



Date: May 24, 2016
To: THE TRUSTEES
From: THE PRESIDENT and CHIEF EXECUTIVE OFFICER
Subject: Hydropower Allocations – Extensions of
Western New York Hydropower Allocations

SUMMARY

The Trustees are requested to:

- 1) Approve an extension of the Expansion Power (“EP”) allocation awarded to Metaullics Systems (“Metaullics”) for use at its Sanborn, NY facility (“Sanborn facility”). Metaullics’ current allocation awarded on September 29, 2009 totals 3,500 kilowatts (“kW”) and is scheduled to expire on May 31, 2016.¹ However, Metaullics has been unable to use the full EP allocation and meet the job commitments associated with it. Given that hydropower is important to Metaullics’ business, staff recommends that Metaullics’ EP allocation be reduced to 1,100 kW and extended to June 30, 2020, subject to the modified commitments package described below.
- 2) Approve an extension of the 200 kW Replacement Power (“RP”) allocation awarded to Niagara Coatings Services, Inc. (“Niagara Coatings”) on April 4, 2011 for use at its Niagara Falls, NY facility (“Niagara Falls facility”). The RP allocation, which is scheduled to expire on November 30, 2016, would be extended to June 30, 2020. Niagara Coatings would continue its commitment to retain 17 jobs, and agree to a new average annual capital investment commitment of \$50,000.

BACKGROUND

Western New York hydropower consists of both RP and EP. Under Public Authorities Law §1005(13), the Authority may allocate and sell directly or by sale for resale, 250 MW of EP and 445 MW of RP to businesses located within 30 miles of the Niagara Power Project, provided that the amount of EP allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

1) Metaullics

Metaullics is a leading manufacturer of specialty graphite. It operates a facility in Sanborn, NY. The Authority and Metaullics are parties to a power sale contract that covers two allocations. One is a 500 kW allocation of RP which is scheduled to expire on June 30, 2020, and corresponds to a commitment by Metaullics to maintain 8 jobs. The other – the 3,500 kW EP allocation before the Trustees today – is scheduled to expire on May 31, 2016 and

¹ The allocation was originally awarded at 4,000 kW, but was reduced to 3,500 kW upon agreement of the parties based upon an assessment of Metaullics’ load requirements at the time.

corresponds to commitments by Metaullics to (1) maintain a base employment level of 54 jobs at the Sanborn facility, and (2) make \$25,000 average annual capital investments (i.e., averaged across three years) at the Sanborn facility, through the term of this allocation.

2) Niagara Coatings

Niagara Coatings, a leading provider of coating services including industrial painting, surface preparation, lead abatement, tank linings, special coatings, commercial painting and wall coverings, operates a facility in Niagara Falls, NY.

The Authority and Niagara Coatings are parties to a power sale contract that covers the 200 kW RP allocation. The 200 kW RP allocation corresponds to a commitment by Niagara Coatings to maintain 17 jobs at the Niagara Falls facility. Niagara Coatings currently has no annual capital investment commitment.

DISCUSSION

1) Metaullics

Metaullics has requested an extension of its EP allocation. It has represented that hydropower is critical to the success of its business at the Sanborn facility. However, Metaullics concedes it has been unable to use the full extent of its 3,500 kW EP allocation. In addition, it has been unable to meet its commitment to retain 54 jobs. The company is currently in compliance with its capital investment commitment.

Staff has conferred with Metaullics concerning the situation. As a result of these discussions, staff recommends that the Trustees approve an extension of a reduced EP allocation and revised commitments which Metaullics indicates it can meet and will agree to a reduction of Metaullics' EP allocation from 3,500 kW to 1,100 kW, and an extension of such reduced EP allocation through June 30, 2020, subject to commitments by Metaullics to (i) retain 32 jobs at the Sanborn facility through the term of the extended 1,100 kW EP allocation, and (ii) maintain a \$25,000 average annual capital investment commitment at the Sanborn facility through the term of the extended 1,100 kW EP allocation.

2) Niagara Coatings

Niagara Coatings has requested an extension of its 200 kW RP allocation. It indicates that a key component of the cost-effectiveness of its Niagara Falls operation is the low-cost power associated with its RP allocation.

Niagara Coatings is willing to continue to commit to maintain 17 jobs and undertake a new commitment to invest \$50,000 annually at the Niagara Falls facility through June 30, 2020 in exchange for an extension of the 200 kW RP allocation.

The company is currently in compliance with its contractual commitments for job creation.

Staff recommends that the Trustees approve an extension of the 200 kW RP allocation for Niagara Coatings through June 30, 2020, subject to commitments by Niagara Coatings to (i) continue to retain 17 jobs at the Niagara Falls facility through the term of the extended 200 kW RP allocation, and (ii) make an \$50,000 average annual capital investment (averaged across three years) at the Niagara Falls facility through the term of the extended 200 kW RP allocation.

RECOMMENDATION

The Manager – Business Power Allocations and Compliance recommends that the Trustees approve:

(1) A reduction of Metaullics Systems' ("Metaullics") current Expansion Power ("EP") allocation from 3,500 kW to 1,100 kW, and an extension of such reduced EP allocation through June 30, 2020, subject to commitments by Metaullics to (i) retain 32 jobs at the Sanborn facility through the term of the extended 1,100 kW EP allocation, and (ii) maintain a \$25,000 average annual capital investment commitment at the Sanborn facility through the term of the extended 1,100 kW EP allocation.

(2) An extension of the 200 kW Replacement Power ("RP") allocation awarded to Niagara Coatings Service Inc. ("Niagara Coatings") through June 30, 2020, subject to commitments by Niagara Coatings to (i) continue to retain 17 jobs at the Niagara Falls facility through the term of the extended 200 kW RP allocation, and (ii) make a \$50,000 average annual capital investment (averaged across three years) at the Niagara Falls facility through the term of the extended 200 kW RP allocation.

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

Gil C. Quiniones
President and Chief Executive Officer

RESOLUTION

RESOLVED, That the Trustees hereby authorize a reduction of the 3,500 kilowatts (“kW”) of Expansion Power (“EP”) allocation awarded to Metallics Systems (Metallics”) on September 29, 2009 to 1,100 kW, and an extension of such 1,100 kW EP allocation through June 30, 2020, subject to rates previously approved by the Trustees, and further subject to commitments by Metallics to (i) retain 32 jobs at its Sanborn, NY facility through the term of the extended 1,100 kW EP allocation, and (ii) maintain a \$25,000 average annual capital investment commitment at such Sanborn, NY facility through the term of the extended 1,100 kW EP allocation; and be it further

RESOLVED, That the Trustees hereby authorize an extension of the Replacement Power (“RP”) allocation awarded to Niagara Coatings Services, Inc. (“Niagara Coatings”) on April 4, 2011 in the current amount of 200 kW through June 30, 2020, subject to rates previously approved by the Trustees, and further subject to commitments by Niagara Coatings to (i) retain 17 jobs at its Niagara Falls, NY facility through the term of the extended 200 kW RP allocation, and (ii) make a \$50,000 average annual capital investment commitment at such Niagara Falls, NY facility through the term of the extended 200 kW EP allocation; and be it further

RESOLVED, That the extensions of the allocations provided for herein are contingent upon the execution of contract documents containing such terms and conditions determined by the Senior Vice President – Economic Development and Energy Efficiency and the Executive Vice President and General Counsel or their respective designees to be appropriate to effectuate such extensions including, but not limited to, commitments related to base employment levels by the customers; and be it further

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