

**POWER AUTHORITY OF THE STATE OF NEW YORK
SUMMARY OF THE REGULAR TRUSTEES'
MEETING MINUTES OF**

July 23, 2013

Introduction

At the request of Chairman John Koelmel, Trustee Eugene Nicandri presided over the meeting. He welcomed the Trustees and staff members who were present at the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to the Authority's Bylaws, Article III, Section 3.

1. Adoption of the July 23, 2013 Proposed Meeting Agenda

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

RESOLUTION	Moved: T. Flynn	Seconded: J. Mahoney	Adopted: 5/0
-------------------	--------------------	-------------------------	-----------------

2. Consent Agenda:

<ul style="list-style-type: none"> a. Minutes of the Regular Meeting held on May 21, 2013 b. Direct Sale Contracts for the Sale of Western New York Hydropower – Transmittal to the Governor and Notice of Public Hearing c. Extension of Hydropower Contracts with Upstate Investor-Owned Utilities for the Benefit of Rural and Domestic Consumers – Transmittal to the Governor d. Transmission Life Extension and Modernization Program – St. Lawrence/FDR Power Project – 115 kV and 230 kV SF6 Circuit Breakers – Contract Award e. Niagara Power Project – Robert Moses South Access Gate Security Enhancements – Capital Expenditure Authorization Request f. Niagara Power Project - Niagara University Shared Campus Initiative – Contract Award g. Niagara Power Project – Design and Construction Support Services for New Tug Vessels – Contract Award h. MAXIMO Application Upgrade Project – Capital Expenditure Authorization and Contract Award i. Procurement (Construction) Contract – Danco Electrical Contractor, Inc. – Installation of Standby/PLM Generators in Grand Central Terminal j. Procurement (Services) Contracts – Business Units and Facilities – Awards and Extensions k. Procurement (Services) Contract – Request for Funding – Jackson, Lewis, LLP l. Annual Hydropower Allocation Job Compliance Review

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

Trustee LeChase was recused from the vote on item 2j (Procurement (Services) Contracts – Business Units and Facilities – Awards and Extensions) as it pertains to LiRo Engineers, Inc.; and Trustee Flynn from the vote on item #2l (Annual Hydropower Allocation Job Compliance Review) as it pertains to Ashland Advanced Materials, LLC and Saint-Cobain Structural Ceramics.

RESOLUTION	Moved: R.W. LeChase	Seconded: T. Flynn	Adopted: See note above.
-------------------	------------------------	-----------------------	-----------------------------

3. Discussion Agenda:

a. REPORT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

President Quiniones reported that, based on the Performance Scorecard, the Authority is performing well, to date. He said, based on a recommendation from the Enterprise Risk Management group, a “Risk Range” directional indicator will be added to the performance metrics. This will report projected risk ranges “forward-looking” to the year 2014. As of the fall, the Performance Scorecard will include not only the “Trend” directional arrows, but also a projection of where the Authority stands as it approaches the year 2014. He continued that non-numerical key initiatives will also be added to the Performance Scorecard.

Transmission

President Quiniones said because of the failure of the Y49 transmission line earlier this year, the transmission system reliability continues to reflect a downward trend. Taking this into account, the Transmission Business Unit will adjust the system reliability threshold on the Balanced Scorecard within an overall acceptable performance range.

Heat Wave

President Quiniones said that the previous week’s heat wave was record breaking for peak demand in the state. He said the Authority, however, instituted its demand response program whereby it asks its customers to lower their electricity usage in return for a rebate. He said the utilities should be commended for their performance during the heat wave which was very wide in scope and resulted in extreme pressure on all the grids making it very difficult to sustain the load. President Quiniones said the Authority also instituted a Peak Load Management Program. President Quiniones said he wanted to commend Mr. Edward Welz and the Operations team for the astounding work performed during the heat wave. He said the Authority’s assets played a crucial role in supporting the reliability of the Grid and were available to the New York Independent Systems Operator (“NYISO”). He ended by saying that the Authority’s prudent investments in the maintenance of its assets allowed the Authority to be prepared for events such as this heat wave.

In response to a question from Trustee Mahoney, President Quiniones said the demand response program is not a voluntary program. Customers are required to participate by contract; there are penalties if they do not comply, however, they receive rebates when they do. Also, the Governor had issued a public appeal to reduce

consumption during the heat wave. Accordingly, working through the PSC, large utilities asked their largest customers to reduce consumption in order to keep the grid reliable and as safe as possible.

Responding to a question from Trustee Flynn, President Quiniones said the Authority's Peak Load Management Program was instituted to request its largest governmental customers such as NYC, MTA and the Port Authority, to reduce their load during periods of critical heat waves.

NYS Energy Plan

President Quiniones said the Authority has been asked to take the lead and serve as Project Manager in putting together the state's energy plan. He said the State Energy Plan is required by statute and various energy agencies are involved in putting together a number of programs for this effort. Jill Anderson, the Authority's Chief of Staff and Director of Energy Policy, will serve as the Project Manager working with an interagency team from NYSERDA, DEC, PSC, DOT, et al., in formulating the Energy Plan. The first draft is scheduled to be completed by the end of the year and, subject to legislation, final approval the first quarter of next year. As required by law, public hearings will be held across the state in order to create the best Energy Plan. Outreach to various stakeholder interest groups in the energy industry across the US has begun across the state, also with the goal of producing the best state energy plan that can be put together for the state.

b. REPORT OF THE CHIEF OPERATING OFFICER

Mr. John Canale, Vice President, Project Management, provided highlights of the Chief Operating Officer's report to the Trustees.

Performance Measures

Generation Market Readiness

- *System wide Net Generation was above projections.*
- *Generation market readiness exceeded projection for June, 99.47%; target was 99.40%.*
- *Year-to-date generation market readiness is 99.44%; this is above the target for the year, 99.4%.*
- *One significant generation event occurred in June:*
 - *Blade damage at Pouch Terminal Gas Turbine resulting in 124 hours out of service.*

The failure occurred on June 6; Pouch Terminal was returned to Service on June 11.

Transmission Reliability

- *No significant transmission events occurred in June.*
- *Transmission reliability for June was 98.88%; this is below the target of 99.65%.*
- *Year-to-date transmission reliability is 95%; this is below the target of 95.81%.*

The transmission reliability is below target because of the y-49 failure which occurred earlier this year. In order to ensure appropriate reporting of this measure, going forward, the Authority will track this measure taking this into account. For the month of June this would result in transmission reliability of 97.49%

Generation

- *St. Lawrence Unit 17 – LEM Automation Completed; Unit was returned to service on June 29th.*
- *St Lawrence Unit 27 was removed from Service on July 1 for repairs; unit slated to return to service in April 2014.*
- *Niagara Unit 13 Standardization Completed – Unit was returned to service on July 15th.*
- *Lewiston Pump Generating Plant (LPGP) LEM Unit 11 Nears Completion – schedule to return to service on August 16th.*

Safety

- *There were two DART recordable incidents for June.*
- *The DART rate for June, the measure of the Authority’s safety performance, was 1.54%; the annual target is .78%.*

Environmental

- *There were eight reportable environmental incidents for June; monthly target is 3.*
- *Staff continues to strive for continuous improvement in this area.*

Emergency Management – Storm Preparations

During the period June – July, seven counties in the central region of the state were in a declared state of emergency due to flooding. The Authority’s emergency management team maintained communication with all of the appropriate agencies during this time. None of the Authority’s facilities experienced any operational impacts from the storms and subsequent flooding.

In response to a question from Trustee Nicandri, Mr. Canale said the Authority’s work on the Life Extension and Modernization project at the St. Lawrence Power Project is essentially completed; staff is in the process of closing-out the project. Responding to further questioning from Trustee Nicandri, Mr. Canale said the St. Lawrence LEM Program was a 16-year project.

c. REPORT OF THE CHIEF FINANCIAL OFFICER

Mr. Brian McElroy, Treasurer, provided highlights of the financial report to the Trustees. He said the financial performance for the month of June and year-to-date shows a positive trend and remains very strong.

Net Income

- *Net Income for the month of June was \$22 million.*

- *Net income through June, prior to the recognition of the State contribution was \$143.9 million, which was \$25.0 million higher than the budget due to a higher net margin on sales (\$37.1 million) and lower other operating expenses (\$6.5 million) partially offset by lower non-operating income (\$16 million).*
 - Net income for the six months with the inclusion of the initial \$40 million contribution was \$103.9 million.*
 - The Authority budgeted \$65 million for contribution to the state for 2013, \$40 million of which was released in January following Trustee authorization. At the request of the NYS Division of the Budget, the Authority has deferred the release of the remaining \$25 million, which was originally schedule for June. At this meeting, staff will be requesting Trustee authorization to release this remaining \$25 million.*
- *Positive variances in net margins at the generating facilities (\$31.2 million) were substantially attributable to higher capacity and energy prices on market-based sales.*
- *Transmission facility results were also higher than budgeted (\$8.7 million).*
- *Non-operating income included a higher than anticipated mark-to-market loss (\$16.5 million) on the Authority's investment portfolio due to a sharp increase in market interest rates.*

Cash losses will not be realized as long as investments are held to maturity, which is generally the case

Year-End Projection

- *Net Income is expected to remain at levels above budget for the year with firmer capacity and energy prices and higher hydro generation, partially offset by a decline in the mark-to-market value of the Authority's investment portfolio.*
- *Capacity Prices – With higher than expected capacity prices, Staff took steps to lock in these revenues by selling approximately half of the surplus capacity in the NYISO 6-month summer strip auction, thereby protecting these revenues from any potential downturn in the market*
- *Energy Prices – Wholesale electricity prices have increased with a rise in natural gas prices. Upstate prices are approximately 12% higher than the budget and New York City prices are up over 11%, having a positive effect on the Authority's net income.*

- *Hydro Flows – After significant rainfall in June, precipitation over the Great Lakes is running slightly higher than average for the year. The result is the combined net generation for the Niagara and St. Lawrence facilities currently projected to be 19.05 Twh, up from 18.45 Twh in the budget, positively impacting the Authority’s net income.*
- *Mark-to-Market Value – The current environment of rising interest rates is having a negative effect on the mark-to-market value of the Authority’s fixed rate investments in its portfolio, decreasing net income on an accrual basis.*
- *At the projected levels, the business requirements for cash flow and liquidity are expected to be met.*

Responding to a question from Chairman Koelmel, President Quiniones said although the Authority performed well financially, to date, the heat wave or hurricane season is not over as yet, therefore the Authority continues to be in a state of readiness, for any potential heat wave or storm events, and also to assist other utilities in the state until the end of the season. In terms of operations, the Authority will continue be on high alert. He continued that because of strong capacity and energy prices, the Authority should continue to see strong financial performance up to the end of the year. It is therefore prudent for the Authority to take this opportunity to strengthen its risk management as it embarks on its strategic planning process to ensure that it takes advantage of this trend in the energy and capacity markets.

d. REPORT OF THE CHIEF RISK OFFICER

President Quiniones said that based on a recommendation from Chairman Koelmel, going forward, Authority staff will provide an update on its enterprise risk and strategic planning process to the Trustees.

Mr. William Nadeau provided an update on the Authority’s Risk Management Activity, to date. He said, as discussed at the Audit Committee meeting earlier, the risk management team currently has a number of ongoing activities in alignment with its goals for 2013. The Team is actively engaged in a NYPA-wide Risk Assessment. To that end, the Team will reassess the Authority’s risk profile by conducting a review of risks under a consistent and formal framework under which risks are constructed. The objective of this reassessment is to refresh the entire NYPA risk inventory under a more rigorous framework and structured approach, with a common definition of Risk. Eighteen (18) Risk workshops have been scheduled with all Authority business units. To date, 16 workshops have been completed and it is expected that all 18 will be completed by the end of July. On completion of the workshops,

the Audit Committee and Board of Trustees will be provided with an updated Enterprise Risk Report and a presentation of the results will be made at the September 24th meetings. The Report will assist the Risk Group with facilitating the development of mitigation plans by Risk Owners in their respective business units scheduled to be completed by the end of the year. The Report will also be available as an informational resource in the development of the Authority's Strategic Plan. In addition, key risk indicators will be included in the Balance Scorecard of the Chief Executive Officer's Report.

Concurrently, the Risk Management staff has engaged a consultant, Deloitte & Touche, to assist in developing Key Risk Indicators ("KRIs") as leading indicators of risk. Staff expects to report on the progress of the development of the KRIs in the fall of this year.

In response to a question from Trustee Flynn regarding common themes of industry-wide risks, Mr. Nadeau said there is an emergence of cyber security risk for the Authority and other power utilities across the country. Attempts are made to breach the Authority's cyber security system on a daily basis. While the Authority has been successful in preventing entry into its systems, this emergence is of great concern for the Authority.

e. REPORT OF THE CHIEF STRATEGIC PLANNING OFFICER

Mr. Robert Lurie provided an update on the Authority's strategic planning process. He said the Strategic Planning staff is presently undertaking an outreach process to seek information from experts and stakeholders on trends in the energy industry that could be incorporated in the Authority's Strategic Plan. In developing the Plan, staff will look at the major uncertainties and drivers in the energy industry and marketplace that could present major risks that the Authority will be measuring or major opportunities for the Authority to expand the service it provides to its customers and the value it provides to the state. This outreach will be coordinated with the State Energy Plan initiative led by President Quiniones and Jill Anderson, and include all the state agencies and the energy industry.

Outreach

Along with staff from the Strategic Planning department, a strategy team comprising staffs of various levels from departments throughout the Authority have been assembled for this outreach which will be done throughout the summer.

As part of the outreach, staff will be talking to experts from other agencies that develop planning and energy delivery in New York; some of the Authority's major customers; the rating agencies at the major banks that finance

energy projects in the state; renewables and environmental organizations of the utilities; and universities that have provided the Authority with ideas of the trends and drivers in the industry.

Strategy Drivers

- *Low Gas Prices: Continued or expanded availability of low priced gas over the long term.*
- *Technology Advances: Increasing technical and financial viability of distributed generation, combined heat and power (“CHP”), smart grid, energy storage and microgrids.*
- *Climate Change: Significant climate changes will increase the need for hardening of infrastructure and may shift load patterns.*
- *Changes in Policies and Environmental Regulations: New legislation intended to lessen or reverse the change.*

As part of the process, staff will be looking at risk and how the drivers might cause the Authority to make a decision to change course in the middle of that strategy. Using the Authority’s mission and vision statements, staff will identify goals over a 3 – 5 year period and how those goals will be measured each year.

Outreach will be done during the months of September and October and preliminary results will be presented to the Trustees in November. Following the outreach, staff will conduct management planning sessions. The goal is to complete and release the Plan by the end of the year and use that Plan to cascade down to the Authority’s business units so that they can use it to develop their own business plans and performance reviews using those goals, strategies and metrics.

In response to a question from Trustee Mahoney, Mr. Lurie said the exercise will result in the implementation of major projects that will direct the Authority’s investments strategies in the future. Responding to further questioning from Trustee Mahoney, Mr. Lurie said the Trustees will be provided with a written document that will include a list of capital projects to be implemented over the next several years.

Responding to a question from Chairman Koelmel, Mr. Lurie said he is comfortable with the sequence of the timeline for the Plan. He said staff is cognizant of the challenges ahead, and he is working with the Risk Management, Operations and Finance staffs to ensure that the metrics and variables are consistent with the Plan and has concrete steps associated with them.

Chairman Koelmel suggested that Mr. Lurie provide the Board with additional information on the preliminary Plan and allow an opportunity for dialogue with the Trustees at the September meeting. Mr. Lurie said he would work with Mr. Nadeau and provide the Trustees with information indicating how the Plan will be integrated and give the Trustees an opportunity to review the Plan and provide feedback on it.

In response to a question from Trustee LeChase, Mr. Lurie said one of the key component of the Strategic Plan that will be addressed as part of the goals and strategies is workforce development and continuity to make sure that the Authority can retain people with the right skills needed to implement the Plan.

4. Power Allocations:

a. Power Allocations under the Recharge New York Program

Mr. Michael Huvane provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee Mahoney, Mr. Huvane said the original application from Hopshire Farms gave the impression that the proposed project qualified as "non-retail;" however, the specifics revealed that the majority of the benefits would go to the retail side of the business. Since RNY allocations are not intended for retail businesses, the company was therefore ineligible to receive this benefit.

The following resolution, as submitted by the President and Chief Executive Office was adopted with Trustee LeChase being recused from the vote as it relates to Garlock Sealing Technologies, Syracuse University and Billitier Electric, Inc.; Trustee Flynn as it relates to Albany International Corporation; Trustee Mahoney as it relates to Agrana Fruit US, Inc., Byrne Dairy, and Ultra Dairy LLC; and Trustees Flynn and LeChase as it relates to Corning Incorporated.

RESOLUTION	Moved: J. Mahoney	Seconded: T. Flynn	Adopted: 5/0
-------------------	----------------------	-----------------------	-----------------

b. Allocations of Hydropower and Notice of Public Hearing

RESOLUTION	Moved: T. Flynn	Seconded: R.W. LeChase	Adopted: 5/0
-------------------	--------------------	---------------------------	-----------------

5. Awards of Fund Benefits from the Western New York Economic Development Fund Recommended by the Western New York Power Proceeds Allocation Board

Mr. John Giumarra provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee Nicandri, Mr. Giumarra said 20% is the threshold used when evaluating projects. The Authority is not providing 100% of project requirements; the companies usually receive capital from other resources. Responding to further questioning from Trustee Nicandri, Mr. Giumarra said the Western New York Power Proceeds Allocation Board has approved the recommendations before the Board for consideration.

In response to a question from Trustee Mahoney, Ms. Judith McCarthy said the Western New York Power Proceeds Allocation Board is separate from the Authority's Board. It has five members: three appointed by the

Governor, one by the Senate and one by the Assembly. There is also a requirement in the legislation that three of the Board members have to live within a 30-mile radius of the Niagara project. The Board has designated the ESD as their staff to review the applications and make recommendations for fund award. However, the Authority's Trustees have to approve that Board's recommendations before any funds can be disbursed. Mr. Huvane added that the Authority's Trustees have the right by legislation to modify the recommendations. ESD serves as staff for the Proceeds Board, but NYPA has a representative, John Giumarra, who works with them on a daily basis looking out for the Authority's interest. The NYPA representative oversees the Proceeds Board activities to ensure that the recommendations are consistent with the legislation.

Responding to a question from Trustee Mahoney, Mr. Huvane said the Trustees can only make a modification to what is being recommended by the Proceeds Board for approval and Ms. McCarthy added that, under the statute, the Trustees have the authority to make a modification to the award recommendation or refer it back to the Proceeds Board for further review.

In response to a question from Trustee Nicandri, Mr. Huvane said the Regional Economic Development Council of Western New York works with the ESD which acts as staff to the Proceeds Board, during the review process of the applications.

In response to a question from Trustee Mahoney Mr. Giumarra said the Board members are privy to the principals of the companies being recommended for an award. Ms. McCarthy added that the members do the same conflicts of interest check on the applicants.

Responding to a question from Trustee LeChase, Mr. Huvane said members of the Proceeds Board take their responsibility very seriously and work closely with Authority staff to make sure their recommendations are in line with the requirements for allocating an award.

Trustee Flynn added that Mr. Giumarra had briefed him and the other Trustee on the operations of the Proceeds Board and also the allocations that are being recommended today for the Trustees' approval. He said he met with the Chairman and other officers of the Board. The members are active in other development Boards, so they do understand the issues on hand. They understand their custodial role and also that the Trustees have oversight of the Board from a fiduciary aspect. He continued that, from another aspect, the legislature and the local Senate and Assembly are very interested in what this Board is doing and is expecting the Authority's Trustees to do oversight on them. Also, he has received positive feedback regarding the ESD staff managing the program.

Chairman Koelmel said, as evidenced by the fact that the Trustees are considering two recommendations as outlined by Mr. Huvane and Giumarra, we are proceeding slowly and cautiously to make sure they have a good process in place and we can work with ESD to address the process. Ms. McCarthy added that Karen Delince and the Corporate Secretary's office have been providing the Proceeds Board with Corporate Secretary support. The Legal Department also provides assistance to the Board in evaluating and determining eligibility for awards.

RESOLUTION	Moved: J. Mahoney	Seconded: R.W. LeChase	Adopted: 5/0
-------------------	----------------------	---------------------------	-----------------

6. Contribution of Funds to the State Treasury

Mr. Brian McElroy provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee Nicandri, Mr. McElroy said \$20 million of the \$25 million is going to the state general fund. Responding to further questioning from Trustee Nicandri, Mr. McElroy said the \$20 million contribution is slated for energy related initiatives and this is in keeping with the Authority's mission statement, but he does not have any information on the specific initiatives for which the state will use the \$20 million. Mr. Russak added that he spoke with personnel from the Budget Division on the intent of the legislation to use the funds for economic development and energy efficiency and they are mindful of this requirement. Responding to further comment from Trustee Nicandri, Mr. Russak said the language in this year's Budget Bill specifies the use of the Authority's contribution for economic development and energy efficiency.

Responding to a question from Chairman Koelmel, Mr. Russak said the total \$25 million contribution amount is consistent with the 2013 operating budget. There was a change in the timing of the release of the funds to the state because the State Budget Division requested it be postponed.

RESOLUTION	Moved: J. Mahoney	Seconded: R.W. LeChase	Adopted: 5/0
-------------------	----------------------	---------------------------	-----------------

7. INFORMATIONAL ITEM: Authority Cyber Security

President Quiniones said last week he attended a classified briefing on cyber security risks with other CEOs of large Public power utilities in the US. The briefing was led by the Department of Homeland Security along with the Department of Defense, the FERC and the US Department of Energy. As previously mentioned by Mr. Nadeau, this is an emerging risk, not only to NYPA but the entire utility industry. It is very clear that perpetrators of cyber security are no longer focused on corporate networks but are starting to go after controlled networks, such as utility

networks. To that end, he has asked Ms. Lena Smart, Chief Information Security Officer, to give the Board a report on the current issues with cyber security and how the Authority is addressing these issues.

Ms. Smart provided a report on the Authority’s cyber Security. She said she is the Energy Sector Chief for the FBI Infragard – a collaboration between public and private sectors – and the Cyber Security staff are all members of FBI Infragard. The Authority’s cyber security group was created approximately ten years ago and is staffed by qualified cyber security subject matter experts in computer forensics, data recovery, data security and network security. The cyber security staff and contractors are given mandatory annual cyber awareness training and work closely with the New York State cyber security staff. The Cyber Security Team publishes monthly security bulletins for all staff.

The group practices layered security.

Tools used for Layered Security:

- *Firewalls – can block entire countries from knowing that the Authority exists.*
- *Security Operations Center – monitors the Authority's critical assets 24x7x365 and alerts the cyber security staff to anomalies.*
- *Intrusion Prevention Devices – stops viruses or malware at a specific site and doesn’t allow it to infect the rest of the Authority’s network.*
- *Antivirus software runs on all servers and desktops, constantly checking for malware.*
- *Cyber Security staff performs penetration tests and vulnerability assessments, and also engage third parties to try and “hack” the Authority’s systems.*
- *Recently installed hardware and software to mitigate against Distributed Denial of Service attacks.*
- *Working with National Labs on desktop security solutions.*

8. Motion to Conduct an Executive Session

RESOLUTION	Moved: R.W. LeChase	Seconded: J. Mahoney	Adopted: 5/0
-------------------	------------------------	-------------------------	-----------------

9. Motion to Resume Meeting in Open Session

RESOLUTION	Moved: R.W. LeChase	Seconded: J. Mahoney	Adopted: 5/0
-------------------	------------------------	-------------------------	-----------------

10. Next Meeting