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TO: NYPA BOARD OF TRUSTEES
FROM: GIL C. QUINIONES, CHIEF OPERATING OFFICER
DATE: MARCH 29, 2011
SUBJECT: MONTHLY REPORT FOR THE BOARD OF TRUSTEES

This report covers the performance of the Operations group in January and February. Transmission reliability was a particularly high point for Operations, with no forced outage hours or significant unplanned events in the first two months of the year.

Power Supply

Plant Performance

Systemwide net generation¹ in January was 2,022,387 megawatt-hours² (MWh), compared to projected net generation of 2,117,653 MWh, and 1,769,030 MWh in February compared to projected net generation of 1,915,026 MWh. Year-to-date net generation is 3,791,417 MWh compared to target net generation target of 4,032,679 MWh.

The fleet availability factor³ was 97.8 percent in January and 98.8 percent in February. Generation market readiness factor⁴ was 99.7 percent in January and 99.8 percent in February, compared with monthly targets of 99.4 percent. Year-to-date generation market readiness factor is 99.75 percent.

There were three significant unplanned generation events⁵ in January. All three were at the 500-MW Combined Cycle Plant in Queens. Unit 7A had a 2.5 hour outage resulting in lost revenue of \$65,000. Unit 7B had two separate events: one lasted 7.5 hours and resulted in lost revenue of \$851,000, and another lasted 13 hours and resulted in lost revenue of \$160,000.

There were no significant unplanned generation events in February.

There was \$1.2 million in lost opportunity cost from unscheduled outages in January, compared with generation revenue of \$162.5 million. There was \$0.02 million in lost opportunity cost from unscheduled outages in February, compared with generation revenue of \$133.9 million. Year-to-date lost opportunity cost is \$1.22 million, about 0.4 percent of year-to-date generation revenue of \$296.4 million.

River flows at the Niagara project were below forecast in January and February, and they are forecast to be well below normal in 2011, due to continued low precipitation in the Great Lakes Basin. At the St. Lawrence-FDR project, flows were slightly above forecast in January and February. Flows are expected to be slightly above average at the start of 2011 but then below normal through the next two years.

Transmission Performance

Transmission reliability⁶ in January was 98.99 percent, which was above the target of 97.99 percent. Transmission reliability in February was also 98.99 percent, which was above the target of 98.21 percent. Year-to-date transmission reliability is 98.99 percent, above the target of 98.10 percent.

There were no significant unplanned transmission events⁷ in January or February.

Life Extension and Modernization Program

Work on Unit 24 at the St. Lawrence-FDR project, the 14th of the 16 units, continues as part of the project's Life Extension and Modernization⁸ (LEM) program. The upgrade is expected to be completed in May 2011; however, staff is currently evaluating the potential impact of unanticipated paint abatement, installation of additional steel supports, repair of cracks found on the generator rotor, and repair of the newly found cracks on the stationary ring of the draft tube. A revised return-to-service date may be developed. The 2013 scheduled completion date for the LEM project remains unchanged.

Environmental

There were two reportable events in January. At the St. Lawrence-FDR Project, an inadvertent release of an estimated 10 – 15 gallons of transformer oil occurred while workers performed maintenance activities. The spill was reported to the NYS Department of Environmental Conservation. The other event occurred at the Harlem River Gas Turbine facility in the Bronx. Approximately 100 gallons of mineral oil was released as the result of a failed transformer that caught fire. The spill was contained and clean-up operations undertaken.

There were three reportable events in February. At the Blenheim-Gilboa Pumped Storage Power Project, 10 – 15 gallons of oil were released through a leak in a hydraulic oil line. The oil release was contained and collected, and the leaking line was repaired. At the Niagara Power Project and St. Lawrence-FDR Project, there were two separate violations of State Pollution Discharge Elimination System⁹ permits, both for exceeding the total suspended solids

limits. The cause of these violations is most likely the sand and salt applications used to control snow and ice during the winter months.

Year-to-date number of recordable environmental incidents is five; the 2011 target is 25.

Transmission Initiative

NYPA continues to work with National Grid, Con Edison, and the Long Island Power Authority (LIPA) regarding a proposed transmission line that would deliver power from Canada and upstate renewable energy projects to New York City.

Since June 2010, PA Consulting has conducted a series of economic analyses for the project, including a comparison of the load-weighted zonal electricity prices, production costs, generators' costs, and emissions under the Base Case and the Transmission Initiative Case. In addition, PA Consulting analyzed several scenarios: one that included the transmission line between New York City and New Jersey proposed by Hudson Transmission Partners, one that assumes high natural gas prices and one that assumes low prices, and one with 400 MW of offshore wind. The results of these analyses indicate that there is a net benefit in statewide production costs and a reduction in emissions with the construction of the Transmission Initiative.

NYPA staff received comments on the economic studies from Con Edison in mid-January. National Grid, NYPA and PA Consulting have been working with Con Edison staff to address concerns about assumptions in the analyses, including the amount of in-City non-economic dispatch used for reliability, transmission line utilization, and transmission interface limit assumptions. PA Consulting has completed extensive additional analyses to address Con Edison's issues and this information is being summarized and will be sent to Con Edison by the end of March. The executive meeting to further discuss the Transmission Initiative has been temporarily postponed until these issues on the economic analyses have been addressed.

Technical Compliance – NERC Reliability Standards

As reported in the March 2010 COO Report, NYPA self-reported potential non-compliance and submitted mitigation plans to the Northeast Power Coordinating Council (NPCC)¹⁰ for two North American Electric Reliability Corporation¹¹ (NERC) standards that apply to facility ratings methodology and data for NYPA's generation and transmission assets and one standard that applies to NYPA's Critical Infrastructure Protection (CIP)¹² program. In January, NYPA concluded its discussions with NPCC and signed a settlement agreement on these self-reports. The penalties carried an aggregate \$5,000 penalty for six violations.

In February, NYPA initiated settlement discussions with NPCC associated with a self-reported potential CIP violation. These settlement discussions are on-going. NYPA identified and processed three additional potential compliance violations associated with Protection and Control Reliability Standards. NYPA submitted these reports to NPCC in February to initiate the formal assessment process to determine compliance.

In January, NYPA submitted information in response to the NERC Alert Recommendation to the Industry urging entities to verify that the methodology used to determine facility ratings for solely and jointly owned transmission lines is based on actual field conditions (in particular, transmission line clearances). In compliance with the Alert, NYPA is planning an assessment of transmission line clearances. The assessment will be completed by the end of 2011.

Following Federal Energy Regulatory Commission¹³ (FERC) Order No. 743 on the Revision to Electric Reliability Organization Definition of the Bulk Electric System (BES), NERC established a Standards Drafting Team to develop the definition. A member of NYPA's Transmission staff was nominated and confirmed to the team, and Technical Compliance will support the effort. In February, Technical Compliance staff attended a meeting between the New York Independent System Operator¹⁴ (NYISO) and the New York Transmission Owners to discuss the impacts of the FERC rule. NYPA will use the results of a study done by Navigant Consulting for NYPA in 2010 to develop a strategy for engaging the NYISO and Transmission Owners in discussions about potential compliance responsibilities under a new BES definition.

In February, NYPA continued a project to prepare for its NPCC audit scheduled in June 2011. As reported in the September 2010 COO Report, this project was initiated last July in order to enhance NYPA's NERC Reliability Standards compliance posture. NYPA continues to focus on completing identified action items and assessing evidence to demonstrate compliance with the applicable NERC CIP and non-CIP Standards. As a result of this project, over 100 NERC-related policies and procedures have been written or updated, and approved. NYPA Internal Audits has completed an audit of the non-CIP Standards, and issued a final report in January with one recommendation that will be implemented in 2011. Completion of existing action items and evidence assessment for non-CIP standards are on-schedule to be completed prior to the scheduled audit. Also, the CIP Audit preparation team has conducted an assessment of the compliance evidence available for one CIP Standard, prepared several CIP action items, and developed a work plan to complete the highest priority items prior to the audit.

Energy Resource Management

NYISO Markets

In January, Energy Resource Management (ERM) bid more than 2.0 million MWh of NYPA's generation into the NYISO markets, netting \$40.8 million in power supplier payments to the Authority. In February, ERM bid more than 1.7 million MWh for a net \$26.6 million in power supplier payments. Year-to-date net power supplier payments are \$67.4 million.

Fuel Planning & Operations

In January, NYPA's Fuels Group transacted \$31.0 million in natural gas and oil purchases, compared with \$41.0 million in January 2010. In February, NYPA's Fuels Group transacted \$21.0 million in natural gas and oil purchases, compared with \$18.0 million in February 2010. Year-to-date natural gas and oil purchases are \$52.0 million, compared with

\$59.0 million at this point in 2010. The total year-to-date \$7.0 million reduction is mainly attributed to cessation of operations at the Poletti Power Project (-\$13.0 million, the last day of operations was January 31, 2010), which was offset by increased generation at the 500-MW Combined Cycle Plant (+\$4.0 million) and the Small Clean Power Plants (+\$3.0 million).

Office of the Chief Operating Officer

Sustainability Action Plan

After a very successful first year implementing all 41 action items of NYPA's Sustainability Action Plan, execution of the plan's commitments continue in 2011. Already this year, the White Plains Office 5th floor renovation earned a Silver rating from the US Green Building Council's Leadership in Energy and Environmental Design (LEED)¹⁵ for Commercial Interiors. NYPA is continuing noise and air quality assessments at the generating facilities and energy and non-process water audits at other sites, along with LEED feasibility analyses at the three Visitor Centers. NYPA is also extending a Climate Change Adaptation plan that began through participation in the New York City Climate Change Adaptation Task Force to cover generation and transmission infrastructure in Power Supply's Central New York region.

GLOSSARY

¹ **Net Generation** – The energy generated in a given time period by a power plant or group of plants, less the amount used at the plants themselves (station service) or for pumping in a pumped storage facility. Preliminary data in the COO report is provided by Accounting and subject to revision.

² **Megawatt-hour (MWh)** – The amount of electricity needed to light ten thousand 100-watt light bulbs for one hour. A megawatt is equal to 1,000 kilowatts and can power about 800 homes, based on national averages.

³ **Availability Factor** – The Available Hours of a generating unit over the Period Hours (hours in a reporting period when the unit was in an active state). Available Hours are the sum of Service Hours (hours of generation), Reserve Shutdown Hours (hours a unit was not running but was available) and Pump Hours (hours a pumped storage unit was pumping water instead of generating power).

⁴ **Generation Market Readiness Factor** – The availability of generating facilities for bidding into the New York Independent System Operator (NYISO) market. It factors in available hours and forced outage hours that drive the results.

⁵ **Significant Unplanned Generation Events** – Forced or emergency outages of individual generator units of duration greater than 72 hours, or with a total repair cost of greater than \$75,000, or resulting in greater than \$50,000 of lost revenues.

⁶ **Transmission Reliability** – A measurement of the impact of forced and scheduled outages on the statewide system's ability to transmit power.

⁷ **Significant Unplanned Transmission Events** – Forced or emergency outages of individual transmission lines that directly affect the reliability of the state's transmission network, or affect the availability of any component of the state's transmission network for greater than eight hours, or have a repair cost greater than \$75,000.

⁸ **Life Extension and Modernization Program** — A major undertaking in which all the turbines at the St. Lawrence-Franklin D. Roosevelt project are being replaced and the generators and other components significantly refurbished. The program is intended to ensure that the project operates at maximum efficiency far into the future.

⁹ **State Pollution Discharge Elimination System (SPDES) Permit** – A permit required by the New York State Department of Environmental Conservation to regulate the point source discharge of pollutants contained in process water and storm water to surface water and ground water in New York State.

¹⁰ **Northeast Power Coordinating Council (NPCC)** – The Northeast Power Coordinating Council, Inc. (NPCC) is the cross-border regional entity and criteria services corporation for Northeastern North America. NPCC's mission is to promote and enhance the reliable and

efficient operation of the international, interconnected bulk power system in Northeastern North America pursuant to an agreement with the Electric Reliability Organization (ERO) which designates NPCC as a regional entity and delegates authority from the U.S. Federal Energy Regulatory Commission (FERC), and by Memoranda of Understanding with applicable Canadian Provincial regulatory and/or governmental authorities. The ERO to which NPCC reports is the North American Electric Reliability Corporation (NERC).

¹¹ **North American Electric Reliability Corporation (NERC)** – The organization that develops and enforces mandatory reliability standards for the bulk power system in the United States, issues long-term and seasonal reliability forecasts and monitors the power system. (NERC standards are also mandatory and enforceable in parts of Canada.)

¹² **Critical Infrastructure Protection (CIP)** – The Critical Infrastructure Protection (CIP) program coordinates all of the North American Electricity Reliability Corporation’s (NERC) efforts to improve physical and cyber security for the bulk power system of North America, as it relates to reliability. These efforts include standards development, compliance enforcement, assessments of risk and preparedness, disseminating critical information via alerts to industry, and raising awareness of key issues.

¹³ **Federal Energy Regulatory Commission (FERC)** – An independent agency that regulates the interstate transmission of electricity, natural gas, and oil. FERC also reviews proposals to build liquefied natural gas (LNG) terminals and interstate natural gas pipelines as well as licensing hydropower projects.

¹⁴ **New York Independent System Operator** – A not-for-profit organization that operates New York State’s transmission system, administers the state’s wholesale electricity markets and engages in planning to ensure the future reliability of the statewide power system.

¹⁵ **Leadership in Energy and Environmental Design (LEED)** – A green building certification program administered by the U.S. Green Building Council, an organization that promotes practices in building construction and redesign that contribute to human health, a clean environment and the efficient use of energy and water. LEED is a nationally-recognized system for rating buildings in the areas of energy efficiency, sustainable site development, water savings, materials and resources selection and indoor environmental quality.