

**MINUTES OF THE SPECIAL MEETING
OF THE
POWER AUTHORITY OF THE STATE OF NEW YORK**

April 4, 2011

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Minutes of the Special Meeting of the Power Authority of the State of New York held via videoconference at the following participating locations at approximately 11:00 a.m.

- 1) New York Power Authority, 123 Main Street, White Plains, NY
- 2) New York Power Authority, 95 Perry Street, Buffalo, NY
- 3) Harris Beach LLP, 99 Garnsey Road, Pittsford, NY

The Members of the Board present were:

Michael J. Townsend, Chairman
Jonathan F. Foster, Vice Chairman
D. Patrick Curley, Trustee
Eugene L. Nicandri, Trustee
Mark O’Luck, Trustee
John S. Dyson, Trustee

Richard M. Kessel	President and Chief Executive Officer
Gil C. Quiniones	Chief Operating Officer
Judith C. McCarthy	Acting General Counsel
Francine Evans	Executive Vice President, Chief Administrative Officer and Chief of Staff
Elizabeth McCarthy	Executive Vice President and Chief Financial Officer
Bert Cunningham	Senior Vice President – Corporate Communications
Thomas DeJesu	Senior Vice President – Public and Governmental Affairs
Paul Finnegan	Senior Vice President – Public, Governmental and Regulatory Affairs
William Nadeau	Senior Vice President – Energy Resource Management
James F. Pasquale	Senior Vice President – Marketing and Economic Development
Donald A. Russak	Senior Vice President – Corporate Planning and Finance
Dennis Eccleston	Vice President – Information Technology/Chief Information Officer
Lesly Pardo	Vice President – Internal Audit
Christine Pritchard	Vice President – Media Relations and Corporate Communications
Karen Delince	Corporate Secretary
Michael Saltzman	Director – Media Relations
Sarah Barish-Straus	Special Assistant – Project Development, President's Office
Lorna M. Johnson	Assistant Corporate Secretary
Sheila Baughman	Senior Secretary – Corporate Secretary’s Office
Lisa Farrell	Executive Secretary to CEO, President's Office
Alexander Daberko	Associate – Starwood Energy
Chris Bragg	Reporter – NY City Hall
Patrick Fove	Governor’s Office
Mike Gormley	Reporter – Associated Press
Michele Tuchman	DKC Government Affairs

Chairman Townsend presided over the meeting. Corporate Secretary Delince kept the Minutes.

Chairman Michael Townsend welcomed Trustee John Dyson to the meeting.

1. Allocation of 1,000 kW of Hydropower to Yahoo!, Inc.

The President and Chief Executive Officer submitted the following report:

SUMMARY

The Trustees are requested to approve an allocation of available Expansion Power ("EP") to Yahoo!, Inc. ("Yahoo!") as described herein and in Exhibit "1-A." The allocation of hydropower will support capital expansion of over \$130 million and the creation of 15 jobs in Western New York.

BACKGROUND

Under Section 1005(13) of the Power Authority Act, as amended by Chapter 313 of the Laws of 2005, the Authority may contract to allocate or reallocate directly, or by sale for resale, 250 MW of firm hydroelectric power as EP and up to 445 MW of RP to businesses in the State located within 30 miles of the Niagara Power Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

Each application for an allocation of EP or RP must be evaluated under criteria that include, but need not be limited to, those set forth in Public Authorities Law Section 1005(13) (a), which sets forth general eligibility requirements.

Among the factors to be considered when evaluating a request for an allocation of hydropower are the number of jobs created as a result of the allocation; the business' long-term commitment to the region as evidenced by the current and/or planned capital investment in the business' facilities in the region; the ratio of the number of jobs to be created to the amount of power requested; the types of jobs created, as measured by wage and benefit levels, security and stability of employment and the type and cost of buildings, equipment and facilities to be constructed, enlarged or installed.

The Authority works closely with business associations, local distribution companies, and economic development entities to garner support for the projects to be recommended for allocations of Authority hydropower. Discussions routinely occur with National Grid, Empire State Development Corporation, the Buffalo Niagara Enterprise, Niagara County Center for Economic Development and Erie County Industrial Development Agency to coordinate other economic development incentives that may help bring projects to New York State. Staff confers with these entities to help maximize the value of hydropower to improve the economy of Western New York and the State of New York.

DISCUSSION

At this time, there is 12,425 kW of unallocated EP that is available to be awarded to businesses under the criteria set forth in PAL Section 1005(13)(a). Staff recommends an EP allocation totaling 1,000 kW be awarded to Yahoo! as set forth in Exhibit "1-A." The exhibit shows, among other things, the amount of power requested by the applicant, the recommended allocation amount, and the commitment to job creation and capital investment to be made by Yahoo! Additional information on the project is contained in the application summary attached as Exhibit "1-A-1" as well as in the individual expansion project description below.

Yahoo! owns and operates a large data center in Lockport, New York. In May 2009, Yahoo! was awarded a 15,000 kW EP allocation in return for investing \$150 million to build the first phase of a data center ("Phase I") and to create 125 jobs. The company celebrated the opening of the data center in September 2010 and is currently using 10,000 kW of the allocation, with the remaining 5,000 kW to be phased in later this year.

Yahoo! has submitted an application to build "Phase II," a 120,000 sq. ft. expansion of its existing data center facility, requesting 5,000 kW with an associated construction cost of \$50 million. Once constructed, the expanded facility would phase into full operational capacity over 3 to 5 years with \$80 million investment in computer equipment (data servers, routers, storage devices and related hardware and software). As a result of this project, the company would create 15 new jobs with average starting annual wage and benefits of \$55,000 per job. The jobs ratio for a recommended 1,000 kW allocation is 15 new jobs per MW, which is close to the two year historic average of 13.5 new jobs per MW. The capital investment ratio for the allocation is \$130 million per MW, which is above the two year historic average of \$24.5 million per MW for hydropower allocations.

The data center expansion will support growth in Yahoo!'s user base and the hosting of content, data, and online properties. An allocation of hydropower would also allow the company to continue to migrate operations from overseas and other states into New York. The cost of electricity is estimated to be at least 25% of the cost of production, making an allocation critical to achieving an optimal operational cost structure. Other locations that Yahoo! is considering for this expansion are at their existing Virginia facilities. Staff recommends an allocation of 1,000 kW be awarded to Yahoo! in return for an investment of \$50 million in construction related costs, an additional \$80 million in computer equipment and related purchases, and the creation of 15 new jobs in Western New York.

SUMMARY

Based upon a review and evaluation of their application for hydropower as detailed above, Staff recommends an EP allocation be awarded to Yahoo!, as set forth in Exhibit "1-A." In total, the company will commit to over \$130 million of capital investment and the creation of 15 new jobs. The recommended allocation will help Yahoo! decide to move forward with expansion plans in the Buffalo-Niagara region, thus improving and diversifying the economy of Western New York.

RECOMMENDATION

The Senior Vice President – Marketing and Economic Development recommends that the Trustees approve the allocation of available Expansion Power to Yahoo! as set forth in Exhibit "1-A."

For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

Mr. James Pasquale presented highlights of staff's recommendation to the Trustees. In response to a question from Chairman Townsend, Mr. Pasquale said that the allocation to Yahoo! was agreed to in the initial discussions with the company and also that the Authority was aware that it was a 2-phased project. In response to a question from Trustee Eugene Nicandri, Mr. Pasquale said that the company has completed work on Phase I of the project and begun work on Phase II. Trustee John Dyson said that the Board's approval of this allocation would assure Yahoo! of the Authority's commitment to work with them as they develop the data center in Western New York. He added that this would also maintain the Authority's relationship with Yahoo! and help to keep them in Western New York.

In response to a question from Vice Chairman Foster, Mr. Pasquale said that three factors are used in pricing, namely, the company's load factor, delivery voltage and the delivering utility, and that Yahoo! is being charged the standard price that the Authority charges all of its hydropower customers.

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

RESOLVED, That the allocation of 1,000 kW of Replacement Power to Yahoo! Inc., as detailed in Exhibit "1-A," be, and hereby is, approved in the terms set forth in the foregoing report of the President and Chief Executive Officer; 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 Acting Deputy General Counsel.

New York Power Authority
Replacement Power
Recommended Allocation

Number	Company Name	Program	City	County	Power		Estimated	New Jobs	Power	
					Requested	New	Capital	Avg. Annual	Recommended	Contract
					(kW)	Jobs	Investment	Wage & Benefits	(kW)	Term
A-1	Yahoo!, Inc.	RP	Lockport	Niagara	5,000	15	\$130,000,000	\$55,000	1,000	5 Years

APPLICATION SUMMARY
Replacement Power

Company: Yahoo! Inc.

Location: Lockport

County: Niagara

IOU: New York State Electric and Gas

Business Activity: Data Center Operations

Project Description: Yahoo! plans to expand its East Coast Regional data center operations to accommodate growth and migrate other operations to Lockport. The project plan includes a 120,000-sq. ft. expansion adjacent to existing facilities at a cost of \$50 million. Once constructed, the building would phase into full operational capacity over 3 to 5 years with \$80 million investment in computer equipment (data servers, routers, storage devices and related hardware and software).

Existing Allocation: 15,000 kW EP (Phase I)

Power Request: 5,000 kW

Power Recommended: 1,000 kW

Job Commitment:
 Existing: 125 jobs committed for Phase I (current employment is 100)
 New: 15 jobs

New Jobs/Power Ratio: 15 jobs/MW

**New Jobs -
Avg. Wage and Benefits:** \$55,000

Capital Investment: \$50 million construction plus \$80 million M&E

Capital Investment Ratio: \$130 million/MW

Summary: The data center expansion will support growth in Yahoo!'s user base and hosting of content, data, and properties in Lockport. An allocation of hydropower would allow the company to continue to migrate operations from overseas and other states into New York. The cost of electricity is estimated to be at least 25% of the cost of production, making an allocation critical to achieving an optimal operational cost structure. Other locations that Yahoo! is considering for this expansion are at its existing Virginia facilities.

2. Allocation of 3,070 kW of Hydropower to Five Companies in Western New York

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve allocations of available Replacement Power (‘RP’) to five companies as described herein and in Exhibit ‘2-A.’ The allocations of hydropower will support capital expansion of over \$40 million and the creation of 130 jobs in Western New York.

BACKGROUND

“Under Section 1005(13) of the Power Authority Act, as amended by Chapter 313 of the Laws of 2005, the Authority may contract to allocate or reallocate directly, or by sale for resale, 250 MW of firm hydroelectric power as Expansion Power (‘EP’) and up to 445 MW of RP to businesses in the State located within 30 miles of the Niagara Power Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

“Each application for an allocation of EP or RP must be evaluated under criteria that include, but need not be limited to, those set forth in Public Authorities Law Section 1005(13) (a), which sets forth general eligibility requirements.

“Among the factors to be considered when evaluating a request for an allocation of hydropower are the number of jobs created as a result of the allocation; the business’ long-term commitment to the region as evidenced by the current and/or planned capital investment in the business’ facilities in the region; the ratio of the number of jobs to be created to the amount of power requested; the types of jobs created, as measured by wage and benefit levels, security and stability of employment and the type and cost of buildings, equipment and facilities to be constructed, enlarged or installed.

“The Authority works closely with business associations, local distribution companies and economic development entities to garner support for the projects to be recommended for allocations of Authority hydropower. Discussions routinely occur with National Grid, Empire State Development Corporation, the Buffalo Niagara Enterprise, Niagara County Center for Economic Development and Erie County Industrial Development Agency to coordinate other economic development incentives that may help bring projects to New York State. Staff confers with these entities to help maximize the value of hydropower to improve the economy of Western New York and the State of New York.

DISCUSSION

“At this time, there is 26,788 kW of unallocated RP that is available to be awarded to businesses under the criteria set forth in PAL Section 1005(13)(a). Staff recommends and the Advisory Group supports RP allocations being awarded to the five companies set forth in Exhibit ‘2-A.’ The exhibit shows, among other things, the amount of power requested by the applicants, the recommended allocation amounts, and the commitment to job creation and capital investment to be made by these companies. Additional information on each project is contained in the application summaries attached as Exhibits ‘2-A-1’ through ‘2-A-5’ as well as in the individual expansion project descriptions below.

“APP Pharmaceuticals, LLC (‘APP’) develops, manufactures and markets injectable pharmaceutical products. APP is owned by the publicly traded holding company, Fresenius Kabi Pharmaceuticals Holding, Inc. (‘Fresenius’). The company currently has two in-service RP allocations with the Authority, totaling 2,000 kW, with a contracted job commitment of 506 jobs. Recently, the Trustees approved a long-term contract extension for the 2,000 kW through June 30, 2020 in return for a commitment of 526 jobs and \$1.1 million in annual capital investment. The company also has a pending 700 kW RP allocation that was approved by the Trustees in June 2008. APP is in compliance with its contractual commitments with the Authority.

“APP is proposing to expand its manufacturing capacity due to the closure of a Puerto Rico manufacturing facility and to accommodate anticipated growth in its business. The project would convert existing unused floor space, currently used for warehousing and offices, to a manufacturing area. The project includes installation of new and used production equipment, HVAC system upgrades, and expanding the existing space by 13,000 square feet.

“APP has requested an allocation of 2,000 kW to support an expected increased equipment load of over 3,000 kW. The project would create 90 new jobs, adding nearly \$3.4 million to its annual payroll. APP’s ratio of 45 new jobs per megawatt (‘MW’) is above the historical average of 13.5 new jobs per MW for hydropower allocations approved by the Trustees over the last two years. The capital investment for this project totals \$30 million, comprised of approximately \$12 million for facility modification and additions, \$7 million for used manufacturing equipment and the remaining \$11 million for HVAC equipment (air handlers, chillers and cooling towers). The capital investment ratio for this project is \$15 million per MW, below the two-year historical average of \$24.5 million per MW.

“Fresenius, APP’s parent company, is based in Illinois and operates manufacturing facilities all over the world. There are two other sites for the expansion under consideration, one in North Carolina which has demonstrated lower utility, labor and construction costs. An allocation of hydropower would lower overall costs and help the company make the decision to expand in Western New York. Staff recommends an allocation of 2,000 kW be awarded to APP in return for an investment of \$30 million and creation of 90 jobs.

“Graphic Controls Acquisition Corp. (‘Graphic Controls’) owns and operates printing presses whose primary products are casino slot machine tickets and medical device charts. The company currently employs 259 people at its Buffalo facility and has a 250 kW RP allocation for which it is meeting contractual commitments. Graphic Controls is owned by Graphic Controls Holdings Inc., which recently acquired printing operations in the United Kingdom (‘UK’). The company is running at capacity and expects increased demand for its products. To address this, Graphic Controls is planning to purchase an additional printing press to be located either within its existing facility in Buffalo or in the UK plant.

“Graphic Controls submitted an application requesting 120 kW of hydropower, the anticipated additional load of the new press. As a result of this project, the company would create 12 new jobs, adding over \$400,000 to its annual payroll. The job creation ratio is 100 new jobs per MW. This ratio is above the historic average of 13.5 new jobs per MW for hydropower allocations approved by the Trustees over the last two years. Additionally, the company will invest \$1.5 million in the new press. The ratio of capital investment dollars per megawatt for the allocation is \$12.5 million per MW. This ratio is below the two-year historic average of \$24.5 million per MW for hydropower allocations approved by the Trustees over the last two years.

“There are strategic advantages for Graphic Controls to locate the new press in its UK facility, including being closer to the growing European casino market. An allocation of hydropower would be an incentive to locate the press in Western New York. Staff recommends an allocation of 120 kW be awarded to Graphic Controls in return for an investment of \$1.5 million and creation of 12 jobs.

“I Squared R Element Co., Inc. (‘I Squared R’), located in Akron, New York, manufactures silicon carbide and molybdenum disilicide heating elements, competing with businesses all over the world. I Squared R currently has a 500 kW RP allocation for which it is meeting contractual job commitments of 60 employees. The Trustees recently approved a long-term extension for the allocation in return for maintaining 68 jobs and investing over \$76,500 per year in its facility over the 2013 to 2020 timeframe.

“I Squared R’s Akron plant is running at capacity and the company expects increased demand for its products over the next 3 to 5 years. The company proposes an expansion project comprised of the installation of five new furnaces and related production equipment and construction of a 36,000-sq. ft. building. As a result of this project, the company would create 20 new jobs with an average starting annual wage and benefits of \$39,700 per job. The jobs created ratio is 40 new jobs per MW based on a recommended allocation amount of 500 kW. This ratio is above the historic average of 13.5 new jobs per MW for hydropower allocations approved by the Trustees over the last two years. The company would invest \$5.275 million to implement this project, of which \$2 million dollars is for electrical infrastructure upgrades. The ratio of capital investment dollars per megawatt for the

allocation is \$10.6 million per MW. This ratio is below the two-year historic average of \$24.5 million per MW for hydropower allocations approved over the last two years.

“I Squared R, a homegrown and internationally competitive manufacturer, has the opportunity to solidify and grow its Western New York operations. This project would enable the company to grow its workforce by over 25%. The company’s cost of electricity as a percentage of production costs is high at 12.7%. An allocation of hydropower would help the company make the decision to move forward with its proposed expansion project. Staff recommends an allocation of 500 kW be awarded to I Squared R in return for an investment of \$5.275 million and creation of 20 jobs.

“Niagara Coatings Services Inc. (‘Niagara Coatings’) is a small privately-owned company doing business since 1974 in Niagara Falls. The company provides sandblasting, coating and painting of industrial surfaces and equipment. Niagara Coatings is seeking to transform its operations by converting its equipment from diesel powered to electric powered operation. The proposed project would enable Niagara Coatings to increase efficiencies, expand services and improve productivity to help meet a backlog of demand. The company would install new electric-powered equipment, such as a large compressor and bake ovens, replacing old diesel-fired equipment.

“Moving forward with this project would allow Niagara Coatings to create three new jobs above its current employment of 14. The capital investment is expected to be \$300,000. The jobs ratio for a recommended 200 kW allocation is 15 new jobs per MW, which is close to the two-year historic average of 13.5 new jobs per MW. The capital investment ratio for the allocation is \$1.5 million per MW, which is below the two year historic average of \$24.5 million per MW for hydropower allocations.

“An allocation of hydropower is an important factor in Niagara Coatings’ decision to transition from diesel to electric operations. Putting older diesel equipment out of service is an additional environmental benefit of this project. Staff recommends an allocation of 200 kW be awarded to Niagara Coatings in return for a \$300,000 investment and creation of three new jobs.

“Time Release Sciences (‘TRS’) is a privately-owned business that manufactures compressed foam products, specifically the ‘Magic Eraser’ consumer product, for Proctor and Gamble (‘P&G’). The company currently has two existing RP allocations totaling 450 kW, of which 70 kW is not yet in-service, because the company is awaiting completion of its previous expansion project. TRS currently employs 72 people and is in compliance with its contractual commitments with the Authority.

“TRS is proposing to add manufacturing capacity to expand production of certain lines of the ‘Magic Eraser’, in addition to enabling new product manufacturing. TRS has requested 250 kW, the anticipated additional load upon expansion of floor space and installation of the new production equipment. The company will commit to creating five new jobs with a capital investment of \$3.0 million. The jobs ratio for the recommended 250 kW allocation is 20 new jobs per MW. This ratio is above the two-year historic average of 13.5 new jobs per MW. The capital investment ratio for the allocation is \$12.2 million per MW which is below the two-year historic average of \$24.5 million per MW for approved hydropower allocations.

“TRS is proposing this project to win an upcoming bid for new P&G business. An allocation of hydropower is a critical factor in a successful bid against two main competitors located in Pennsylvania. Winning the new contract would not only keep TRS as the exclusive manufacturer of the ‘Magic Eraser’, but would help keep out-of-state competitors from getting a foothold in the market. Staff recommends an allocation of 250 kW be awarded to TRS in return for an investment of \$3.0 million and creation of five jobs.

“Based upon review and evaluation of the five applications for hydropower as detailed above, staff recommends RP allocations be awarded to the five companies as set forth in Exhibit ‘2-A.’ In total, the companies will commit to over \$40 million of capital investment and the creation of 130 new jobs. The recommended allocations will help these businesses decide to move forward with expansion plans in the Buffalo-Niagara region, thus improving and diversifying the economy of Western New York.

RECOMMENDATION

“The Senior Vice President – Marketing and Economic Development recommends that the Trustees approve the allocations of available Replacement Power to the five companies as set forth in Exhibit ‘2-A.’

“For the reasons stated, I recommend the approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.”

Mr. James Pasquale presented highlights of staff’s recommendations to the Trustees.

Trustee D. Patrick Curley recused himself from voting on this item because of his association with I Squared R Element Co., Inc., a former client.

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

RESOLVED, That the allocation of 3,070 kW of Replacement Power to five companies, as detailed in Exhibit “2-A,” be, and hereby is, approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; 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 First Deputy General Counsel.

New York Power Authority
Replacement Power
Recommended Allocations

Number	Company Name	Program	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Annual Wage & Benefits	Power Recommended (kW)	Contract Term
A-1	APP Pharmaceutical, LLC	RP	Grand Island	Erie	2,000	90	\$30,000,000	\$37,600	2,000	5 Years
A-2	Graphic Controls Acquisition Corp.	RP	Buffalo	Erie	120	12	\$1,500,000	\$33,500	120	5 Years
A-3	I Squared R Element Co., Inc.	RP	Akron	Erie	1,000	20	\$5,275,000	\$39,700	500	5 Years
A-4	Niagara Coatings Services, Inc.	RP	Niagara Falls	Niagara	242	3	\$300,000	\$32,000	200	5 Years
A-5	Time Release Sciences Inc.	RP	Buffalo	Erie	250	5	\$3,000,000	\$36,000	250	5 Years
Totals					3,612	130	\$40,075,000		3,070	

APPLICATION SUMMARY
Replacement Power

Company:	APP Pharmaceuticals, LLC
Location:	Grand Island
County:	Erie
IOU:	National Grid
Business Activity:	Injectable Pharmaceutical Products
Project Description:	The company is planning to expand its manufacturing operations due to increased demand and closure of a Puerto Rico facility. New and used production and HVAC equipment with an estimated peak demand of over 3,000 kW would be installed in existing space currently used for warehousing and offices. The facility would also be expanded by 13,000 sq. ft.
Existing Allocation(s):	2,700 kW RP (2,000 kW in-service plus 700 kW pending)
Power Request:	2,000 kW
Power Recommended:	2,000 kW
Job Commitment:	
Existing:	575 jobs
New:	90 jobs
New Jobs/Power Ratio:	45 jobs/MW
New Jobs - Avg. Wage and Benefits:	\$37,600
Capital Investment:	\$30.0 million
Capital Investment/MW:	\$15.0 million/MW
Other ED Incentives:	none known
Summary:	APP is proposing to expand its manufacturing capacity due to closure of a Puerto Rico manufacturing facility and to accommodate anticipated growth in its business. The Grand Island facility is competing with other sites being considered by its parent corporation, most notably in North Carolina. An allocation of hydropower would be an important factor in deciding to expand in Western New York and bring 90 new jobs to the region.

APPLICATION SUMMARY
Replacement Power

Company: Graphic Controls Acquisition Corp.

Location: Buffalo

County: Erie

IOU: National Grid

Business Activity: Printing Press Operations

Project Description: The Company is planning to expand its printing operations due to increased demand for its specialized printing products. A new, state-of- the-art printing press would be purchased and installed at a cost of about \$1.5 million.

Existing Allocation(s): 250 kW RP

Power Request: 120 kW

Power Recommended: 120 kW

Job Commitment:

Existing: 259 jobs

New: 12 jobs

New Jobs/Power Ratio: 100 jobs/MW

**New Jobs -
Avg. Wage and Benefits:** \$33,500

Capital Investment: \$1.5 million

Capital Investment/MW: \$12.5 million/MW

Other ED Incentives: none known

Summary: Graphic Controls operates printing presses producing medical charts and casino slot tickets for both the national and international markets. To meet anticipated increased product demand, the company plans to purchase a new press and employ an additional 12 workers. An allocation of hydropower would be an incentive to locate the new press in Buffalo instead of at recently acquired facility located in the UK.

APPLICATION SUMMARY
Replacement Power

Company: I Squared R Element Co., Inc.

Location: Akron

County: Erie

IOU: National Grid

Business Activity: Industrial Heating Elements

Project Description: The company is proposing to expand its silicon carbide and molybdenum disilicide heating element production capacity by installing five new furnaces and related equipment. The project includes the construction of a 36,000-sq.ft. facility to house a portion of the expanded operations, along with shipping and warehousing. The project includes electric infrastructure upgrades and is expected to be operational in 2013.

Existing Allocation(s): 500 kW RP

Power Request: 1,000 kW

Power Recommended: 500 kW

Job Commitment:

Existing: 73 jobs

New: 20 jobs

New Jobs/Power Ratio: 40 jobs/MW

New Jobs - Avg. Wage and Benefits: \$39,700

Capital Investment: \$5.275 million

Capital Investment/MW: \$10.55 million/MW

Other ED Incentives: Company is working with ECIDA for potential incentives

Summary: I Squared R Element Co. competes internationally and has the opportunity to solidify and grow its Western New York workforce by 25%. The company's cost of electricity as a percentage of production costs is high at 12.7%. An allocation of hydropower would help the company make the decision to move forward with its proposed expansion project.

APPLICATION SUMMARY
Replacement Power

Company:	Niagara Coatings Services, Inc.
Location:	Niagara Falls
County:	Niagara
IOU:	National Grid
Business Activity:	Industrial Equipment Service Provider
Project Description:	The company is proposing to convert from a diesel to electric powered equipment operations. The project involves installing a new, large compressor, four curing stations, a batch oven, and dust collection equipment. The new machinery and equipment will increase productivity and enable future growth.
Existing Allocation(s):	None
Power Request:	242 kW
Power Recommended:	200 kW
Job Commitment:	
Existing:	14 jobs
New:	3 jobs
New Jobs/Power Ratio:	15 jobs/MW
New Jobs - Avg. Wage and Benefits:	\$32,000
Capital Investment:	\$300,000
Capital Investment/MW:	\$1.5 million/MW
Other ED Incentives:	Company is working with Niagara County on potential incentives
Summary:	Niagara Coatings is a locally-owned business that performs sandblasting, coating and painting of industrial equipment. The vast majority of its goods and services are purchased and sold within New York State. The proposed project would enable Niagara Coatings to increase efficiencies, expand services and improve productivity. A hydropower allocation would help lower operating costs associated with converting from diesel to electric powered equipment. The project also provides environmental benefits by removing old diesel equipment from service.

APPLICATION SUMMARY
Replacement Power

Company: Time Release Sciences, Inc.

Location: Buffalo

County: Erie

IOU: National Grid

Business Activity: Consumer Products Manufacturer

Project Description: The company is planning to expand its production of "Magic Erasers." The expansion includes the construction of a 20,000-sq. ft. prefab manufacturing facility, located on the same site as the existing facility, at a cost of up to \$900,000. New machinery and equipment, including packaging lines and heated presses, will be added.

Existing Allocation(s): 450 kW RP (200 kW, 250 kW)

Power Request: 250 kW

Power Recommended: 250 kW

Job Commitment:

Existing:	72 jobs
New:	5 jobs

New Jobs/Power Ratio: 20 jobs/MW

New Jobs - Avg. Wage and Benefits: \$36,000

Capital Investment: \$3.0 million

Capital Investment/MW: \$12.0 million/MW

Other ED Incentives: none known

Summary: TRS is currently the only manufacturer of P&G's "Magic Eraser" products. The company wishes to expand its production capacity and capability to win a new contract to expand production of three versions of "Magic Erasers" and to manufacture new product formulations. An allocation of hydropower is critical for TRS to bid competitively for this new business against out-of-state competitors. TRS is seeking to win the contract and expand operations, thus strengthening its relationship with P&G and solidifying its local production.

3. **Amendments to the Authority's By-laws**

This item was tabled.

4. **Amendments to the Authority's Governance Committee Charter**

This item was tabled.

5. Hudson Transmission Partners, LLC -- Authorization to Finalize Negotiation and Execution of Long-Term Firm Transmission Capacity Purchase Agreement, to Finalize Negotiation and Execution of Customer Agreement with the City of New York, to Negotiate and Execute Customer Agreement with Other NYC Governmental Customers and to Extend Corporate Guaranty, subject to the supervision and approval of the Chairman and Trustee Dyson jointly

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize:

(1) finalization of negotiations under the supervision of the Chairman and Trustee Dyson with respect to a twenty-year agreement between the Authority and Hudson Transmission Partners, LLC (‘HTP’) for the purchase by the Authority of firm transmission capacity, known as the ‘Firm Transmission Capacity Purchase Agreement’ or ‘FTCPA’ and, subject to approval of the Chairman and Trustee Dyson jointly, execution of the FTCPA;

(2) finalization of negotiations, under the supervision of the Chairman and Trustee Dyson, including with respect to certain limitations and indemnification of liabilities and execution, subject to approval of the Chairman and Trustee Dyson jointly, of agreement (‘NYC Customer Agreement’) between the Authority and the City of New York to provide firm transmission capacity and other electricity products to the City of New York;

(3) negotiations, subject to the supervision of the Chairman and Trustee Dyson, and execution, subject to approval of the Chairman and Trustee Dyson jointly, of agreements (together with the NYC Customer Agreement, the ‘Customer Agreements’) between the Authority and the Metropolitan Transportation Authority; New York City Housing Authority; The Port Authority of New York & New Jersey; and New York State Office of General Services (collectively with the City of New York, the ‘NYC Governmental Customers’ or ‘Customers’) to provide firm transmission capacity and other electricity products to the Customers;

(4) the Chairman and Trustee Dyson to supervise, review, monitor and participate in negotiations with HTP and the NYC Governmental Customers and cause the Authority to make filings or take other actions to lower the liabilities of the Authority resulting from the proposed transactions; and

(5) extension, until no later than June 30, 2011, of the Authority’s corporate guaranty to provide the financial security necessary to maintain HTP’s interconnection queue positions in the transmission system operated by the PJM Interconnection, LLC (‘PJM’), subject to the approval of the Chairman and Trustee Dyson jointly.

BACKGROUND

“At their November 28, 2006 meeting, the Trustees authorized Authority staff to begin negotiations with HTP, the winning bidder in response to the Authority’s March 11, 2005 Request for Proposals (‘RFP’) for long-term supply of capacity and energy. This RFP was a competitive solicitation for the benefit of the NYC Governmental Customers with whom Authority staff collaborated during the RFP process.

“HTP proposed to construct a submarine/underground transmission cable between Bergen County, New Jersey and Manhattan (the ‘Line’). The Line had the potential of 660 MW of firm transmission capacity to accommodate transactions from PJM to Consolidated Edison Company of New York, Inc.’s (‘Con Edison’) West 49th Street, Manhattan, substation.

“The Line would have a useful life of 40 to 60 years and would thus provide long-term reliability and energy diversity benefits to the Customers by establishing better interconnections with PJM, a neighboring regional transmission system. The Line would also provide the Authority with the ability to import energy and capacity from the PJM market into the New York Independent System Operator, Inc. (‘NYISO’) market. These imports would

help reduce the energy and capacity prices paid by electricity consumers in New York City and throughout the State. The Line is targeted to commence operations in 2013.

“In discussions with HTP subsequent to the November 2006 Trustee meeting and through the present, the Authority was able to reduce the costs of the Line by agreeing to limit the scope of transmission upgrades to the PJM system. With that reduction, the Line would provide the Authority with 320 MW of Firm Transmission Withdrawal Rights (‘FTWRs’) from PJM, the right to deliver 320 MW of Unforced Capacity (‘UCAP’) and up to 495 MW of energy into New York City. This reduction not only lowered PJM interconnection costs, but was a rational response to the NYISO’s ‘Buyers-side Mitigation’ rules as approved by the Federal Energy Regulatory Commission (‘FERC’).¹ Under current mitigation rules, the Authority projects that it will be able to begin selling PJM-based UCAP into the NYISO markets sometime between 2018 and 2025.

“To further mitigate the potential cost impact to the Authority and its NYC Governmental Customers, the Authority also negotiated with HTP to reduce from the original RFP bid (1) the cost per kW-month charged by HTP for the transmission capacity, (2) the annual contract escalation rate, and (3) the portion of the transmission capacity under contract to the Authority. All of these negotiations, the majority of which took place since January 2009, and the terms described, have been subject to approval by the Authority’s Trustees

“On January 15, 2008, HTP applied to the PSC for a certificate of environmental compatibility and public need for the proposed Line, which was issued and effective on September 15, 2010.

“Also, during the period from November 2006 through the present, the Authority has worked collaboratively with its NYC Governmental Customers, primarily with New York City Economic Development Corporation, on understanding and quantifying the benefits of the HTP Line and structuring the terms between the Authority and HTP as well as between the Authority and the NYC Governmental Customers. To facilitate this discussion, the Authority agreed to hire the City of New York’s energy consultant, Charles River Associates, (‘CRA’) to perform economic analysis of the HTP Line. In addition, the Authority and the City of New York worked with Con Edison to quantify and identify the reliability benefits of the HTP Line.

“In order to maintain HTP’s interconnection positions in the NYISO and PJM queues, certain financial security postings were required. The Authority posted \$16,471,000 in the form of a guaranty with Con Edison on January 11, 2010 as security for interconnection and transmission system upgrade work to be performed by Con Edison. On October 29, 2010, the Authority also posted, in aggregate, \$172,520,350 in the form of a guaranty (expiring on December 31, 2010) with PJM as security for interconnection and transmission system upgrade work to be performed by two New Jersey-based utility companies, Public Service Electric & Gas Company and Jersey Central Power & Light Company.

“The Trustees approved the last PJM guaranty on October 26, 2010, but also noted that staff should take steps to withdraw such guaranty by November 15, 2010 if no agreement has been reached with the New York City Economic Development Corporation by that date. Since then, the Trustees have been made aware that negotiations with the City of New York have continued and that the PJM guaranty has been extended from December 31, 2010 to March 31, 2011. To permit further negotiations described in this memorandum, the Trustees will also be asked to approve an extension of the PJM guaranty until no later than June 30, 2011, subject to approval of the Chairman and Trustee Dyson jointly.

¹ These rules, which were actively opposed by the Authority, the City of New York, Con Edison, the New York Public Service Commission (‘PSC’) and others, were designed to deter large buyers of power like the Authority and Con Edison from fostering development of ‘uneconomic’ resources that might unduly depress capacity prices in the New York City load zone. The Buyers-side Mitigation rules, when applied to the HTP Line, effectively limit over the initial years of the 20-year term of this proposed contract, the amount of UCAP the Authority can claim from the FTWRs to be purchased from PJM.

DISCUSSION

I. Description of the HTP and NYC Governmental Customers Transactions

“Under the HTP proposal, as negotiated to date, HTP would construct, own, operate and maintain the Line. The Authority would pay a monthly charge to HTP over the 20-year period. The Authority would also pay for the costs of the transmission upgrades needed to interconnect the HTP Line between PJM and NYISO, for PJM Regional Transmission Expansion Plan (‘RTEP’) assessments and any other PJM and NYISO transmission charges over the term. The Authority would not be responsible for these costs until the Line reaches commercial operation, which is expected in 2013.

“The current draft FTCPA would give the Authority exclusive rights to 320 MW of FTWRs for the entire 20-year term of the agreement. The Authority may use the Line for energy transactions of up to 495 MW (75% of the Line’s capacity of 660 MW). HTP would retain a 25% share of the line, a portion of which it may transfer to a third party.

“The approval sought herein by the Authority to finalize negotiation of and execute, subject to the supervision and approval of the Chairman and Trustee Dyson jointly, an FTCPA, assumes that the Authority will enter into separate binding agreements with each of its NYC Governmental Customers no later than April 29, 2011. The current draft FTCPA expressly allows the Authority to terminate the FTCPA without any liability to HTP if the Authority does not have in place, by such date, final effective Customer Agreements (including any necessary approvals) with each of the Customers.

“The Trustees are requested to authorize an extension of the PJM guaranty (now expiring on March 31, 2011) until the earlier of: a) HTP’s financial close; or b) June 30, 2011. Under the current draft FTCPA, these guarantees are subject to the same work suspension directives which applied to all previous Authority security postings. When construction begins and the guarantees are terminated, HTP will pay for the costs of the interconnection and system upgrade work throughout the construction period. Once the Line commences commercial operation, the Authority will be responsible to HTP or the NYISO and PJM for all such costs which are estimated at \$200 million. The source of these payments will be the Authority’s Capital Fund.

“In an effort to capture more of the long-term value of the Line for the Authority over its useful life, Authority staff has negotiated an option in the current draft FTCPA to either: (i) extend the FTCPA on terms to be negotiated with HTP, (ii) purchase seventy-five percent (75%) of the HTP Line for a price based on the fair market value of seventy-five percent (75%) of the HTP Line less the amount accumulated in a separate ‘tracking account’ of the under-recoveries incurred by the Authority over the initial 20-year contract term, or (iii) extend the FTCPA at a contract rate based in part on the fair market value of seventy-five percent (75%) of the HTP Line less any credits that have accrued in a tracking account subject to a minimum monthly tariff rate. If the Authority elects option (ii) above, the purchase price is subject to a cap of \$1.4 billion. The Authority’s exercise of any such options will require Trustee approval and may be subject to the receipt of necessary third-party, State and federal approvals.

“In addition, further negotiations between the parties have resulted in three changes to the draft FTCPA also designed to provide more long-term value for, and prevent losses to, the Authority, as described in (a), (b) and (c) below:

(a) an option for the Authority to purchase, for cash, one hundred percent (100%) of the HTP Line or the equity in the Line at any time prior to the date of initial commercial operation (‘COD’) or up to sixty days after COD for \$837.5 million, by the first anniversary of COD for \$875 million and by the second anniversary of COD for \$925 million. Under the ‘early purchase’ option, the Authority would remain responsible for the interconnection and upgrade costs, plus HTP’s financing or other make-whole costs related to such early purchase, and the Authority would be assigned all warranties with HTP’s vendors and would be conveyed other contracts, easements and licenses as may be requested by the Authority for effective ownership and operation of the Line. The Authority would have the right to assign this purchase option, in whole or in part, to Con Edison, a Con Edison affiliate, or a third-party without HTP’s consent.

(b) a revision to FTCPA extension option described in (i) above to permit the Authority to exercise a 7-year extension subject to the escalation rate in the current FTCPA draft, which may be subsequently extended by the Authority for up to six additional 7-year periods.²

(c) a revision to the 75% purchase option described in (ii) above so that the purchase price cap is lowered to \$850 million.

“Finally, the Authority will have the option to end its involvement with the Line after the 20-year term. These and all other material provisions of the current draft FTCPA are included in a ‘FTCPA Summary,’ which has been provided to the Trustees.

“Under the to-be-negotiated Customer Agreements, the Customers would make fixed monthly payments to the Authority for the duration of the FTCPA. Such Customer Agreements would need to be in substantial conformance with a nonbinding ‘Customer Term Sheet’ negotiated between the Authority and the City of New York, which has been provided to the Trustees. That Customer Term Sheet contains certain provisions related to limitations and indemnification of liabilities. As noted, however, further negotiation, under the supervision of the Chairman and Trustee Dyson, of the Customer Term Sheet is authorized herein, particularly as it relates to certain limitations and indemnification of liabilities. Discussions with the City of New York and the other Customers are currently underway concerning the Customer Agreements in order to meet the April 29th deadline, contained in the current draft of the FTCPA.

“In sum, it is expected that the Authority will make monthly payments to HTP under the current draft FTCPA in exchange for transmission rights. The Authority will fund its obligations to HTP, in part, through fixed monthly Customer payments to the Authority made in accordance with the to-be-negotiated Customer Agreements. A second funding source for the Authority will be the revenues earned by capturing the price differential between the generally lower-priced PJM market and the higher-priced NYISO market for energy and capacity. The Trustees are also requested to authorize the Chairman and Trustee Dyson to supervise, review, monitor and participate in negotiations with HTP and the NYC Governmental Customers and cause the Authority to make filings and take such other actions as the Chairman and Trustee Dyson jointly determine appropriate to lower its costs and liabilities resulting from the proposed transactions. Any agreements that result from such negotiations or actions shall be subject to the approval by the Chairman and Trustee Dyson jointly. To the extent this combined set of revenues does not fully cover the Authority’s costs under the current draft of the FTCPA, the Authority will make up this difference through its Operating Fund.

II. Benefits of the HTP Line

“The HTP Line, via its connection to PJM, provides: (1) enhanced transmission reliability and energy security; (2) access to an additional pool of energy resources, including renewables; and (3) substantial economic savings to consumers in New York. The PSC, in its September 2010 Order granting a certificate of environmental compatibility and public need to HTP,³ evaluated the merits of the Line and discussed at length the nature of these benefits.

A. Improving Electric System Reliability by Enhancing the City’s Transmission Infrastructure and Access to Generation Resources Outside of the City.

“The Line would modernize the transmission infrastructure serving the City by providing a major controllable interface from outside the City to the load center in Manhattan. This new interconnection with a neighboring system will help alleviate the problem of the City’s generators being largely concentrated in a small

² The Authority’s exercise of either option described in (a) or (b) will similarly require Trustee approval, and may be subject to the receipt of necessary third-party, State and federal approvals.

³ The PSC order that addressed HTP application is Case 08-T-0034, Order Granting Certificate of Environmental Compatibility and Public Need (September 15, 2010) (‘Order’). The quotations from the Order recited herein are found on pages 42-55 of the Order.

area of Queens, New York, by diversifying the sources of electric supply to New York City and thus enhance the City's energy security.

"Overall, the PSC's review is broadly consistent with New York City's and New York State's policy goals to enhance key areas of New York's transmission infrastructure. Historical circumstances, explained the PSC, led to the development of electric systems within state lines which left the New York City load pocket with ties to the north 'but relatively few either to the east or west of the State.' While weak links to neighboring regions could be accepted previously, this approach, the PSC explained, is 'unlikely to succeed in the future.'

"In its Order, the PSC indicated that the Line, by providing access to electric markets outside New York City, 'enhance[s] . . . system reliability . . . by providing an additional source of supply' that would address the possibility of the closure of existing generation units, including the retirement of 'old, in-city units' in order to improve air quality and address climate change. The Line would also help protect the City's electric system from unforeseen threats such as natural disasters or terrorist attacks.

"The PSC concluded that the Line is 'needed to provide a useful, bulk transmission connection to the PJM region – a regional interconnection that will improve electric system and promote network security.' The PSC made special mention that the Line's high voltage direct current electric conversion equipment would enable the Line to isolate itself from a system disturbance that would otherwise cause a blackout or voltage collapse in New York City.

"The PSC further noted that the Line will 'help reduce electric system stress' and improve Con Edison's 'operating flexibility of the 49th Street Substation,' a significant reliability improvement in light of the 'complexity and unique requirements' of serving New York City.

B. Providing Access to Greater Array of Energy Resources, Particularly Renewables.

"By providing a link to PJM, the Line would also provide the City with access to the full range of PJM energy resources, especially when one considers the much larger geographic territory covered by PJM as compared to the NYISO. These resources would also include renewable energy which the NYC Governmental Customers may choose to import via the Line during the next two decades.

"Use of the Line to promote the increased use of renewable energy would help further City, State and national interests. Such interests include: New York State's '30 by 15' Renewable Portfolio Standard, a goal that includes meeting thirty percent of New York State's electricity needs through 'clean renewable energy'; the New York City's 2009 Progress Report (the update to PlaNYC), which expressed the need to develop new sources of renewable energy; and the Governors' Wind Energy Coalition, a group of 29 of the nation's governors (including those of New York, New Jersey and Pennsylvania) which issued recommendations, including the development of transmission infrastructure to facilitate the delivery of wind and other renewable resources across regions.

"The PSC reinforced the validity of these environmental benefits by concluding that the new transmission infrastructure of the Line is consistent with the State's goals to reduce harmful emissions.

C. Lowering Electricity Prices for Ratepayers Throughout New York City and State.

"The Authority's economic analyses supporting the Line were based on the work of its consultants, CRA. The CRA studies, updated in August 2010, show that the Line will result in substantial economic savings to ratepayers in New York City and throughout the State.

"By reducing energy prices in Zone J, generally, the Line would lead to significant 'indirect' benefits to ratepayers throughout the City and State. CRA's analyses show that the HTP Line will, over 20 years, yield approximately \$2.35 billion in electricity savings to residents and businesses in New York City and over the same

time period will lower electricity costs for all New York State electric customers, producing approximately \$6.10 billion in statewide benefits.⁴

“As with any long-term economic analysis, the CRA studies made certain assumptions about market structure, load and energy growth, the retirement and addition of resources in PJM and NYISO, and the energy price differential between the two regions. These estimates are subjective; actual results and prices will ultimately determine whether, and to what extent, the Line will prove beneficial to the New York City ratepayers and other electricity consumers in the state.

“The PSC, which also addressed the issue of the economic benefits of the HTP Line, found sufficient justification in the CRA and other studies to conclude that ‘there are ample benefits for New York City customers arising from the operation of the HTP facility.’ The other actions and filings authorized herein will attempt to recover enough of these savings to prevent losses to the Authority itself.

III. Underlying Assumptions and Projections

“As noted, in addition to the Customers’ monthly payments, the Authority is expected to receive revenues from economic energy and capacity purchase and sales which would help defray, but not cover all of the Authority’s current draft FTCPA obligations to HTP. According to CRA, over a 20-year contract period, the Authority could expect to experience \$522 million in direct energy and capacity net revenues⁵ through access to lower-priced electricity resources in PJM.

“Predicting energy and capacity prices over a twenty-year period is always challenging. Equally difficult is trying to determine the future regulatory framework in the New York/New Jersey area or nationally over that time period. Other factors affecting the economic value of the Line which are also difficult to predict over the next several decades include: the decommissioning of old and the building of new generating facilities; the City’s and State’s load requirements; new transmission projects and upgrades that could be constructed; future RTEP assessments and energy price fluctuations due to variables not yet known. In addition, the Authority is subject to potential cost overruns related to the transmission system upgrades needed to interconnect the Line between PJM and NYISO. Staff has reviewed the transmission system upgrade scope of work and has concluded that the estimated costs are reasonable. All of these factors could have an effect on the long-term economics of the Line for the Authority.

“For example, even short-term predictions about the City’s energy needs can change quickly. The NYISO’s 2008 Reliability Needs Assessment (‘RNA’) analysis (completed in 2007) projected a need for additional In-City UCAP as early as 2012, but the current analysis from the NYISO’s 2010 RNA -- affected by the recent severe economic recession -- identifies no needs until 2020. A more rapid increase in loads than assumed in the NYISO’s recent studies could easily alter this prediction to an earlier date.

“If the net revenues (i.e., NYISO sales less the cost of PJM purchases) realized from importing power from New Jersey into New York City are lower than the projected numbers, the Line’s economics will be less favorable than projected. However, in staff’s judgment, this risk is tempered because price differential between PJM and NYISO traditionally has not been very sensitive to changes in natural gas prices, to load growth in these two regions, or to planned transmission projects in the PJM system. In fact, net revenues may exceed forecasts if, for example, major generation infrastructure in and around the City are retired. Such a retirement would likely increase energy costs in New York City and would, therefore, increase the spread in price between PJM and NYISO. In addition, the HTP Line would provide reliability benefits in the case of a major generation retirement. On the other hand, proposed EPA regulations relating to coal plants may result in higher energy costs within PJM and consequently negatively affect the economics of the HTP Line.

⁴ Although the HTP Line is long-term asset with a useful life of 40-60 years, the Authority took the conservative approach by studying the benefits over a 20-year period only. All monetary references in this Section II.C. are expressed in Net Present Value using 2012 dollars.

⁵ Net Present Value using 2012 dollars.

“Overall, although under current projections the direct costs of the Line to the Authority will exceed revenues over the initial 20-year term of the current draft FTCPA, the reliability, energy security and economic benefits of the HTP Line to New York City and New York State may warrant investment by the Authority in the HTP Line.

FISCAL INFORMATION

“As mentioned above, given the Authority’s commitment of twenty years or more to this Line, no assurances are possible regarding its economic benefits and costs at this time. Based on current projections, it is estimated that total revenues received by the Authority from its Customers and electricity sales associated with the Line would not fully recover the Authority’s costs during the initial 20-year term of the current draft FTCPA. The Authority’s under-recovery of its costs under its high and low case sensitivities could range between \$291 million and \$676 million on a net present value basis over the first twenty years of commercial operations. The annual under-recovery under the high and low case sensitivity would average approximately \$20 to \$55 million and could be as high as \$63 million. Any shortfall would be paid from the Authority’s Operating Fund.

“However, should the Authority exercise any option permitted in the FTCPA that is ultimately authorized to purchase the Line, it is projected, in the base case, that the Authority would recover all of its costs over the Line’s remaining useful life, but would earn less than its target return rate of 5%.

“Furthermore, whatever the length of the Authority’s involvement in the Line, it is estimated, based on current information, that the Authority could enter into the FTCPA and continue to meet its future debt service coverage ratio, cash and reserve requirements. However, as presented to the Trustees in the Ten-Year Capital Projection, if the Authority enters into the FTCPA as currently drafted, it may not have adequate resources to also fully fund other initiatives such as the 100 MW Solar and Great Lakes Off-Shore Wind initiatives while continuing to maintain and improve its existing infrastructure assets.

RECOMMENDATION

“For the reasons stated, I recommend the approval of the above-requested actions by adoption of a resolution in the form of the attached draft resolution.”

Ms. Elizabeth McCarthy presented highlights of staff’s recommendation to the Trustees. In response to a question from Trustee Eugene Nicandri, Ms. McCarthy said that the early purchase option; lowering the cap on the end-of-life purchase option; the pricing of the extension option and including other parties into the agreement could minimize the Authority’s exposure on this project. She added that discussion with regards to the Authority’s exposure is continuing. In response to further question from Trustee Nicandri, Ms. McCarthy said that the Authority included the early purchase option in order to deal with the issue of “free riders.” She added that discussion on this issue is also continuing. To further answer Trustee Nicandri’s question, Trustee John Dyson gave a summary of the negotiations to the Trustees. He said that the “free riders” issue could be reduced by having another utility own a major portion of the line, and in their rate base. In that way, “free riders” would pay their share of the cost as well as receive their share of the benefits. He also said that the Authority has the option to buy the line for cash, at various terms; and the right to assign the line to another utility without the consent of Hudson Transmission Partners (“HTP”).

In response to further question from Trustee Nicandri, Ms. McCarthy confirmed that the Authority has termination rights if it does not reach an agreement with the NYC governmental customers or if the line fails to go into operation. Trustee Dyson added that the construction risk is being retained by HTP, a major protection for the Authority. He further added that, as an outcome of these further negotiations, the Authority has requested that the Public Service Commission, who approved the construction of this line under Article VII, issue a statement to the effect that, upon further review, this project is economical.

In response to questions from Trustee Mark O’Luck, Ms. McCarthy said that the underwater cables had to be installed between June 1 – November 1; if HTP misses the deadline because they were not able to secure financing because of delays in the negotiations, there would be a 3-year delay in the project. She added that the Authority had to obtain commitments from the Governmental customers by April 29th.

In response to a question from Vice Chairman Jonathan Foster, Ms. McCarthy said that the early purchase option will not mitigate the Authority’s risk unless a portion of the project was taken over by another entity. She added that if the project goes forward and the Authority did not exercise any of the early purchase options, the costs for the project will remain the same as was previously presented to the Board. In response to further question from Vice Chairman Foster, Ms. McCarthy said that if the Authority exercised the end-of-term purchase option, it would, under its current estimates realize a 41/2 % return on its investment.

In response to a question from Trustee Curley, Trustee Dyson said that although the item before the Board mentions that the negotiations are under the supervision of the Chairman and himself, they will be providing the Trustees with updates regarding the progress of the negotiations on a regular basis.

In response to a question from Trustee Nicandri, Ms. McCarthy said that based on the Authority’s 10-year projection, undertaking this project, the Authority will have sufficient resources to maintain its current assets. However, the Authority will have to weigh new capital projects before deciding which ones to undertake.

In response to a question from Chairman Townsend Ms. McCarthy said that the project will not have an impact on rate payers in Western New York; the hydro rates are based on the cost of providing that service and, by statute, the Authority cannot allocate other service costs into its hydro rates. In response to a question from Trustee O’Luck, Trustee Dyson said that he was in contact with Senator Maziarz with regards to this issue.

Upon motion made by Trustee Curley and seconded by Trustee O’Luck, Chairman Townsend took a roll-call vote.

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

RESOLVED, That the President and Chief Executive Officer, or his designee, is hereby authorized on behalf of the Authority (a) under the supervision of the Chairman of the Authority and Trustee Dyson to continue negotiations of and to finalize a Firm Transmission Capacity Purchase Agreement between the Authority and Hudson Transmission Partners, LLC, (“HTP”) including any related schedules, amendments or ancillary agreements and (b) to execute that agreement, subject to the approval of the Chairman of the Authority and Trustee Dyson jointly; and be it further

RESOLVED, That (a) any previously imposed Trustee restrictions on Authority staff to continue its negotiations with the New York City Governmental Customers or to extend posted guarantees are hereby annulled and (b) the President and Chief Executive Officer, or his designee, is expressly authorized to extend until no later than June 30, 2011 the Authority’s corporate guaranty with PJM Interconnection, LLC, substantially as described in the foregoing report of the President and Chief Executive Officer of the Authority ; and be it further

RESOLVED, That the President and Chief Executive Office, or his designee, is hereby authorized on behalf of the Authority (a) under the supervision of the Chairman of the Authority and Trustee Dyson to continue negotiations of all provisions, including any limitation of liability and indemnification provisions, of the Term Sheet with the City of New York referenced in the foregoing report of the President and Chief Executive Officer of the Authority and (b) to finalize and execute a Customer Agreement with the City of New York incorporating these negotiated terms, subject to the approval of the Chairman of the Authority and Trustee Dyson jointly; and be it further

RESOLVED, That the President and Chief Executive Officer, or his designee, is hereby authorized on behalf of the Authority (a) under the supervision of the Chairman of the Authority and Trustee Dyson to negotiate, finalize and execute Customer Agreements with the Authority’s four other New York City Governmental Customers, on terms substantially comparable to those contained in the Customer Agreement with the City of New York, subject to the approval of the Chairman of the Authority and Trustee Dyson jointly; and be it further

RESOLVED, That the Chairman of the Authority and Trustee Dyson are authorized to supervise, review, monitor and participate in any of the negotiations described above and cause the Authority to make any filings and take any other actions he deems appropriate, all with the purpose of reducing the Authority’s costs and liabilities relating to the HTP Line; and be it further

RESOLVED, That the Vice President – Environmental, Health and Safety, pursuant to the State Environmental Quality Review Act, has reviewed, considered and concurs with the order granting certificate of environmental compatibility and public need issued and made effective on September 15, 2010 by the New York Public Service Commission regarding those projects described in this Resolution, subject to the concurrences of the Acting General Counsel; and be it further

April 4, 2011

RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Chief Operating Officer, the Acting General Counsel, the Executive Vice President and Chief Financial Officer 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 certificates, agreements and other documents to effectuate the foregoing Resolution, subject to the approval of the form thereof by the Acting General Counsel.

6. **Motion to Conduct an Executive Session**

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §105 to discuss matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation. On motion made and seconded, an Executive Session was held.

7. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session. On motion made and seconded, the meeting resumed in Open Session.

8. **Next Meeting**

The next regular meeting of the Trustees will be held on **Tuesday, May 24, 2011, at 11:00 a.m., at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

April 4, 2011

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 12:30 p.m.

A handwritten signature in black ink, appearing to read "Karen Delince". The signature is fluid and cursive, with a large initial "K" and "D".

Karen Delince
Corporate Secretary