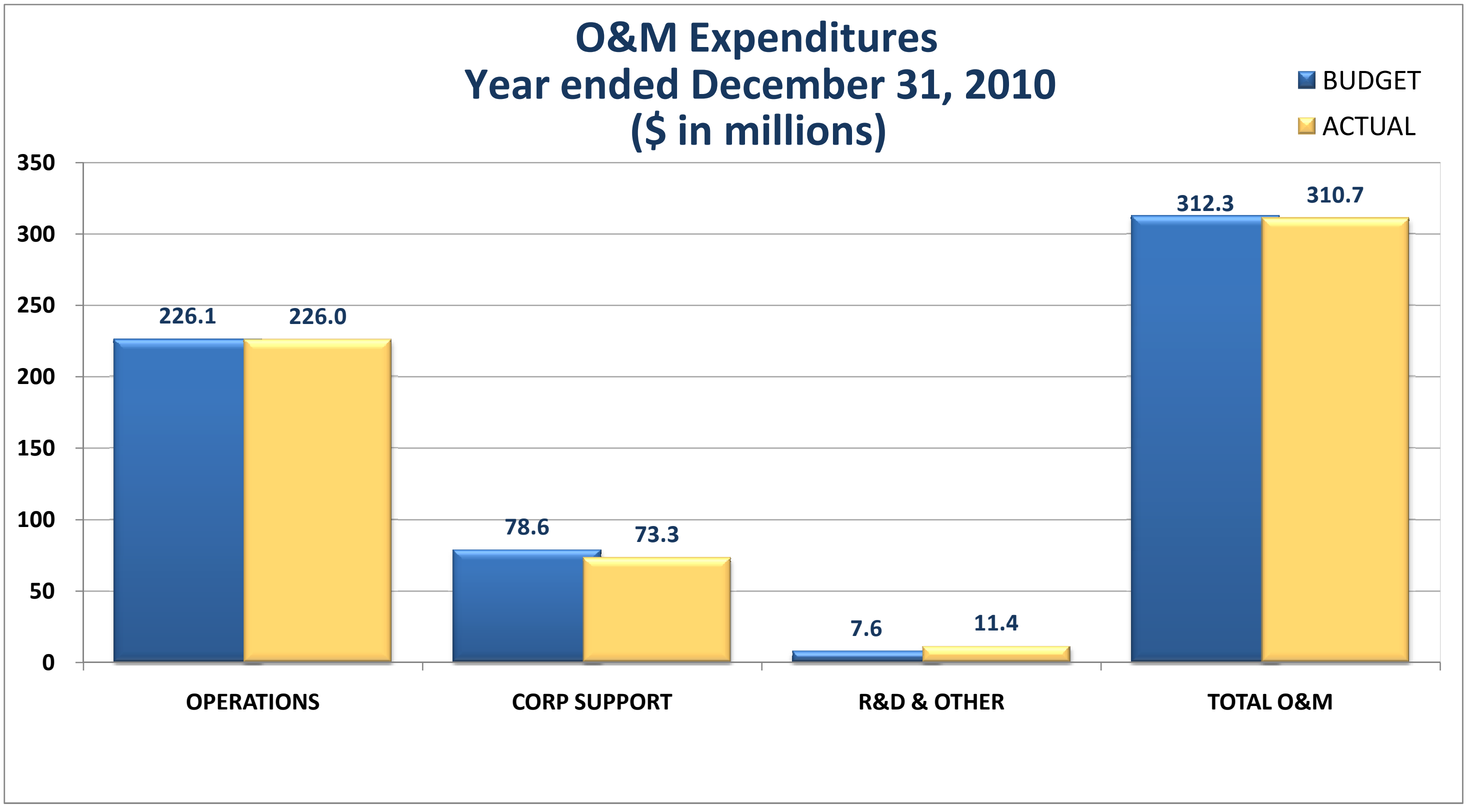
COSTS		
PURCHASES (MWH)		
	BUDGET	ACTUAL
Hydro	1,703,829	1,200,150
SENY	9,148,635	9,675,235
MSP	2,833,403	2,847,755
TOTAL	13,685,867	13,723,140
COSTS ($/MWH)		
Hydro	$29.63	$26.51
SENY	$53.27	$53.25
MSP	$45.41	$43.99
AVERAGE	$48.70	$48.99

RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget







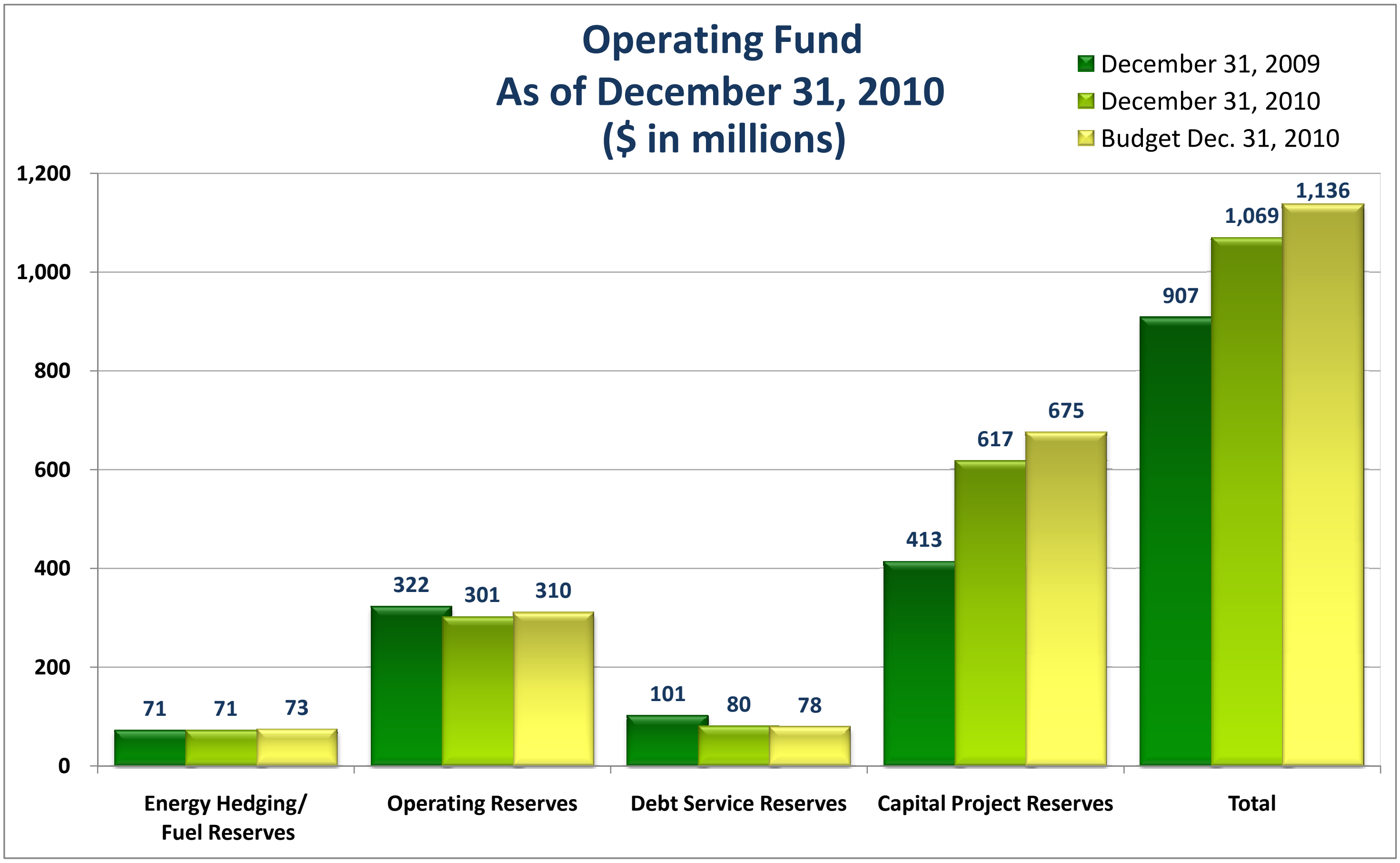


- For the year, O&M expenses were $1.6 lower than the budget.

- Operations expenditures were slightly lower than budgeted. Higher expenditures in Operations Shared Services ($7.3) and the SCPP's ($2.2) were offset by less than anticipated expenses at St. Lawrence ($3.7), Niagara ($1.3), and the transmission facilities ($2.0). Operations Shared Services expenditures exceeded the budget due to higher than anticipated spending for contract services and consultants and less than expected payroll charged to capital projects. The SCPP's included emergent work for the Hell Gate Pot Head Leak and the Harlem River Gas Turbine Engine Repair. St. Lawrence reflected less than anticipated spending in various non-recurring projects. Niagara was under budget due to greater than anticipated labor charged to capital and less than anticipated expenditures for contractor services for the roof replacement and asbestos abatement.

- Corporate Support expenses were under budget by $5.3 due mostly to lower payroll as a result of unfilled vacancies, under spending for fuel cell maintenance, legal consultants, telecommunication equipment and computer software, as well as higher than anticipated rental income.

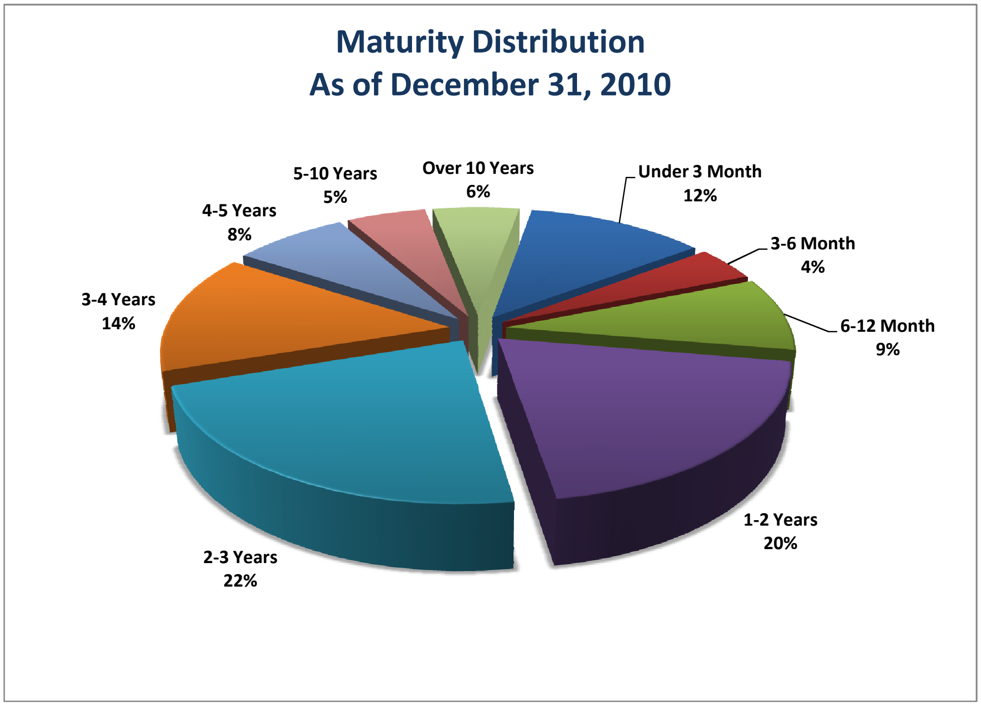
- R&D and Other was higher than anticipated due to the payment of fees to NYSERDA of $3.2 for state fiscal years 2009-2010 and 2010-2011, not included in the budget.



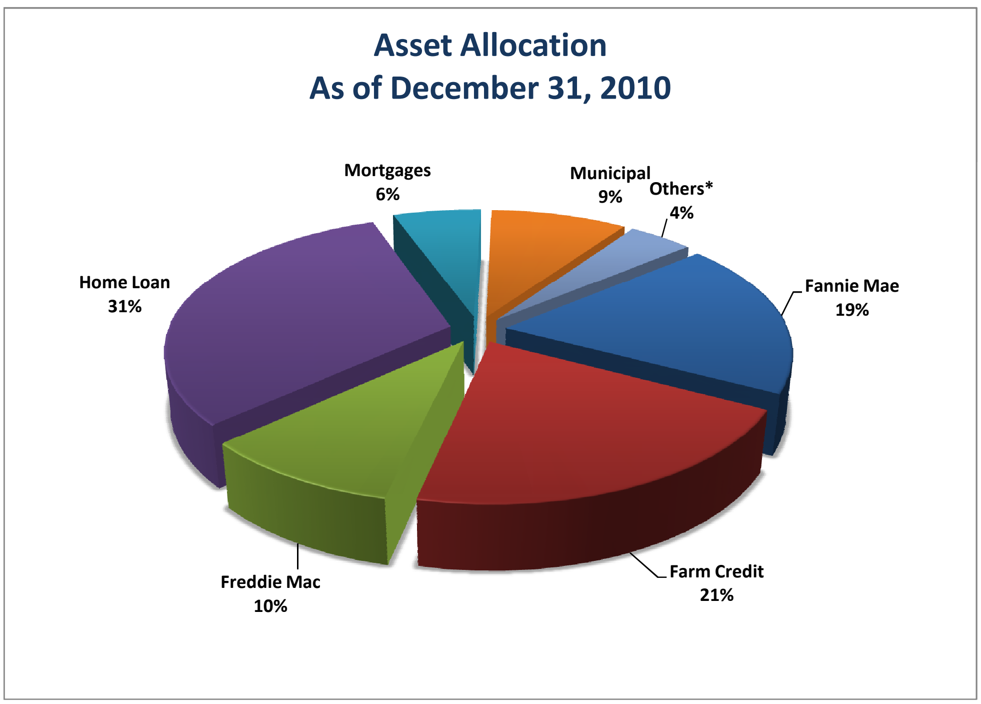
The increase of $162 in the Operating Fund for 2010 (from $907 to $1,069) was primarily attributable to positive net cash provided by operating activities, the Value Sharing payment of $72 received from Entergy in January and other scheduled Entergy payments ($30), substantially offset by $159.5 in voluntary contributions to New York State and scheduled debt service payments. The variance from budget is a result of lower net income for the period.

New York Power Authority

CASH AND LIQUIDITY INVESTMENT PORTFOLIO

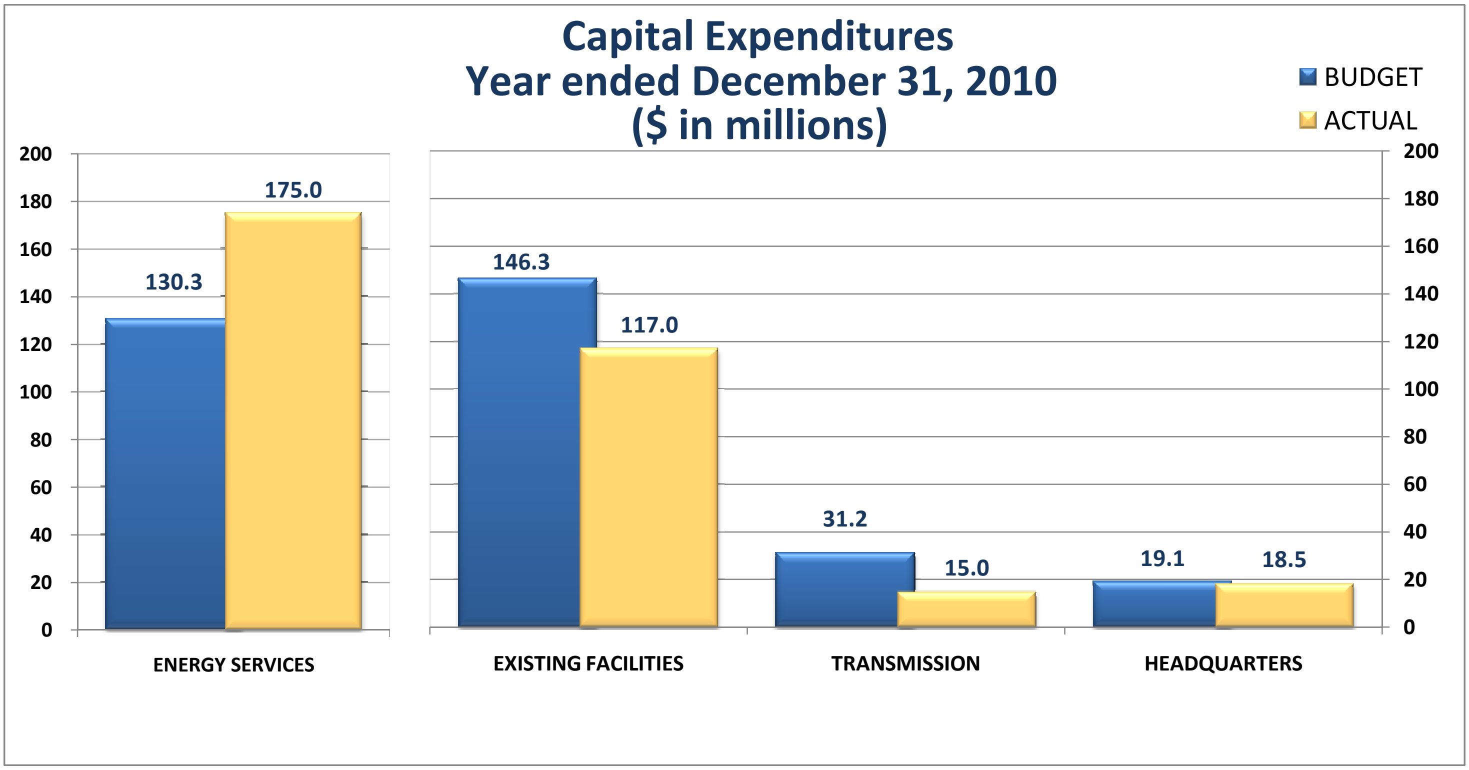


MATURITY DISTRIBUTION ($ in millions)	
Under 3 Month	$145.9
3-6 Month	50.9
6-12 Month	108.5
1-2 Years	243.2
2-3 Years	274.1
3-4 Years	175.7
4-5 Years	93.5
5-10 Years	64.0
Over 10 Years	70.8
Total	$1,226.6



ASSET ALLOCATION ($ in millions)	
Fannie Mae	$231.2
Farm Credit	254.9
Freddie Mac	118.5
Home Loan	384.6
Mortgages	72.7
Municipal	111.7
Others*	53.0
Total	$1,226.6

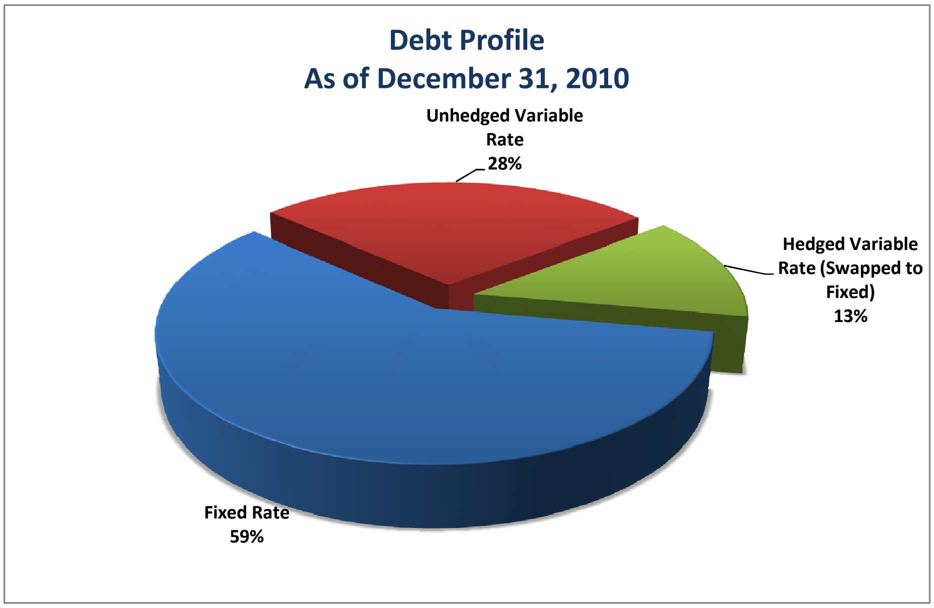
*Includes CDs and Repos



- Energy Services expenditures exceeded the budget by $44.7 due to accelerated construction activity related to NYCHA's Hot Water Storage Tank Replacement and CUNY Central Heating and Cooling Project.
- Lower capital expenditures at Existing Facilities were primarily due to timing differences related to the B-G and St. Lawrence life extension and modernization projects.
- Transmission was under budget due to timing differences related to the Niagara 115 kv Oil Circuit Breaker upgrade and the St. Lawrence Relay replacement project.
- Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of $20.3 for the year to date. There were no new expenditures authorized in December.

Year Ended December 31, 2010
($ in millions)

	Beginning Balance	New Issues	Scheduled Retirements	Additional Retirements	Ending Balance
Fixed Rate Debt	$1,173.4	-	$39.0	-	$1,134.4
Variable Rate Debt	531.3	-	88.2	-	443.1
Variable Rate Energy Srvcs Debt	308.7	163.7	-	125.2	347.2
Sub-total Variable Rate Debt	840.0	163.7	88.2	125.2	790.3
Total	**$2,013.4**	**$163.7**	**$127.2**	**$125.2**	**$1,924.7**



DEBT PROFILE	
($ in millions)	
Fixed Rate	1,134.4
Unhedged Variable Rate **(1)**	533.2
Hedged Variable Rate (Swapped)	257.1
Total	1,924.7

(1) *On August 15, 2010, the SIFMA based interest rate cap on a $300 notional amount of Commercial Paper Series 1 expired. Staff received Board authorization to enter into a Replacement Cap which is expected to be bid in January 2011.*

Interest Rate Derivatives

The Authority periodically enters into Interest Rate Swaps and Caps to manage interest rate volatility associated with variable rate debt and to hedge future debt issuance. Each transaction is approved by the Board of Trustees and is governed by an ISDA Master Agreement and Schedule to the Agreement with authorized Counterparties. The SVP – Corporate Planning & Finance and the Treasury department, in consultation with the Authority's financial advisor Public Financial Management, continually monitor market conditions for potential hedging strategies that may benefit the Authority and its customers. All transactions were competitively bid.

Open Positions

The 1998B transaction is an interest rate swap that was bid March 13, 1998 with an effective date of November 15, 2002. The swap had the effect of fixing the rate on tax-exempt commercial paper at 5.123% on a forward starting basis. It was one component of the 1998 debt refinancing that reduced debt service costs by $740 million and allowed the Authority to adopt a new *General Resolution authorizing Revenue Obligations* in preparation for the competitive marketplace.

The ARTN transaction is an interest rate swap that was bid July 27, 2006 with an effective date of September 1, 2006. It allowed the Authority to lock in a 3.7585% synthetic fixed rate on the Adjustable Rate Tender Notes ("ARTN's"). The synthetic fixed rate was below the historical average rate on the ARTN's and below the rate used in developing NYPA's transmission tariff.

Summary of Derivative Positions ($ in millions)

Transaction	Counterparty	Notional Amount*	Effective Date	Type of Swap	Mark-to-Market
1998B	Goldman Sachs Mitsui Marine Derivatives	$38.0	11/15/2002	Floating-to-Fixed	($2.9)
1998B	Merrill Lynch Cap. Srvcs	63.3	11/15/2002	Floating-to-Fixed	(4.8)
1998B	Citigroup Financial Prod.	25.3	11/15/2002	Floating-to-Fixed	(1.9)
ARTN	Merrill Lynch Cap. Srvcs	130.5	9/1/2006	Floating-to-Fixed	(14.2)
Totals		**$257.1**			**($23.8)**

* *The notional amount of each SWAP amortizes according to the provisions contained in the transaction documents.*

New York Power Authority

ENERGY DERIVATIVES

Results

For year ended December 31, 2010, financial energy derivative settlements resulted in a realized loss of $64 million. The amount of these losses is subject to virtual full cost recovery, whereby the resulting hedge settlements are incorporated into and recovered through Customer rates.

Year-to-Date 2010 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions

($ in Millions)

	Settlements	Fair Market Value			
	YTD	**2011**	**2012**	**>2012**	**Total**
NYPA	$ (0.05)	$ (0.13)	$ -	$ -	$ (0.13)
Customer Contracts	$ (64)	$ (79)	$ (89)	$ (76)	$ (244)
Total	**$ (64)**	**$ (79)**	**$ (89)**	**$ (76)**	**$ (244)**

At the end of December, the fair market value of outstanding positions was valued at an unrealized loss of $244 million for positions extending through 2017. In the third quarter of 2006, NYPA entered into multi-year positions through 2017 for renewable energy on behalf of the New York City Government Customers. In October 2009, NYPA procured additional contracts for the New York City Government Customer for the period beginning January 2010 through December 2014 to secure pricing for the medium-term horizon. At this time, current market prices are at levels below the contracted prices, thereby accounting for the unfavorable mark-to-market valuation.

Market Summary

Exhibit 1 shows the average price of February to December 2011 futures contracts and how they have traded since the beginning of 2010, while Exhibit 2 illustrates the average price of futures contracts for entire year 2012.

Exhibit 1: Average February to December 2011 Forward Price as Traded

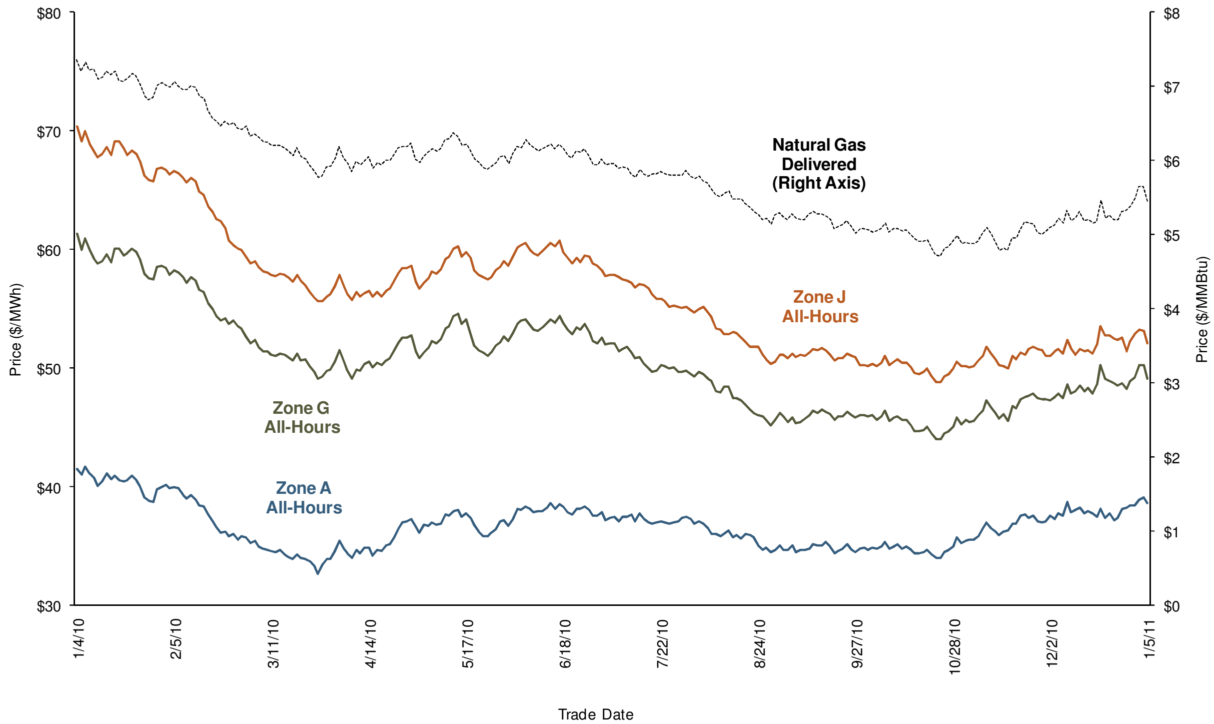
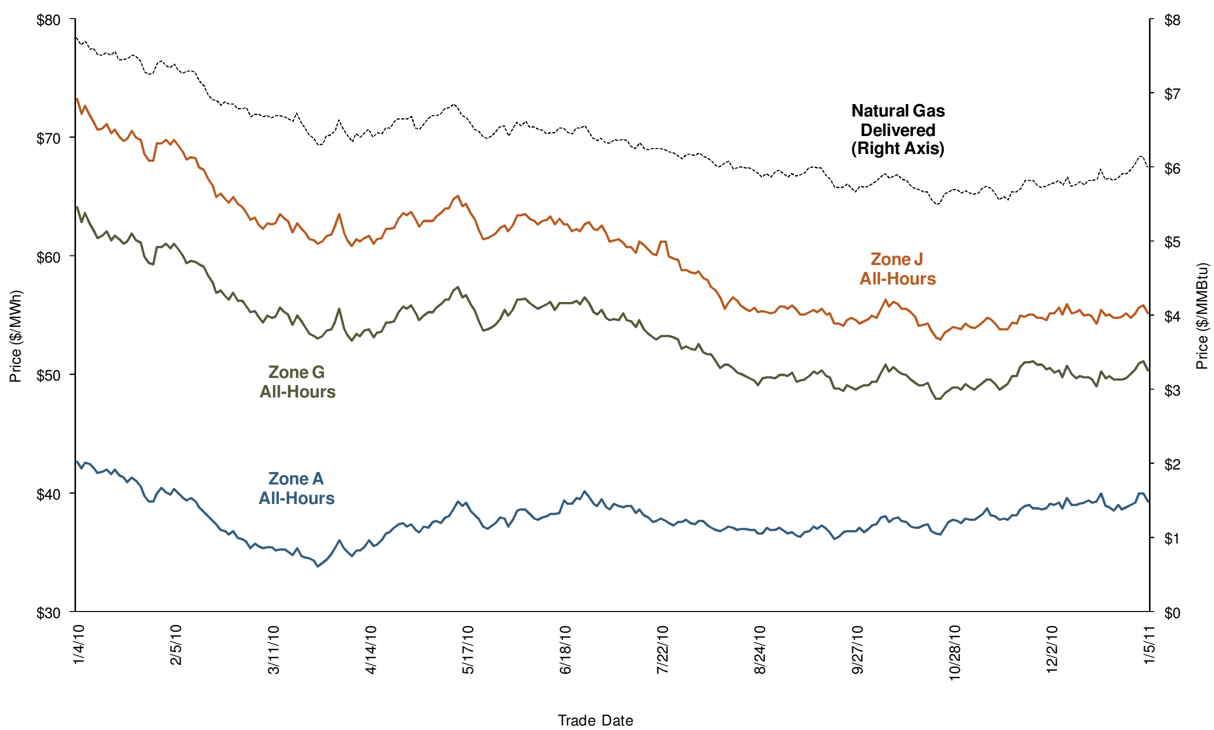


Exhibit 2: Average January to December 2012 Forward Price as Traded



STATEMENT OF NET INCOME*
For the Year Ended December 31, 2010
($ in millions)

	Actual	Budget	Variance Favorable/ (Unfavorable)
Operating Revenues			
Customer	**$1,969.9**	**$2,062.1**	**($92.2)**
Market-based power sales	471.9	591.7	(119.8)
Ancillary services	30.2	54.4	(24.2)
NTAC and other	113.1	102.9	10.2
Total	**615.2**	**749.0**	**(133.8)**
Total Operating Revenues	**2,585.1**	**2,811.1**	**(226.1)**
Operating Expenses			
Purchased power	871.1	864.8	(6.3)
Fuel consumed - oil & gas	223.8	340.9	117.1
Ancillary services	62.8	91.0	28.2
Wheeling	533.4	519.9	(13.5)
Operations and maintenance	310.7	312.3	1.6
Depreciation and amortization	162.9	160.3	(2.6)
Other expenses	139.4	141.7	2.3
Allocation to capital	(9.8)	(10.8)	(1.0)
Total Operating Expenses	**2,294.3**	**2,420.1**	**125.8**
Net Operating Income	**290.8**	**391.1**	**(100.3)**
Nonoperating Revenues			
Post nuclear sale income	89.0	89.0	-
Investment income	42.0	53.1	(11.1)
Mark to market - investments	6.1	(5.9)	11.9
Total Nonoperating Revenues	**137.0**	**136.2**	**.8**
Nonoperating Expenses			
Contributions to New York State	147.0	107.0	(40.0)
Interest and other expenses	98.8	112.3	13.5
Total Nonoperating Expenses	**245.8**	**219.3**	**(26.5)**
Net Nonoperating Income (Loss)	**(108.8)**	**(83.1)**	**(25.7)**
Net Income	**$182.0**	**$308.0**	**($126.0)**

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

COMPARATIVE BALANCE SHEETS
December 31, 2010
($ in millions)

Assets		December 2010*	December 2009
Current Assets			
	Cash	$0.1	$0.1
	Investments in government securities	1,091.1	913.4
	Interest receivable on investments	5.5	5.8
	Accounts receivable - customers	204.0	191.7
	Materials and supplies, at average cost:		
	Plant and general	75.1	82.3
	Fuel	15.3	21.7
	Prepayments and other	144.4	124.4
	Total Current Assets	**1,535.5**	**$1,339.4**
Noncurrent Assets			
Restricted Funds	Investment in decommissioning trust fund	1,032.4	942.4
	Other	83.3	94.1
	Total Restricted Funds	**1,115.7**	**1,036.5**
Capital Funds	Investment in securities and cash	144.8	189.2
	Total Capital Funds	**144.8**	**189.2**
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,344.1	3,347.8
	Construction work in progress	123.3	144.8
	Net Utility Plant	**3,467.4**	**3,492.6**
Other Noncurrent Assets	Receivable - NY State	318.0	318.0
	Deferred charges, long-term receivables and other	650.7	545.6
	Notes receivable - nuclear plant sale	157.1	170.1
	Total other noncurrent assets	**1,125.8**	**1,033.7**
	Total Noncurrent Assets	**5,853.7**	**5,752.0**
	Total Assets	**$7,389.2**	**$7,091.4**

Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	$853.6	$809.5
	Short-term debt	323.2	289.2
	Total Current Liabilities	**1,176.8**	**1,098.7**
Noncurrent Liabilities			
Long-term Debt	Revenue bonds	1,151.2	1,192.7
	Adjustable rate tender notes	130.5	137.5
	Commercial paper	336.5	413.3
	Total Long-term Debt	**1,618.2**	**1,743.5**
Other Noncurrent Liabilities	Nuclear plant decommissioning	1,032.4	942.4
	Disposal of spent nuclear fuel	216.1	215.8
	Deferred revenues and other	343.3	270.5
	Total Other Noncurrent Liabilities	**1,591.8**	**1,428.7**
	Total Noncurrent Liabilities	**3,210.0**	**3,172.2**
	Total Liabilities	**4,386.8**	**4,270.9**
Net Assets	Accumulated Net Revenues - January 1	2,820.4	2,566.9
	Net Income	182.0	253.6
	Total Net Assets	**3,002.4**	**2,820.5**
	Total Liabilities and Net Assets	**$7,389.2**	**$7,091.4**

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

SUMMARY OF OPERATING FUND CASH FLOWS*
For the Year Ended December 31, 2010
($ in millions)

Operating Fund	
Opening	$906.8
Closing	1,069.2
Increase/(Decrease)	**162.4**
Cash Generated	
Net Operating Income	290.8
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	162.9
Net Change in Receivables, Payables & Inventory	(16.6)
Other	(5.8)
Net Cash Generated from Operations	**431.3**
(Uses)/Sources	
Utility Plant Additions	(80.8)
Debt Service	
Revenue Bonds - Series A	(69.5)
Commercial Paper 2	(69.0)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(8.0)
ART Notes	(7.3)
Investment Income	26.0
Entergy Value Sharing Agreement	72.0
Entergy Payment (IP2 Purchase Agreement)	10.0
Entergy Payment (Additional Facilities Note)	20.0
Voluntary Contribution to NY State	(159.5)
Other	(2.8)
Total (Uses)/Sources	**(268.9)**
Net Increase in Operating Fund	**$162.4**

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

3. Transmission Lines – Spacer and Damper Replacements –
<u>Capital Expenditure Authorization Request and Contract Award</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to authorize a Capital Expenditure Authorization Request ('CEAR') in the amount of $4.3 million for the replacement of degraded parts on the 765 kV, Massena-Chateaugay (MSC-7040) and Massena-Utica (MSU-1) transmission lines. Approximately 13,000 conductor bundle spacers and 2,600 vibration dampers on the static wire need to be replaced. The Trustees are also requested to approve the award of a contract to Haverfield Aviation, Inc. ('Haverfield') of Gettysburg, PA, in the amount of $3.1 million to perform this work for the period 2011 and 2012.

<u>BACKGROUND</u>

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year. In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services or equipment purchase contracts in excess of $3 million require Trustees' approval.

"The 765 kV transmission lines operate between the Authority's Massena Substation near the St. Lawrence/FDR Power Project, Chateauguay near Montreal, and the Marcy Substation. The lines were put into service in 1978. An inspection conducted by an outside consultant identified that many of the conductor bundle spacers originally installed were bent and damaged. Installation of new conductor bundle spacers will provide damping of wind-induced vibration on the transmission lines and reduce resultant damage caused by its effects.

<u>DISCUSSION</u>

"The Authority issued an advertisement to procure bids in the New York State *Contract Reporter* and bid packages were available as of September 10, 2010. The bid documents were downloaded by 48 firms; seven firms participated in a site visit on September 28, 2010.

"The following firms submitted proposals on October 26, 2010:

- Haverfield Aviation, Inc.
  Gettysburg, PA

- PAR Electrical Contractors, Inc.
  Kansas City, MO

- KT Power, Inc.
  Waddington, NY

- Northline Utilities, LLC
  Au Sable Forks, NY

"Following post-bid addendums and clarifications, the firms submitted final pricing as follows:

	OPTION 1A - ACA Type - (100% 2011)	**OPTION 1B - PLP Type - (100% 2011)**	**OPTION 2A - ACA Type - (50% 2011; 50% 2012)**	**OPTION 2B - PLP Type - (50% 2011; 50% 2012)**
Haverfield Aviation, Inc. Gettysburg, PA	$3,046,520	$3,064,306	$3,046,520	$3,064,306
PAR Electrical Contractors, Inc. Kansas City, MO	$5,577,750	$5,637,550	$6,128,549	$6,196,149
KT Power, Inc. Waddington, NY	$7,880,720	$8,830,320	$7,852,320	$9,490,320
Northline Utilities, LLC Au Sable Forks, NY	$7,912,300	$7,990,300	$7,923,600	$8,001,600

"Authority staff recommends an award to the lowest-priced and technically-qualified bidder, Haverfield. Haverfield is a leading provider of aerial power line inspection and maintenance services to the electric power industry in the USA and has over 25 years of experience on systems up to 765 kV. Haverfield uses helicopters for the purpose of performing work on energized transmission lines. The company has successfully executed other projects for the Authority in the past such as annual inspections and repairs on the 765 kV transmission lines.

"The work will be performed over a two-year period with half of the new conductor bundle spacers being installed in 2011 and the remaining half in 2012.

"Funding has been included in the 2011 approved Capital Budget. Funding for the work to be performed in 2012 will be included in the Capital Budget request for that year.

"The total CEAR amount over the two-year period is estimated at $4.3 million, as follows:

Engineering/Design	$ 200,000
Construction/Installation	$3,630,000
Authority Direct Expenses	$ 265,000
Authority Indirect Expenses	$ 204,800
TOTAL	$4,299,800

"The CEAR includes amounts in excess of the contract award to cover engineering and construction support, contingency and overhead costs.

FISCAL INFORMATION

"Payments will be made from the Authority's Capital Fund.

RECOMMENDATION

"The Senior Vice President – Power Supply Support Services, the Senior Vice President – Transmission, the Vice President – Project Management and the Vice President – Procurement, recommend that the Trustees authorize capital expenditures in the amount of $4.3 million and the award of a contract to Haverfield Aviation, Inc.

in the amount of $3.1 million to replace the conductor bundle spacers on the 765 kV, Massena-Chateaugay (MSC-7040) and Massena-Utica (MSU-1) transmission lines.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Executive Vice President and Chief Engineer – Power Supply and I concur in the recommendation."

Mr. Andy Cline provided highlights of staff's recommendation to the Trustees. In response to a question from Vice Chairman Jonathan Foster, Mr. Cline said that Haverfield Aviation Inc. has experience in aerial power line inspection and has done work for the Authority in the past.

In response to a question from Chairman Townsend, Mr. Cline said that the work performed by Haverfield in the past was done well.

In response to a question from Trustee Nicandri, Mr. Cline said that the work will be performed over two years.

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

RESOLVED, That expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, for capital expenditures in the amount of $4.3 million for the replacement of approximately 13,000 conductor bundle spacers and 2,600 dampers on the static wire on the 765 kV transmission lines for the period 2011 and 2012; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a contract to Haverfield Aviation, Inc. of Gettysburg, PA, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount listed below:

Contractor	**Contract Approval**
Haverfield Aviation, Inc. Gettysburg, PA	**$3.1 million**

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

4. Procurement (Construction) Contract – Installation of Standby/ PLM Generators in Grand Central Terminal – Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a contract to Danco Electrical Contractor, Inc., ('Danco') a New York State certified minority-owned business, in the amount of $9.355 million to install two 2-MW Standby/Peak Load Management Generators and associated equipment in Metro-North Railroad's ('MNR') Grand Central Terminal.

"Funding will be provided from previously approved funds in the Energy Services and Technology Governmental Energy Services Program account and will be fully recovered from MNR pursuant to the existing Energy Services Program Agreement between the Authority and the Metropolitan Transportation Authority.

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.

"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 contracts in excess of $1 million if low bidder, or $500,000 if sole-source or non-low bidder, requires the Trustees' approval.

"In 2008, MNR authorized the Authority to proceed with design of two 2-MW standby generators for Grand Central Terminal. The generators will be available for standby power in the event of a grid power outage or for Peak Load Management ('PLM') during periods of peak demand on the grid. In 2009, estimated prices for the project exceeded MNR's available funding. As a result, the Authority and MNR undertook a value engineering effort and redesigned the project. As the redesign was proceeding, the Authority received MNR's approval to award contracts to purchase the generators and associated major equipment. Those contracts are underway.

DISCUSSION

"On June 30, 2010, the Authority advertised a Request for Proposals ('RFP') in the New York State *Contract Reporter* soliciting proposals to install two 2-MW standby generators and associated equipment in Grand Central Terminal. A mandatory bidders' site visit was conducted on July 14 and July 28, 2010 to review the proposed scope-of-work and provide an opportunity for potential bidders to observe site conditions. Bidders' questions and requests for clarification were required to be submitted in writing and responses were issued to all bidders via an addendum. Twenty-two firms attended the site visit.

"Seven firms submitted bids as follows:

Bidder	Base Bid	Optional Items
Danco Electrical Contractor, Inc.	$ 9,335,000.00	$ 280,000.00
TC Electric	$ 9,721,618.27	$ 340,278.00
T. Moriarity & Sons, Inc.	$ 10,417,500.00	$ 360,000.00
TAP Electrical Contracting Service, Inc.	$ 10,678,722.50	$ 277,172.50
Mass Electric Construction Co.	$ 11,113,000.00	$ 478,000.00
Tru-Val Electric Corp.	$ 14,470,000.00	$ 364,000.00
Five Star Electric Corp.	$ 21,348,019.00	$ 650,000.00

"A bid evaluation team, including a representative from MNR, was formed. The team evaluated all of the bids and met with the two lowest bidders. The Selection Committee rated the bids on technical ability, price, experience and bid quality.

"During the bid evaluation, MNR advised the Authority that the bids exceeded their available funding for the project. Authority staff reviewed this with MNR and embarked on an additional value engineering effort with the two lowest bidders. They were asked to review their pricing and identify any potential opportunities for cost savings. These two bidders were then issued identical scope reduction items and were requested to advise the Authority of any additional cost saving recommendations for NYPA/MNR consideration. The results of this effort were:

Bidder	Base Bid	Optional Items
Danco Electrical Contractor	$ 9,075,000.00	$ 280,000.00
TC Electric	$ 9,500,934.27	$ 340,278.00

"The bid evaluation team recommended award to the lowest responsive bidder, Danco. MNR will be using a Federal Homeland Security grant to fund most of the project. The grant deadline requires completion in October 2011. It was necessary to have the contractor mobilize immediately upon completion of the bid evaluation in order to meet this tight project schedule. Accordingly, in late December 2010, pursuant to the Authority's Expenditure Authorization Procedures, the President and Chief Executive Officer approved an interim award to Danco in the amount of $2.5 million to allow Danco to proceed immediately with mobilization, site preparation and staging.

FISCAL INFORMATION

"Funding for this contract will be provided from the proceeds of the Authority's Commercial Paper Notes and/or the Operating Fund. All Authority costs, including Authority overheads and the costs of advancing funds, will be recovered consistent with other Energy Services and Technology Programs.

RECOMMENDATION

"The Acting Senior Vice President – Energy Services and Technology and the Director – Engineering and Design recommend that the Trustees approve a contract award in the amount of $9.355 million to Danco Electrical Contractor, Inc., to install two 2-MW Standby/Peak Load Management Generators and associated equipment in Metro-North Railroad's Grand Central Terminal.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Vice President – Procurement and I concur in the recommendation."

Mr. Paul Belnick provided highlights of staff's recommendation to the Trustees. In response to questions from Trustee Nicandri, Mr. Belnick said that the generators were standby units and that Metro-North would repay the Authority all costs incurred on the project.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority and the Authority's Expenditure Authorization Procedures, the Trustees hereby authorize the award of a contract in the amount of $9.355 million to Danco Electrical Contractor, Inc., to install two 2-MW Standby/Peak Load Management Generators and associated equipment in Metro North Railroad's Grand Central Terminal; and be it further

RESOLVED, That Commercial Paper and Operating Fund Monies will be used to finance the contract costs in the amounts and for the purposes listed below:

Commercial Paper/ Operating Funds	**Expenditure Authorization (not to exceed)**
Installation of Two 2-MW Standby/PLM Generators	**$9,355,000**

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all 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, or the designee.

5. <u>Contribution of Funds to the State Treasury</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve a contribution in the amount of $25 million to the State's general fund as authorized by legislation approving the 2010-11 Budget of the State of New York (Chapter 56 of the Laws of 2010).

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. Such financial support has come in the form of direct transfers to the State's general fund, rebates to customers of the Power for Jobs ('PFJ') Program, the provision of below-cost energy to the beneficiaries of the State's Energy Cost Savings Benefits Program and contributions toward the operation and maintenance expenses for State parks in the vicinity of the Niagara and St. Lawrence projects.

"Any such contribution or transfer of funds must (1) be authorized by the Legislature; (2) be approved by the Trustees 'as feasible and advisable' and (3) satisfy the requirements of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented ('Bond Resolution'). 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

"Governor Paterson proposed in his State Fiscal Year ('SFY') 2010-11 Executive Budget Plan, legislation authorizing the Authority as deemed 'feasible and advisable by its trustees' to make $65 million in payments to the State, which is to 'be utilized for economic development, energy efficiency or energy cost mitigation purposes.' The legislation approving the State Budget authorized the Authority's payment of $40 million by June 2010, with the remaining $25 million to be considered for payment by January 2011. At their June 29, 2010 meeting, the Trustees authorized and the Authority subsequently transferred the initial $40 million payment.

"Under consideration today is the remaining $25 million amount, which has been linked in the State Budget to the establishment of a small business revolving loan fund. The 2010-11State Budget appropriated $25 million for the New York State Urban Development Corporation to support such a fund with the proviso that, 'No moneys of the state in the state treasury or any of its funds shall be expended from this appropriation until a miscellaneous receipt is provided from the New York Power Authority…'.

"Staff has reviewed the effects of such a transfer of funds on the Authority's expected financial position and reserve requirements, the primary business criteria used to evaluate potential transfers. Given the current financial condition of the Authority, its estimated future revenues, operating expenses, debt service and reserve requirements, staff is of the view that it will be feasible for the Authority to make the contribution of $25 million by January 31, 2011. The transfer of these funds was anticipated and reflected in the Authority's 2011 Operating Budget approved by the Trustees at their December 13, 2010 meeting.

<u>FISCAL INFORMATION</u>

"Staff has determined that sufficient funds are available in the Operating Fund to transfer $25 million to the State's general fund 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.

<u>RECOMMENDATION</u>

"The Senior Vice President – Corporate Planning and Finance recommends that the Trustees affirm that the transfer to the State Treasury of $25 million is feasible and advisable and authorize such transfer.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer and I concur in the recommendation."

Mr. Donald Russak provided highlights of staff's recommendation to the Trustees.

Trustee Mark O'Luck stated that using the contribution to establish a program for small business development, instead of toward the general fund, was good for economic development growth.

In response to a question from Chairman Townsend, Mr. Arthur Cambouris said that although the Authority still has litigation pending with regards to the Niagara County case, there is no pending injunction or restraining order against the Authority. Therefore, pursuant to the budget legislation, this contribution of funds to the state treasury is a lawful corporate purpose for the Authority.

Trustee Nicandri opined that the fact that the contribution is earmarked for a specific function is a movement in the right direction; however, his concerns with regards to its feasibility and advisability persists; therefore, he intends to vote in the negative on this motion.

Chairman Townsend said that he and the other Trustees shared the concerns of Trustee Nicandri.

The following resolution, as submitted by the President and Chief Executive Officer, was adopted by a vote of 4-1, with Trustee Eugene Nicandri voting "no."

RESOLVED, That the Trustees hereby authorize a payment to the State Treasury of $25 million from the Operating Fund as authorized by Chapter 56 of the Laws of 2010 and discussed in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of $25 million to be used for the contribution to the State Treasury 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 payment specified in the foregoing resolutions, on the day of such payment the Treasurer or the Deputy Treasurer shall certify that such monies are not then needed for any of the purposes specified in Section 503(1)(a)-

(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Chief Operating Officer, the Executive Vice President – Chief Financial Officer, the Senior Vice President – Corporate Planning and Finance, 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, or the designee.

6. Policy for the Use of Interest Rate Exchange Agreements

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to adopt a Policy for the Use of Interest Rate Exchange Agreements (the 'Policy'), attached hereto as Exhibit '6-A,' which establishes the framework, objectives and overall authority for governing activities relating to the Authority's interest rate risk management program.

BACKGROUND

"To effectively manage its capital structure, the Authority periodically utilizes financial derivative instruments with the objective of mitigating the impact of interest rate exposure on its earnings and cash flows and to minimize debt costs. The financial derivative instruments used to mitigate interest rate exposure are in the form of Interest Rate Exchange Agreements (the 'Agreement') entered into with Qualified Swap Providers (a 'Counterparty') as defined in the Authority's General Resolution authorizing Revenue Obligations adopted on February 24, 1998 (the 'Resolution'). The Authority presently has two open variable-to-fixed interest rate swaps and one interest rate cap on a portion of its tax-exempt variable rate debt in an aggregate notional amount of $557 million. These open positions have mitigated net variable rate debt exposure to approximately twelve percent.

"The Authority's Board of Trustees, with review and recommendation by the Finance Committee, has authority to approve all Interest Rate Exchange Agreements presented by staff. In response to today's focus on stronger corporate governance, transparency and enhanced reporting requirements, staff, along with a recommendation by the Authority's internal audit department, has decided to formalize a policy governing the use of these Interest Rate Exchange Agreements. The Policy will provide the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification; reporting standards, as well as the requirement to establish procedures for the administration of the Interest Rate Exchange program.

DISCUSSION

"The Policy being requested for adoption includes the standards by which Interest Rate Exchange Agreements will be managed. The Policy includes the following key provisions:

1. A delegation of authority to the President and Chief Executive Officer or Executive Vice President and Chief Financial Officer to determine whether an Agreement meets specific risk mitigation criteria and objectives as established by the Policy.

2. Authorizes the Executive Vice President and Chief Financial Officer and Treasurer to establish procedures.

3. Establishes counterparty qualifications including minimum credit ratings criteria and experience with financial derivative products in the municipal marketplace. Except as the Board of Trustees shall have expressly approved, the Authority will not enter into Agreements having a term greater than one year with any single counterparty in an aggregate notional amount greater than $250 million.

4. Sets forth the specific derivative instruments the Authority may utilize in managing its interest rate exposure including interest rate swaps (both fixed to variable and variable to fixed); basis swaps; interest rate caps and collars; forward rate transactions, or any other transaction as permitted under the Resolution.

5. Requires a quarterly report to the Trustees and Finance Committee with the activities and results of the Interest Rate Exchange program.

"This Policy, as well as the procedures to be established, will be coordinated with the Governing Policy for Energy Risk Management and the Energy Risk Assessment and Control group to manage overall credit, collateral and liquidity risk at the enterprise level.

RECOMMENDATION

"The Treasurer recommends that the Trustees approve the Policy for the Use of Interest Rate Exchange Agreements attached as Exhibit '6-A' and discussed above.

"The Chief Operating Office, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Corporate Planning and Finance, the Vice President and Chief Risk Officer and I concur in the recommendation."

Mr. Brian McElroy presented highlights of staff's recommendation to the Trustees. In response to a question from Trustee Nicandri, Mr. McElroy said that the open positions, as referenced in the first paragraph of the report, have mitigated net variable rate debt exposure to approximately 12%. In response to another question from Trustee Nicandri, Mr. Elroy said that the Authority has no formal target; however, the Authority's net exposure is within the 10% - 15% target threshold acceptable by the rating agencies.

In response to a question from Trustee O'Luck, Mr. McElroy said that staff would first seek the Board's approval if they plan to deviate from the Policy governing interest rate risks, as approved by the Finance Committee.

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

RESOLVED, That the Policy for Use of Interest Rate Exchange Agreements establishing the framework, objectives and overall authority necessary to govern the activities relating to the Authority's interest rate risk management program is hereby adopted in the form attached as Exhibit "6-A"; and be it further

RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all 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, or the designee.

January 25, 2011
Exhibit “6-A”

New York Power Authority

Policy for the Use of Interest Rate Exchange Agreements

Article I. Purpose of the Interest Rate Exchange Program

Section 1.01 Introduction

The New York Power Authority (the "Authority") accesses the capital markets to finance its capital projects and further enhance energy efficiency and renewable projects through its Energy Services program. Within its capital structure, the Authority seeks to maintain an appropriate balance between fixed and variable rate debt and to minimize its debt costs. The Authority is routinely exposed to fluctuations in interest rates for its debt service and working capital requirements. Management of these interest rate risks is essential in forecasting the predictability of the Authority's financing costs and managing future capital requirements. The Policy for Use of Interest Rate Exchange Agreements (the "Policy") sets forth the objectives, delegation of authority and overall parameters to govern the Authority's activities related to interest rate risk management that supports its mission and mitigates financial and counterparty risk. Controls and procedures to be further defined by management (the "Procedures") shall be in conformance with this Policy.

Section 1.02 Scope and Objective

The objective of the interest rate risk management program is to ensure that the Authority is borrowing funds and financing capital projects at the lowest cost possible, taking into consideration the Authority's credit rating; identifying financial risks pertaining to changes in interest rates and mitigating those risks where they exceed management determined risk tolerances; improving financial performance for the Authority and its customers by reducing its overall borrowing costs; and ensuring continued access to the capital markets by managing its interest rate exposure and cost of capital.

The Policy will govern all permissible interest rate derivative transactions as further defined in Section 2.03 of this Policy.

Article II. Interest Rate Exchange Policy

Section 2.01 Delegation of Authorities

a) Board of Trustees

This Policy has been established by the Board of Trustees with the review and recommendation of the Finance Committee. Any amendments to this Policy must be reviewed and recommended by the Finance Committee and approved by the Board of Trustees prior to becoming effective.

b) President and Chief Executive Officer and Executive Vice President and Chief Financial Officer

The Authority may enter into an Interest Rate Exchange Agreement (an "Agreement") if the President and Chief Executive Officer ("CEO") or Executive Vice President and Chief Financial Officer ("CFO") shall have determined that such Agreement is reasonably expected to:

1. Reduce its exposure to changes in interest rates on a particular financial transaction, or in the context of the management of interest rate risk derived from the asset/liability balance; or
2. Result in a more certain or lower net cost of borrowing with respect to the related obligations; or
3. Reduce the financial exposure of the Authority with respect to its current financial condition.

The Authority is strictly prohibited from entering into such Agreement for speculative purposes. This Policy mandates that all interest rate hedging activities be based on an underlying interest rate risk which is correlated to a quantifiable exposure.

The Authority is prohibited from entering into an Agreement unless the CEO or the CFO shall have determined that such Agreement can be reasonably expected to achieve at least one of the objectives listed above after considering the underlying risk and mitigation strategies to be undertaken.

c) Treasurer

The Treasurer, in collaboration with the CFO, shall be is responsible for the following activities:

1. Ensure all interest rate hedging activities are conducted in accordance with this Policy
2. Establish Procedures for administration of the Interest Rate Exchange program including:
   a) Formulation of hedge strategies
   b) Selection of qualified counterparties
   c) Counterparty diversification standards and maximum exposure
   d) Negotiation and execution of agreements including credit and collateral agreements
   e) Determining bidding/negotiation procedures
   f) Utilizing the services of a Swap Advisor registered under the Investment Advisor's Act of 1940 in bidding/negotiation of all transactions.
   g) Other controls and procedures necessary for successfully implementing the Interest Rate Exchange program and risk mitigation.

Section 2.02 Separation of Duties

The Chief Financial Officer and the Treasurer shall formulate Procedures for separation of duties in a manner that assures proper governance through a means of separation of powers within the following organizational functions:

1. Front Office – responsible for execution of hedge strategy and Agreements
2. Middle Office – responsible for risk and compliance monitoring
3. Back Office – responsible for deal confirmation, cash management and accounting.

In limited instances, as may be provided for in the Procedures, the Front Office may also share Middle and Back Office responsibilities within designated authorizations.

Section 2.03 Form of Agreement

The Agreement between the Authority and a Qualified Swap Provider (a “Counterparty”) as defined in section 101 of the General Resolution authorizing Revenue Obligations adopted on February 24, 1998 (the “Resolution”) may include those payment, term, security (including provisions for collateral by the Counterparty), default, remedy, termination, and other terms and conditions, and may be with those parties, as the Authority deems reasonably necessary or desirable, and to which the Authority and the Counterparty may mutually agree. As used herein Interest Rate Exchange Agreement means, as the context permits or requires, any or all of the following: interest rate swap transaction (either variable to fixed or fixed to variable), basis swap, forward rate transaction, collar transaction, rate cap or any other transaction meeting the definition of a Qualified Swap as defined in section 101 of the Resolution (including any option with respect to any of these transactions). Such Agreements shall be entered into by the Authority only to the extent they meet the criteria listed within this Policy, provided that failure by the Authority to comply with, or a violation of, the provisions of this Policy shall not be deemed to alter, affect the validity of, modify the terms of, or impair any contract or Agreement.

Section 2.04 Terms of Payment

The term of any Agreement cannot exceed the final maturity of the outstanding related obligations of the Authority.

Section 2.04 Qualified Counterparties

The Authority will pre-approve Counterparties pursuant to a Request for Qualifications. The Counterparty shall be an entity whose senior long term obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under an Interest Rate Exchange Agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated at time of execution of the transaction, either (i) at least as high as the third highest Rating Category of each Rating Agency then maintaining a rating for the Counterparty, but in no event lower than any Rating Category designated by each such Rating Agency for the Obligations subject to such Qualified Swap, or (ii) any such lower Rating Categories which each such Rating Agency indicates in writing to the Authority and the Trustee (appointed in accordance with Section 701 of the Resolution), will not, by itself, result in a reduction or withdrawal of its rating on the Outstanding Obligations subject to such Qualified Swap that is in effect prior to entering into such Qualified Swap.

Except as the Board of Trustees shall have expressly approved, the Authority will not enter into Agreements having a term greater than one year with any single counterparty in an aggregate notional amount greater than $250,000,000.

Section 2.05 Reporting

Staff will report to the Board of Trustees and the Finance Committee quarterly with results of the Interest Rate Exchange program including:

1. Interest payments received from or paid to Counterparties;
2. Accrued interest receivable or payable on the Agreements;
3. Current status of interest rate exposure of the Authority, net of the effects of such Agreements and the mitigation strategies and management techniques that may be employed in the upcoming quarter to mitigate any anticipated exposure;
4. The status of individual Agreements in effect, including notional amount, rates, terms, bases employed and the rating of counterparties;
5. The marked-to-market valuations of net credit exposures to the Authority by individual counterparties, and collateralization that has been provided, when deemed necessary; and
6. The summary of the terms and conditions of any Agreement that has been executed since the previous report.

7. Decrease in New York City Governmental Customer
<u>Fixed Cost Component – Notice of Adoption</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to take final action to approve a decrease of $0.8 million or 0.5% in the Fixed Cost component of the production rates to be charged in 2011 to the New York City Governmental Customers ('Customers'). The decrease would be effective with the February 2011 bills.

<u>BACKGROUND</u>

"At their September 28, 2010 meeting, the Trustees directed the publication in the *New York State Register* ('*State Register'*) of a notice that the Authority proposed to increase the Fixed Costs component of the production rates to be charged in 2011 to the Customers. The *State Register* notice was published on October 20, 2010 in accordance with the State Administrative Procedure Act ('SAPA') and re-published on November 10, 2010 to correct an error. The public comment period was closed on December 27, 2010. The City of New York ('City') is the only one of the eleven SENY Customers who filed formal written comments.

"As indicated in the September 28 memorandum to the Trustees, under the Customers' Long-Term Agreements ('LTAs'), the Authority must establish Fixed Costs based on cost-of-service 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 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.

<u>DISCUSSION</u>

"Based on Customer comments received and staff's analysis, the final decrease in Fixed Costs sought by this action is $0.8 million. This represents a $2.1 million decrease from the proposed Fixed Costs estimate discussed at the September 28, 2010 Trustees' 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 2010, numerous informal Customer data requests were presented to staff, and, in all cases, responses to relevant questions were provided to the Customers.

"In addition, as part of the SAPA process, the City submitted formal written comments to the Authority, which are attached as Exhibit '7-A.' In their comments, the City took the position that the 2011 Fixed Costs are 'overstated and excessive' and 'includes elements for which it (City) and other NYC Customers should not be responsible.' The City further asserts that 'NYPA must do more to control and reduce its expenses' in order to reduce fixed costs. The City is requesting that the 2011 Fixed Cost be reduced by some $18 million. A summary, review and analysis of the City's written comments follow:

<u>Issue 1: NYPA's Fixed Costs Improperly Continue To Rise</u>

"<u>Comments</u>: The City raised concerns regarding the level of Fixed Costs in the Preliminary 2011 Cost-of-Service and the historic unit cost trend. Citing the level of increases over the past five years, the City states that the Fixed Costs have increased by more than 80% on a unit cost (per MWh of generation) basis. The argument is also made that when the related Variable Costs are factored in, the total costs of operating the generating facilities dedicated to serving the Customers are uneconomic, projecting a net loss of $25.3 million for 2011 and $30.6 million for 2010.

"<u>Staff Analysis</u>: Authority staff views the City's claim as indicative of current market conditions rather than actual increases in Fixed Costs. The average annual increase in the Fixed Cost component of the Customers' Final Cost-of-Service over the past five years is 2.6%. The generating units dedicated to the Customer portfolio will only run when economically beneficial which is driven by the New York Independent System Operator ('NYISO') market. This is a risk the Customers agreed to take when they accepted the generating facilities as part of their supply portfolio. These generating units are modeled as a hedge against the total cost of serving the energy needs of the Customers and cannot be evaluated in the isolate and as with any hedge instrument there is inherent risk. The existence of the dedicated Authority generation portfolio, especially the addition of the 500 MW combined cycle unit in 2006, has a dampening effect on energy and capacity market prices. It is a twist of logic to use the existing market prices, the magnitude of which have been impacted by the existence of the portfolio, and then measure these prices against the variable and fixed costs of the portfolio. A more sensible approach would be to forecast how much more the Customers would pay if the portfolio was theoretically precluded from participating in the NYISO energy and capacity markets and then compare this to the portfolio's embedded cost. The Customers have not taken this approach. Even though there is a $30.6 million projected loss from the dedicated generating facilities, the overall actual cost of serving the Customers in 2010, including the Fixed Costs dedicated to the generating facilities in their portfolio, is projected to be $1.4 million higher than the $861.1 million projected in the Final 2010 Cost-of-Service unadjusted for changes in load.

"Comments: The City further contends that closure of the Poletti Project, along with the fact that the 500 MW Combined Cycle Unit ('CCU') is only five years old, should have resulted in a reduction in overall Fixed Costs, particularly, projected O&M expenses, Capital and operational costs. The City claims that the failure to reduce these costs raises questions as to NYPA's focus on controlling costs.

"Staff Analysis: The Authority is vigilant in controlling its costs. As noted above, the average annual increase in Fixed Costs was only 2.6%. There are several factors contributing to the increase in Fixed Costs over the past five years. First, the 500 MW CCU plant became operational in January, 2006. O&M was minimal and in succeeding years the level of O&M increased due to outages performed under a long-term services agreement, viewed as the most cost efficient option, dictated by landmark hours of operation. Second, the Customers agreed in the LTA to a smoothing and phase-in of the Poletti debt service schedule which lowered significantly the debt service payments in the early years of the LTA but increased the amortization amounts in the 2008 - 2013 periods. This accommodation, implemented at the Customer's request, added some $30 million to the fixed costs over the five years the City uses in its analysis and primarily explains why the closure of Poletti has not caused a dramatic decrease in the Fixed Costs. Staff contends that the level of Fixed Costs required should be predicated on the resources necessary to meet the Customers' needs and ensure effective operation of the facilities dedicated to them.

"Comments: Also, within the Fixed Costs comments, the City cites the effect of the economic recession and the fact the City, as well as the State, has laid off employees and projects to lay off thousands more. The contention is that the Authority has not placed tighter controls on costs, particularly the Headquarters budget which the City claims has increased by more than $15 million in the past two years. The City states that it cannot recommend specific cost reductions but requests a Fixed Cost spending reduction of a minimum of 5% or $7.5 million in addition to the specific adjustments discussed below.

Staff Analysis: Staff fully acknowledges the impact of the current State and local economic condition. As indicated above, the overall Fixed Cost increased by a modest average of 2.6% per year. The Authority is dealing with many of the same increases in cost factors affecting the State and City, mainly increases in contributions to pension funds and medical coverage which are significant components of the Headquarters budget.

"Recommendation: At their December 2010 meeting, the Trustees approved the 2011 O&M Budget which reflected an aggressive effort by the Authority's management to keep the overall O&M spending for 2011 at the same level as 2010. As a result of this effort, staff recommends the 2011 Fixed Costs be reduced by $1.3 million (O&M $1.1 million and Shared Services $0.2 million). Staff also recommends an additional $0.8 million reduction in Other Expenses discussed later in this response to Customer comments, for a total reduction of $2.1 million, resulting in a 0.5% reduction in Fixed Costs as compared to the 2010 Fixed Cost level.

Issue 2: Poletti-Related Costs

"Comments: The Customers raised concerns that the Fixed Cost components specifically relating to the Poletti project should not be included in the 2011 Cost-of-Service but should be taken from the asset retirement fund since the plant was retired January 31, 2010. They claim that the O&M projections earmarked for roof repairs, which they claim is unreasonable, insurance and workers compensation should be recovered from the asset retirement fund since the plant was removed from service.

"The City also objects to the inclusion of Shared Services and Capital costs assigned to the Poletti project including carrying costs for materials and supplies inventory, as well as carrying costs for 2009 oil inventory and material and supplies carrying charges which they claim is not provided for in the LTA.

"The City requests that the projected costs for those items discussed above be eliminated and the Fixed Costs be reduced by an additional $4.5 million.

"Staff Analysis: Even though the Poletti project ceased operations on January 31, 2010, there are certain costs which must be incurred to assure the environmental and physical safety of the facility until the actual decommissioning process begins. These costs would include liability insurance as well as other costs necessary to insure a safe working environment until the demolition phase of the decommissioning begins. The roof repairs noted are mostly for the administration building which will continue to support the 500 MW CCU. The Authority feels it is appropriate for the Customers to be charged these transitional costs after having received the full benefit of the Poletti project for 34 years.

"Staff has also reviewed the City's comments regarding the inclusion of Shared Services and Capital costs assigned to the Poletti project. A similar issue was addressed in response to public comments for both the 2007 and 2008 rate actions.

"The Shared Services component of the Fixed Costs consists of the portion of the headquarters O&M budget not directly assignable to any facility or project, plus the Research and Development O&M budget offset by the allocation to capital projects. These Shared Services estimates are based on the level of headquarters' resources required to support the Customers and the proportional amount of corporate overhead allocated on the basis of labor assigned to the 500 MW CCU, Poletti, and Small Hydro projects. The Authority uses the same methodology to allocate the headquarters costs to the other Authority facilities.

"Even though the Poletti project has ceased operations, there is an ongoing effort required to transition from the plant closure to decommissioning, which is based on the labor allocation noted above.

"Regarding the inclusion of Capital costs and carrying charges not provided for in the LTA, staff submits that the LTA includes a provision for amortizing the original Poletti debt service due until 2016 which called for significantly higher annual payments through 2008 be amortized through 2013. Also, the 2006 Cost-of-Service included $1.8 million in O&M related to a Customer request to amortize a $5.4 million Poletti 2004 outage expense over a three-year period. The issue of recovering costs in subsequent years was also addressed during the 2008 rate action where staff recommended eliminating the projected costs for anticipated consulting services to reduce the magnitude of the increase in Fixed Costs and charge the Customers only for actual costs in a subsequent year. As to including carrying charges for the 2009 oil inventory, as well as materials and supplies, the Authority seeks only to recover the lost opportunity costs related to investing in these assets on the Customers' behalf since the funding for these items comes from the Authority's operating reserves.

"Staff has always been cognizant of the Customers' desire to keep rate increases to a minimum and has agreed to levelize costs over multiple years. Since the Customers are charged cost-based rates, staff has always made it clear that the Authority does not want to make any 'profit' on serving these Customers nor does it want to incur any losses in serving this Customer segment.

"Recommendation: Staff recommends no changes to the Poletti related components of the projected Fixed Costs for the Customers 2011 Cost-of-Service.

Issue 3: Headquarters Direct Support Costs

"Comments: The City requests that the Authority reduce the Headquarters Direct Support (Shared Services) component of the Fixed Costs by $2.5 million. Citing the ongoing economic problems facing both the City and State and the curtailment of services and reduced work force through layoffs, the City contends that the

Authority has not made any effort to reduce expenses, especially in light of the Poletti retirement. The City claims that given the Poletti closure, the Authority does not need the same complement of workers to perform, essentially, half the amount of work.

"Staff Analysis: As stated earlier, the Shared Services component of the Fixed Costs consists of the portion of the headquarters O&M budget not directly assignable to any facility or project, plus the Research and Development O&M budget offset by the allocation to capital projects.

"These Shared Services estimates are based on the level of headquarters' resources required to support the Customers and the proportional amount of corporate overhead allocated on the basis of labor assigned to the 500 MW CCU, Poletti and Small Hydro projects. The Authority uses the same methodology to allocate the headquarters costs to the other Authority facilities.

"Although the Poletti project ceased operations, the projected level of Headquarters direct support is required to serve the Customers as a whole and has no correlation to the Poletti project. As long as the Authority serves this Customer segment, the Authority would incur costs on their behalf whether or not the Authority dedicate part of the generation fleet. There would still be costs for staff and other direct corporate costs to meet the LTA hedging implementation efforts and additional reporting, as requested by the Customers, has become quite extensive over the past several years.

"Indirect overhead which is included in the Shared Services component of Fixed Cost is assigned to the Authority's operating facilities per the *Bergen* legal settlement which requires overhead be allocated on the basis of labor charged to each operating facility.

"Recommendation: While staff is well aware of the fiscal crisis the City faces, every attempt is made to keep costs to a minimum while insuring the Authority maintains its fiscal integrity. For the reasons stated above, staff recommends no changes to the Shared Services component of the Fixed Costs category and staff recommends no changes to the Headquarters Direct Support related components of the projected Fixed Costs for the Customers' 2011 Cost-of-Service

Issue 4: Capital Cost Adjustments

"Comments: The City proposes that the Customers should not be charged for NYMEX Margin Carrying Costs ($0.2 million), claiming that these are hedge related costs and are not true Fixed Costs. The City also wants the capital costs for the 500 MW Turbine Repair ($1.0 million) removed, claiming these costs were recovered through a drawdown of the O&M Reserve discussed during the initial review of the Preliminary Cost-of-Service.

"Staff Analysis: Staff recommends no changes to the Poletti related components of the projected Fixed Costs for the Customers' 2011 Cost-of-Service. The NYMEX Margin Carrying Costs represent the lost opportunity costs for the Authority's investment in NYMEX margin requirements dedicated to the Customers. The capital costs for the 500 MW Turbine Repair represents the amortization of recovering the $15.5 million capital portion of the repair cost, over the remaining life of the plant, funded by the Authority's operating reserves. In addition to the $15.5 million capital investment, there was an additional $4.7 million in outage related costs which were determined to be O&M and therefore could not be capitalized. The O&M Reserve was drawn upon to recover these costs.

"Recommendation: For the reasons stated above, staff recommends no changes to the Capital Cost item.

Issue 5: Other Expenses

"Comments: The City requests that Fixed Costs be reduced by $2.2 million for General Electric's ('GE') Litigation ($0.2 million), Hudson Transmission Project ('HTP') ($1.2 million) and Special Studies ($0.8 million). The City claims that since they were not given specific supporting documentation during the initial discovery they cannot verify the validity or magnitude of the claims and subsequent settlement and therefore, it is not consistent with Cost-of-Service principles.

"Staff Analysis: The GE Litigation was pursued on behalf of the Customers in an attempt to recover the costs overruns and delays relating to construction of the 500 MW CCU. In October 2006, the Authority filed a complaint with the NY Supreme Court against GE and five of its subcontractors to recover damages due to delays and cost overruns due to inadequate engineering and design services and defective equipment. GE countered to seek recovery of damages due to delays in construction allegedly caused by the Authority. The claim was settled in 2007 with GE giving credits to the Authority for future work at the 500 MW CCU plant. In order to proceed with the litigation, the Authority secured outside counsel, as well as subject matter experts. The total cost of the litigation was $2.6 million. The Authority was required to execute a strict confidentiality agreement which did not extend to the Customers. The case was, in fact, settled with GE subject to a separate confidentiality agreement which also did not extend to the Customers. It is staff's position that both of these agreements were necessary to protect the Customers' best interests and the Authority cannot subject itself to legal action by violating these confidentiality agreements.

"The City claims that the Authority acted on its own volition in pursuing the HTP after the initial interest for a new supply resource, bid on by HTP, was awarded to Astoria Energy and the City was not consulted with, or sought approval for, any expenses for the HTP project. The City also sights no provision in the LTA for 'true-up' of costs incurred for prior years.

"The City has been and continues to be actively involved in negotiations and discussion regarding the HTP project. Staff rejects the City's claim that they should not pay for any initiatives solely for their benefit and which they are actively involved, given that there is no agreement or understanding that they will not be responsible for the associated costs. As to the 'true-up' of costs, this was addressed in Issue 2 above and is consistent with past practices.

"The City claims that it has not requested any 'special studies' that there was no justification for, including these costs, and therefore these costs included under Fixed Costs should be removed, or the Authority should put these funds in an interest bearing account to be drawn upon for any special studies requested by the City with any leftover balances either returned to the City or used to reduce 2012 Fixed Costs.

"Staff has reviewed the City's comments regarding 'special studies' and after careful consideration, based on past practices for other special studies such as the demand study, would agree to eliminate the $0.8 million from the Fixed Cost and charge future Cost-of-Service(s), after discussion with the Customers, for the actual cost of any studies undertaken.

"Recommendation: For the reasons stated above, staff recommends reducing the 2011 Fixed Cost by an additional $0.8 million from the Other Expenses category

"Because the Variable Costs component (i.e., fuel and purchased power, risk management, 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 2011. Additionally, the Authority passes through all Variable Costs to the Customers by way of the 'Energy Charge Adjustment ('ECA') with Hedging' cost-recovery mechanism which the Customers collectively selected for 2011. 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 2.8% from 2010 levels and are subject to change depending on the selected hedging strategies. As mentioned, the final rates will combine the Trustee-authorized Fixed Costs decrease with the Variable Costs decrease achieved in accordance with LTAs. The forecasted Customer sales and revenues are expected to decline in 2011 resulting in a revenue shortfall of $9.0 million as evaluated against the current production rates. To offset the projected revenue shortfall, production rates for 2011 would increase by an estimated 1.1%. The production rate increase would be equally applied to demand and energy charges through 2011, starting with February 2011 bill month. The January 2011 revenue shortfall is expected to be recovered through the ECA.

"As additional information for the Trustees, in accordance with agreements entered into between the Authority and the Customers with respect to Astoria Energy II ('AE II'), and in recognition that the new plant is expected to commence operation on June 1, 2011, the AE II lease payment of $74.3 million and other AE II related costs and revenues originally included in the preliminary 2011 Cost-of-Service has been excluded from the final 2011 Cost-of-Service. As per the Customers' request, a separate monthly ECA will be calculated for the AE II related costs and revenues and will be applied to the Customers' bills once AE II begins service.

"Exhibit '7-B' shows both current 2010 and final 2011 Conventional and Time-of-Day production rates.

FISCAL INFOMATION

"The adoption of the Fixed Costs decrease would result in an estimated $0.8 million reduction in revenue to the Authority.

RECOMMENDATION

"The Director – Market Analysis and Tariff 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.

"The Trustees are also requested to authorize the Senior Vice President – Marketing and Economic Development, or his designee, to issue written notice of adoption to the affected customers.

"The Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Corporate Planning and Finance and I concur in the recommendation."

Mr. Michael Lupo presented highlights of staff's recommendation to the Trustees. In response to a question from Chairman Townsend, Mr. Donald Russak said that with regard to the Poletti Project closure, the recovery method for decommissioning costs, which are being collected over a period of time, was established in the New York City ratemaking procedure. In response to another question from Chairman Townsend, Mr. Russak said that the pre-established asset retirement contribution is approximately $3.9 million per year collected from the customers over a period of time for decommissioning. In response to further question from Chairman Townsend, Mr. Russak said that the administrative costs are allocated to each of the Authority's facilities using a labor-ratio approach, which is a standard method used in the utility industry and the one that the Authority uses in setting its rates.

In response to a question from Trustee O'Luck, Mr. Russak said that the Authority's fixed costs for serving this customer group over a 5-year period has gone up 2.6% per year; the customer's comment that the fixed cost have increased by more than 80% per MW of generation is not an appropriate measure since the cessation of operations at Poletti does not alleviate the Authority's requirement to secure other sources of power and energy, provide billings services, etc.

In response to a question from Vice Chairman Foster, Mr. Russak said that the largest component requested from the customer was a generic 5% reduction in overall costs without identifying the source of that requested reduction. However, taking into account the costs associated with maintaining safe and reliable operations of the power plants and corporate support costs, this would not be a prudent action on the part of the Authority.

Trustee Nicandri said that it was appropriate that this item was removed from the Consent Agenda because it is important for customers to have the assurance that the Trustees seek answers from staff regarding their concerns.

President Kessel added that it is important for the customers to know that, despite increasing costs and the state of the economy, the Authority approved a flat budget for 2011. He also said that, of note, the customer received a rate reduction which is very rare in the utility industry as utilities around the state are getting rate increases. President Kessel said that going forward, major rate making items should be placed on the Discussion Agenda.

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

RESOLVED, That the Senior Vice President – Marketing and Economic Development 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 Chairman, the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all 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, or the designee.

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December 6, 2010

VIA U.S. MAIL AND EMAIL

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

Re: NYPA's 2011 Base Production Rates

Dear Ms. Delince:

Enclosed please find the Comments of the City of New York on the New York Power Authority's proposed base production rates for 2011 for its New York City Governmental Customers. These comments are submitted in response to the notice issued in the State Register on October 20, 2010.

As discussed in the Comments, the City respectfully requests that the New York Power Authority reduce the fixed cost component of the rates by $17.9 million.

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

Sincerely,

COUCH WHITE, LLP

Kevin M. Lang

KML/glm
Enclosure
cc: Edna Wells Handy, Commissioner, DCAS
Ariella Maron, Deputy Commissioner, DCAS Division of Energy Management
Donald Brosen, Deputy Commissioner, DCAS Division of Fiscal Management
Susan Cohen, Assistant Commissioner, DCAS Division of Energy Management
Sergej Mahnovski, Senior Advisor and Director, DEP Office of Strategic Planning
James Pasquale
Helle Maide
Amy Levine, Esq.

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POWER AUTHORITY
OF THE STATE OF NEW YORK

Process to Address the 2011 Cost of Service Under the 2005 Long Term Agreement Between NYPA and the City of New York	**SAPA No. PAS-42-10-00001-P**

COMMENTS OF THE CITY OF NEW YORK

December 6, 2010

COUCH WHITE, LLP
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PRELIMINARY STATEMENT

On June 29, 2010, the New York Power Authority ("NYPA") distributed a "Preliminary Staff Report – New York City Governmental Customers Annual Planning and Pricing Process Analysis, Including Preliminary 2011 Cost-of-Service" ("2011 Rate Plan") to its New York City Governmental Customers ("NYC Customers"). On October 20, 2010, NYPA published notice of the 2011 Rate Plan in the State Register. Pursuant to that notice, comments on NYPA's proposal will be accepted through December 6, 2010.[1]

The City of New York ("City") is one of the NYC Customers that will be affected by the proposed rate revisions. It contends that the proposed 2011 rates are overstated and excessive. Therefore, in accordance with the notice and Section 202 of the State Administrative Procedure Act, the City hereby submits these comments on NYPA's proposed rate revisions for the 2011 Rate Year.

NYPA procures and provides full requirements electric supply service to the City and other NYC Customers. In total, NYPA expects to procure approximately 9.7 million MWh of energy at a cost of $922.2 million in 2011. The City asserts that this total cost includes elements for which it and the other NYC Customers should not be responsible. More generally, the City asserts that the total amount of fixed costs included in the 2011 Rate Plan is excessive, and NYPA must do more to control and reduce its expenses. Accordingly, the City respectfully urges the NYPA Board of Trustees to accept and adopt the changes set forth herein.

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[1] An erratum notice was published in the November 10, 2010 edition of the State Register. On December 2, 2010, the NYC Customers were advised by NYPA that because of the issuance of this erratum notice, the due date was extended to December 29, 2010.

BACKGROUND

In 1976, NYPA assumed the responsibility to provide electric service to the NYC Customers. Although the NYC Customers would be physically connected to Consolidated Edison Company of New York, Inc.'s ("Con Edison") electric system, they would be customers of NYPA and pay rates set by NYPA (NYPA would in turn be a customer of Con Edison and pay Con Edison's Public Service Commission-approved electric rates). From the outset, Con Edison provided delivery service, while NYPA provided supply service from NYPA's fleet of generating facilities located within New York City and in other parts of the State.

Each NYC Customer entered into a contract with NYPA which set forth the terms and conditions of the parties' relationship. Those contracts were supplemented and amended from time to time for almost 20 years. On or about March 18, 2005, NYPA and each NYC Customer entered into a Long Term Agreement ("LTA") which supplanted the previous contract. The LTA prescribes the manner in which NYPA will develop its rates, or cost of service, each year, as well as the manner in which the NYC Customers may comment on, and seek adjustments of, those rates.

The LTA requires that all costs be based on NYPA's actual cost of providing service (*see, e.g.*, LTA Section II.B.1.a). The LTA designates different treatment for fixed costs and variable costs, as those terms are defined therein. Fixed costs must be set consistent with accepted cost-causation principles and regulatory cost-of-service methodologies (*see* LTA Sections II.B.1.a and II.B.2). Variable costs will change with market prices for electricity products (energy, capacity, and ancillary services) and the cost of reasonable, appropriate, and permissible hedging activities. These comments pertain only to the fixed costs proposed in the 2011 Rate Plan.

<u>SUMMARY OF POSITION</u>

In establishing the appropriate level of fixed costs for 2011, the Board of Trustees must assure its NYC Customers that the fixed costs reflect the substantial changes that occurred in 2010. Specifically, NYPA retired its Charles A. Poletti Generating Station ("Poletti"), an 885 MW power plant located in New York City. As a result of this retirement, NYPA's complement of employees, administrative and overhead expenses, and other fixed costs should have gone down, compared to prior years' levels. As shown in the 2011 Rate Plan, however, they did not.

The 2011 Rate Plan proposes to increase the fixed costs by $1.3 million compared to the 2010 levels. For the reasons set forth below, the City contends that certain elements of the preliminary fixed cost estimate are overstated and other elements should be eliminated. Additionally, in recognition of the economic difficulties being experienced by the City and other NYC Customers, the Board of Trustees should generally reduce NYPA's overall spending in 2011 in much the same way that NYPA advocated for spending reductions by Con Edison in that utility's most recent electric rate case.[2]

Accordingly, the City requests that the fixed cost component of the 2011 Rate Plan be reduced by approximately $18 million as indicated in Table 1 below, and as more fully shown in Appendix 1, attached hereto.

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[2] *See* Case 09-E-0428, <u>Consolidated Edison Company of New York, Inc. – Electric Rates</u>, Direct Testimony of Dr. John Chamberlain and Brian K. Hedman on behalf of NYPA, dated August 28, 2009.

Table 1 **2011 Fixed Cost Revenue Adjustments**	
Item	**Amount (million $)**
O & M	(1.7)
Shared Services	(3.8)
Capital Cost	(2.7)
Other Expenses	(2.2)
Global Reduction	(7.5)
Total	(17.9)

DISCUSSION

1. NYPA's Fixed Costs Improperly Continue To Rise

Because NYPA is not subject to regulatory oversight, it is critically important for NYPA's senior executives and Board of Trustees to carefully scrutinize all of its fixed costs and take affirmative action to implement cost-cutting and cost-saving policies to reduce its spending for those cost elements that it can control. For three reasons, the City respectively submits that NYPA has not done so for purposes of the 2011 Rate Plan. To address this deficiency, a global reduction of NYPA's fixed costs is warranted.

First, the City has examined NYPA's NYC Customer allocated actual fixed costs over the past five years and compared those costs levels to the proposed 2011 level of fixed costs. The trend revealed by this analysis is disturbing. Although on a total dollar basis, NYPA's fixed costs went down between 2009 and 2010, they have increased by more than 80% on a unit cost basis. Table 2 and Appendix 2 show the results of the City's analysis.

Table 2 Unit Cost Fixed Cost Comparison		
Year	**Fixed Cost ($/MWh)**	**Cumulative Increase**
2006	27.79	
2007	29.13	4.8 %
2008	35.41	27.4 %
2009	38.47	38.4 %
2010	51.04	83.6 %
2011 (projected)	50.85	82.9 %

The unit cost level is important to track because it identifies on a per MWh basis the energy market price levels that must be obtained to recover the fixed costs associated with the generating facilities operated by NYPA to serve the NYC Customers. When the variable costs associated with operating these generating facilities are taken into account, the total level of operating costs exceed the revenues from the facilities, making all of these units uneconomic. In fact, NYPA's 2010 and preliminary 2011 cost-of-service projections produced forecast net losses of $30.6 million and $25.3 million, respectively.[3] These facts are undisputable. They are also unacceptable. If NYPA were a regulated utility, its regulator would likely seriously question the prudence of its actions.

3 As shown in Appendix 3, none of the generating facilities serving the NYC Customers are expected to be economic in 2011. The net losses in 2011 are projected to be $19.2 million for the 500 MW unit and $6.1 million for the small hydroelectric units (note that the small hydroelectric units do not have any variable costs, their allocated fixed costs exceed their forecast revenues). Under NYPA's proposed allocation, discussed in more detail below, the now-retired Poletti facility shows a net loss of $23.9 million in 2011. Further, these figures do not include the projected $15 million net loss (after capacity is included) associated with the new Astoria Energy II facility. If all of the facilities are included, the total net loss would be approximately $64.2 million.

Second, on January 31, 2010, NYPA retired its largest fossil-fueled generating facility. However, its proposed 2011 costs do not reflect any material savings resulting from that retirement. Rather, NYPA has simply shifted costs formerly allocated to Poletti to either the 500 MW unit or among all of its remaining generating units. The City submits that NYPA does not need the same complement of employees as it did before Poletti was closed. This issue is discussed in greater detail in Point 3, below.

Further, the closure of Poletti should have reduced a number of other expenses. As equipment ages, it becomes more expensive to operate and maintain. In contrast, new equipment should require less maintenance and need fewer repairs. Accordingly, the closure of Poletti and primary reliance on the 500 MW unit, which is only five years old, should have translated to lower operations and maintenance ("O&M") expenses and capital costs. However, the 2011 projected costs in both of these categories are higher than the 2010 expenses.

For these reasons, the City submits that NYPA should have reduced its operational and overhead costs associated with its generation fleet. Its failure to do so raises questions as to NYPA management's focus on controlling costs and warrants corrective action.

Third, in 2009, the City and State of New York, as well as the rest of the nation, experienced a severe economic recession. In 2010, the economy has improved a little, but the City and State continue to experience the effects of the recession. In particular, the City has laid off employees and recently announced plans to lay off thousands more. The State has announced and moved forward with similar intentions. Both the City and the State have curtailed some services and may curtail others. In other words, the City and its residents, as well as the State and all New Yorkers, are forced to make do with less. The same approach should be applied within the utility sector, and as noted above, NYPA submitted testimony in Con Edison's recent electric rate case advocating for Con Edison to be required to reduce its spending.

However, in developing its own rates for 2011, NYPA has not placed tighter controls on its costs, particularly with respect to its growing total Headquarters budget, which has increased by more than $15 million in the past two years. NYPA's "business as usual" approach is inappropriate, unjust, and unreasonable. NYPA's management must exert more effort into controlling NYPA's costs, and it must be more attentive to the economic difficulties of its customers. In the same manner that the Public Service Commission is forcing each regulated utility's management to be more cost conscious, and to implement measures to reduce costs, NYPA's management must voluntarily commit to taking similar actions. Further, NYPA's Board of Trustees must demand and require more accountability and more attention to such actions from NYPA's management. At a minimum, substantial reductions to NYPA's 2011 fixed costs are needed to reflect NYPA's substantially smaller asset base and the additional non-asset-related belt-tightening that all responsible public entities should be doing.

It is particularly incumbent on NYPA to reduce costs given the revenue constraint it has committed itself to in the widely-reported rate freeze that was approved in March 2009 for hydropower customers, including businesses in Western and Northern New York and municipal electric utilities and cooperatives. NYPA reported that this freeze would save the affected customers approximately $20 million through August 2010, making that revenue unavailable to NYPA to cover authority-wide costs.

Because the foregoing concerns are endemic to NYPA's operations, it is not possible to identify specific adjustments to specific line items. Further, because the responsibility to manage NYPA's business, operate NYPA's facilities, and serve the needs of the NYC Customers rests with NYPA's management, not its customers, it is not the role of the City to tell NYPA where the balance must be struck. However, to address the foregoing concerns, the City urges NYPA and its Board of Trustees to generally reduce its spending by a minimum of 5%, or $7.5 million, after deducting for the specific adjustments described below.

2. Poletti-Related Costs

Since the commencement of plant operations in 1977, and until January 31, 2010, Poletti was an essential component of the NYC Customers' supply portfolio. For 34 years, the City and other NYC Customers funded the capital and O&M costs of Poletti, as well as NYPA's overheads and administrative costs of operating the plant. For at least the last five years, and, assuming that NYPA engaged in prudent management practices prior to executing the LTA, for many years before 2006, part of those payments constituted contributions to an asset retirement fund, a pool of money to be used once the plant ceased operations.

On January 31, 2010, NYPA officially ended operations at Poletti, and, for all intents and purposes, it should now be treated as retired.[4] Accordingly, certain costs should no longer be allocated to that facility, and those Poletti-related costs which are legitimately incurred by NYPA should come from a pre-established asset retirement fund. However, the

[4] NYPA has not provided any justification or rationale for treating Poletti as anything other than a retired asset. It is no longer permitted to operate, does not have valid air or other environmental permits, and cannot participate in the wholesale electricity markets.

detailed breakdown of the 2011 fixed costs shows nine line items in which NYPA inappropriately proposes to recover Poletti-related costs directly from the City and other NYC Customers rather than from the pre-established asset retirement fund. Table 3 sets forth a summary of the Poletti-related adjustments, and Appendix 1 sets forth the line item detail of the proposed 2011 fixed costs as proposed by NYPA and as adjusted by the City.

Table 3
2011 Poletti-Related Revenue Adjustments

Item	**Amount (million $)**
O & M	(1.7)
Shared Services	(1.3)
Capital Cost	(1.5)
Total	(4.5)

The first set of disputed costs relate to the category called O&M Expenses. During the discovery phase of this matter, the City sought information about the basis of the O&M expenses related to Poletti. One such expense related to roof repairs, another related to insurance, and a third related to workers compensation. Continuing to maintain a retired facility does not appear to be a reasonable expense, and NYPA has not offered any justification for this project. The other expenses should be recovered from the asset retirement fund given Poletti's removal from service and the fact that it is no longer used or useful.

The second set of objectionable costs relate to the categories called Shared Services Expenses and Capital Costs. NYPA has offered no explanation as to why it continues to allocate shared services to this retired facility. Moreover, the City is not aware of any generally accepted accounting rule or principle that would support allocating costs to a retired asset. For the same reasons, it is inappropriate to assign carrying costs from capital projects or materials and supplies inventory to Poletti. Further, in discovery NYPA explained that the oil inventory charge relates to 2009 oil costs. This charge is impermissible because there is no provision in the LTA that permits NYPA to recover the difference between the fixed costs set for any rate year and the actual fixed costs incurred during that year.

To the extent that these oil costs are actually variable costs, the LTA expressly provides that the difference between the forecast and actual costs must be recovered over the next 12 billing periods after the data for the subject rate year (*i.e.*, the 2009 Rate Year) is available. Upon information and belief, that data became available early in 2010, so delaying recovery until 2011 is not permitted. Moreover, if the oil costs were variable costs, there is no provision in the LTA that would allow NYPA to convert such costs to fixed costs.

In summary, all nine of the Poletti related items highlighted on Appendix 1 should be removed from the 2011 fixed costs. As appropriate, and consistent with the above discussion, NYPA should instead recover the allowed costs from the pre-established Poletti asset retirement fund.

3. Headquarters Direct Support Costs

Table 4 summarizes, and Appendix 1 shows, an item under the Shared Services Expense category for which an adjustment is required.

Table 4

Headquarter Direct Support Adjustment

Item	**Amount (million $)**
Headquarters Support	(2.5)
Total	(2.5)

Within the Shared Services Expense category, NYPA proposes to directly allocate to the NYC Customers a total of $9.6 million for headquarters direct support expense.[5] This amount is significantly higher than the similar 2010 allocated expense level of $7.1 million. In fact, between 2008 and 2010 the annual allocated expense level associated with this cost item averaged $6.6 million. One of the primary reasons for this increase is NYPA's proposal to increase its overall Headquarters and Research and Development budget by $3.4 million compared to 2010 levels.

As mentioned above, the City and State, generally, have curtailed services and have laid off or will lay off a portion of their respective work forces. NYPA should not be immune from this cost conscious behavior. It is unacceptable that NYPA has made virtually no effort to reduce expenses, or even to evaluate and confirm that its level of expenses is consistent with industry standards. The lack of such analysis, combined with the fact that the size of NYPA's operations has shrunk considerably due to the closure of Poletti, makes it impossible to conclude that the proposed level of expenses for headquarters and headquarters-related purposes is just and reasonable. At a minimum, the Board of Trustees should reduce these expenses to an amount consistent with historical levels.

Further, as highlighted above, the closure of Poletti should have translated to a reduction in certain administrative or back-office resources, including, but not, limited to accounting, fuel procurement and other purchasing, warehousing, marketing or billing. Thus, NYPA should have reduced its overall headquarters budget in 2011. Instead, as NYPA explained in discovery, it simply reallocated its costs to the remaining facilities. The

[5] This amount does not include the portion of shared services expense that the NYC Customers are allocated due to the operations of the in-city and small hydro generating facilities.

total number of plant employees has remained the same, and the total number of back office, support, and administrative personnel has also remained the same.

It is difficult to comprehend that NYPA needs the same complement of workers to perform essentially half the amount of work. It does not appear from the information provided by NYPA that NYPA made an effort to evaluate its continuing needs to determine where it could reduce costs. For example, when asked whether it had conducted any benchmarking studies to compare the size of its workforce with that of other generating companies, NYPA responded that it conducted no such analysis.

4. Capital Cost Adjustments

Table 5 summarizes, and Appendix 1 shows, two items under the Capital Cost category for which adjustments are required, separate and apart from the Poletti costs discussed above.

Table 5
2011 Capital Cost Revenue Adjustments

Item	**Amount (million $)**
NYMEX Margin Costs	(0.2)
500 MW Turbine Repair	(1.0)
Total	(1.2)

The first item is listed on line 27, entitled "NYMEX Margin Carrying Cost." NYPA did not purchase any natural gas hedges in 2010 for the City. Therefore, there is no basis for this cost. Moreover, to the extent this is actually a variable cost, the above discussion regarding the Poletti oil costs applies. Indeed, Section II.B.1.b of the LTA defines "variable costs" as including "the expected cost of fuel … and Hedging Costs incurred by NYPA to serve the NYC Governmental Customers." Section II.A.4 of the LTA defines "hedging costs" as "the costs … associated with fuel, … including, but not limited to, … options, caps, collars, Over the Counter ("OTC") gas and basis swaps or NYMEX futures contracts." Thus, NYMEX-related charges are not properly classified as fixed costs and must be removed.

The second item is listed on line 32, entitled "500 MW 7A & 7B Turbine Repair." According to information provided by NYPA in discovery, "[t]he O&M Reserve was drawn down to provide funding relating to the 500 MW CCU 2008 outage." (NYPA response to NYC-14a, O&M Reserve worksheet). Because NYPA has already recovered the costs represented by this line item, it must be removed.

5. Other Expenses

Table 6 summarizes, and Appendix 1 shows, three items under the Other Expenses category for which adjustments are required.

Table 6

2011 Other Expenses Revenue Adjustments

Item	**Amount (million $)**
GE Litigation	(0.2)
Hudson Transmission Project	(1.2)
Special Studies	(0.8)
Total	(2.2)

The first is listed on line 41, entitled "GE Litigation – 500 MW (7-Year Write off)." During discovery, both the City and the Metropolitan Transportation Authority requested supporting documentation regarding this charge. In response, NYPA stated that it had commenced litigation against General Electric and five subcontractors related to the design, engineering, and construction of the 500 MW combined cycle unit. The case was settled within approximately a year, with NYPA incurring $2.6 million in legal fees and costs that it now seeks to recover from the City and other NYC Customers. However, the City and other NYC Customers are allegedly prohibited from knowing the terms or value of the settlement or the amount of time and effort spent by NYPA's outside counsel on this case.

Because of the dearth of information, it is impossible for the City to determine the validity or magnitude of NYPA's claims and General Electric's counterclaims, the reasonableness of the settlement, or whether the legal fees and costs were reasonable and prudently incurred. On their face, the legal fees and costs appear to be excessive. From the limited description provided by NYPA, and the City's general familiarity with prosecuting lawsuits of this type, it appears that NYPA commenced the lawsuit, responded to the counterclaim, perhaps engaged in some discovery, and then entered into settlement negotiations. At an assumed billing rate of $500 per hour (the actual rate charged was unnecessarily withheld by NYPA), $2.6 million translates to 5,200 hours, or 100 hours of work per week for 52 consecutive weeks (at $750 per hour, the result is over 66 hours per week). It is inconceivable that NYPA's outside counsel spent so many hours on the activities listed above.

While NYPA has the freedom to select counsel of its choice, and discretion regarding litigation matters, it does not have the ability to charge the City for any and all costs it incurs. Under Section II.A.1 of the LTA, NYPA is required to establish fixed costs based on cost of service principles. Inherent within cost of service principles is the fundamental principle of ratemaking that rates be just and reasonable.[6] In this case, an expenditure of $2.6 million over the course of one year for what appears to be a typical construction- and contract-related lawsuit is neither just nor reasonable, and therefore is not consistent with cost of service principles. Accordingly, the City has made a downward adjustment to this item.

The second item is listed on line 43, entitled "Hudson Transmission Project." In 2005, the City and other NYC Customers agreed with NYPA that a request for proposals seeking new supply resources to serve the Customers' needs should be released. Hudson Transmission Partners, LLC ("HTP") responded to that solicitation with a proposal for a direct current transmission line from New Jersey to New York City. Although NYPA and the NYC Customers selected that project from the proposals submitted, NYPA and HTP were unable to reach agreement on terms and no contract was executed within a timely period thereafter. A subsequent request for proposals was released, and Astoria Energy II, LLC was selected to provide energy and capacity to serve the NYC Customers' needs.

The City understands that in 2009, NYPA, acting on its own volition, renewed its interest in HTP's project and began dedicating resources and funds to consummating a transaction with HTP and assisting HTP in obtaining all requisite regulatory approvals. NYPA did not consult with, or seek the approval of, the City to engage in these efforts. NYPA commenced those efforts without the express consent of the City or any other NYC Customer, as required by Section XI of the LTA. Therefore, NYPA has no legal basis to seek recovery of any HTP-related charges in the 2011 fixed costs, and these costs must be

[6] "[F]ew analysts seriously question the standard that service should be provided at cost….[I]t remains the primary criterion for the reasonableness of rates." National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual, January 1992, p. 12.

removed. A separate reason for removing these expenses is the one stated above with respect to the 2009 oil costs. There is no provision in the LTA that permits NYPA to "true-up" its fixed cost expenses in subsequent years.

The third item is listed on line 46, entitled "Special Studies Expense." NYPA has not provided any justification for this item, and the City has not requested that NYPA perform any "special studies" in 2011. Therefore, these costs must be removed. If NYPA declines to do so, then it should place the funds in a segregated, interest-bearing account. To the extent the City requests any "special studies", the costs of the studies should be deducted from this account. The account would continue to operate, and accrue interest, until the funds are completely depleted. If the funds are not depleted at the end of 2011, the balance should either be returned to the City or used to offset the 2012 fixed costs. In no event should these funds be used for any other purpose.

CONCLUSION

The City respectfully requests that NYPA reduce the fixed costs included in the 2011 Rate Plan in accordance with the discussion and recommendations set forth herein.

Respectfully submitted,

Dated: December 6, 2010
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New York Power Authority
2011 NYC Govt. Customers Fixed Costs

Line	Description	NYPA Projected Poletti	NYPA Projected 500 MW	NYPA Projected Small Hydro	NYPA Projected Other	NYPA Projected Total	NYC Adjusted Poletti	NYC Adjusted 500 MW	NYC Adjusted Small Hydro	NYC Adjusted Other	NYC Adjusted Total	Total Reduction
	O&M Expense (Figure 2)											
1	Total Site Payroll	$ 0.1	$ 10.9	$ 3.0	$ -	$ 13.9	$ -	$ 10.9	$ 3.0	$ -	$ 13.8	
2	Direct Purchases	-	2.2	0.2	-	2.4	-	2.2	0.2	-	2.4	
3	Store Issues	-	0.5	0.1	-	0.6	-	0.5	0.1	-	0.6	
4	Fees & Dues	-	0.2	-	-	0.2	-	0.2	-	-	0.2	
5	Office & Station Expense	-	1.0	0.2	-	1.2	-	1.0	0.2	-	1.2	
6	Contracted Services	1.2	5.5	0.7	-	7.5	-	5.5	0.7	-	6.3	
7	Consultants	0.4	0.2	0.5	-	1.1	-	0.2	0.5	-	0.7	
8	Other Expenses	-	-	-	-	-	-	-	-	-	-	
9	Amortized LT Service Agreement	-	6.7	-	-	6.7	-	6.7	-	-	6.7	
10	Total	$ 1.7	$ 27.2	$ 4.7	$ -	$ 33.6	$ -	$ 27.2	$ 4.7	$ -	$ 31.9	$ (1.7)
	Shared Services Expense (Figure 3)											
11	Allocation to Headquarters	$ 1.4	$ 7.5	$ 2.0	$ -	$ 10.9	$ -	$ 7.5	$ 2.0	$ -	$ 9.5	
12	Research & Development	0.1	0.6	0.2	-	0.9	-	0.6	0.2	-	0.7	
13	Allocation to Capital	(0.2)	(0.8)	(0.2)	-	(1.2)	-	(0.8)	(0.2)	-	(1.0)	
14	Headquarters Direct Support	-	-	-	9.6	9.6	-	-	-	7.1	7.1	
15	Total	$ 1.4	$ 7.2	$ 2.0	$ 9.6	$ 20.1	$ -	$ 7.2	$ 2.0	$ 7.1	$ 16.3	$ (3.8)
	Capital Cost (Figure 4)											
16	Fixed Debt	$ 3.3	$ 43.6	$ 0.1	$ -	$ 46.9	$ 3.3	$ 43.6	$ 0.1	$ -	$ 46.9	
17	Variable Debt	-	22.0	5.0	-	26.9	-	22.0	5.0	-	26.9	
18	Bond Deferral	12.1	-	2.3	-	14.4	12.1	-	2.3	-	14.4	
19	Greene County Overhead Debt	-	-	-	0.4	0.4	-	-	-	0.4	0.4	
20	Arthur Kill Overhead Debt	-	-	-	0.0	0.0	-	-	-	0.0	0.0	
21	White Plains Office HQ	-	-	-	-	-	-	-	-	-	-	
22	Project Studies Debt	-	-	-	0.1	0.1	-	-	-	0.1	0.1	
23	Y2K (Year 2000 Project)	-	-	-	0.1	0.1	-	-	-	0.1	0.1	
24	Small Hydro Interest Rate SWAP Exp.	-	-	0.4	-	0.4	-	-	0.4	-	0.4	
25	Poletti & 500 MW Inv. Carrying Cost	0.1	0.1	-	-	0.2	-	0.1	-	-	0.1	
26	Oil Inventory Carrying Cost	0.1	-	-	-	0.1	-	-	-	-	-	
27	NYMEX Margin Carrying Cost	-	0.2	-	-	0.2	-	-	-	-	-	
28	Poletti M&S Inv. Write Off - 7 Year Amort.	1.3	-	-	-	1.3	-	-	-	-	-	
29	Capital Additions	-	-	-	0.5	0.5	-	-	-	0.5	0.5	
30	Minor Capital Additions	-	-	-	0.2	0.2	-	-	-	0.2	0.2	
31	Spare Transformer	-	-	-	0.3	0.3	-	-	-	0.3	0.3	
32	500 MW 7A & 7B Turbine Repair	-	1.0	-	-	1.0	-	-	-	-	-	
33	Total	$ 16.9	$ 66.8	$ 7.7	$ 1.6	$ 93.0	$ 15.4	$ 65.6	$ 7.7	$ 1.6	$ 90.3	$ (2.7)
	Other Expenses											
34	Demand Side Management	$ -	$ -	$ -	$ 0.4	$ 0.4	$ -	$ -	$ -	$ 0.4	$ 0.4	
35	2008 IRP Study	-	-	-	-	-	-	-	-	-	-	
36	Govt. Customer Load Research Study	-	-	-	-	-	-	-	-	-	-	
37	CRA Risk Audit Report	-	-	-	-	-	-	-	-	-	-	
38	RFP#5 Actual Expense	-	-	-	0.2	0.2	-	-	-	0.2	0.2	
39	2009 Govt. Cust. Load Research Study	-	-	-	0.3	0.3	-	-	-	0.3	0.3	
40	2009 Rate Design Study	-	-	-	0.2	0.2	-	-	-	0.2	0.2	
41	GE Litigation - 500 MW (7-Year Write off)	-	-	-	0.4	0.4	-	-	-	0.2	0.2	
42	2008 500 MW UCAP	-	-	-	-	-	-	-	-	-	-	
43	Hudson Transmission Project	-	-	-	1.2	1.2	-	-	-	-	-	
44	Other Post Employ. Benefits (OPEB)	-	-	-	3.7	3.7	-	-	-	3.7	3.7	
45	Asset Retirement Charge	3.9	3.8	-	0.1	7.8	3.9	3.8	-	0.1	7.8	
46	Special Studies Expense	-	-	-	0.8	0.8	-	-	-	-	-	
47	Keep Cool Program	-	-	-	0.1	0.1	-	-	-	0.1	0.1	
48	Fish Studies	-	-	-	-	-	-	-	-	-	-	
49	NYS Cost Recovery Fee	-	-	-	-	-	-	-	-	-	-	
50	Total	$ 3.9	$ 3.8	$ -	$ 7.4	$ 15.1	$ 3.9	$ 3.8	$ -	$ 5.3	$ 13.0	$ (2.2)
51	Investment & Other Income (Credits)	$ -	$ -	$ -	$ (0.0)	$ (0.0)	$ -	$ -	$ -	$ (0.0)	$ (0.0)	$ -
52	Global Reduction									$ (7.5)	$ (7.5)	$ (7.5)
53	TOTAL FIXED COSTS	$ 23.9	$ 105.0	$ 14.4	$ 18.5	$ 161.8	$ 19.3	$ 103.8	$ 14.4	$ 6.4	$ 143.9	$ (17.9)
54	Actual/Projected Poletti Generation (MWh)					-					-	
55	Actual/Projected 500 MW Sales (MWh)					3,024,185					3,024,185	
56	Actual/Projected Small Hydro Sales (MWh)					157,560					157,560	
57	ACTUAL/PROJECTED SALES (MWh)					3,181,745					3,181,745	
58	PER UNIT COSTS					$ 50.85					$ 45.23	

New York Power Authority

Identification of Historical/Current Per Unit Fixed Cost Levels

Line	Description	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010 [1]	NYPA Projected 2011
1	O&M	$ 29.9	$ 31.9	$ 39.8	$ 42.2	$ 31.9	$ 33.6
2	Shared Services	15.7	18.4	20.3	20.3	19.9	20.1
3	Capital Cost	83.4	88.6	96.4	95.4	91.3	93.0
4	Other	12.5	15.6	18.0	16.3	17.4	15.1
5	Investment & Other Credits	(1.3)	(1.3)	(0.5)	(0.3)	(0.0)	(0.0)
6	Total Fixed Costs	**$ 140.2**	**$ 153.1**	**$ 173.9**	**$ 173.9**	**$ 160.5**	**$ 161.8**
7	Actual/Projected Sales of Generating Units (MWh) [2]	**5,043,336**	**5,256,891**	**4,910,569**	**4,520,248**	**3,145,404**	**3,181,745**
8	Per Unit Fixed Costs ($/MWh)	**$ 27.79**	**$ 29.13**	**$ 35.41**	**$ 38.47**	**$ 51.04**	**$ 50.85**
9	Per Unit % Change - year-over-year		**4.8%**	**21.6%**	**8.6%**	**32.7%**	**-0.4%**
10	Per Unit % Change Cumulative		**4.8%**	**27.4%**	**38.4%**	**83.6%**	**82.9%**

Notes:

[1] Actual through August 2010 and projection for remaining four months. Based on information from NYPA's September Risk Template.

[2] Includes actual/projected energy sales levels associated with Poletti, 500 MW and Small Hydro facilities.

New York Power Authority

Analysis of Projected Costs/Benefits Associated with NYC Govt. Plant Allocation

Line	Description	Projected 2011 - $Millions			Final Projected 2010 - $Millions			
		500 MW	Small Hydro	Total [1]	Retired Poletti	500 MW	Small Hydro	Total
1	NYISO Revenue Excl Hedges	$ (197.0)	$ (7.8)	$ (204.8)	$ (5.5)	$ (202.6)	$ (9.4)	$ (217.5)
2	Ancillary Service Revenue	(4.1)	(0.0)	(4.1)	(0.3)	(4.8)	(0.0)	(5.2)
3	Emission Credit Allowance	(0.6)	-	(0.6)	-	(1.0)	-	(1.0)
4	Capacity Value @ Market [2]	(46.0)	(0.4)	(46.3)	(2.7)	(55.1)	(0.6)	(58.4)
5	Total Benefit	**(247.6)**	**(8.3)**	**(255.9)**	**(8.6)**	**(263.5)**	**(10.0)**	**(282.1)**
6	Fuel Expense Excl Hedges	$ 158.7	$ -	$ 158.7	$ 5.8	$ 158.7	$ -	$ 164.5
7	RGGI Expense	3.1	-	3.1	0.1	5.4	-	5.6
8	Fixed Expense	105.0	14.4	143.3	28.4	102.4	11.9	142.6
9	Capacity Costs	-	-	-	-	-	-	-
10	Transmission Costs	-	-	-	-	-	-	-
11	Total Costs	**$ 266.8**	**$ 14.4**	**$ 305.1**	**$ 34.3**	**$ 266.5**	**$ 11.9**	**$ 312.7**
12	Net (Benefit)/Cost of Asset	**$ 19.2**	**$ 6.1**	**$ 25.3**	**$ 25.7**	**$ 3.0**	**$ 1.8**	**$ 30.6**

Notes:
[1] Does not include projected financial loss of $23.9 million associated with retired Poletti and approximate $15 million financial loss associated with new Astoria Energy II.
[2] Based on NYPA's projected capacity prices from COS report.

January 25, 2011
Exhibit "7-B"

NEW YORK CITY GOVERNMENTAL CUSTOMERS
PRODUCTION RATES

CONVENTIONAL		Demand Rates $/kW-mo.		Base Energy Rates Cents/kWh*	
Service Class	Description	2010 Current	2011 Final	2010 Current	2011 Final
62	General Small	n/a	n/a	10.802	10.921
64	Commercial & Industrial Redistribution	14.73	14.89	5.560	5.621
65	Electric Traction Systems and Platform Lighting	10.88	11.00	6.417	6.488
68/82	Multiple Dwellings Redistribution	13.00	13.14	5.736	5.799
69	General Large	10.75	10.87	6.009	6.075
80	NYC Street Lighting	11.85	11.98	5.719	5.782
85s	NYC Authority Substation	12.11	12.24	5.909	5.974
91/93/98	NYC Public Buildings	10.97	11.09	6.358	6.428

TIME OF DAY				Base Energy Rates			
		Demand Rates $/kW-mo.		On-Peak Cents/kWh		Off-Peak Cents/kWh	
Service Class	Description	2010 Current	2011 Final	2010 Current	2011 Final	2010 Current	2011 Final
64	Commercial & Industrial Redistribution	12.09	12.22	8.018	8.106	4.435	4.484
68/82	Multiple Dwellings Redistribution	11.68	11.81	8.289	8.380	4.539	4.589
69	General Large	8.88	8.98	8.573	8.667	4.465	4.514
91/93/98	NYC Public Buildings	9.01	9.11	9.206	9.307	4.501	4.551
Rider A	Back-up and Maintenance power			17.076	17.264	3.101	3.135

The on-peak period for energy is weekdays from 7:00AM to 7:00PM, excluding holidays.
The off-peak period for energy is all other hours.

SC Notes:

In addition to the base energy rates, a monthly energy charge adjustment will apply.
The on-peak period for demand is weekdays from 8:00AM to 6:00PM, including holidays.
The on-peak period for energy is weekdays from 8:00AM to 10:00PM, including holidays.
The off-peak period for demand and energy is all other hours.

8. <u>Informational Video Presentation: NYPA Transmission - 2011</u>

President Kessel said that the Authority's TV Production crew, led by Mr. Kevin O'Keeffe, put together the presentation on the Authority's transmission system.

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

"Mr. Chairman, I move that the Authority conduct an Executive Session pursuant to Section 105(1)(f) of the Public Officers Law of the State of New York to discuss matters leading to the appointment, employment, promotion, discipline, suspension, dismissal or removal of a particular person or corporation." On motion made and seconded, an Executive Session was held.

10. Motion to Resume Meeting in Open Session

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

11. <u>Next Meeting</u>

The Annual Meeting of the Trustees will be held on **Tuesday, March 29, 2011, at 11:00 a.m. at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York,** unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 1:00 p.m.

Karen Delince
Corporate Secretary