

May 22, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

**SUBJECT: Procurement (Services) Contract –
Coopers Corners Shunt Reactor Project –
Additional Capital Expenditure Authorization
Request and Contract Award**

SUMMARY

The Trustees are requested to authorize additional capital expenditures in the amount of \$4,685,000 for construction and installation associated with Phase 2 of the Coopers Corners Shunt Reactor Project (“Project”). This Project (estimated installed cost of \$9.8 million) entails the installation of a 200 MVAR Shunt Reactor at the 345 kV Coopers Corners Substation, located in the Town of Thompson, NY, owned and operated by the New York State Electric & Gas Corporation (“NYSEG”). For Phase 1 of the Project, the Trustees approved the amount of \$4.9 million in capital expenditures at their November 9, 2012 meeting. The Project will eliminate the need for the Authority to perform undesirable switching operations to mitigate high voltages observed at Coopers Corners during light load operating conditions.

The Trustees are also requested to approve the award of a construction contract in the amount of \$3.8 million to O’Connell Electric Company, Inc. (“O’Connell”) of Victor, NY, to provide materials, installation and testing services for the 345 kV Shunt Reactor at the Coopers Corners Substation. An interim contract award to O’Connell in the amount of \$400,000 has been issued to cover initial material procurement and mobilization costs.

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. The Authority’s Expenditure Authorization Procedures (“EAPs”) require the Trustees’ approval for the award of non-personal services contracts in excess of \$3 million.

During months when there is less electric demand on the system, the New York Independent System Operator (“NYISO”) load can reach very low levels (below 11,000 MW). While this results in lightly loaded transmission lines, the resulting voltages are above acceptable operating limits. Historically, high voltages have been observed at the Coopers Corners 345 kV Substation and surrounding area. These voltage problems may be worsened if other transmission equipment is also out-of-service (e.g. Fraser Static VAR Compensator and/or UE1-7 345 kV transmission line).

The current NYISO mode of operation to reduce the high voltage problem is to request the Authority to perform undesirable/non-best practice switching operations such as:

- Setting the Bleheim-Gilboa units in speed-no-load or spin-pump mode.
- Operating the Marcy STATCOM fully inductive.
- Tripping the Marcy-Coopers Corners and/or the Coopers Corners-Rock Tavern 345 kV transmission lines.

The above switching operations are unacceptable methods of operating the Authority's assets. The Authority and the NYISO met in November of 2011 to discuss implementation of an improved operating protocol and agreed that installation of a shunt reactor would avoid the need for line switching and provide a "best practice" long-term solution.

The NYISO performed a System Impact Study ("SIS") to evaluate the impact of the Project on the reliability of the New York State Transmission System. The SIS results show that installation of a 200 MVAR shunt reactor is the ideal solution for high voltage issues during light load conditions.

The Authority and NYSEG executed an Engineering and Procurement Agreement in July 2012 for the installation of a 200 MVAR shunt reactor at the Coopers Corners 345 kV Substation. The Authority will own the shunt reactor and associated equipment; NYSEG will operate and maintain the equipment subject to an Operations and Maintenance Agreement that is being developed.

DISCUSSION

The Project is structured to be performed in two phases;

Phase 1 (previously approved):	Engineering, Procurement, Project Management (2012 – 2013)
Phase 2:	Construction (2014)

The Phase 1 scope-of-work (preliminary engineering, detailed design engineering and major equipment procurement) was completed in 2013.

The Authority issued a Request for Proposals ("RFP") for installation, testing, and commissioning of the 200 MVAR shunt reactor and associated structures and components. The RFP was advertised in the New York State *Contract Reporter* on November 21, 2013 (RFP No. Q13-5554JF) and three proposals were received on February 20, 2014. The bid evaluation has been completed with the award of a Contract to O'Connell Electric, Inc., the lowest cost and technically acceptable bidder to perform the construction work.

The Trustees previously authorized capital expenditures for \$4.9 million for the Phase 1 scope-of-work. This additional capital expenditure authorization for Phase 2 is comprised of the following:

Engineering/ Design	\$ 170,000
Construction/ Installation	<u>\$4,515,000</u>
TOTAL	<u>\$4,685,000</u>

FISCAL INFORMATION

Payments associated with this project will be made from the Authority’s Capital Fund.

RECOMMENDATION

The Senior Vice President and Chief Engineer – Operations Support Services, the Acting Vice President – Project Management, the Vice President – Engineering, the Vice President – Transmission, the Acting Vice President – Procurement, the Project Manager, and the Regional Manager – Central New York recommend that the Trustees approve additional capital expenditures in the amount of \$4,685,000 for the Coopers Corners 200 MVAR Shunt Reactor Project and award a \$3.8 million contract to O’Connell Electric of Victor, NY.

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

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That pursuant to the Authority’s Expenditure Authorization Procedures, additional capital expenditures in the amount of \$4,685,000 are hereby authorized for the Coopers Corners Shunt Reactor Project (“Project”) as recommended in the foregoing memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to authorize the award of a contract to O’Connell Electric Company, Inc. in the amount of \$3.8 million to provide material, installation and testing services for the Project, as recommended in the foregoing memorandum of the President and Chief Executive Officer and as set forth below:

Contractor

O’Connell Electric Company, Inc.
(Victor, NY)

Contract Approval

\$3.8 million

AND BE IT FURTHER RESOLVED, That the Authority, in accordance with Treasury Regulation Section 1.150-2, hereby declares its official intent to finance as follows: The Authority intends to reimburse to the maximum extent permitted by law, with the process of tax-exempt obligation to be used by the Authority, all expenditure made and which may be made in accordance with the Project described in the foregoing memorandum of the President and Chief Executive Officer, with the maximum principal amount of obligations to be used for such project expected to be \$9.8 million; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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 Acting Executive Vice President and General Counsel.