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TO: NYPA BOARD OF TRUSTEES
FROM: GIL C. QUINIONES, CHIEF OPERATING OFFICER
DATE: MAY 24, 2011
SUBJECT: MONTHLY REPORT FOR THE BOARD OF TRUSTEES

This report covers the performance of the Operations group in March and April. Transmission reliability continues to be strong and no significant unplanned events have occurred this year. Through severe weather that caused Gov. Andrew Cuomo to activate the statewide Emergency Operations Center in the last few days of April, NYPA facilities continued to function properly without significant impacts.

Power Supply

Plant Performance

Systemwide net generation¹ was 2,303,403 megawatt-hours² (MWh) in March, compared to projected net generation of 2,225,596 MWh, and 2,000,160 MWh in April, compared to projected net generation of 1,852,249 MWh. Year-to-date net generation is 8,095,155 MWh compared to the net generation target of 8,110,155 MWh.

The fleet availability factor³ was 96.8 percent in March and 91.3 percent in April. Generation market readiness factor⁴ was 99.8 percent in March and 99.9 percent in April, compared with monthly targets of 99.4 percent. Year-to-date generation market readiness factor is 99.8 percent.

There was one significant unplanned generation event⁵ in March. An outage at Unit 7B at the 500-MW Combined Cycle Plant was caused by testing conducted by Con Edison, and resulted in lost revenue of \$90,685 mainly due to Unit 7A switching from natural gas to more expensive fuel oil.

There were no significant unplanned generation events in April.

There was \$0.09 million in lost opportunity cost from unscheduled outages in March, compared with generation revenue of \$137.7 million. There was \$0.06 million in lost opportunity cost from unscheduled outages in April, compared with generation revenue of \$132.1 million. Year-to-date lost opportunity cost is \$1.28 million, about 0.23 percent of year-to-date generation revenue of \$562.6 million.

River flows at the Niagara project were below forecast in March, but at the historical average in April. Flows are forecast to be at or below normal in 2011, due to continued low precipitation in the Great Lakes Basin, but above average in the beginning of 2012. At the St. Lawrence-FDR project, flows were above forecast in March and April. Flows are expected to be above average through the first half of 2011 but then below average through the next two years.

Transmission Performance

Transmission reliability⁶ in March was 98.49 percent, which was above the target of 98.10 percent. Transmission reliability in April was 98.99 percent, which was above the target of 96.79 percent. Year-to-date transmission reliability is 98.86 percent, above the target of 97.77 percent.

There were no significant unplanned transmission events⁷ in March or April.

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. As reported in the March COO Report, staff has been evaluating the potential impact to the project schedule of unanticipated paint abatement and cracked and deteriorated components. The return to service date has been changed from May 22, 2011, to June 23, 2011. The outage for the next unit will begin on June 24, 2011, immediately following the return to service of Unit 24. The 2013 scheduled completion date for the LEM project remains unchanged.

Environmental

There were three reportable events in March. At the 500-MW Combined Cycle Plant, the NYS Department of Environmental Conservation (DEC) issued a Notice of Violation for alleged Resource Recovery and Conservation Act violations related to waste storage. NYPA is pursuing recourse to the issues raised. At the Niagara Power Project, NYPA reported to the DEC a spill of less than two gallons of transformer oil that leaked onto the ground. At the St. Lawrence-FDR Power Project, NYPA reported an exceedance of the fecal coliform level allowed by its State Pollution Discharge Elimination System (SPDES)⁹ permit.

There were also three reportable events in April. An air conditioning compressor at the switch and relay building at the Niagara Power Project was found to have a cracked valve that resulted in a release of approximately 4.6 pounds of refrigerant, exceeding the level allowed by

the DEC. Also at Niagara, while excavating at the ice boom storage site, a contractor unearthed a historical contamination of an oil-like substance, resulting in a sheen on the Buffalo River adjacent to the work site. NYPA, DEC, and the Coast Guard collaborated on clean up operations for the spill. At the 500-MW Combined Cycle Plant, NYPA reported an exceedance of the pH¹⁰ measurement allowed under its SPDES permit, based on sampling at one of the Plant's outfalls¹¹.

Year-to-date number of recordable environmental incidents is 11; 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 includes 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.

National Grid, NYPA and PA Consulting have been working with Con Edison and LIPA to address their concerns about assumptions in the analyses. Con Edison has expressed concerns about the assumed amount of in-City non-economic dispatch used for reliability, as well as assumptions about transmission line utilization and transmission interface limits. PA Consulting has completed extensive additional analyses to address Con Edison's issues and the results have been the subject of a series of meetings with Con Edison and LIPA, resulting in additional refined analyses. A meeting with LIPA to discuss its comments on the PA results has been scheduled for late May. An executive meeting among National Grid, Con Edison, LIPA, and NYPA will be scheduled after the economic analyses issues have been addressed.

Technical Compliance – NERC Reliability Standards

In April, as expected, NYPA received notification from the Northeast Power Coordinating Council (NPCC)¹² for two scheduled audits of North American Electric Reliability Corporation¹³ (NERC) Mandatory Reliability Standards. In June, NYPA will be audited for its compliance with Reliability Standards for the Bulk Electric System pursuant to Federal Energy Regulatory Commission¹⁴ (FERC) Order No. 693, and in July it will be audited for Critical Infrastructure Protection¹⁵ (CIP) standards, pursuant to FERC Order No. 704.

NYPA's preparation for these audits continues to be focused on completing identified action items and assessing evidence to demonstrate compliance with the applicable NERC Standards. In March, staff completed outstanding action items and updated time sensitive

evidence to be reflective of the cited audit period, which includes October 2010 to the dates of the audits. In April, Audit Engagement Plans for both audits were presented to senior staff in Power Supply, Energy Resource Management, and Human Resources. The Plans identify key milestones for deliverables leading up to the transfer of compliance evidence to NPCC, as well as roles and responsibilities of NYPA personnel.

A draft revised definition of the Bulk Electric System was issued in April, pursuant to FERC Order No. 743 on the Revision to Electric Reliability Organization Definition of the Bulk Electric System (BES). NERC's Standards Drafting Team (which includes one representative from NYPA) developed the definition and released it for stakeholder comment. Draft Rules of Procedure for the Exemption Process are also being developed and are expected to be released in early May. NYPA established an internal team of subject matter experts to monitor and assess the impacts of this revised definition on NYPA – including the potential of registering as a Transmission Operator, which would increase NYPA's compliance responsibilities. In addition, NYPA Technical Compliance staff continues to work with the New York Independent System Operator¹⁶ (NYISO) and the New York Transmission Owners to discuss potential impacts.

Also in April, NPCC accepted NYPA's assessment plan submitted in response to NERC's Alert Recommendation to Industry regarding overhead transmission line ground clearances pursuant to the NERC Facility Ratings Standards. NYPA is expected to report progress on the implementation of its plan every six months beginning on July 15, 2011. Impacts of this NERC recommendation were discussed at the NYISO – Transmission Owner Executive Meeting on March 25. The NYISO and the Transmission Owners agreed to have further dialogue about the statewide impacts of any measures that will have to be taken to mitigate potential violations of the standards.

In April, NYPA continued to discuss delisting as a Load Serving Entity¹⁷ (LSE) with NPCC. NYPA is preparing a draft position paper relating to the NERC Statement of Compliance for LSE Registry Criteria. NPCC acknowledged that NYPA would not be audited for the LSE requirements as part of NYPA's FERC Order 693 audit in June 2011.

As reported in the March COO Report, NYPA identified and processed three potential compliance violations associated with Protection and Control Reliability Standards. In March, NPCC initiated the formal assessment process to determine if NYPA is compliant with respect to these standards. Also in March, NYPA initiated settlement discussions with NPCC for several self-reported potential violations of CIP standards. These settlement discussions are ongoing.

Energy Resource Management

NYISO Markets

In March, ERM bid over 2.3 million MWh of NYPA's generation into the NYISO markets, netting \$39.2 million in power supplier payments to the Authority. In April, ERM bid over 2.0 million MWh for a net \$27.4 million in power supplier payments. Year-to-date net power supplier payments are \$134 million.

Fuel Planning & Operations

In March, NYPA's Fuels Group transacted \$18.8 million in natural gas and oil purchases, compared with \$14.3 million in March 2010. In April, NYPA's Fuels Group transacted \$14.0 million in natural gas and oil purchases, compared with \$14.3 million in April 2010. Year-to-date natural gas and oil purchases are \$84.5 million, compared with \$88.0 million at this point in 2010. The total year-to-date \$3.5 million reduction is mainly attributed to cessation of operations at the Poletti Power Project (-\$12.6 million, the last day of operations was January 31, 2010) and savings from the Richard M. Flynn Power Plant (-\$1.4 million), which was offset by increased generation at the 500-MW Combined Cycle Plant (+\$3.8 million) and the Small Clean Power Plants (+\$6.7 million).

Regional Greenhouse Gas Initiative

On March 9, Auction #11 of the Regional Greenhouse Gas Initiative¹⁸ (RGGI) was held. During the auction, RGGI allowances cleared at the newly revised price floor of \$1.89/ton for Vintage 2011. It was announced in January that the initial price floor established by the program of \$1.86/ton would be adjusted upward in response to the increase in the Consumer Price Index. NYPA was awarded all its bids for 2.26 million tons of 2011 allowances. The total amount of allowances secured through Auction #11 date represents approximately 80% of NYPA's current estimated allowance requirement for all plants in 2011. Since the inception of this program, NYPA has spent \$18.7 million on 7.7 million RGGI allowances, or \$2.42/ton on average. Given only one auction thus far in 2011, NYPA has spent \$1.89/ton on average for Vintage 2011 allowances.

Office of the Chief Operating Officer

Sustainability Action Plan

In April, NYPA announced the release of its first Sustainability Annual Report, *Generating Sustainability*. The report provides updates on all 41 action items outlined in NYPA's Sustainability Action Plan in five sections covering workplace, community, environment, marketplace, and operations. The report follows the Global Reporting Initiative¹⁹ framework for corporate sustainability reporting, and includes over 40 standard disclosures including performance indicators and disclosures specific to the electric utility sector.

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 **pH** – The pH scale measures how acidic or basic a substance is. The pH scale ranges from 0 to 14. A pH of 7 is neutral. A pH less than 7 is acidic. A pH greater than 7 is basic.

¹¹ **Outfall** – The discharge point of a waste stream into a body of water; alternatively it may be the outlet of a river, drain or a sewer where it discharges into the sea, a lake or the like.

¹² **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).

¹³ **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.)

¹⁴ **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.

¹⁵ **Critical Infrastructure Protection (CIP)** – The Critical Infrastructure Protection (CIP) program coordinates all of the North American Electric 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.

¹⁶ **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.

¹⁷ **Load Serving Entity (LSE)** – An entity designated by a retail electricity customer to provide capacity, energy and ancillary services to serve such customer, in compliance with NYISO tariffs, rules, manuals and procedures.

¹⁸ **Regional Greenhouse Gas Initiative (RGGI)** – A cooperative effort by Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont. These 10 states have capped CO₂ emissions from the power sector, and will require a 10 percent reduction in these emissions by 2018. RGGI is composed of individual CO₂ Budget Trading Programs in each of the 10 participating states. Regulated power plants can use a CO₂ allowance issued by any of the 10 participating states to demonstrate compliance with the state program governing their facility. Taken together, the 10 individual state programs

function as a single regional compliance market for carbon emissions, the first mandatory, market-based CO₂ emissions reduction program in the United States.

¹⁹ **Global Reporting Initiative (GRI)** – An organization that developed the world’s most widely used sustainability reporting framework through a consensus-seeking process engaging participants from business, civil society, labor, and professional institutions. The GRI framework includes a standardized approach to sustainability reporting and sector-specific supplemental frameworks, including one for the electric utility sector.