

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

**December 17, 2015**

*Introduction*

*Chairman Koelmel welcomed the Trustees and staff members who were present at the meeting. He said that 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 December 17, 2015 Proposed Meeting Agenda**

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

<b>RESOLUTION</b>	Moved: T. Flynn	Seconded: A. Kress	Adopted: 6/0
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**2. Motion to Conduct an Executive Session**

<b>RESOLUTION</b>	Moved: E. Nicandri	Seconded: T. Flynn	Adopted: 6/0
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**3. Motion to Resume Meeting in Open Session**

<b>RESOLUTION</b>	Moved: E. Nicandri	Seconded: T. Flynn	Adopted: 6/0
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**4. Consent Agenda:**

<p><b>a. Governance Matters</b></p> <ul style="list-style-type: none"> <li>i. Minutes of the Regular Meeting held on September 29, 2015</li> <li>ii. Proposed Schedule of Trustees' Meetings in 2016</li> </ul> <p><b>b. Power Allocation</b></p> <ul style="list-style-type: none"> <li>i. Contracts for the Sale of Preservation Power – Transmittal to the Governor</li> <li>ii. Municipal and Rural Electric Cooperative Economic Development Program – Allocations to the Villages of Solvay and Arcade and Delaware County Electric Cooperative</li> </ul> <p><b>c. Procurement (Services) Contracts</b></p> <ul style="list-style-type: none"> <li>i. Procurement (Services) and Other Contracts – Business Units and Facilities – Awards, Extensions and/or Additional Funding</li> <li>ii. Procurement (Services) Contracts – Engineering for the SMART Path Moses-Adirondack 1 &amp; 2 Rebuild Project –</li> </ul>
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<p>Contract Award</p> <p>iii. Procurement (Services) Contract – Crescent Power Plant – Tainter Gate and Concrete Repair Project – Contract Award</p> <p>iv. Procurement (Services) Contract – Crescent and Vischer Ferry Plants – Units 3 and 4 Overhaul and Accessories Replacement – Contract Extension and Additional Funding Request</p> <p><b>d. Real Estate</b></p> <p>i. Lease Extension – Warehouse Space-Bartnick Garage</p> <p><b>e. Information Technology</b></p> <p>i. Information Technology Initiatives – Capital Expenditure Authorization Request</p> <p>ii. Operations Network II – Capital Expenditure Authorization Request</p>
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**Conflicts of Interest**

*Trustees Flynn and Kress declared conflicts of interest as indicated below and said they would not participate in the discussions or votes as it relates to those matters.*

*Trustee Flynn:*

- *Time Warner Cable (Item #4c i); Saint Gobain Performance Plastics*

*Trustee Kress:*

- *1366 Technologies Inc. (Item #7b)*

*Chairman Koelmel and Trustees Nicandri, Picente and McKibben declared no conflicts.*

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

<b>RESOLUTION</b>	Moved: A. Picente	Seconded: A. Kress	Adopted: See note above
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**Discussion Agenda:**

**5. Staff Reports:**

**5a. Report of the President and Chief Executive Officer**

*President Quiniones provided the following report on the Authority’s performance for November (Exhibit “3a-A”), highlighting some of the Authority’s accomplishments during 2015.*

**Performance Scorecard**

*Although some of the performance measures were below target for the month of November, they have been trending in the right direction.*

Internal Audit

- *Audit Plan*

*The Chief Audit Officer, Ms. Jennifer Faulkner, worked extremely well with management to create the Authority's 2016 Audit Plan and the Authority looks forward to that partnership and collaboration for the coming year.*

Enterprise Risk Management

- *Cyber Security Risk Analysis*

*The Authority has recruited and brought on board Mr. Soubhagya Parija as the new Chief Risk Officer. Mr. Parija has been tasked with looking at all the risks to the Authority's business, especially as it implements and prioritizes the initiatives in the NYPA 20/20 Strategic Plan. Mr. Parija discussed some of the issues on cyber security, a topic that is emerging in the utility industry.*

Operations

- *NRC Cyber Security Simulation Exercise*

*Staff from the Authority's Operations, and IT departments participated in a federally-administered simulated "Cyber War Games" for various utilities across the country. The feedback from NYISO regarding this exercise has been very good.*

- *Lewiston Pump-Generator Plant – Unit #2 Upgrade Completion*

*President Quiniones congratulated staff from the Operations group who worked on the Niagara Power Project's Lewiston Pump-Generating Units upgrade. The Unit #2 upgrade was completed in November. He said this project will realize productivity savings for the Authority.*

Public Affairs & Business Development

- *SMART Path Project*

*The Authority has commenced the licensing and project development of the SMART Path Project, which is the replacement of the Authority's Moses/Adirondack transmission line. This 85-mile transmission line with wooden poles more than 70 years old starts in Messena and goes down to the Adirondacks. This project is very important to the resiliency of NYPA's system and New York State's power grid. It will also enable the Authority to bring more power from Canada through its inter-connections with Hydro-Quebec into New York State and will bring in more renewable hydropower from Canada, a benefit to the Authority's customers and the state as a whole.*

- *Nature Center Construction Progress*

*The Authority is in the process of constructing a Nature Center in the North Country. This is part of the Authority's community benefit program which is part of its FERC license of the St. Lawrence/FDR Power Project for it to assist communities that were impacted when the Authority built the Project. The Nature Center, was damaged by fire a few years ago and will now be co-located in an area where New York State Parks is developing*

*other facilities. The Nature Center is an important resource for the community and will be a valuable resource to the Authority's partnership with communities in the North Country.*

*In response to a question from Chairman Koelmel, President Quiniones reiterated that the Authority will not meet its goal for the Generation Market Readiness and safety DART Rate performance measures. Nevertheless, as an organization, the Authority is well-positioned for 2016. The executive leadership team has been reorganized in order to align the way they support the implementation of NYPA's 20/20 Strategic Plan. The Authority will continue to give internal employees more leadership opportunities in addition to bringing in new talent to compliment the current staff. President Quiniones said he is very pleased to report that operationally and financially the organization is doing well, and the culture of the organization is one of enthusiasm. The team worked extremely hard this year and is already planning to do more next year to advance NYPA's 20/20 Strategic Plan.*

*In response to a comment from Chairman Koelmel, President Quiniones said the last time the Authority built a new transmission line was approximately fifteen years ago when it built the Y-49 transmission cable. The Authority is currently planning to build two transmission lines, namely, the Marcy-South Series Compensation project using Smart Grid technology which will enable the Authority to bring power from the Utica area to the lower Hudson Valley and Southeast New York; and the Moses-Adirondack 85-mile transmission line that is part of the Authority's Life Extension and Modernization Program. The Authority plans to replace the underground line in Lake Champlain that connects to Vermont and also expects to compete for the building of another transmission line in Western New York with the anticipated retirement of the Dunkirk and Huntley coal plants.*

*President Quiniones ended by saying that the Authority is working on some very innovative projects both in Transmissions and Generation. It is also embarking on its Strategic Plan, focusing on its customers and deciding which products and services these customers value in the sphere of energy. The energy/utility business is fundamentally changing and technology innovations are the driving forces. Regulatory rules are also changing and climate-change policies are driving tremendous changes in the industry, not only at the state level, but globally. As these cutting-edge technologies evolve, the Authority will continue to be a leader and a very strong factor in advancing the state's energy policies and programs.*

**5b. Report of the Chief Risk Officer**

*Mr. Soubhagya Parija provided highlights of the report to the Trustees. (Exhibit "5b-A").*

*He outlined the Authority's top risks and said a full-scale risk assessment will be conducted in the first quarter of 2016 after which a new dashboard of the Authority's risks will be provided to the Trustees. He said the Energy Risk Management ("ERM") group is putting some foundational steps in place to understand the Authority's risks, rewards, and the trade-off. ERM framework changes will also be implemented.*

*Mr. Parija said ERM is working on the five Current Projects listed below:*

- *Commodity Risk Management*
- *Developing Portfolio View of Risks*
- *Risk Appetite*
- *Cyber Insurance for 2016*
- *Business Continuity and Emergency Management*

*Mr. Parija ended by saying ERM will present the results of next year's risk assessment and the dashboard with the key risk indicators to the Board at the next meeting.*

*In response to a question from Chairman Koelmel, Mr. Parija said the dashboard will focus on the Authority's top risks and how they are being monitored.*

5c. **Report of the Chief Operating Officer**

*Mr. Joseph Kessler, Senior Vice President of Power Generation, provided highlights of the Chief Operating Officer's report to the Trustees. (Exhibit "5c-A")*

**Performance Measures:**

- **Generation Market Readiness**

*Generation Market Readiness was below target due to icing conditions in St. Lawrence; scheduled outage at the 500 MW Power Plant because of equipment damage; and deficiencies in the jet engine used for generating power discovered during an inspection at the Small Clean Power Plant at Pouch.*

*Because of these incidents, the Authority will not meet its year-end target for Generation Market Readiness.*

**Transmission Reliability**

- *Transmission Reliability for the November was below target due to timing issues. In the aggregate, this target will be achieved at the end of the year.*

- **Environmental Incidents**

*Due to some SPDES permit exceedances, the Authority did not meet its YTD target for environmental incidents.*

- **DART Rate**

*Due to some relatively minor incidents, this target will not be met by the end of the year.*

*Looking ahead – 2016:*

*Technical Compliance:*

- *NERC CIP – NYPA is working to achieve compliance with the North American Electric Reliability Corporation (“NERC”) Critical Infrastructure Protection (“CIP”) Version 5 standards before the April 1, 2016 enforcement date.*
- *Transmission LEM – NYPA is working on a number of significant projects, e.g. the Niagara Switchyard, substations, circuit breakers, towers and conductors.*
- *Asset Management – This is part of the Operations group’s Strategic Initiative. There are approximately five different business models in Operations and Asset Management deals with the best way to operate those businesses through a strategic asset management plan (“SAMP”) that is going to be completed by the end of this month.*
- *ISO 55000 is the international standard that was adopted last year and has been in place for many years in some of the commonwealth nations. The Authority is using that model to see how close and how quickly it can achieve this compliance. President Quiniones added that, to his knowledge, there are no utilities in the United States that is ISO 55000-certified. NYPA will be the first utility in the US to get this certification. The Authority believes this certification is the “best-in-class” and therefore in its interest to have this certification.*

*In response to a question from Trustee McKibben, Mr. Kessler said there are thirty-nine key areas in the ISO Standard that the Authority reviews which is in alignment with its business. A Gap Analysis will help build that alignment and future investments in the Authority’s current assets.*

*Employee Engagement:*

*Operations have been charged with re-engaging the staff on three key areas – Safety, Security, and Workforce Development.*

*Safety – Authority staff has renewed their efforts in this area. The safety committees met to discuss how safety issues should be managed, going forward.*

*Security – Authority staff plans to meet with the IBEW and other management staff to review the physical security and cyber security requirements in detail.*

*Workforce Development – The Authority is working to align staff through training opportunities to ensure staffing is strategically aligned with its business needs.*

**5d. Report of the Chief Financial Officer**

*Mr. Gerard Vincitore, Senior Vice President of Corporate Finance, provided highlights of the Chief Financial Officer's report to the Trustees. He said there are four main areas in the CFO Report: 1) an overview of the year-to-date results; 2) Discussion of the Authority's two key revenue-drivers; 3) an estimate for the year-end outlook; and 4) discussion on the financial metrics and the work staff is doing in that area. The Economic Value Added ("EVA") measure will be added to the financial metrics.*

**Net Income**

- *During the month of November, the Authority had net income of \$4 million which was \$1.8 million lower than the budgeted \$5.8 million. These results were due primarily to a lower net margin on sales (\$10.7 million) and a mark-to-market loss on the Authority's investment portfolio (\$5.5 million, higher than anticipated market interest rates), substantially offset by lower operating expenses (\$14.5 million). The lower net margin on sales was primarily attributable to significantly lower prices on market sales of hydro energy into the ISO market.*
- *Net income for the year-to-date was \$75.2 million, which was \$113.1 million lower than budgeted due to lower hydro production (\$56 million), and lower market energy prices (\$135 million), partially offset by lower O&M and other expenses (\$78 million). Lower production resulted from low precipitation and a less than normal winter ice thaw early in the year. Lower O&M and other expenses reflect underspending in programs including Five City Master Plan, Western NY Workforce Development and Customer Energy Solutions.*

**Hydro Generation**

*Increased hydro volume expected towards the end of 2015 and for 2016. The December update includes a .12 Twh decrease in hydro production related to 2015 (compared to last month's projection).*

**Energy Price Forecast**

*Energy Zone A (Western NY) prices continue to be significantly below budget. Zone A price for November was 31% below the budget. Current projection is 26% below budget for the year.*

**Year-End Net Income Projection & Debt Service Coverage**

*Net income for the year is projected to be \$55-\$70 million with the budget variance primarily attributable to lower hydro production and lower market energy prices. Final results will vary based on the level of spending on O&M and other programs for the remainder of the year.*

*In response to questioning from Chairman Koelmel, Mr. Vincitore said during 2015, prices have consistently remained below the budget and will continue to remain below. Staff is forecasting that prices will continue to be at much lower levels across all markets than they have seen historically. In addition, the Authority has revised its year-end projections upwards to \$60 million. In terms of liquidity, cash-flow measures, the Authority is very solid and expects to remain that way going into next year.*

*In response to further questioning from Chairman Koelmel, Mr. Vincitore said in addition to the voluntary contribution, the Authority provides other support such as the Recharge New York Program which has a discount associated with it and is included in the net operating income.*

*In response to still further questioning from Chairman Koelmel, Mr. Vincitore said NYPA has set a target to measure its financial performance. That target is the weighted average cost of capital which is 7%. NYPA uses this measure to make better informed decisions about its financial practices. This is just a tool that will be used to benchmark return on investment capital.*

*Mr. Lurie added that there are two key points with regard to using this measure, versus the accounting measures used in the past. First, it is largely based on the cash flow from the operating business, and second, the Authority also want to have a return that compensates it for the opportunity cost of the money it has available to spend on capital for benefit of the state. The reference to return on equity – there is some economic profit built into that number if you get to 7% – NYPA’s debt cost may be 3% and the rest is returned to the opportunity cost of capital.*

*Authority staff is also being trained on how to use this measurer namely, how to apply it into certain capital investments and projects that they’re looking at. Going forward the Authority is going to use these types of measurers, as well as the balance score card to help drive the financial decision-making process.*

*Mr. Lurie added that since the Authority is a non-profit organization, it is not looking to maximize its economic value added. The economic value for NYPA is going to fluctuate, not just because of the hydro and energy prices, but also fluctuates with the amount of support we give to these state programs. You might or might not say we should include HTP on this, but certainly for the purposes of accounting for this anything that is an operating expense that costs us to incur staff or out-of-pocket expenses is included in this number. So we may choose to set a different target because of that. But it is net of that support that we provide to these various state efforts.*

*In response to a question from Trustee Nicandri, Mr. Vincitore said from a percentage perspective, a five-year average would be approximately 7%.*

*Chairman Koelmel commented that he fully endorse the approach. The Authority anticipated dramatic changes early in the year and it played out as anticipated.*

**6. FINANCE: 2016 Operating Budget and Filing of the 2016-2019 Approved Budget and Financial Plan Pursuant to Regulations of the Office of the State Comptroller**

*Mr. Robert Lurie provided highlights of staff’s recommendation to the Trustees. He said staff is requesting that the Trustees:*

- 1. Approve the Authority’s 2016 Operation and Maintenance (O&M), Capital and Energy Services Budgets;*

2. *Approve Public posting of the Authority's four-year Financial Plan for the period 2016–2019; and*
3. *Authorize Repayment of up to \$123 million of debt*

*Trustee McKibben commented that she was very pleased to see the forecast for energy pricing remaining relatively low. Looking at the initiative the state has overall, and encouraging developmental and other energy resources, particularly renewable energy resources, and how that's going to impact NYPA's business, the optimistic view is that it will continue to reduce prices for the state and what that means as NYPA projects its revenue and budget going forward, how it achieve what it's forecasting will be important, keeping in mind the larger goals of the state and bringing in additional energy resources that NYP will ultimately be competing for.*

*President Quiniones said he want to commend Robert Lurie and Ed Welz and their teams for a job well done – the way we capital projects are selected and capital for projects allocated to realize the Authority's initiatives.*

*In response to a question from Trustee McKibben, Mr. Lurie said the target for the fixed charge coverage ratio is 1.75. That fixed charge coverage is the same as the Authority's peer group. The Authority is currently just above that target and is paying off some of its debt.*

*In response to further questioning from Trustee McKibben, Mr. Lurie said the Authority has two different measures for debt service coverage. By paying down the debt, the Authority is improving its debt service coverage, and pursuant to the new measure, the Authority will stay above its targets by virtue of paying down this debt service.*

*In response to a question from Chairman Koelmel, Mr. Lurie said going forward, as the Authority enters into more projects that have a positive NPV, the Authority will be earning more on the investments that it makes so that when it issues debt in the future, there would be more than enough revenue to pay for the debt and the initial cost of the debt.*

*In response to further questioning from Chairman Koelmel, Mr. Lurie said the out-of-pocket return on investment is equal to the interest that the Authority will no longer have to pay. Above that, to the extent that the Authority can maintain its AA rating, instead of dropping down, there's an additional return that comes from that measure.*

*Mr. Lurie ended by saying that, in trying to view NYPA as a public purpose corporation, staff plans to use best practices from the corporate world to help run its business, going forward. To that end, staff is planning to create a new corporate scorecard to include availability of the Authority's assets into the market and a measure on how much value it is providing to its customers. This will be discussed further at the January meeting.*

*Chairman Koelmel said before Trustee vote on staff's recommendation, for the record, Board members individually had an opportunity to review the budget in greater detail with Mr. Lurie and his team, and asked if any member had questions or needed further clarification relative to what has been presented today.*

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<b>RESOLUTION</b>	Moved: A. Kress E. Nicandri A. Kress	Seconded: A. Picente, Jr. T. Flynn T. McKibben	Adopted: 6/0
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**7a. Power Allocations: Proposed Preservation Power Contract with Alcoa, Inc. and Contract amongst the Authority, Empire State Development and Alcoa – Notice of Public Hearing**

*Mr. Robert Lurie provided highlights of staff’s recommendation to the Trustees.*

*Chairman Koelmel said for the record, the Trustees have been kept abreast of the negotiations and had an opportunity to engage the team in order to understand the evolving nature of the dialogue and discussion with Alcoa.*

*Trustee Nicandri added that he wanted to point out to the Board members that the economy has not been good in Northern New York and this is a bridge to allow a substantial number of the employees to make some decisions about what they might want to do – this plant is lifeline to a lot of people. If there is improvement in the price of aluminum on the London exchange then the possibility exists for things to change. There is the possibility of it costing the Authority some money or not, and so it’s a unique situation. It also gives the Authority some time, in the event that three years from now, if Alcoa determines it does not want to go forward, to plan a course of action.*

*Chairman Koelmel added that in view of the wide variety of requests the Authority receives within the ordinary course of business, he considers this to be an “out-sized” request within the context of a broader state-driven initiative, and not necessarily indicative of the types of requests the Authority would otherwise expect, or how it would engage those requests that are more within the ordinary course of business. He reiterated that the Authority’s support is really supporting a broader base – a bigger picture objective – and not necessarily indicative of future performance in terms of how the Power Authority performs within these parameters. He said he wanted to clarify this as well as to ensure Mr. Pasquale and his team, and those who come to you for support, understands the boundaries within which the team would otherwise typically operate.*

*Trustee Flynn said he understands the unique situation and the concern about the people employed in that community and the people who rely on those employees to purchase their products. However the Authority has to respect that other businesses, and rightly so, in the state of new York will have the right to bring this to the table and remind the Authority of what was done today. We understand the situation here but we have to respect that if other companies come to the forefront we must treat them with the same respect that we treat that this entity before us today.*

*Chairman Koelmel reiterated that this action is within the context of a broader initiative and objective as opposed to those that approach us in the ordinary course of business.*

<b>RESOLUTION</b>	Moved: E. Nicandri	Seconded: A. Picente	Adopted: 6/0
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**7b. Power Allocations: Western New York Hydropower Allocation and Notice of Public Hearing**

<b>RESOLUTION</b>	Moved: E. Nicandri	Seconded: T. McKibben	Adopted: 5/0 A. Kress recused
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**7c. Power Allocations: Recharge New York Power Allocations**

*Mr. Keith Hayes provided highlights of staff's recommendation to the Trustees. In response to a question from Trustee McKibben Mr. Hayes said there is approximately .6 MW of power left in the small business and not-for-profit program and this allocation would not exhaust it since staff anticipates getting some power back for future allocations.*

<b>RESOLUTION</b>	Moved: A. Picente	Seconded: A. Kress	Adopted: 6/0
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**7d. Power Allocations: Compliance Review – Globe Metallurgical, Inc.**

*Mr. James Pasquale said that at the July meeting staff indicated they would like to defer its recommendation for Globe Metallurgical, Inc. ("Globe"). He said staff engaged an independent accounting firm to verify the company's job numbers; however, at this time staff would like to conduct further analysis and is requesting that the Board extend the time for staff's recommendation to January 2016.*

*In response to a question from Chairman Koelmel, Mr. Pasquale said staff wants to make sure that the recommendation on how they are going to apply the reduction to Globe's allocation is consistent with what has been recommended for customers in the July. The Board will then be able to take definitive action on staff's recommendation for Globe's allocation.*

<b>RESOLUTION</b>	Moved: TABLED	Seconded: TABLED	Adopted: TABLED
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**8. Motion to Conduct an Executive Session**

<b>RESOLUTION</b>	Moved: T. Flynn	Seconded: E. Nicandri	Adopted: 6/0
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**9. Motion to Conduct an Executive Session**

<b>RESOLUTION</b>	Moved: T. Flynn	Seconded: E. Nicandri	Adopted: 6/0
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**10. Next Meeting**

<b>RESOLUTION</b>	Moved: T. Flynn	Seconded: E. Nicandri	Adopted: 6/0
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