

December 13, 2010

8. 2011 Operating Budget and Operation and Maintenance,
Capital and Energy Services Budgets

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the 2011 Operating Budget, Operations and Maintenance Budget (‘O&M’), Capital Budget and Energy Services Budget for the Authority. The Operating Budget sets forth the expected revenues and expenses of the Authority (see attached Exhibit ‘A’) and includes the recommended 2011 O&M Budget, the Capital Budget and the Energy Services Budget (see Attached Exhibits ‘B,’ ‘C’ and ‘D,’ respectively) in the following amounts:

	2011 Budget (\$ million)
O&M	\$ 312.3
Capital	\$ 177.8
Energy Services	\$ 150.3

“For reference, a variance analysis comparing the current 2010 Forecast to the 2011 Operating Budget is detailed in Exhibit ‘A.’

BACKGROUND

“The Authority is committed to providing clean, low-cost and reliable energy consistent with its commitment to the environment and safety, while promoting economic development and job development, energy efficiency, renewables and innovation, for the benefit of its customers and all New Yorkers. The 2011 budgets are intended to provide the Authority’s operating facilities and support organizations with the resources needed to meet this overall mission and the Authority’s strategic objectives.

“In approving the 2011 O&M, Capital and Energy Services budgets, the Trustees will be authorizing spending for 2011 operations, spending for capital projects and general plant purchases of \$750,000 or less and the addition of 20 new succession planning positions. During the year, the President and Chief Executive Officer may authorize an additional 1% in the O&M budget, up to 15 new positions, capital projects of \$3 million or less, or an increase in spending of no more than \$1 million to a capital project previously approved by the Trustees. All other authorizations must be approved by the Trustees.

DISCUSSION

O&M Budget

“The base O&M budget of \$312.3 million is unchanged from the 2010 budget with increases in pension and medical benefits, new succession planning positions and an additional scheduled maintenance outage offset by reductions throughout the organization.

“Payroll costs, which include salaries, overtime, and fringe benefits, account for \$181.1 million, or approximately 58% of the budget. This represents an increase of \$5.5 million over the 2010 budget of \$175.6 million. The major factor contributing to the increase is the cost of benefits, mostly associated with greater pension contributions. The addition of 20 new succession planning positions is essentially offset by elimination of positions during 2010 and reductions in funding for temporary and seasonal personnel. The offsetting decrease of \$5.5 million in non-payroll expenses for 2011 reflects reductions to routine expenditures, non-recurring work at the facilities and the R&D program.

“The Power Supply 2011 O&M budget is \$1.8 million below the 2010 level primarily due to a reduction of non-recurring projects at the facilities. These decreased costs are mostly offset by an increase in scheduled plant outages. During 2011, the outage budget of \$15.1 million includes \$8.0 million for combustion turbine inspections and related work at the 500MW plant, and \$7.1 million for a combustion turbine generator overhaul at Flynn. Major non-recurring projects include Heat Recovery Steam Generator (HRSG) repairs at Flynn (\$1.4 million), Niagara’s Unit #2 Standardization (\$1.4 million), RMNPP Headgate Refurbishment (\$1.2 million) and CTG Air Duct Inlet Duct Rework at Flynn (\$1.0 million).

“The Headquarters support and Research & Development budgets total \$1.8 million above 2010 level due to increased fringe benefits, implementation of a new Energy Commodity Risk Software System and an increase in Energy Efficiency studies and analyses.

“The Astoria Energy budget totals \$14.9 million and represents the contractual O&M costs for the plant, located in New York City, which is expected to be in commercial operations in June 2011. These costs will be recovered from NYPA’s New York City Governmental customers via a long term contract.

Capital Budget

“The 2011 Capital budget totals \$177.8 million, a decrease of \$18.8 million from 2010.

“Significant capital projects for 2011 include the St. Lawrence Life Extension and Modernization (‘LEM’) (\$24.2 million), the Robert Moses Restacking (\$16.6 million), Niagara/St. Lawrence Relicensing Implementation (\$14.6 million), Lewiston Pump Generating Plant LEM (\$13.6 million), and the Robert Moses Power Project Unit Standardization (\$9.2 million).

“The Capital budget includes \$14.0 million of minor additions and general plant purchases that will be authorized by approval of this budget.

Energy Services Budget

“The Energy Conservation/Renewable projects total \$150.3 million, an increase of \$20.0 million over the 2010 budget. These expenditures will be subsequently recovered over time from the benefitted customers. The budget includes increased funding for energy efficiency projects for NYPA customers and other eligible entities as the Authority strives to support Governor Paterson’s 45x15 plan, which calls for New York State to meet 45 percent of its electricity needs through improved energy efficiency and clean, renewable energy by 2015.

Operating Budget

“The 2011 Operating Budget sets forth the expected revenues and expenses of the Authority on a Project/Market Area basis and serves as the basis for the Authority’s financial reporting during the year. Expected revenues received from customers are based on contracts and tariffs that are approved by the Trustees. Market-based sales of any surplus energy from the Authority’s generating facilities or purchases made on behalf of customers (except for those made through previously approved purchased power agreements) are assumed to be transacted at the market clearing price in the wholesale market. Projected expenses for O&M are detailed above. The Other Expenses category largely reflects various accruals (e.g., Other Post-Employment Benefit prior service obligations) and other miscellaneous expenses for which Trustee approval is sought on a case-by-case basis (e.g., Power for Jobs Rebates, North Country Power Discount Program, etc.). Also reflected in the 2011 Operating Budget are continuing contributions to New York State of \$65 million, which are the same level as the Legislature authorized for State Fiscal Year 2010-2011. Such contribution will only be made if authorized by the Legislature and upon a determination (not requested at this time) by the Trustees that the payment would be feasible and advisable at the time of such disbursement.

FISCAL INFORMATION

“Payment of O&M expenses will be made from the Operating Fund. Payment for Capital and Energy Services expenditures will be made from the Capital Fund and the Energy Conservation Construction and

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Effectuation Fund, respectively. Monies of up to \$116.8 million from the Operating Fund will be transferred to the Capital Fund for capital expenditures, provided that at the time of withdrawal of such amount or portions of such amount, the monies withdrawn are not then needed for any of the purposes specified in Sections 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented. The 2011 Operating Budget shows adequate earnings levels so that the Authority may maintain its financial goals for cash flow and reserve requirements.

RECOMMENDATION

“The Vice President – Financial Planning and Budgets and the Director of Budgets recommend approval of the 2011 Operation and Maintenance, Capital and Energy Services budgets and the Operating Budget as discussed herein.

“The Chief Operating Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Corporate Planning and Finance and I concur with the recommendation.”

The following resolution, as submitted to the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the 2011 Operating Budget, specifically including the 2011 budgets for Operation and Maintenance, Capital and Energy Services expenditures, as discussed in the foregoing report of the President and Chief Executive Officer, are hereby approved; and be it further

RESOLVED, That up to \$116.8 million of monies in the Operating Fund are hereby authorized to be withdrawn from such Fund and deposited in the Capital Fund, provided that at the time of withdrawal of such amount or portions of such amount, the monies withdrawn are not then needed for any of the purposes specified in Sections 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations as amended and supplemented, with the satisfaction of such condition being evidenced by a certificate of the Treasurer or the Deputy Treasurer; and be it further

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