January 28, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

SUBJECT: Release of Funds in Support of the Residential Consumer Discount Program Incorporated in the Recharge New York Power Program

SUMMARY

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

BACKGROUND

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

Any such contribution or transfer of funds must (1) be authorized by the Legislature; (2) be approved by the Trustees "as feasible and advisable," (3) satisfy the requirements of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented ("Bond Resolution") and (4) as set forth in the Trustees' Policy Statement dated May 24, 2011, a debt service coverage ratio of 2.0 shall be used as a reference point in considering any such payments or transfers.

The Bond Resolution's requirements to withdraw monies "free and clear of the lien and pledge created by the [Bond] Resolution" are such that withdrawals (a) must be for a "lawful corporate purpose as determined by the Authority," and (b) the Authority must determine, taking into account, among other considerations, anticipated future receipt of revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for (i) payment of reasonable and necessary operating expenses, (ii) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals or for retirement from service, decommissioning or disposal of facilities, (iii) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt or (iv) payment of interest and principal on subordinate debt.

DISCUSSION

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

As part of the Recharge NY Power Program, the Authority, on August 1, 2011, withdrew all of the 455 MW of firm hydroelectric power previously sold to certain utility companies for the benefit of their residential consumers. To mitigate the price impacts of this withdrawal on the residential consumers, the Authority has been authorized, as deemed feasible and advisable by the Trustees, to fund monthly Residential Consumer Discount Program payments for the benefit of such consumers on a declining schedule. For each of the first three years following the withdrawal, the Authority is authorized to provide $100 million per year to fund the discounts. In years four and five following the withdrawal, the Authority is authorized to fund discounts of $70 million and $50 million, respectively. Beginning in year six following the withdrawal, and for each year thereafter, the Authority is authorized to fund discounts of $30 million per year.

The Authority is authorized to use the revenues from the sale of the withdrawn power, together with any other funds of the Authority as the Trustees may deem feasible and advisable, to support the Residential Consumer Discount Program. The net cost to the Authority of the Residential Discounts after taking into account the resale of the power following the withdrawal from its prior use to supply certain utility companies for the benefit of their residential consumers, is projected to be $22.5 million for 2014. Given the volatility in market prices, however, there is no assurance that the sale of this power will produce sufficient revenues to cover this amount of the residential discounts.

The Trustees have previously approved the release of funds in support of the Residential Consumer Discount Program, the most recent action being taken at the January 23, 2013 meeting. Under consideration today are payments for 2014. Staff intends to return to the Trustees with a recommendation as to the release of any future amounts related to the Residential Consumer Discount Program based on how the overall program is progressing as well as the financial circumstances of the Authority at the time such payments are to be considered.

Staff has reviewed the effects of the anticipated payments of the Residential Consumer Discount Program (up to $87.5 million) on the Authority's projected financial position and reserve requirements. In addition, in accordance with the Board's Policy Statement, staff calculated the impact of these amounts on the Authority's debt service coverage ratio and determined it would not fall below the 2.0 reference point level. Given the current financial condition of the Authority, its estimated future revenues, operating expenses, debt service and reserve requirements, staff is of the view that it will be feasible for the Authority to provide up to $87.5 million of the Residential Consumer Discount Program at this time.

FISCAL INFORMATION

Staff has determined that sufficient funds are available in the Operating Fund to provide up to $87.5 million in support for the Residential Consumer Discount Program authorized by the Recharge NY program at this time and that such Authority funds are not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's Bond Resolution. The release of up to $87.5 million associated with the Residential Consumer Discount Program payments was anticipated and reflected in the Power Authority's 2014 Operating Budget approved by the Trustees at their December 17, 2013 meeting. The net cost to the Authority after consideration of the value of the unallocated power being sold into the wholesale market is estimated to be $22.5 million during 2014. These monthly payments will be recorded as an expense at the time of payment.

RECOMMENDATION

The Treasurer recommends that the Trustees affirm that the release of up to $87.5 million related to Residential Consumer Discount Program is feasible and advisable and to authorize such payments.

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

Gil C. Quiniones
President and Chief Executive Officer

Att.
Recharge NY

R E S O L U T I O N

RESOLVED, That the Trustees hereby authorize the release of up to $87.5 million from the Operating Fund during 2014 to support the monthly Residential Consumer Discount Program as authorized by the Recharge New York Power Program as set forth in Chapter 60 of the Laws of 2011 as discussed in the attached memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That the amount of up to $87.5 million to be used for the Residential Consumer Discount Program described in the foregoing resolution is not needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

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

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