

July 29, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE CHAIRMAN OF THE FINANCE COMMITTEE

SUBJECT: Upstate New York Strategic Fuel Reserve Program

SUMMARY

The Trustees are requested to authorize the payment of up to \$10 million in funds to the New York State Energy Research and Development Authority (“NYSERDA”) to support the State’s Upstate Fuel Reserve initiative which NYSEERDA will implement.

BACKGROUND

Superstorm Sandy, in 2012, damaged fuel terminals and shut down gasoline suppliers and stations, creating gaps in the supply of gasoline for use by first responders, utility repair crews (including NYPA crews), and victims of the storm, and hampered rescue and recovery efforts. The storm and associated flooding left large areas of the State without power.

In October 2013, Governor Andrew M. Cuomo launched the first State-based strategic gasoline reserve initiative, known as the “Fuel NY” initiative (“Fuel NY”). The Fuel NY initiative, which includes a Downstate Strategic Gasoline Reserve and backup generator programs for strategic retail motor fuel stations (“DSGR”), is designed to mitigate fuel distribution disruptions in the region.

The State has determined to expand Fuel NY to establish an Upstate Strategic Fuel Reserve (“USFR”) of refined products including gasoline and diesel, focused on ensuring fuel availability to emergency responder communities during a declared State energy emergency. The USFR will be designed to create physical fuel reserves in various regions of Upstate NY for the purpose of serving local emergency responders as a supplement to market deliveries that are maintained during emergency rescue and recovery efforts. At this time, it is anticipated that the geographic locations include the following Upstate New York economic regions: Capital District, Central New York, Finger Lakes, Mid-Hudson, Mohawk Valley, North Country, Southern Tier, and Western New York. Given its experience with the DSGR Initiative, NYSEERDA will implement the USFR Initiative.

NYSERDA is currently seeking proposals from terminal owners and operators, wholesale fuel marketers, or any other entities that may be able to provide some or all of the following services: fuel purchase, transportation to designated storage facilities, and storage, for both regular grade finished motor gasoline (including ethanol) and diesel fuel. Additional services are expected to include, but are not limited to, wholesale fuel procurement and delivery to storage, fuel management, sales and distribution, product insurance, and any other ancillary services.

DISCUSSION

NYPA has been asked to provide up to \$10 million to support the USFR Initiative. Staff anticipates that such funding would be made available to NYSERDA during the Authority's 2014 fiscal year. NYSERDA would need to secure additional funding after NYPA funding is exhausted.

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

NYPA supplies power to hundreds of public and private entities throughout Upstate NY, and therefore has a vital interest in seeing that safe and reliable electric service in the State is restored and maintained in the event of a storm or other emergency. In an emergency, first responders and utility crews, including those who repair NYPA assets and other electricity assets, must have ready access to fuels which power the equipment needed for both rescue and recovery efforts as well as power restoration. Accordingly, in staff's view, the USFR Initiative supports NYPA's overall mission and is consistent with its legal authority to supply and, when necessary, restore power to its customers statewide.

Staff has reviewed the effects of the release of up to \$10 million at this time on the Authority's expected financial position and reserve requirements. These funds are not needed for any of the purposes set forth in the Bond Resolution. In addition, in accordance with the Board's Policy Statement, staff calculated the impact of this transfer amount 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 release \$10 million at this time.

If the Trustees approve the funding request, staff anticipates that NYPA and NYSERDA would enter into a memorandum of understanding relating to the USFR Initiative.

FISCAL INFORMATION

Staff has determined that sufficient funds are available in the Operating Fund to transfer up to \$10 million to NYSERDA 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.

RECOMMENDATION

The Finance Committee recommends that the Trustees authorize, as feasible and advisable, the payment of up to \$10 million to NYSERDA.

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

Jonathan F. Foster
Chairman, Finance Committee

RESOLUTION

RESOLVED, That the Trustees hereby authorize a payment of up to \$10 million from the Operating Fund to New York State Energy Research and Development Authority (“NYSERDA”) as discussed in the foregoing memorandum of the Chairman of the Finance Committee; and be it further

RESOLVED, That the amount of up to \$10 million to NYSERDA 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 payments, 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, the Vice President of Finance 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 resolution, subject to approval as to the form thereof by the Executive Vice President and General Counsel.