

March 25, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

SUBJECT: Revisions to Expenditure Authorization Limits Table for Non-Hedge Physical Fuel-Related Transactions

SUMMARY

The Trustees are requested to approve the revised Expenditure Authorization Limits Table (“Table”) for transactions covering physical, non-hedge related, fuel purchases, sales and transportation required for the operation of the Authority’s fossil-fueled generating facilities (“Operational Transactions”) as set forth in Exhibit “A” attached hereto. Originally, the Table for expenditure limits for both hedging and non-hedging related transactions was authorized under the same Trustee Item dated February 26, 2008. Financial and physical transactions used for hedging energy-related commodity risk (“Hedging Transactions”) are currently covered separately under the Trustee-approved action of September 28, 2010.

The proposed revisions to the Table are primarily administrative in nature and do not change currently existing transaction authorization limits for Operational Transactions as set forth in the original Table to the February 26, 2008 Trustee Item. Revisions include: (a) updates to titles of authorized corporate officers, where appropriate; (b) elimination of titles/positions which no longer exist or do not apply to Operational Transactions and; (c) modifications to supporting footnotes to accurately reflect changes to the Table consistent with the delineation of responsibility between Operational Transactions and Hedging Transactions.

BACKGROUND

At their meeting of September 28, 2010, the Trustees approved the Governing Policy for Energy Risk Management (“the Policy”) as subsequently amended on January 31, 2012 and March 21, 2013. The Policy outlines the philosophy, framework and delegation of authority for the Authority’s Energy Risk Management Program (“the Program”) and provides the necessary authority to an appointed Executive Risk Management Committee (“ERMC”) to oversee implementation of the Program, including the authority to enter into financial hedging transactions and to establish appropriate procedures and controls.

In addition to revising authorization limits for Hedging Transactions, the September 28, 2010 Trustee authorization and subsequent ERMC actions resulted in the delineation of functions and segregation of duties among Authority staff, establishing a separation between Operational Transactions for fuel supply purposes and Hedging Transactions for risk management objectives. In accordance with this separation of functions, it is necessary to revise and update the Table and supporting footnotes as contained in the February 26, 2008 Trustee Item for Operational Transactions as recommended by the Authority’s Internal Audit Department.

Operational Transactions refer primarily to natural gas purchases that are effectuated on a day-to-day and intraday basis in support of the New York Independent System Operator (“NYISO”) Day-Ahead (“DAM”) Market and Hour-Ahead (“HAM”) Market selections for electric output from each of the Authority’s downstate fossil-fired power plants. In order to secure a reliable supply of natural gas, Operational Transactions may also include longer term gas supply arrangements at market indexed prices. Because gas indexed price transactions are highly correlated to electric market prices, they present minimal risk to the Authority compared to fixed price gas transactions.

DISCUSSION

The requested revisions to expenditure authorizations apply exclusively to physical, short-term (“spot”) and longer-term forward (“term”) transactions as required for the operation of the Authority’s fossil-fueled generating facilities. A spot transaction is defined as having a period or duration less than or equal to 40 days in contrast to a term transaction which is defined as having a period or duration of greater than 40 days up to 48 months. Consistent with the original February 26, 2008 Trustee authorization, trading limits may be delegated to subordinate level managers and staff (in writing) by respective department executives at their discretion within established limits on a short or extended term basis.

For internal control purposes, extended term delegations must be signed by the individual receiving the delegation and co-signed by the immediate supervisor, accompanied by the individual’s written certification of his or her understanding of all applicable Authority policies and procedures and re-certified annually. In addition to specified transaction dollar and term limits, the cumulative volume for an authorized individual for an Authority generating facility, for a particular period, may not exceed the maximum volume of fuel that could be used at such generating facility during that period.

The specified transaction limits and delegation of authority will ensure the necessary level of transaction capability for operational purposes while maintaining proper internal controls. Spot and term transactions result in minimal risk exposure to the Authority due to the fact that they: (a) are typically short-term in nature; (b) utilize indexed (market-related) pricing for longer-term transactions; (c) provide for payment after-the-fact following fuel deliveries and; (d) contain contractual provisions which provide some level of protection in the event of a vendor default.

RECOMMENDATION

The Senior Vice President – Energy Resource Management and the Director – Fuel Planning and Operations recommend that the Trustees approve the revised Expenditure Authorization Limits Table as discussed above and specifically reflected in Exhibit “A” attached hereto.

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

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That the revised Expenditure Authorization Limits Table for non-hedge, physical, fuel-related Operational Transactions be adopted as discussed above and specifically reflected in Exhibit “A” attached hereto; and be it further

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

**Table of
 Expenditure Authorization Limits for Non-Hedge
 Physical Fuel-Related Operational Transactions ^{1,2,3}**

TITLE ⁴	TRANSACTION VALUE (\$MM) ^{5,6}			TRANSACTION PERIOD ^{8,9} (Months)
	NATURAL GAS	FUEL OIL	NATURAL GAS TRANSPORTATION ⁷	
President and Chief Executive Officer	\$30	\$30	\$30	48
Chief Operating Officer	\$30	\$30	\$30	48
Executive Vice President and Chief Financial Officer	\$30	\$30	\$30	48
Senior Vice President Energy Resource Management	\$20	\$20	\$20	36
Others: Trading authorization limits may be delegated to subordinate level managers and staff by respective department executives at their discretion within the limits established herein. ¹⁰				

Footnotes to Table:

¹ All limits apply only to transactions with external counterparties and each limit operates independently of every other limit. Transactions in excess of \$30 million and/or 48 months shall require approval of the Authority's Board of Trustees, except in cases where the President and Chief Executive Officer is of the view, based on the recommendation of the Senior Vice President – Energy Resource Management and/or other Authority officers, that a proposed transaction exceeding the limits must be entered into on an expedited basis to protect the Authority from adverse financial or operational consequences.

² These limits apply to physical, short term ("spot") and longer term forward ("term") transactions (purchases, sales and transportation) as required for the operation of the Authority's fossil-fueled generating facilities. In contrast, financial and physical hedge related transactions are utilized exclusively for risk management purposes. For clarity, the physical procurement of volumes beyond the spot horizon can include securing indexed, market-based pricing, but precludes fixing the prices for such volumes for risk management (hedging) purposes.

³ A "spot" transaction is defined as having a period, duration or term less than or equal to 40 days in contrast to a "term" transaction which is defined as having a period, duration or term greater than 40 days up to 48 months.

⁴ Titles are representative of personnel under current Authority organizational structure. Where future organizational changes revise specific position titles, the designated transaction authorization levels are applicable to the individuals within those new titles subject to the President and Chief Executive Officer's concurrence.

⁵ The value of a specific transaction is calculated as the volume of the commodity times the contracted per-volume price. Multiple transactions entered into with the same counterparty ("vendor") in a single day for the same delivery date or transaction period are considered a single transaction for purposes of these limits which are "per transaction per day" which is equivalent to "per vendor per day".

⁶ The cumulative volume represented by physical agreements (transactions) for an Authority generating facility or group of facilities for a particular period cannot exceed the maximum volume of fuel that could be used at the facility or facilities during that period.

⁷ Gas transportation is necessary for effectuating delivery of natural gas purchases via interstate and/or intrastate pipelines to the Authority's generating facilities. Natural gas transportation may also include "balancing services" which are accounts established to handle the differences in the amount of gas scheduled for pipeline delivery versus the amount of gas actually consumed by the Authority at its generating facilities ("imbalances").

⁸Transaction period (or term) is measured as the period from the date a transaction is entered into through the last day of the delivery or transaction period.

⁹Interruptible natural gas transportation contracts, in contrast to firm transportation contracts, are exempt from transaction period (or term) limits since they are “evergreen” in nature and do not obligate or commit the Authority to transport or pay for any minimum volumes of natural gas.

¹⁰Trading authorization limits may be delegated for a short or extended term. All delegations, whether in whole or in part, must be in written form. Extended term delegations must be signed by the individual receiving the delegation and co-signed by the immediate supervisor, accompanied by the staff member’s written certification of his or her understanding of all applicable Authority policies and procedures and re-certified annually.