MINUTES OF THE REGULAR MEETING
OF THE
POWER AUTHORITY OF THE STATE OF NEW YORK

May 24, 2011

Table of Contents

May 24, 2011

Minutes of the Regular Meeting of the Power Authority of the State of New York held via videoconference at the following participating locations at approximately 11:10 a.m.

1) New York Power Authority, 123 Main Street, White Plains, NY
2) New York Power Authority, 501 Seventh Avenue, New York, NY

The Members of the Board present were:

Michael J. Townsend, Chairman
Jonathan F. Foster, Vice Chairman
D. Patrick Curley, Trustee
John S. Dyson, Trustee
Eugene L. Nicandri, Trustee
Mark O'Luck, 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
Edward Welz	Executive Vice President and Chief Engineer – Power Supply
Jordan Brandeis	Senior Vice President – Power Resource Planning and Acquisition
Steve DeCarlo	Senior Vice President – Transmission
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 Pasquale	Senior Vice President – Marketing and Economic Development
Donald Russak	Senior Vice President – Corporate Planning and Finance
Joan Tursi	Senior Vice President – Corporate Support Services
Paul Belnick	Acting Senior Vice President – Energy Services and Technology
Thomas Concadoro	Vice President and Controller
Thomas Davis	Vice President – Financial Planning and Budgets
Dennis Eccleston	Vice President – Information Technology/Chief Information Officer
Michael Huvane	Vice President – Marketing
John Kahabka	Vice President – Environmental, Health and Safety
Joseph Leary	Vice President – Community and Government Relations
Lesly Pardo	Vice President – Internal Audit
Christine Pritchard	Vice President – Media Relations and Corporate Communications
Scott Scholten	Vice President and Chief Risk Officer
John Suloway	Vice President – Project Development, Licensing and Compliance
Vincent Esposito	Assistant General Counsel – Legislative and Regulatory Affairs
Gerald C. Goldstein	Assistant General Counsel – Procurement and Contract Affairs
Andrew Neuman	Special Counsel
Karen Delince	Corporate Secretary
Brian McElroy	Treasurer
Paul Tartaglia	Regional Manager – SENY
Jill Anderson	Director – Supply Acquisition and Renew Energy
Michael Saltzman	Director – Media Relations
Sarah Barish-Straus	Special Assistant – Project Development, President's Office
Sheila Baughman	Senior Secretary – Corporate Secretary's Office
John V. Connorton, Jr.	Hawkins Delafield & Wood LLP

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

Chairman Michael Townsend welcomed the Trustees and staff to the meeting.

1. Approval of the May 24, 2011 Meeting Agenda

On motion made and seconded the Agenda for the Meeting was approved.

2. <u>Consent Agenda</u>

Chairman Townsend said the Economic Development Power Allocation Board had recommended that the Authority's Trustees approve item 1c (Transfers of Industrial Power) at their meeting held earlier today.

Trustee Curley recused himself from voting on the Consent Agenda because of his association with the companies in item 2b, Moog, Inc. and ITT Enidine, Inc.

a. **Approval of the Minutes**

The Minutes of the Annual Meeting held on March 29, and Special Meetings held on April 4, and April 21, 2011were unanimously adopted.

b. Hydropower Contracts with Moog, Inc. and ITT Enidine, Inc. – Transmittal to the Governor

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the proposed agreements ('Agreements') for the sale of Replacement Power ('RP') to Moog, Inc. ('Moog') and Expansion Power ('EP') to ITT Enidine, Inc. ('ITT') and to authorize their transmittal to the Governor. The proposed agreements with Moog and ITT are attached as Exhibits '2b-A' and '2b-B,' respectively.

BACKGROUND

"At their May 22, 2007 and July 31, 2007 meetings, pursuant to criteria set forth in §1005 (13) of the Public Authorities Law ('PAL'), the Trustees approved 200 kW and 1,200 kW hydropower allocations for ITT and Moog, respectively, for terms of five years. On December 13, 2010, the Trustees authorized a public hearing, pursuant to §1009 of the PAL, on the proposed Agreements to effectuate the sale of power and energy for allocation to ITT and Moog.

"In return for the 200 kW allocation, ITT committed to invest $2.5 million to expand its facility and install new production machinery and equipment. The project would create 20 new jobs in addition to the existing 200 jobs. Moog's allocation was approved based on its facility expansion of 70,000 sq. ft. of manufacturing and office space and installation of machinery and equipment totaling $16.8 million. The project would create 140 new jobs in addition to the existing 2,306 jobs.

"On February 1, 2011, the Authority and Moog signed an 'Interim Agreement for the Sale of Replacement Power and Energy.' The purpose of the Interim Agreement was to enable Moog to accept delivery of its RP allocation upon completion of its facility expansion. Also, included in the Interim Agreement was an Appendix co-signed by the Authority, Moog and the delivering utility, New York State Electric and Gas Corporation ('NYSEG'), to effectuate a March 1, 2011 delivery arrangement. The Interim Agreement expires the earlier of July 31, 2011, or upon execution of a long-term contract, which is the Agreement now before the Trustees.

DISCUSSION

"A public hearing was held on March 15, 2011 at the Frank S. McCullough, Jr. Hawkins Point Visitors' Center at the St. Lawrence/FDR Power Project in Massena. There were no oral statements made at the public hearing nor were written statements submitted. The official transcript of the public hearing is attached as Exhibit '2b-C.'

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the proposed Agreements for the sale of Replacement Power to Moog, Inc. and Expansion Power to ITT Enidine, Inc. and authorize the transmittal of the Agreements to the Governor for his approval.

"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."

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

RESOLVED, That the Replacement Power and Expansion Power Agreements for the sale of hydroelectric power and energy generated by the Authority for sale to Moog, Inc. and ITT Enidine, Inc., respectively, are in the public interest and should be submitted to the Governor for approval,

and that the agreements, along with the record of the public hearing thereon, be forwarded to the Speaker of the Assembly, the Minority Leader of the Assembly, the Chairman of the Assembly Ways and Means Committee, the Temporary President of the Senate, the Minority Leader of the Senate and the Chairman of the Senate Finance Committee; and be it further

RESOLVED, That the Chairman and the Corporate Secretary be authorized and directed to execute such agreements in the name of and on behalf of the Authority after they have been approved by the Governor; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development, or his designee, be, and hereby is, authorized, subject to the approval of the form thereof by the First Deputy General Counsel, to negotiate and execute any and all documents necessary or desirable to implement the agreements with Moog, Inc. and ITT Enidine, Inc., as 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 General Counsel.

c. Transfers of Industrial Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the transfer of power allocations for six existing customers that have changed their corporate name for various business reasons. All six companies have agreed to continue to honor the terms and conditions of existing contracts with the Authority.

BACKGROUND

"This is an administrative item brought to the Trustees at regular intervals. Five of the six companies are requesting that the Trustees approve a transfer of their existing power allocation to a new corporate entity. The power allocation and/or benefits for these five customers will continue to be delivered to the same location. One of the customers is requesting a physical allocation transfer due to relocating from one facility to another. All of the customers will continue to provide the same products and/or services as they did prior to the transfers. The reasons for such transfer requests are described below.

"The Power for Jobs ('PFJ') and High Load Factor ('HLF') power allocations involved in this item were approved by the Economic Development Power Allocation Board ('EDPAB') at their May 24, 2011 meeting, as required under Economic Development Law Section 186.

"The Trustees have approved transfers of this nature at past meetings.

DISCUSSION

"The proposed transferees are as follows:

Aerospace Avionics, located in Bohemia, New York, produces integrated electronic and mechanical systems for commercial and military aircrafts. In May 2007, the company was acquired by General Electric. Under General Electric's ownership, the company is operating as GE Aviation Systems, LLC at the facility located at 1000 MacArthur Memorial Highway in Bohemia, New York. The company wishes to transfer its 650 kW PFJ allocation to **GE Aviation Systems, LLC**. The company agrees to meet all contract commitments made for the allocation through the allocation's expiration date.

BOC Gases, Inc. ('BOC'), with facilities in Buffalo and Selkirk, New York, is a gas and engineering company that has been in operation for over 30 years. Over the years, the company has experienced many ownership changes, originally known as Airco and more recently, as The BOC Group, Inc. In January 2008, the company's name was changed to Linde, Inc. and on April 1, 2009, it was merged with its parent company, Linde LLC. The company wishes to transfer its 15,750 kW and 2,500 kW HLF power allocations and 10,500 kW Expansion Power ('EP') allocation to **Linde LLC**. The company will continue to honor all contract terms and commitments it holds with the Authority.

Climax Manufacturing Company is a paperboard manufacturer with mills located in Lowville and nearby Carthage, New York. The company was approved for a 1,500 kW PFJ allocation that was split between the two facilities. In June 2008, as allowed in PFJ Extended Benefits Legislation, the company elected to receive benefits in the form of an Electricity Savings Reimbursement payment ('rebate') instead of a power allocation. The company currently receives its rebate as one payment based on an aggregation of the two facilities' electricity use. Due to a reconfiguration of the business in 2010, the Carthage facility is now operating as **Climax Paperboard Inc.** The company has requested that the PFJ rebate benefits continue to be split between the two facilities, acknowledging that each is doing business under a distinct name with different tax ID numbers for each physical facility. Climax Manufacturing Company, as parent corporation, agrees to honor the terms of the existing contract.

Cooper Hand Tools, located in Cortland, NY, specializes in metal machining and casting for the electrical power distribution industry. On July 4, 2010, Cooper Hand Tools and Danaher Tools formed a joint venture named Apex Tool Group. The operations at its Cortland facility remain the same. The company wishes to transfer its 1,330 kW PFJ contract with the Authority to **Apex Tool Group** in order to continue to receive rebate until the expiration of the program. All existing contract commitments will remain in effect.

PCB Machining Solutions, Inc., ('PCB MSI') specializes in precision machine components for the industrial, medical, aerospace and defense industries. PCB MSI is a wholly-owned subsidiary of PCB Piezotronics, Inc. ('PCB Piezotronics'), both being located in adjacent facilities in Depew, NY. The company intends to merge PCB MSI with and into PCB Piezotronics and is requesting a transfer of its 250 kW Replacement Power ('RP') allocation to the surviving corporate entity, **PCB Piezotronics, Inc.**, upon completion of the merger. PCB Piezotronics agree to continue honoring all terms and conditions of its RP contract.

Westchester Arc, provides support services to mentally disabled citizens. The company has recently moved from its original site at 121 Westmoreland Avenue in White Plains to a new headquarters in Hawthorne, NY, and is in the process of selling the White Plains facility. Westchester Arc has requested to transfer its 375 kW PFJ allocation to its new headquarters at 265 Saw Mill River Road, Hawthorne, NY. The company is meeting its job commitments and agrees to honor the terms and conditions of the existing contract for the remainder of the program.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the transfer of power allocations for six existing customers that have changed their corporate name for a variety of business reasons while maintaining the same industry operations and contractual commitments.

"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."

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

RESOLVED, That the Authority hereby authorizes the transfers of six industrial power customers' allocations in accordance with the terms described 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 General Counsel.

d. Procurement (Services) Contracts – Environmental, Health and Safety Compliance Audit Program Technical Support – Awards

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award and funding of procurement contracts to URS of New York, New York and Shaw Environmental, Inc. of Latham, New York. The contracts will provide technical teams to assist the Authority in conducting environmental, health and safety compliance audits. The term of the contracts will be for up to five years. The total cost of the five-year contracts is estimated at $750,000.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"The Authority adheres to an Environmental, Health and Safety Audit Program ('Program') pursuant to established corporate policies. The objectives of the Program are to: l) ensure that each Authority operating project is in compliance with all applicable environmental, health and safety laws, regulations, ordinances, permits, policies and procedures; and (2) provide senior management with an evaluation of the effectiveness of the Authority's efforts in meeting all applicable environmental, health and safety requirements. The Program is implemented through systematic audits of the operating projects.

"Since 2006, thirty-nine audits have been conducted. With the expiration of consultant contracts in 2010, staff recognized the need to engage additional consultants to assist in conducting the environmental, health and safety compliance audits.

DISCUSSION

"On February 23, 2011, a Request for Proposals ('RFP') was published in the New York State *Contract Reporter* for two or more consultants to provide technical teams to assist in conducting environmental, health and safety compliance audits from 2011 through 2015. Having two consultants provides flexibility in the event one consultant is not available for scheduled audits.

"Thirteen bids with total 2011 costs ranging from $78,420 to $753,516 were received on March 18, 2011. Since the facilities to be audited in 2012-2015 have not yet been identified, billing rates were provided for those years. The bids were evaluated from both a technical and a commercial perspective.

"The lowest-priced proposals from URS and Shaw Environmental, Inc. met the technical requirements of the RFP. Based on the credentials and experience of the staff proposed, Authority staff is confident that the proposed consultant teams are capable of providing the required services. These firms have satisfactorily performed these types of services for the Authority in the past. The cost estimates and hourly rates are reasonable.

"Each consultant will assist in conducting a portion of the nine audits scheduled for 2011, as well as those scheduled for 2012-2015. The locations of the 2012-2015 audits have not yet been selected. The total estimated cost is $750,000.

"The Trustees are requested to authorize contracts with URS and Shaw Environmental, Inc. for up to $750,000 for a term of up to five years. Funding will be authorized in accordance with the limits set forth in the Authority's Expenditure Authorization Procedures.

FISCAL INFORMATION

"Funds required to support these contracts in 2011, as described above, have been included in the 2011 approved O&M Budget. Each of the consultants will spend a portion of their estimated costs because staff will be dividing the work between two consultants. Funds for subsequent years will be included in the budget submittals for those years.

RECOMMENDATION

"The Vice President – Technical Compliance recommends the Trustees' approval of the award of procurement contracts to URS and Shaw Environmental, Inc. for the purposes and in the amounts set forth above.

"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."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of contracts to URS and Shaw Environmental, Inc. are hereby approved for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the President and Chief Executive Officer.

Contractor	**Contract Approval**
URS	**$375,000**
Shaw Environmental, Inc.	**$375,000**

AND BE IT FURTHER RESOLVED, That the Chairman, the Vice Chairman, the President and Chief Executive Officer, the Chief Financial Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Acting General Counsel.

3. a. <u>Report of the President and Chief Executive Officer</u>

President Richard Kessel referenced the allocations of Replacement and Expansion Power to Moog, Inc. and ITT Enidine, Inc. on the Consent Agenda and said that he and Trustee Curley recently toured Moog's facilities and were impressed by the work they do there. President Kessel also said that the allocation, which is a part of the Authority's economic development program to provide low-cost power to companies in the state, in particular, companies in upstate New York, is an important allocation, and encouraged the other Trustees to visit the facility when they meet next at the Niagara Power Project.

<u>Authority Summer Readiness Program</u>

With regard to the Authority's readiness for the summer, President Kessel said that Mr. Edward Welz, Executive Vice President and Chief Engineer, made a presentation to the Executive Management and senior staff, a copy of which was provided to the Board members. President Kessel continued that load forecast reported by NYISO for this summer is 33,025 MW and that he had discussion with Mr. Welz who assured him that the Authority's facilities have been prepared and will be able to manage the summer load this year.

<u>Astoria Energy 2 Project</u>

President Kessel said that notwithstanding skepticism, regulatory issues and other challenges, the Astoria Energy 2 Project is scheduled to go into commercial operation about July 1, 2011. He said that the project provided a number of construction jobs and will be a major generation addition to the grid, especially with the closure of the Poletti Plant. President Kessel also invited the Trustees to the tour of Astoria Energy 2 Plant this summer.

<u>Harlem River Small Clean Power Plant</u>

President Kessel said that there were some issues with a transformer at the Harlem River Unit#1, SCPP, but it is expected to return to service after the transformer is replaced on or about July 1st. He added that the Authority is considering having spare transformers stored at one of its sites for use if and when necessary.

<u>Emergency Planning</u>

President Kessel said that Mr. Frank Ryan, who is in charge of Emergency Planning, with the assistance of NYC of Emergency Planning staff, consultants and experts in emergency planning, have developed a comprehensive emergency plan for the Authority. He said that the plan includes any emergency that may occur and that Board members would be kept informed as to how the Authority is reacting to an emergency,

especially with the approaching hurricane season. He continued that, as part of its emergency plan, the Authority will be participating in a "Table-Top Drill" to be conducted for White Plains and Westchester County on June 1st.

In response to a question from Trustee Mark O'Luck, President Kessel said that the Authority has real time capabilities to interact with local and state emergency operations during an emergency. He said that the Authority has a location equipped to deal with emergencies and that its emergency plan team knows where to go in the event of an emergency.

President Kessel's community outreach activities since the last Trustees' Meeting included a visit to the St. Lawrence Power Plant in Lewiston and Robert Moses Plant in Niagara. He plans to visit Clark Energy Center in June and Blenheim-Gilboa Plant in July to continue his interaction with employees at the Authority's facilities.

b. <u>Report of the Chief Operating Officer</u>

Mr. Gil Quiniones provided highlights of the report to the Trustees. He said that, as an addition to President Kessel's report on the Astoria Energy 2 Project, although the plant is owned and maintained by the developers, Astoria Energy 2, the Authority is responsible for the plant's operation including buying and managing the fuel and bidding in the ISO market. It is therefore a substantial addition to the Authority's operations. He ended by stating that the Authority is in good shape for the summer, both on the O&M and commercial side of its business.

President Kessel added that the community opposed the building of this plant; however, the Authority continues discussions with representatives of the community including City Councilman Peter Valone, NYS Senator Michael Gianano, and the Queens Borough President to keep the plant in Astoria.

c. <u>Report of the Chief Financial Officer</u>

Ms. Elizabeth McCarthy provided highlights of the financial report to the Trustees. She said that the Authority's net income at the end of April was 48.4 million, which is $3.2 million below budget. She concluded that at the end of the reporting period the Authority had approximately $1.1 billion in cash and liquidity, which has been invested in a variety of instruments.

In response to a question from Vice Chairman Foster, Ms. McCarthy said that the $200 million of unrealized losses in hedges are the medium-term hedges the Authority entered into on behalf of its SENY customers and that the cost of the unrealized hedges will be recovered from them. In response to a question from Chairman Townsend, Ms. McCarthy said that the SENY customers participated in the negotiation and execution of the hedges agreement. She also said that the Authority has an outreach program with its SENY customers whereby the Authority proactively report to them on the status of those programs.

In response to a question from Trustee Nicandri, Ms. McCarthy said that lake levels have improved, therefore hydro flows to Niagara will move toward what was forecasted. In response to a question from Trustee Curley, Ms. McCarthy said that forecasts are updated monthly.

d. <u>Other Business</u>

Chairman Townsend said that he read an article in the Watertown Daily Times regarding the transfer of various parcels of land to towns for subsequent sales to private citizens. The article mentioned the Authority's restrictive covenant on easements, and alleged that the properties have no market value. He then asked that the legal staff look into this matter with a view to seeing what the Authority can do to facilitate these transfers. Ms. Judith McCarthy said that the Legal Department will look into the matter and report its findings to the Trustees.

<u>Recharge New York Program</u>

Chairman Townsend said that he and Trustee Curley were invited by the Governor to the unveiling of the Recharge New York program and asked Trustee Curley to say a few words about it. Trustee Curley said this industry and community event was a great opportunity for the Authority and those attending appreciated not only the presence of the Chairman and himself, but also the efforts of the Authority to make the Recharge New York program a reality. Chairman Townsend added that it was very gratifying to visit the small manufacturing concerns in Massena and Niagara County, and to see the real impact the Authority has on people's lives and the debt of gratitude they feel toward the Authority for what it is doing for them in terms of jobs it provides through its programs.

President Kessel added that, under previous programs, with the limited industrial incentive awards, the Authority was restricted in how it could assist companies. When the new Recharge New York program becomes effective, businesses in upstate and central New York, particularly dairy businesses, will benefit from the program since they will be able to expand their businesses and create jobs. He ended by saying that the Authority will play a big role in helping the dairy industries in the state once the Recharge New York Program takes effect.

<u>Niagara Power Project's 50th Anniversary Celebration</u>

President Kessel said that the next meeting of the Board will be at the Niagara Project; after the meeting there will be a celebration recognizing the Project's 50 years in service. The Trustees, current and past employees, union officials, community representatives and elected officials will be invited to attend.

4. Proposed Preservation Power Contracts –
<u>Notice of Public Hearing</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to approve allocations of 5,000 kW and 3,000 kW of Preservation Power ('PP'), respectively, to Newton Falls Fine Paper Company, LLC ('NFFP') and Upstate Niagara Cooperative, Inc. ('Upstate Niagara'). The Trustees are also requested to authorize a public hearing, pursuant to Section 1009 of the Public Authorities Law, on the proposed contracts ('Contracts') for the allocations.

<u>BACKGROUND</u>

"In 2005, the New York State Legislature enacted, and the Governor signed, Chapter 313 of the Laws of 2005, which established the PP program set forth in Section 1005(13) of the Public Authorities Law. Preservation Power allows businesses in northern New York State to be served with low-cost hydroelectric power from the Authority's St. Lawrence/FDR Power Project. This program governs the allocation of any power relinquished from the block of 490 MW of St. Lawrence/FDR Project firm and interruptible power currently sold to Alcoa and MLC Corp. (formerly GM). The law authorizes allocation of power to businesses in Franklin, Jefferson and St. Lawrence counties and applies the same allocation criteria as pertain to allocations of Replacement and Expansion Power.

"Each application for an allocation of PP must be evaluated under criteria that include, but need not be limited to, those contained in Public Authorities Law Section 1005(13)(a), which sets forth general eligibility requirements. There is currently 8.7 MW of PP available to allocate to qualified businesses.

"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.

"On November 24, 2008, the Authority, National Grid, Empire State Development Corporation ('ESDC') and Franklin, Jefferson and St. Lawrence counties signed a Memorandum of Understanding ('MOU') that outlines the process to coordinate marketing and allocating PP. The entities noted above formed the Northern New York Advisory Group ('Advisory Group') with the intent of better using the value of this resource to improve the economy of northern New York and the State of New York. Nothing in the MOU changes the legal requirements applicable to the allocation of PP and the Authority's Trustees are the sole decision makers regarding allocations of PP, subject only to the Governor's contract approval role under Section 1009 of the Public Authorities Law.

<u>DISCUSSION</u>

Newton Falls Fine Paper Company, LLC

"NFFP is proposing to reopen its idled paper mill in Newton Falls, St. Lawrence County. The plant was one of the few manufacturing or industrial facilities in the Adirondack Park. The company's project would include refurbishing existing and installing new paper-making machinery and building a biomass cogeneration plant to self-supply steam and electricity within three years. NFFP is wholly-owned by Scotia Newton, a Delaware Corporation, which is, in turn, wholly-owned by Scotia Investments Limited ('SIL'), a Canadian firm based in Hantsport, Nova Scotia.

"In 2007, SIL purchased NFFP and rehired 100 former mill workers who were laid off when the plant closed in 2000. The company invested $45 million in modernization and efficiency improvements to help produce lightweight printing papers. However, the facility was closed at the end of 2010 due to low product margins and high operational costs. The company is reassessing its strategy with an objective to operate a business that is sustainable operationally, environmentally and financially. To meet this objective, the company's plan includes equipping the plant to enable production of higher-margin specialty papers. Regarding operations and the environment, the company proposes to have its energy requirements, both steam and electricity, met through a biomass cogeneration facility. The source of the fuel is wood chips grown and harvested exclusively from Adirondack suppliers. By using wood chips as the boiler fuel source instead of No. 6 fuel oil, there will be significant reductions in emissions, including NOx, CO and O_2.

"Authority staff has completed a review of NFFP's application for PP. NFFP has requested an allocation of 6.3 MW to be used for a temporary period not to exceed three years. The company's request for a temporary allocation is based on the anticipated timeframe to build the cogeneration plant. If the company were to receive an allocation, it would restart the mill, investing $6.7 million for installation and refurbishment of machinery and equipment to enable production of high-quality, heavyweight paper grades with high recycled content. NFFP would re-hire 87 employees in the first year and 4 additional employees in year two of its re-started operations.

"The anticipated cost savings derived from the hydropower allocation over three years would enable the company to move forward immediately with plans to build the cogeneration plant. A new energy efficient building would be constructed to house the biomass boiler and ancillary equipment. Wood chip processing and storage areas containing trailers, choppers, mills and conveyers would be sited near the displaced fuel storage tanks. It is anticipated that 60-70 permanent, indirect biomass jobs would be created related to using wood as the new energy source. The boiler will incorporate state-of- the-art design, maximizing boiler efficiency while minimizing emissions. The construction of the biomass cogeneration plant would provide 60 temporary construction jobs.

"Based on a review of the application and further discussion with the applicant, staff recommends and the Advisory Group supports a temporary allocation of 5,000 kW of PP for a term of three years, as set forth in Exhibit '4-A.' The recommendation is in consideration of NFFP's agreement to invest $6.7 million to purchase and install new and used equipment and to refurbish existing equipment in order to re-hire workers to begin producing paper products in the short-term. The recommendation is also in consideration of the company's investment of $15.0 million to build the biomass cogeneration plant to be in operation within three years. The total investment of $21.7 million results in a capital investment ratio of $4.3 million per MW, which is lower than the two-year historic average of $25.3 million per MW. In addition, as a result of this project, the company agrees to create 91 jobs beyond current employment level of 18. The ratio of jobs created per MW is 18.2 higher than the historic average of 14.5 jobs created per MW. Further details of the application are included in Exhibit '4-B-1.'

"NFFP has applied and been approved for various other economic development and energy efficiency incentives from Empire State Development, National Grid and NYSERDA. The company has garnered broad community and agency support including from St. Lawrence County Industrial Development Agency.

Upstate Niagara Cooperative, Inc.

"Upstate Niagara Cooperative, founded in 1965, is a food and beverage cooperative owned by 375 New York State dairy farmers. The New York State company, with a total of approximately 700 employees, operates milk processing and distribution centers in Buffalo and Rochester, a cultured dairy product plant in West Seneca and distribution centers in Syracuse and Watertown. Upstate Niagara produces dairy products that are sold and distributed across the nation. Its West Seneca plant receives a hydropower allocation and the Buffalo facility has a Power for Jobs allocation; the company is meeting job commitments for both allocations.

"Upstate Niagara has an opportunity to purchase a recently closed dairy processing facility located in North Lawrence, St. Lawrence County. The facility, in operation since 1920 under various ownerships, most recently was producing yogurt for a national brand. As the contract to make the branded yogurt at the facility was approaching expiration, the owners, based in Colorado, decided to consolidate production to other plants outside of New York and 132 employees were laid off this April.

"Upstate Niagara has been seeking opportunities to expand its production capacity to keep up with growing demand, particularly in the fast growing yogurt product market segment. The company has been looking at out-of-state opportunities, for example, a potential business partnership in Phoenix, AR, to better and more cost-effectively serve its West Coast markets. Upstate Niagara has submitted an application for Preservation Power, requesting

3,000 kW to help enable a decision to move forward with a plan to purchase the North Lawrence facility. The plan is to re-start existing yogurt production equipment and also to install two new state-of-the-art high-speed production lines at $3.0 million each. The project, which could be completed as early as September 2011, would enable Upstate Niagara to re-hire 60 employees within the first year and an additional 20 by the end of three years. The plan would also anticipate future growth with a five-year plan of reaching a 100-person employment level.

"Based on the review of the application and discussions with the applicant, staff recommends and the Advisory Group supports an allocation of 3,000 kW to Upstate Niagara for a term of five years, as set forth in Exhibit '4-A.' The recommendation is in consideration of the company's commitment to invest a total of $11.0 million to purchase and re-open the dairy processing facility; install two new high-speed productions lines and re-hire workers to begin producing dairy products, i.e., yogurt. Roughly, $5.0 million of the total investment would be spent on the existing facility purchase and re-start, with the remaining $6.0 million for the new production equipment and installation. The total investment of $11.0 million results in a capital investment ratio of $3.7 million per MW which is lower than the two-year historic average of $25.3 million. The company agrees to create 80 jobs within three years as a result of this project. The ratio of jobs created per MW is 26.7, nearly twice the historic average of 14.5 jobs per MW. Further details of the application are included in Exhibit '4-B-2.'

"The purchase and operation of this St. Lawrence dairy product manufacturing facility would be integrated with Upstate Niagara's other operations, enabling the company to achieve production and corporate efficiencies. Although logistically not optimal, the project's expanded capacity would help strengthen Upstate Niagara's position in the highly competitive marketplace and would significantly benefit its New York dairy farmers. The redevelopment and reopening of the facility by a New York State-based firm is important, not only for the direct employees and the community, but also for hundreds of New York State-based suppliers. The project would bring plant modernization and more local control to the facility, as well as provide experienced, professional, New York State-based ownership and management attention to secure the plant's long-term future.

"Upstate Niagara is diligently assessing the plan's financial viability, including current negotiations for the plant's purchase. Along with PP, the company is concurrently seeking various forms of assistance from Empire State Development and the St. Lawrence County Industrial Development Agency. An allocation of PP is one of several critical components the company needs to bring together to move forward with this project in the North Country.

Proposed Preservation Power Contracts

"The proposed Contracts are attached as Exhibits '4-C-1' and '4-C-2.' The firm electric service under the Contracts will be equivalent to that provided to all other Authority firm hydropower customers and subject to pro-rata curtailment when there is insufficient generation at the Niagara and St. Lawrence/FDR facilities to meet the energy requirement of the firm hydropower customers.

"The allocations will be subject to enforceable employment commitments. In the case of NFFP, the company commits to a total employment of 109 jobs, comprised of the 18 existing employees and the hiring of 91 new employees within two years of operation. Upstate Niagara commits to creating 80 new jobs within three years of operation. The Contracts include an annual job reporting requirement with a job compliance threshold of 90%. Should the ratio of actual jobs reported to jobs committed fall below the compliance threshold, the Authority has the right to reduce the hydropower allocation on a pro-rata percentage basis.

"The rates for PP are also contained in Exhibits '4-C-1' and '4-C-2,' 'Schedule of Rates for Sale of Firm Power to Preservation Power Customers - Service Tariff No. 10.' The NFFP contract will have a three-year term from the initial start of power takedown based on the time required for the cogeneration plant to become fully operational. Upstate Niagara's contract will have a five-year term from the initial delivery of the allocation.

<u>RECOMMENDATION</u>

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocations of Preservation Power to Newton Falls Fine Paper Company, LLC and Upstate Niagara Cooperative, Inc., as detailed in Exhibit '4-A,' and that the Trustees authorize a public hearing on the proposed Preservation

Power Contract for each allocation to be held at the Frank S. McCullough, Jr. Hawkins Point Visitors Center at the St. Lawrence/FDR Project in Massena, New York, on a date to be determined in 2011. It is further recommended that, pursuant to Section 1009 of the Public Authorities Law, the Corporate Secretary be authorized to transmit copies of the proposed contracts to the Governor and legislative leaders, and to arrange for the publication of a notice of public hearing in six newspapers throughout the State in accordance with the Public Authorities Law.

"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. Michael Huvane presented highlights of staff's recommendation to the Trustees. In response to a question from Trustee O'Luck, Mr. Huvane said that the Newton Falls Fine Paper Company will be off the grid as soon as the biomass facility is up and running. He added that the company will then be able to supply all of its steam and electric needs, hence only a three-year contract with the Authority.

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

RESOLVED, That the allocations of 5,000 kW of Preservation Power to Newton Falls Fine Paper Company, LLC, and 3,000 kW of Preservation Power to Upstate Niagara Cooperative, Inc., as detailed in Exhibit "4-A," be, and hereby are, approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Trustees hereby authorize a public hearing on the terms of the proposed contracts for the sale of Preservation Power to Newton Falls Fine Paper Company, LLC and Upstate Niagara Cooperative, Inc., to be held at the Frank S. McCullough, Jr. Hawkins Point Visitors' Center at the St. Lawrence/FDR Project in Massena, New York; and be it further

RESOLVED, That the Corporate Secretary be, and hereby is, authorized to transmit copies of the proposed contracts to the Governor, the Speaker of the Assembly, the Minority Leader of the Assembly, the Chairman of the Assembly Ways and Means Committee, the Temporary President of the Senate, the Minority Leader of the Senate and the Chairman of the Senate Finance Committee, pursuant to Section 1009 of the Public Authorities Law; and be it further

RESOLVED, that the Corporate Secretary be, and hereby is, authorized to arrange for the publication of a notice of public hearing in six newspapers throughout the State, all done in accordance with the provisions of Section 1009 of the Public Authorities Law; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development, or his designee, be, and hereby is, authorized, subject to the approval of the form thereof by the Acting General Counsel, to enter into such agreements, and to do such other things, as may be necessary or desirable to implement the contract with Newton Falls Fine Paper Company, LLC, and Upstate Niagara Cooperative, Inc., as 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 General Counsel.

5. **Allocation of 2,500 kW of Hydropower**

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 Falls Metal Recycling, LLC ('Falls Metal Recycling') as described herein and in Exhibit '5-A.' The allocation of hydropower will support capital expansion of $14.6 million and the creation of 45 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 Replacement Power ('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 11,425 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 2,500 kW be awarded to Falls Metal Recycling as set forth in Exhibit '5-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 Falls Metal Recycling. Additional information on the project is contained in the application summary attached as Exhibit '5-A-1,' as well as in the individual expansion project description below.

"Falls Metal Recycling has submitted an application requesting 5,200 kW for building a metals recycling facility in Niagara Falls. The company would purchase a 14-acre site in Niagara Falls, roughly half of which is brownfield property. The facility would incorporate state-of-the-art metal recycling technology, including installation of a 4,000 horsepower shredder and a metal separation process. The raw materials – scrap cars, appliances and sheet metal, etc. – would be purchased locally and in Canada. The recycled material would be sold in both the national and international markets.

"The new facility would allow the company to enter the New York market, joining its other regional metals recycling facilities. There is another potential New York site, but the Niagara Falls selection would help the prospective customer to optimize operational costs through the low-cost hydropower allocation. Although the cost of electricity is estimated to be about 1% of the cost of production, metals' recycling is a commodities business characterized by thin margins and volatile raw material costs. The company's most significant cost of production is the scrap metal feedstock which is currently high, based on today's scrap metal prices.

"The facility would create 45 new jobs with a high average total compensation of $60,500 per job. The jobs ratio for a recommended 2,500 kW allocation is 18 new jobs per MW, which is above the two-year historic average of 14.5 new jobs per MW. The capital investment per MW ratio for the allocation is $5.8 million, which is below the two-year historic average of $25.3 million per MW. The project would also be responsible for creating an estimated 15 indirect jobs due to the transporting of raw materials and distribution of the new facility's output. If Falls Metal Recycling moves forward, this project has the added benefit of bringing a brownfield site back to productive use.

SUMMARY

"Based upon a review and evaluation of the company's application for hydropower as detailed above, staff recommends an EP allocation be awarded to Falls Metal Recycling, as set forth in Exhibit '5-A.' In total, the company will commit to $14.6 million of capital investment and to creating 45 new jobs. The recommended allocation will help Falls Metal Recycling decide to move forward with expansion plans in the Niagara region, thus improving and diversifying the economy of Western New York.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocation of available Expansion Power to Falls Metal Recycling as set forth in Exhibit '5-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."

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

RESOLVED, That the allocation of 2,500 kW of Expansion Power to Falls Metal Recycling, as detailed in Exhibit "5-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 Acting General Counsel.

6. <u>Adoption of Board Policy Regarding Payouts from Trust Estate</u>

The Chairman and Trustee Dyson submitted the following report:

<u>BACKGROUND</u>

"The Authority participates in a capital intensive business. In support of its mission, the Authority invests and reinvests in major energy infrastructure projects. In addition, the Authority considers, from time to time, a number of contractual arrangements that are supportive of broader public policy goals such as system reliability, economic development, environmental considerations and/or fuel diversity. These arrangements, if effectuated, can require financial support from the Authority.

"In order to provide better assurances as to the sufficiency of funds to meet the Authority's liabilities under these arrangements, as well as provide the funds for needed upgrades and refurbishment of existing facilities, the Authority has considered placing certain guidelines on the Authority's ability to pay-out or withdraw funds from the Trust Estate for any lawful corporate purpose, including any annual transfer payments – or voluntary contributions – to New York State or its agencies or authorities.

<u>DISCUSSION</u>

"The Authority is requested, from time to time, to make financial contributions and transfers of funds to the State or its agencies or to otherwise provide financial support for various State programs. Such financial support has come in the form of direct transfers to the State's general fund, rebates to customers of the Power for Jobs ('PFJ') Program, the provision of below-cost energy to the beneficiaries of the State's Energy Cost Savings Benefits Program and contributions toward the operation and maintenance expenses for State parks in the vicinity of the Niagara and St. Lawrence projects.

"Over the past five years, the Authority has averaged about $110 million per year in voluntary contributions to the State and another $50 million per year in customer rebates under the State's PFJ Program.

"Any such contribution or transfer of funds must: (1) be authorized by the Legislature; (2) be approved by the Trustees 'as feasible and advisable' and (3) satisfy the requirements of the Authority's General Resolution Authorizing Revenue Obligations, dated February 24, 1998, as amended and supplemented ('Bond Resolution'). The Bond Resolution's requirements to withdraw monies 'free and clear of the lien and pledge created by the [Bond] Resolution' are as follows: that such withdrawals (a) are for a 'lawful corporate purpose as determined by the Authority' which the Authority has taken to mean pursuant to authorizing legislation, and (b) after consideration of the anticipated future receipt of revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for (i) payment of reasonable and necessary operating expenses, (ii) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals or for retirement from service, decommissioning or disposal of facilities, (iii) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt or (iv) payment of interest and principal on subordinate debt. The Bond Resolution's requirements are part of the Authority's contractual commitment to the Authority's bondholders.

"In order to maintain its AA rating, which has been demonstrated repeatedly over the years to be important in the capital-intensive electric power industry, especially to provide power at attractive rates for its citizens and business customers, Authority staff considers the feasibility of any potential transfers based on the following criteria: (a) that the Authority maintains an adequate coverage ratio (at or above the median coverage ratio for comparable public power systems); and (b) that the Authority maintains adequate liquidity to support its continued operations. Following such an evaluation by Authority staff, the Authority's Trustees would then determine the 'feasibility and advisability' of any requested payment.

"Fitch Ratings ("Fitch") annually publishes its Public Power Peer Review in which it reports on financial metrics for various public power systems by ratings category. Over the last 5 years, Fitch reports the median for AA rated wholesale and retail public power entities to be 1.7X and 2.1X, respectively. While the Authority is principally a wholesale entity, it nevertheless has over 2,500 MW of retail load and, therefore, must pay attention to both statistics. Accordingly, the Authority targets earnings at 2.0X or better. It is the intention of this resolution to establish 2.0X debt coverage ratio as the reference point in reviewing future requests of this nature.

"In order to provide better assurance of the Authority's continued ability to maintain its existing assets, invest in new energy-related infrastructure and to meet the obligations of any Public Policy Contracts (as described below) while maintaining its financial standing and to draw an appropriate balance between this and its ability to accommodate certain cash requests for State programs, we recommend that the Authority adopt the following Policy Statement with Respect to the Withdrawal of Funds from the Trust Estate of the Bond Resolution.

> **It is hereby declared that it is the policy of the Power Authority of the State of New York that prior to the pay-out or withdrawal of any funds from the Trust Estate pursuant to Section 503(1)(e) of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998, as amended and supplemented, in addition to any determinations required under such General Resolution, the Trustees shall, use a debt service coverage ratio of 2.0 as a reference point in considering any such pay-out or withdrawal.**

"In order to effectuate this policy, the Trustees shall consider whether the amount so withdrawn exceeds 'Available Net Revenues' as of any date of calculation. 'Available Net Revenues' shall mean an amount equal to (a) minus (b), where:

> (a) equals the sum for the twelve month period ending with the latest calendar quarter (i.e., ending March, June, September or December) of (i) Net Cash from Operating Activities (including consideration of any net revenues or expenses of Public Policy Contracts and Prior Contributions to the State during such period), (ii) Cash Flow from Entergy Value Sharing Agreement, (iii) Cash Flow from Entergy Notes Receivable, (iv) Earnings Received on Investments and (v) the interest portion of Energy Conservation Program payments received from participants, each as reported in the Authority's Statement of Cash Flows prepared on a basis consistent with the Authority's latest audited financial statements; and
>
> (b) equals the sum of (i) the Debt Service Coverage Requirement and (ii) Prior Contributions to the State (not considered in (a) above), and where:
>
> 'Debt Service Coverage Requirement' shall mean an amount equal to two times the sum of all interest and scheduled principal payments on Obligations, Parity Debt and Subordinated Indebtedness and payments arising from debt-related Subordinated Contract Obligations estimated to be due in the succeeding twelve months.
>
> 'Prior Contributions to the State' shall include the sum of all amounts withdrawn or paid-out, directly or indirectly to the State or any of its political subdivisions, agencies, public authorities or entities, from the Trust Estate pursuant to Section 503(1)(e) of the Authority's General Resolution Authorizing Revenue Obligations dated February 24, 1998 during the prior twelve-month period ending with the latest calendar quarter.
>
> 'Public Policy Contract' shall mean any contract entered into by the Authority in support of public policy goals, such as system reliability, environmental considerations, economic development or fuel diversity which is designated at the time of execution as a Public Policy Contract by the Trustees.

"The implementation of and compliance with this Policy would result in the Authority applying this standard as a reference point for the Trustees in considering any future requests for 'voluntary contributions' to the State, its subdivisions or for Public Policy Contracts.

<u>FISCAL INFORMATION</u>

"The Policy established herein will allow the Authority to better manage the forward impacts and uncertainty surrounding such Public Policy Contracts and Contributions to the State, while still providing funds for the essential maintenance of its facilities and the construction of needed new transmission lines, upgrades to the same or new power generating facilities.

RECOMMENDATION

"For the reasons stated, we recommend the approval of the above Policy Statement by adoption of the attached draft resolution."

Ms. Elizabeth McCarthy provided highlights of staff's recommendation to the Trustees. Chairman Townsend said he wanted to acknowledge Trustee John Dyson's efforts with respect to his work on the policy and asked him to comment on it.

Trustee Dyson said that because of the various pressures placed on the Authority's funds, the Authority needs to take into account major capital investments to be made in order to maintain its aging facilities and its AA credit rating. To that end, after discussions with the Trustees, it was agreed that the language in the Authority's Bond covenants is vague and proposed a Policy to be used as a guiding principal or reference point for future payouts from the Authority's Trust Estate.

Vice Chairman Foster said that the adoption of this policy is a step in the right direction as regards the Authority's credibility and the role of the Trustees under the PAAA. He noted that this is a Board Policy, as opposed to being part of the Authority's Bond covenant, and is therefore subject to change by a future board. He also stated that, going forward, he hopes the Authority's relationship with Albany will improve, since this policy will afford them a more definitive view of the Authority's capital structure.

Trustee Nicandri agreed with the comments of Vice Chairman Foster and added that it is important for the Trustees to recognize their responsibilities so that when issues come up the Trustees understand what their responsibilities are as it relates to a particular issue.

Chairman Townsend added that, over the last several years, the administrations looked at the Authority as a kind of "cash cow" to deal with issues not related to its business and that the Authority should start using its earnings in a way that is more consistent with its mission statement.

The following resolution, as submitted by the Chairman and Trustee Dyson, was unanimously adopted.

> **RESOLVED, That the Authority hereby adopts a Policy Statement with Respect to the Withdrawal of Funds from the Trust Estate of the Bond Resolution as described in detail in the foregoing report; and be it further**
>
> **RESOLVED, That the Chairman, the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, the Acting General Counsel, the Senior Vice President – Corporate Planning and Finance, the Treasurer and the Deputy Treasurer are, and each of them hereby is, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts to execute and deliver or cause to be executed and delivered all other notices,**

requests, directions, consents, approvals, orders, applications, agreements, certificates and further documents or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolution, subject to the approval as to the form of such certificates, agreements and other documents by the Acting General Counsel.

7. Procurement (Services) Contract – Request for Additional Funding –
<u>Pillsbury Winthrop Shaw Pittman LLC – Contract No. 4500172044</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to approve additional funding in the amount of $175,000 for the multi-year legal services contract the Authority has with the law firm Pillsbury Winthrop Shaw Pittman LLC to support the Authority's damage claim against the federal government for the government's breach of its contractual promise with respect to spent nuclear fuel and high level radioactive waste.

<u>BACKGROUND</u>

"The Authority's Expenditure Authorization Procedures ('EAPs') require the Trustees' approval when the cumulative change-order value of a personal services contract exceeds $500,000.

"On the eve of the November 2000 sale of the James A. FitzPatrick and Indian Point No. 3 nuclear power plants to Entergy Nuclear, Inc., the Authority retained Shaw Pittman, LLP (now Pillsbury Winthrop Shaw Pittman LLC) to provide legal representation in its breach of contract lawsuit against the United States. In the Court of Federal Claims, Washington, D.C., the Authority is seeking monetary damages caused by the federal government's failure to start accepting spent nuclear fuel and high level radioactive waste from the FitzPatrick and Indian Point power plants. The government, whose liability for its failure to perform under the 1983 contract has been established, has been vigorously defending the 74 damage claims brought principally by the nation's nuclear power utilities. Since the fall of 2009 to present, the government has engaged the Authority in time intensive pre-trial discovery and motion practice. This process was further complicated as the Authority needed to coordinate the litigation with Entergy as Entergy maintains many of the relevant documents and many of the witnesses are Entergy's present or former employees. The presiding judge has scheduled the Authority's case for trial this coming fall.

"The Authority and the United States have reached a settlement of the Authority's claims in the amount of approximately $10.9 million, subject to agreement upon the other settlement terms.

<u>DISCUSSION</u>

"At their meeting of March 31, 2009, the Trustees approved an award of a new, five-year, $700,000 contract to Pillsbury Winthrop Shaw Pittman, LLC. These funds were for the firm's legal fees and for the services of The Kendrich Group LLC and Energy Resources International, Inc., experts who prepared and supported the Authority's damages case. Pursuant to the EAPs, the President and Chief Executive Officer, in February 2010, authorized an additional $500,000 to this contract for the same purposes.

"The additional requested funds are required to pay law firm and consultant fees incurred in prosecuting the Authority's claim and to cover the costs associated with effectuating the settlement with the government. The original term of the contract remains unchanged.

<u>FISCAL INFORMATION</u>

"Payments to support this contract will be made from the Authority's Operating Fund.

<u>RECOMMENDATION</u>

"The Acting General Counsel recommends that the Trustees approve the additional funding for this contract. I concur in the recommendation.

"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."

Ms. Judith McCarthy presented highlights of staff's recommendation to the Trustees. In response to a question from Trustee O'Luck, Ms. Judith McCarthy said that the Authority had agreed in principle to a $10.9 million settlement with the US Government. The additional $175,000 is for additional services provided by Pillsbury Winthrop Shaw Pittman and for expert services provided by The Kendrich Group and Energy Resources International.

In response to another question from Trustee O'Luck, Ms. McCarthy confirmed that on March 31, 2009 the Trustees approved a five-year, $700,000 contract with Pillsbury Winthrop Shaw Pittman that was subsequently amended to an additional $500,000 and an additional $175,000 is now being requested for approval.

In response to further questioning from Trustee O'Luck, Ms. McCarthy said that the total cost of the contract was approximately $1.375 million. Ms. McCarthy added that the cost of litigation was taken into consideration when evaluating the settlement.

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

> **RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the additional funding for the multi-year service contract is hereby approved in the amount and for the purposes as recommended in the foregoing report of the President and Chief Executive Officer; and it be 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 as to form thereof by the Acting General Counsel.**

8. 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.

9. 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.

10. Next Meeting

The next regular meeting of the Trustees will be held on **Tuesday, June 28, 2011, at 11:00 a.m., at the Power Vista, Niagara Power Project, Lewiston, New York,** unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 2:25 p.m.

Karen Delince
Corporate Secretary

May 24, 2011

EXHIBITS

Exhibit 2b-A
May 24, 2011

POWER AUTHORITY

OF THE

STATE OF NEW YORK

30 South Pearl Street
10th Floor
Albany, New York 12207-3425

AGREEMENT FOR THE SALE

OF REPLACEMENT POWER AND ENERGY

(MOOG INC.)

The POWER AUTHORITY OF THE STATE OF NEW YORK ("Authority"), created pursuant to Chapter 772 of the New York Laws of 1931 and existing under Title I of Article V of the New York Public Authorities Law ("PAL"), having its office and principal place of business at 30 South Pearl Street, 10th Floor, Albany, New York 12207-3425, hereby enters into this Agreement for the Sale of Replacement Power and energy ("Agreement") with MOOG INC. ("Customer"), with facilities at Jamison Road and Seneca Street, East Aurora, New York 14052. The Authority and the Customer are from time referred to in this Agreement as "Party" or collectively as "Parties" and agree follows:

RECITALS

WHEREAS, the Authority is authorized to sell hydroelectric power produced by the Niagara Power Project, Federal Energy Regulatory Commission ("FERC") Project No. 2216, known as "Replacement Power" (or "RP"), as further defined in this Agreement, to qualified businesses in New York State in accordance with PAL § 1005(5) and (13);

WHEREAS, RP consists of 445 megawatts ("MW") of firm hydroelectric power and associated firm energy produced by the Niagara Power Project;

WHEREAS, the Authority is authorized pursuant to PAL § 1005(13)(a) to award RP based on, among other things, the criteria listed in the PAL, including but not limited to an applicant's long-term commitment to the region as evidenced by the current and planned capital investment; the type and number of jobs supported or created by the allocation; and the state, regional and local economic development strategies and priorities supported by local units of governments in the area in which the recipient's facilities are located;

WHEREAS, PAL § 1005(11) provides that the Authority is authorized to "[t]o exercise all the powers necessary or convenient to carry out and effectuate the purposes and provisions of … title [1 of article 5 of the PAL] … and as incidental thereto to . . . sell … electric power, and generally to do any and every thing necessary or convenient to carry out the purposes of … title [1 of article 5 of the PAL] …";

WHEREAS, the Customer is party to another agreement with the Authority entitled "Agreement for the Sale of Expansion and/or Replacement Power and Energy," dated November 2010 (the "November 2010 Contract") covering various allocations of Expansion Power (or "EP") as provided for in the November 2010 Contract;

WHEREAS, the Customer applied to the Authority for an allocation of RP for use by the Customer at its facilities (defined in Section I of this Agreement as the "Facility);

WHEREAS, on July 31, 2007, the Authority's Board of Trustees ("Trustees") approved a 1,200, kilowatt ("kW") allocation of RP to the Customer for a five (5) year term (defined in Section I of this Agreement as the "Allocation") as further described in this Agreement;

WHEREAS, on July 31, 2007, the Trustees authorized the Authority to, among other things, take any and all actions and execute and deliver any and all agreements and other documents necessary to effectuate its approval of the Allocation;

WHEREAS, the Customer has completed the expansion of the Facility and has requested that the Allocation be made available to the Customer beginning on March 1, 2011;

WHEREAS, NYPA staff has confirmed that the expansion of the Facility is complete;

WHEREAS, the provision of Electric Service (defined in Section I of this Agreement) associated with the Allocation is an unbundled service separate from the Authority's sale of power and energy to the Customer, which will be performed by New York State Electric & Gas Corporation ("NYSEG");

WHEREAS, such transmission and delivery service will be made in accordance with a separate agreement between the Customer, the Authority and NYSEG (defined in Section I of this Agreement as the "Supplemental Agreement"), and NYSEG tariffs as applicable;

WHEREAS, on February 1, 2011, the Parties executed an Interim Agreement for the Sale of Replacement Power and Energy (defined in Section I of this Agreement as the "Interim Agreement"), to enable the Customer to receive the Allocation pending the execution of a long-term agreement, or July 31, 2011, whichever first occurs;

WHEREAS, in accordance with the Supplemental Agreement, the Authority, the Customer and NYSEG, on February 7, 2011 executed the "Interim Sale Agreement Appendix," which is attached to the Interim Agreement as Exhibit A;

WHEREAS, the Parties have reached an agreement on a long-term contract governing the sale of the Allocation to the Customer as set forth in this Agreement;

WHEREAS, the Parties intend that this Agreement will govern the terms and conditions of the sale of the Allocation through June 30, 2013, and that on and after July 1, 2013 the Allocation will be governed by the November 2010 Contract for the remainder of the term of the Allocation;

WHEREAS, the Authority has complied with requirements of PAL § 1009 which specifies the approval process for contracts negotiated by the Authority; and

WHEREAS, the Governor of the State of New York has approved the terms of this Agreement pursuant to PAL § 1009(3).

NOW THEREFORE, in consideration of the mutual covenants herein, the Authority and the Customer agree as follows:

NOW THEREFORE, the Parties hereto agree as follows:

I. Definitions

A. **Agreement** means this Agreement.

B. **Allocation** refers to the allocation of 1,200 kW of RP awarded to the Customer for a five (5) year term as specified in Schedule A.

C. **Contract Demand** is as defined in the Service Tariff.

D. **Electric Service** is the Firm Power and Firm Energy associated with the Allocation and sold by the Authority to the Customer in accordance with this Agreement, the Service Tariff and the Rules.

E. **Expansion Power** (or **EP**) is 250 MW of Firm Power and associated Firm Energy from the Project eligible to be allocated by the Authority for sale to businesses pursuant to PAL § 1005 (5) and (13).

F. **Facility** means the Customer's facilities at 5319 Enterprise Drive, Lockport, New York 14094.

G. **Firm Power** is as defined in the Service Tariff.

H. **Firm Energy** is as defined in the Service Tariff.

I. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).

J. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which became effective September 1, 2007 after expiration of the Project's original license which became effective in 1957.

K. **Hydro Projects** is a collective reference to the Project (defined below) and the Authority's St. Lawrence-FDR Project, FERC Project No. 2000.

L. **Interim Agreement** means the Interim Agreement for the Sale of Replacement Power and Energy, executed by the Parties on February 1, 2011.

M. **Load Serving Entity (or LSE)** means an entity designated by a retail electricity customer (including the Customer) to provide capacity, energy and ancillary services to serve such customer, in compliance with NYISO Tariffs, rules, manuals and procedures.

N. **NYISO** means the New York Independent System Operator or any successor organization.

O. **NYISO Tariffs** means the NYISO's Open Access Transmission Tariff or the NYISO's Market Administration and Control Area Services Tariff, as applicable, as such tariffs are modified from time to time, or any successor to such tariffs.

P. **NYSEG** has the meaning set forth in the eighth recital.

Q. **Project** means the Niagara Power Project, FERC Project No. 2216.

R. **Replacement Power** (or **RP**) is 445 MW of Firm Power and associated Firm Energy from the Project eligible to be allocated by the Authority for sale to businesses pursuant to PAL § 1005(5) and (13).

S. **Rules** are the applicable provisions of Authority's rules and regulations (Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as applicable, as may be modified from time to time by the Authority.

T. **Sales Agreement Appendix** refers to the form Sales Agreement Appendix which is Attachment B to the Supplemental Agreement, a completed and executed copy of which is annexed to this Agreement as Exhibit A.

U. **Service Tariff** means the Authority's Service Tariff No. NP-F1, establishing rates, terms and other conditions for the sale of RP, as may be modified or superseded from time to time.

V. **Schedule A** refers to the Schedule A entitled "Replacement Power Allocations" which is attached to and made part of this Agreement.

W. **Schedule B** refers to the Schedule B entitled "Replacement Power Commitments" which is attached to and made part of this Agreement.

X. **Substitute Energy** means energy sold to the Customer at its request which the Authority procures from markets administered by the NYISO to replace hydroelectricity that would otherwise have been supplied to the Customer under this Agreement.

Y. **Supplemental Agreement** means an agreement entitled "Supplemental Agreement for the Delivery of Power Allocations between Power Authority of the State of New York and New York State Electric & Gas Corporation," made as of July 18, 2007.

Z. **Unforced Capacity** (or **UCAP**) means the electric capacity required to be provided by LSEs to serve electric load as defined by the NYISO Tariffs, rules, manuals and procedures.

II. Electric Service

A. The Authority shall make available Electric Service to enable the Customer to receive the Allocation commencing March 1, 2011 (or on such later date as this Agreement becomes effective) in accordance with this Agreement, the Service Tariff and the Rules.

B. The Authority shall provide UCAP in amounts necessary to meet the Customer's NYISO UCAP requirements associated with the Allocation in accordance with the NYISO Tariffs.

C. The Contract Demand for the Customer's Allocation may be modified by the Authority if the amount of Firm Power and Firm Energy available for sale as EP or RP from the Project is modified as required to comply with any ruling, order, or decision of any regulatory or judicial body having jurisdiction, including but not limited to FERC. Any such modification will be made on a pro rata basis to all EP and RP customers, as applicable, based on the terms of such ruling, order, or decision.

D. The Contract Demand may not exceed the Allocation.

III. Rates, Terms and Conditions

A. Electric Service shall be sold to the Customer based on the rates, terms and conditions determined in accordance with this Agreement, the Service Tariff and the Rules.

B. The Customer may not resell or permit any other person to use any quantity of the RP it has purchased from the Authority under this Agreement.

C. Electric Service sold to the Customer pursuant to this Agreement may only be used by the Customer at the Facility.

D. Notwithstanding any other provision of this Agreement to the contrary, the power and energy rates for Electric Service shall be subject to increase by the Authority at any time upon 30 days prior written notice to the Customer if, after consideration by the Authority of its legal obligations, the marketability of the output or use of the Project and the Authority's competitive position with respect to other suppliers, the Authority determines in its discretion that increases in rates obtainable from any other Authority customers will not provide revenues, together with other available Authority funds not needed for operation and maintenance expenses, capital expenses, and reserves, sufficient to meet all requirements specified in the Authority's bond and note resolutions and covenants with the holders of its financial obligations. The Authority shall use its best efforts to inform the Customer at the earliest practicable date of its intent to increase the power and energy charges pursuant to this provision. Any rate increase to the Customer under this subsection shall be on a non-discriminatory basis as compared to other Authority customers after giving consideration to the factors set forth in the first sentence of this subsection. With respect to any such increase, the Authority shall forward to the Customer with the notice of increase, an explanation of all reasons for the increase, and shall also identify the sources from which the Authority will obtain the total of increased revenues and the bases upon which the Authority will allocate the increased revenue requirements among its customers. Any such increase in rates shall remain in effect only so long as the Authority determines such increase is necessary to provide revenues for the purposes stated in the preceding sentences.

IV. Replacement Power Commitments

Schedule B sets forth the Customer's specific "Replacement Power Commitments." The commitments agreed to in Schedule B are in addition to any other rights and obligations of the Parties provided for in the Agreement.

V. Rules and Service Tariff

The Service Tariff, as may be modified or superseded from time to time by the Authority in its discretion, is hereby incorporated into this Agreement with the same force and effect as if set forth herein at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariff and the Rules, the provisions of the Service Tariff shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of this Agreement and the Service Tariff, the provisions of this Agreement shall govern.

VI. Transmission and Delivery of Firm Power and Firm Energy; Responsibility for Charges

A. The Customer will pay NYSEG for transmission and delivery service associated with the Allocation in accordance with the Supplemental Agreement, and all applicable tariffs, rulemakings, and orders, in order to deliver to the Customer the Allocation of Firm Power and Firm Energy supplied by the Authority under this Agreement. To the extent the Authority incurs transmission and delivery service charges or other costs associated with the Allocation during the term of this Agreement, the Customer agrees to compensate the Authority for all such charges and costs incurred.

B. Each Party hereby represents that nothing in this Agreement conflicts with the Supplemental Agreement, and the event of any such conflict, the terms of the Supplemental Agreement shall control.

C. The Customer understands and acknowledges that delivery of the Allocation will be made over transmission facilities under the control of the NYISO. The Authority will act as the LSE with respect to the NYISO, or arrange for another entity to do so on the Authority's behalf. The Customer agrees and understands that it shall be responsible to the Authority for all costs incurred by the Authority with respect to the Allocation for the services established in the NYISO Tariff or other applicable tariff ("NYISO Charges"), as set forth in the Service Tariff or any successor service tariff, regardless of whether such NYISO Charges are transmission-related. Such NYISO Charges shall be in addition to the charges for power and energy.

VII. Billing and Billing Methodology

A. The billing methodology for the Allocation shall be determined on a "load factor sharing" basis consistent with the Supplemental Agreement.

B. The Authority will render bills by the 10th business day of the month for charges due for the previous month. Such bills shall include charges for Electric Service, NYISO Charges associated with the Allocation (subject to adjustment consistent with any later NYISO re-billings to the Authority), and other applicable charges.

C. All other provisions with respect to billing are set forth in the Service Tariff.

VIII. Hydropower Curtailments and Substitute Energy

A. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of the Authority's firm power customers served by the Authority from the

Hydro Projects, curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy associated with the Allocation to which the Customer is entitled shall be applied on a *pro rata* basis to all firm power and energy customers served from the Hydro Projects, consistent with the Service Tariff as applicable.

B. The Authority shall provide reasonable notice to Customer of any curtailments referenced in Section VII.A of this Agreement that could impact Customer's Electric Service under this Agreement. Upon written request by the Customer, the Authority will provide Substitute Energy to the Customer to replace the Firm Power and Firm Energy that would otherwise have been supplied pursuant to this Agreement.

C. For each kilowatt-hour of Substitute Energy supplied by the Authority, the Customer will pay the Authority directly during the billing month: (1) the difference between the market cost of the Substitute Energy and the charge for firm energy as provided for in this Agreement; and (2) any NYISO charges and taxes the Authority incurs in connection with the provision of such Substitute Energy. Billing and payment for Substitute Energy shall be governed by the Billing and Payments provision of the Authority's Rules (Section 454.6) and shall apply directly to the Substitute Energy service supplied to the Customer.

D. The Parties may enter into a separate agreement to facilitate the provision of Substitute Energy, provided, however, that the provisions of this Agreement shall remain in effect notwithstanding any such separate agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

IX. Effectiveness, Term and Termination

A. This Agreement shall become effective and legally binding on the Parties: (1) upon execution of this Agreement by the Authority and the Customer; and (2) upon execution of a Sales Agreement Appendix by the Parties and NYSEG unless otherwise agreed to by the Parties and NYSEG pursuant to the Supplemental Agreement.

B. Once initiated, Electric Service under the Agreement shall continue until the earliest of: (1) termination by the Customer with respect to its Allocation upon ninety (90) days prior written notice to the Authority; (2) termination by the Authority pursuant to this Agreement, the Service Tariff, or the Rules; (3) termination of the Supplemental Agreement or the Sales Agreement Appendix as provided for in the Supplemental Agreement and the Sales Agreement Appendix; or (4) June 30, 2013.

C. The Customer may exercise a partial termination of the Allocation upon at least thirty (30) days notice prior written notice to the Authority. The termination shall be effective commencing with the first billing period as defined in the Service Tariff.

D. The Authority may cancel service under this Agreement or modify the quantities of Firm Power and Firm Energy associated with the Allocation: (1) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency); or (2) as otherwise provided in this Agreement, the Service Tariff or the Rules.

X. Transition of Allocation to November 2010 Contract

Beginning July 1, 2013, the provision of the Allocation will be governed by the November 2010 Contract (and the Authority's Service Tariff No. WNY-1 and the Rules as provided in the November 2010 Contract). To facilitate the transition of the Allocation to the November 2010 Contract, the Authority will (i) modify Schedule A to the November 2010 Contract to add the Allocation, (ii) modify Schedule B to the November 2010 Contract to add the Customer's Employment Commitments under this Agreement, and (iii) provide a revised/supplemental Schedule A and Schedule B to the Customer. Such transition shall not otherwise effect the Allocation, including the term of the Allocation, or otherwise modify the terms of the November 2010 Agreement. Notwithstanding Article XV of the November 2010 Contract, further consent of the parties shall not be required to effectuate the transition described in this Section, provided, however, that nothing in this Section shall preclude the Parties from agreeing to additional modifications of the November 2010 Contract to facilitate such transition.

XI. Notification

A. Correspondence involving the administration of this Agreement shall be addressed as follows:

To: The Authority

New York Power Authority
123 Main Street
White Plains, New York 10601
Email: James.Pasquale@nypa.gov
Attention: Mr. James F. Pasquale, Senior Vice President, Marketing and Economic Development

To: The Customer

Moog Inc.
Jamison Road and Seneca Street
East Aurora, New York 14052
Email:
Attention: Timothy P. Balkin, Treasurer

The foregoing notice/notification information pertaining to either Party may be changed by such Party upon notification to the other Party pursuant to Section IX.B of this Agreement.

B. Except where otherwise herein specifically provided, any notice, communication or request required or authorized by this Agreement by either Party to the other shall be deemed properly given: (1) if sent by U.S. First Class mail addressed to the Party at the address set forth above; (2) if sent by a nationally recognized overnight delivery service, two (2) calendar days after being deposited for delivery to the appropriate address set forth above; (3) if delivered by hand, with written confirmation of receipt; (4) if sent by facsimile to the appropriate fax number as set forth above, with written confirmation of receipt; or (5) if sent by electronic mail to the appropriate address as set forth above, with written confirmation of receipt. Either Party may change the addressee and/or address for correspondence sent to it by giving written notice in accordance with the foregoing.

XII. Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act (16 U.S.C. §§836, 836a).

XIII. Venue

Each Party consents to the exclusive jurisdiction and venue of any state or federal court within or for Albany County, New York, with subject matter jurisdiction for adjudication of any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement.

XIV. Assignments and Transfers

The Customer may not assign or otherwise transfer an interest in this Agreement without written approval of the Authority.

XV. Previous Agreements and Communications

A. This Agreement shall constitute the sole and complete agreement of the Parties hereto with respect to the sale, transmission and delivery of the Allocation and supersedes all previous communications and agreements between the Parties hereto, either oral or written, with reference to said Allocation, including the Interim Agreement.

B. Except as otherwise provided in this Agreement, no modification of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XVI. Severability and Voidability

A. If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

B. Notwithstanding the preceding paragraph, if any provision of this Agreement is rendered void or unenforceable or otherwise modified by a court or agency of competent jurisdiction, the entire Agreement shall, at the option of either Party and only in such circumstances in which such Party's interests are materially and adversely impacted by any such action, be rendered void and unenforceable by such affected Party.

XVII. Waiver

A. Any waiver at any time by either the Authority or the Customer of their rights with respect to a default or of any other matter arising out of this Agreement shall not be deemed to be a waiver with respect to any other default or matter.

B. No waiver by either Party of any rights with respect to any matter arising in connection with this Agreement shall be effective unless made in writing and signed by the Party making the waiver.

XVIII. Execution

To facilitate execution, this Agreement may be executed in as many counterparts as may be required, and it shall not be necessary that the signatures of, or on behalf of, each Party, or that the signatures of all persons required to bind any Party, appear on each counterpart; but it shall be sufficient that the signature of, or on behalf of, each Party, or that the signatures of the persons required to bind any Party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the Parties hereto. The delivery of an executed counterpart of this Agreement by email as a PDF file shall be legal and binding and shall have the same full force and effect as if an original executed counterpart of this Agreement had been delivered.

[SIGNATURES FOLLOW ON NEXT PAGE]

AGREED:

MOOG INC.

By: ____

Title: ____

Date: ____

AGREED:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: ____

Title: ____

Date: ____

SCHEDULE A TO AGREEMENT FOR THE SALE OF REPLACEMENT POWER AND ENERGY TO MOOG INC.

REPLACEMENT POWER ALLOCATIONS

Customer: MOOG INC.

Facility: The Facility (located at Jamison Road and Seneca Street, East Aurora, New York 14052)

	Type of Allocation	Allocation (kW)	Expiration Date	Extended Expiration Date
1.	RP	1,200		N/A
	TOTALS:	1,200 kW		

SCHEDULE B TO AGREEMENT FOR THE SALE OF REPLACEMENT POWER AND ENERGY TO MOOG INC.

REPLACEMENT POWER COMMITMENTS

I. Employment Commitments

A. Employment Levels

The provision of Replacement Power to the Customer hereunder is in consideration of, among other things, the Customer's creation and/or maintenance of the employment level set forth in Appendix A of this Schedule (the "Base Employment Level"). Such Base Employment Level shall be the total number of full-time positions held by: (1) individuals who are employed by the Customer at Customer's facilities identified in Appendix A to this Schedule, and (2) individuals who are contractors or who are employed by contractors of the Customer and assigned to the facilities identified in such Appendix A (collectively, "Base Level Employees"). The number of Base Level Employees shall not include individuals employed on a part-time basis (less than 35 hours per week); provided, however, that two individuals each working 20 hours per week or more at such facilities shall be counted as one Base Level Employee.

The Base Employment Level shall not be created or maintained by transfers of employees from previously held positions with the Customer or its affiliates within the State of New York, except that the Base Employment Level may be filled by employees of the Customer laid off from other Customer facilities for *bona fide* economic or management reasons.

The Authority may consider a request to change the Base Employment Level based on a claim of increased productivity, increased efficiency or adoption of new technologies or for other appropriate reasons as determined by the Authority. Any such change shall be within Authority's sole discretion.

B. Employment Records and Reports

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority, of the total number of Base Level Employees who are employed at or assigned to the Customer's facilities identified in Appendix A to this Schedule, as reported to the

United States Department of Labor (or as reported in such other record as agreed upon by the Authority and the Customer). Such report shall separately identify the individuals who are employed by the Customer, and the individuals who are contractors or who are employed by contractors of the Customer, and shall be certified to be correct by an officer of the Customer, plant manager or such other person authorized by the Customer to prepare and file such report and shall be provided to the Authority on or before the last day of February following the end of the most recent calendar year. The Authority shall have the right to examine and audit on reasonable advance written notice all non-confidential written and electronic records and data concerning employment levels including, but not limited to, personnel records and summaries held by the Customer and its affiliates relating to employment in New York State.

II. Reductions of Contract Demand

A. Employment Levels

If the year-end monthly average number of employees is less than 90% of the Base Employment Level set forth in this Schedule B, for the subject calendar year, the Authority may reduce the Contract Demand subject to Article II.D of this Schedule. The maximum amount of reduction will be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average monthly employment during the subject calendar year divided by the Base Employment Level. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, the Agreement shall automatically terminate.

B. Power Utilization Levels

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority on or before the last day of February following the end of the most recent calendar year, of the maximum demand utilized each month in the facilities receiving the power covered by the Agreement. If the average of the Customer’s six (6) highest Billing Demands (as such term is described in Service Tariff No. NP-F1) for Replacement Power is less than 90% of the Customer’s Contract Demand in such calendar year the Authority may reduce the Contract Demand subject to Article II.D of this Schedule. The maximum amount by which the Authority may reduce the Contract Demand shall be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average of the six (6) highest Billing Demands for in such calendar year divided by the Contract Demand. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, this Agreement shall automatically terminate.

C. Capital Investment Levels

The Customer has completed the Capital Investment set forth in the Appendix to this Schedule B. No other Capital Investment commitments are applicable to the Allocation.

D. Notice of Intent to Reduce Contract Demand

In the event that the Authority determines that the Contract Demand will be wholly or partially reduced pursuant to this Schedule , the Authority shall provide the Customer with at least thirty (30) days prior written notice of such reduction, specifying the amount of the reduction of Contract Demand and the reason for the reduction, provided, however, that before making the reduction, the Authority may consider the Customer's scheduled or unscheduled maintenance or facilities upgrading periods when such events temporarily reduce plant employment levels or electrical demand as well as business cycle.

III. Energy Efficiency Audits; Information Requests

The Customer shall undergo an energy efficiency audit of its facilities and equipment at which the Allocation is consumed at the Customer's expense at least once during the term of this Agreement. The Customer will provide the Authority with a copy of the audit or, at the Authority's option, a report describing the results of the audit, and provide documentation requested by the Authority to verify the implementation of any efficiency measures implemented at the facilities.

The Customer agrees to cooperate to make its facilities available at reasonable times and intervals for energy audits and related assessments that the Authority desires to perform, if any, at the Authority's own expense.

The Customer shall provide information requested by the Authority or its designee in surveys, questionnaires and other information requests relating to energy efficiency and energy-related projects, programs and services.

The Customer may, after consultation with the Authority, exclude from written copies of audits, reports and other information provided to the Authority under this Article trade secrets and other information which if disclosed would harm the competitive position of the Customer.

APPENDIX TO SCHEDULE B

Base Employment Level

In consideration of receiving the Allocation, the Customer agrees to attain a Base Employment Level of 2,446 persons at the Customer's Facility within 3 years of commencement of Electric Service under the Agreement and to maintain such Base Employment Level thereafter for the term of the allocation in accordance with Article I of Schedule B. The Base Employment Level is derived from (1) a stipulation by the Customer that there exists 2,306 jobs at the Facility at the time of the award of the Allocation by the Authority, and (2) a commitment by the Customer to create 140 new jobs at the Facility.

Capital Investment Level

In consideration of receiving the Allocation, the Customer has made a capital investment of approximately $16.85 million in the Facility, adding nearly 67,000 square feet of manufacturing, engineering and office space to the Facility. The components of the investment include:

Space and defense group facility expansion: $6.0
Industrial group facility expansion: $9.5
Industrial-related machinery and equipment: $1.2
Office equipment: $0.15

Exhibit 2b-B
May 24, 2011

POWER AUTHORITY

OF THE

STATE OF NEW YORK

30 South Pearl Street
10th Floor
Albany, New York 12207-3425

AGREEMENT FOR THE SALE

OF EXPANSION POWER AND ENERGY

(ITT ENIDINE INC.)

The POWER AUTHORITY OF THE STATE OF NEW YORK ("Authority"), created pursuant to Chapter 772 of the New York Laws of 1931 and existing under Title I of Article V of the New York Public Authorities Law ("PAL"), having its office and principal place of business at 30 South Pearl Street, 10th Floor, Albany, New York 12207-3425, hereby enters into this Agreement for the Sale of Expansion Power and energy ("Agreement") with ITT ENIDINE INC. ("Customer"), with facilities at 7 Center Drive, Orchard Park, New York 14127. The Authority and the Customer are from time referred to in this Agreement as "Party" or collectively as "Parties" and agree follows:

RECITALS

WHEREAS, the Authority is authorized to sell hydroelectric power produced by the Niagara Power Project, Federal Energy Regulatory Commission ("FERC") Project No. 2216, known as "Expansion Power" (or "EP"), as further defined in this Agreement, to qualified businesses in New York State in accordance with PAL § 1005(5) and (13);

WHEREAS, EP consists of 250 megawatts ("MW") of firm hydroelectric power and associated firm energy produced by the Niagara Power Project;

WHEREAS, the Authority is authorized pursuant to PAL § 1005(13)(a) to award EP based on, among other things, the criteria listed in the PAL, including but not limited to an applicant's long-term commitment to the region as evidenced by the current and planned capital investment; the type and number of jobs supported or created by the allocation; and the state, regional and local economic development strategies and priorities supported by local units of governments in the area in which the recipient's facilities are located;

WHEREAS, PAL § 1005(11) provides that the Authority is authorized to "[t]o exercise all the powers necessary or convenient to carry out and effectuate the purposes and provisions of … title [1 of article 5 of the PAL] … and as incidental thereto to . . . sell … electric power, and generally to do any and every thing necessary or convenient to carry out the purposes of … title [1 of article 5 of the PAL] …";

WHEREAS, the Customer applied to the Authority for an allocation of EP for use by the Customer at its facilities (defined in Section I of this Agreement as the "Facility);

WHEREAS, on May 22, 2007, the Authority's Board of Trustees ("Trustees") approved a 200 kilowatt ("kW") allocation of EP to the Customer for a five (5) year term (defined in Section I of this Agreement as the "Allocation") as further described in this Agreement;

WHEREAS, on May 22, 2007, the Trustees further authorized the Authority to, among other things, take any and all actions and execute and deliver any and all agreements and other documents necessary to effectuate its approval of the Allocation;

WHEREAS, the Customer has completed an expansion of its Facility and has requested that the Allocation be made available beginning ____;

WHEREAS, NYPA staff has confirmed that the expansion of the Facility is complete;

WHEREAS, the provision of Electric Service (defined in Section I of this Agreement) associated with the Allocation is an unbundled service separate from the Authority's sale of power and energy to the Customer, which will be performed by New York State Electric & Gas Corporation ("NYSEG");

WHEREAS, such transmission and delivery service will be made in accordance with a separate agreement between the Customer, the Authority and NYSEG (defined in Section I of this Agreement as the "Supplemental Agreement") and NYSEG tariffs as applicable;

WHEREAS, on ___, 2010, the Parties executed an Interim Agreement for the Sale of Expansion Power and Energy (defined in Section I of this Agreement as the "Interim Agreement"), to enable the Customer to receive the Allocation pending the execution of a long-term agreement, or until ___, whichever first occurs;

WHEREAS, in accordance with the Supplemental Agreement, the Authority, the Customer and NYSEG, on ___, executed the "Interim Sale Agreement Appendix," which is attached to the Interim Agreement as Exhibit A;

WHEREAS, the Parties have reached an agreement on a long-term contract governing the sale of the Allocation to the Customer as set forth in this Agreement;

WHEREAS, the Parties intend that this Agreement will govern the terms and conditions of the sale of the Allocation to the Customer;

WHEREAS, the Authority has complied with requirements of PAL § 1009 which specifies the approval process for certain contracts negotiated by the Authority; and

WHEREAS, the Governor of the State of New York has approved the terms of this Agreement pursuant to PAL § 1009(3).

NOW THEREFORE, in consideration of the mutual covenants herein, the Authority and the Customer agree as follows:

NOW THEREFORE, the Parties hereto agree as follows:

I. Definitions

A. **Agreement** means this Agreement.

B. **Allocation** refers to the allocation of 200 kW of EP awarded to the Customer for a five (5) year term as specified in Schedule A.

C. **Contract Demand** is as defined in the Service Tariffs.

D. **Electric Service** is the Firm Power and Firm Energy associated with the Allocation and sold by the Authority to the Customer in accordance with this Agreement, the Service Tariffs and the Rules.

E. **Expansion Power** (or **EP**) is 250 MW of Firm Power and associated Firm Energy from the Project eligible to be allocated by the Authority for sale to businesses pursuant to PAL § 1005 (5) and (13).

F. **Facility** means the Customer's the Customer's place of business located at 7 Centre Drive, Orchard Park, New York 14127.

G. **Firm Power** is as defined in the Service Tariffs.

H. **Firm Energy** is as defined in the Service Tariffs.

I. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).

J. **FERC License** means the first new license issued by FERC to the Authority for the continued operation and maintenance of the Project, pursuant to Section 15 of the Federal Power Act, which became effective September 1, 2007 after expiration of the Project's original license which became effective in 1957.

K. **Hydro Projects** is a collective reference to the Project (defined below) and the Authority's St. Lawrence-FDR Project, FERC Project No. 2000.

L. **Interim Agreement** means the Interim Agreement for the Sale of Expansion Power and Energy, executed by the Parties on **___**.

M. **Load Serving Entity (or LSE)** means an entity designated by a retail electricity customer (including the Customer) to provide capacity, energy and ancillary services to serve such customer, in compliance with NYISO Tariffs, rules, manuals and procedures.

N. **NYISO** means the New York Independent System Operator or any successor organization.

O. **NYISO Tariffs** means the NYISO's Open Access Transmission Tariff or the NYISO's Market Administration and Control Area Services Tariff, as applicable, as such tariffs are modified from time to time, or any successor to such tariffs.

P. **NYSEG** has the meaning set forth in the eighth recital.

Q. **Project** means the Niagara Power Project, FERC Project No. 2216.

R. **Replacement Power** (or **RP**) is 445 MW of Firm Power and associated Firm Energy from the Project eligible to be allocated by the Authority for sale to businesses pursuant to PAL § 1005(5) and (13).

S. **Rules** are the applicable provisions of Authority's rules and regulations (Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as may be modified from time to time by the Authority.

T. **Sales Agreement Appendix** refers to the form Sales Agreement Appendix which is Attachment B to the Supplemental Agreement, a completed and executed copy of which is annexed to this Agreement as Exhibit A.

U. **Service Tariffs** is a collective reference to the Authority's Service Tariff No. EP-1 and Service Tariff No. WNY-1, as applicable.

V. **Service Tariff No. EP-1** means the Authority's Service Tariff No. EP-1, establishing rates, terms and other conditions for the sale of EP, as may be modified or superseded from time to time. Service Tariff No. EP-1 shall be applicable to Electric Service provided prior to July 1, 2013.

W. **Service Tariff No. WNY-1** means the Authority's Service Tariff No. WNY-1, as may be modified from time to time by the Authority. Service Tariff No. WNY-1 shall be applicable to Electric Service provided on and after July 1, 2013.

X. **Schedule A** refers to the Schedule A entitled "Expansion Power Allocations" which is attached to and made part of this Agreement.

Y. **Schedule B** refers to the Schedule B entitled "Expansion Power Commitments" which is attached to and made part of this Agreement.

Z. **Substitute Energy** means energy sold to the Customer at its request which the Authority procures from markets administered by the NYISO to replace hydroelectricity that would otherwise have been supplied to the Customer under this Agreement.

AA. **Supplemental Agreement** means an agreement entitled "Supplemental Agreement for the Delivery of Power Allocations between Power Authority of the State of New York and New York State Electric & Gas Corporation," made as of July 18, 2007.

BB. **Unforced Capacity** (or **UCAP**) means the electric capacity required to be provided by LSEs to serve electric load as defined by the NYISO Tariffs, rules, manuals and procedures

II. Electric Service

A. The Authority shall make available Electric Service to enable the Customer to receive the Allocation commencing **___** (or on such later date as this Agreement becomes effective) in accordance with this Agreement, the Service Tariffs and the Rules.

B. The Authority shall provide UCAP in amounts necessary to meet the Customer's NYISO UCAP requirements associated with the Allocation in accordance with the NYISO Tariffs.

C. The Contract Demand for the Customer's Allocation may be modified by the Authority if the amount of Firm Power and Firm Energy available for sale as EP or RP from the Project is modified as required to comply with any ruling, order, or decision of any regulatory or judicial body having jurisdiction, including but not limited to FERC. Any such modification will be made on a pro rata basis to all EP and RP customers, as applicable, based on the terms of such ruling, order, or decision.

D. The Contract Demand may not exceed the Allocation.

III. Rates, Terms and Conditions

A. From the effective date of this Agreement through and including June 30, 2013, Electric Service shall be sold to the Customer based on the rates, terms and conditions determined in accordance with this Agreement, Service Tariff No. EP-1 and the Rules.

B. From July 1, 2013 until the termination of this Agreement, Electric Service shall be sold to the Customer based on the rates, terms and conditions determined in accordance with this Agreement, Service Tariff No. WNY-1 and the Rules.

C. The Customer may not resell or permit any other person to use any quantity of the EP it has purchased from the Authority under this Agreement.

D. Electric Service sold to the Customer pursuant to this Agreement may only be used by the Customer at the Facility.

E. Notwithstanding any other provision of this Agreement to the contrary, the power and energy rates for Electric Service shall be subject to increase by the Authority at any time upon 30 days prior written notice to the Customer if, after consideration by the Authority of its legal obligations, the marketability of the output or use of the Project and the Authority's competitive position with respect to other suppliers, the Authority determines in its discretion that increases in rates obtainable from any other Authority customers will not provide revenues, together with other available Authority funds not needed for operation and maintenance expenses, capital expenses, and reserves, sufficient to meet all requirements specified in the Authority's bond and note resolutions and covenants with the holders of its financial obligations. The Authority shall use its best efforts to inform the Customer at the earliest practicable date of its intent to increase the power and energy charges pursuant to this provision. Any rate increase to the Customer under this subsection shall be on a non-discriminatory basis as compared to other Authority customers after giving consideration to the factors set forth in the first sentence of this subsection. With respect to any such increase, the Authority shall forward to the Customer with the notice of increase, an explanation of all reasons for the increase, and shall also identify the sources from which the Authority will obtain the total of increased revenues and the bases upon which the Authority will allocate the increased revenue requirements among its customers. Any such increase in rates shall remain in effect only so long as the Authority determines such increase is necessary to provide revenues for the purposes stated in the preceding sentences.

IV. Expansion Power Commitments

Schedule B sets forth the Customer's specific "Expansion Power Commitments." The commitments agreed to in Schedule B are in addition to any other rights and obligations of the Parties provided for in the Agreement.

V. Rules and Service Tariffs

The Service Tariffs, as may be modified or superseded from time to time by the Authority in its discretion, are hereby incorporated into this Agreement with the same force and effect as if set forth herein at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of this Agreement and the Service Tariffs, the provisions of this Agreement shall govern.

VI. Transmission and Delivery of Firm Power and Firm Energy; Responsibility for Charges

A. The Customer will pay NYSEG for transmission and delivery service associated with the Allocation in accordance with the Supplemental Agreement, and all applicable tariffs, rulemakings, and orders, in order to deliver to the Customer the Allocation of Firm Power and Firm Energy supplied by the Authority under this Agreement. To the extent the Authority incurs transmission and delivery service charges or other costs associated with the Allocation during the term of this Agreement, the Customer agrees to compensate the Authority for all such charges and costs incurred.

B. Each Party hereby represents that nothing in this Agreement conflicts with the Supplemental Agreement, and the event of any such conflict, the terms of the Supplemental Agreement shall control.

C. The Customer understands and acknowledges that delivery of the Allocation will be made over transmission facilities under the control of the NYISO. The Authority will act as the LSE with respect to the NYISO, or arrange for another entity to do so on the Authority's behalf. The Customer agrees and understands that it shall be responsible to the Authority for all costs incurred by the Authority with respect to the Allocation for the services established in the NYISO Tariff or other applicable tariff ("NYISO Charges"), as set forth in the Service Tariffs or any successor service tariff, regardless of whether such NYISO Charges are transmission-related. Such NYISO Charges shall be in addition to the charges for power and energy.

VII. Billing and Billing Methodology

A. The billing methodology for the Allocation shall be determined on a "load factor sharing" basis consistent with the Supplemental Agreement.

B. The Authority will render bills by the 10^{th} business day of the month for charges due for the previous month. Such bills shall include charges for Electric Service, NYISO

Charges associated with the Allocation (subject to adjustment consistent with any later NYISO re-billings to the Authority), and other applicable charges.

C. All other provisions with respect to billing are set forth in the Service Tariffs.

VIII. Hydropower Curtailments and Substitute Energy

A. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of the Authority's firm power customers served by the Authority from the Hydro Projects, curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy associated with the Allocation to which the Customer is entitled shall be applied on a *pro rata* basis to all firm power and energy customers served from the Hydro Projects, consistent with the Service Tariffs as applicable.

B. The Authority shall provide reasonable notice to Customer of any curtailments referenced in Section VII.A of this Agreement that could impact Customer's Electric Service under this Agreement. Upon written request by the Customer, the Authority will provide Substitute Energy to the Customer to replace the Firm Power and Firm Energy that would otherwise have been supplied pursuant to this Agreement.

C. For each kilowatt-hour of Substitute Energy supplied by the Authority, the Customer will pay the Authority directly during the billing month: (1) the difference between the market cost of the Substitute Energy and the charge for firm energy as provided for in this Agreement; and (2) any NYISO charges and taxes the Authority incurs in connection with the provision of such Substitute Energy. Billing and payment for Substitute Energy shall be governed by the Billing and Payments provision of the Authority's Rules (Section 454.6) and shall apply directly to the Substitute Energy service supplied to the Customer.

D. The Parties may enter into a separate agreement to facilitate the provision of Substitute Energy, provided, however, that the provisions of this Agreement shall remain in effect notwithstanding any such separate agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

IX. Effectiveness, Term and Termination

A. This Agreement shall become effective and legally binding on the Parties: (1) upon execution of this Agreement by the Authority and the Customer; and (2) upon execution of a Sales Agreement Appendix by the Parties and NYSEG unless otherwise agreed to by the Parties and NYSEG pursuant to the Supplemental Agreement.

B. Once initiated, Electric Service under the Agreement shall continue until the earliest of: (1) termination by the Customer with respect to its Allocation upon ninety (90) days prior written notice to the Authority; (2) termination by the Authority pursuant to this Agreement, the Service Tariffs, or the Rules; (3) termination of the Supplemental Agreement or the Sales Agreement Appendix as provided for in the Supplemental Agreement and the Sales Agreement Appendix; or (4) ___.

C. The Customer may exercise a partial termination of the Allocation upon at least thirty (30) days notice prior written notice to the Authority. The termination shall be effective commencing with the first billing period as defined in the Service Tariffs.

D. The Authority may cancel service under this Agreement or modify the quantities of Firm Power and Firm Energy associated with the Allocation: (1) if such cancellation or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency); or (2) as otherwise provided in this Agreement, the Service Tariffs, or the Rules.

X. Notification

A. Correspondence involving the administration of this Agreement shall be addressed as follows:

To: The Authority

New York Power Authority
123 Main Street
White Plains, New York 10601
Email: James.Pasquale@nypa.gov
Attention: Mr. James F. Pasquale, Senior Vice President, Marketing and Economic Development

To: The Customer

ITT Enidine Inc.
7 Centre Drive
Orchard Park, New York 14127
Email:
Attention:

The foregoing notice/notification information pertaining to either Party may be changed by such Party upon notification to the other Party pursuant to Section IX.B of this Agreement.

B. Except where otherwise herein specifically provided, any notice, communication or request required or authorized by this Agreement by either Party to the other shall be deemed properly given: (1) if sent by U.S. First Class mail addressed to the Party at the address set forth above; (2) if sent by a nationally recognized overnight delivery service, two (2) calendar days after being deposited for delivery to the appropriate address set forth above; (3) if delivered by hand, with written confirmation of receipt; (4) if sent by facsimile to the appropriate fax number as set forth above, with written confirmation of receipt; or (5) if sent by electronic mail to the appropriate address as set forth above, with written confirmation of receipt. Either Party may change the addressee and/or address for correspondence sent to it by giving written notice in accordance with the foregoing.

XI. Applicable Law

This Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and the Niagara Redevelopment Act (16 U.S.C. §§836, 836a).

XII. Venue

Each Party consents to the exclusive jurisdiction and venue of any state or federal court within or for Albany County, New York, with subject matter jurisdiction for adjudication of any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement.

XIII. Assignments and Transfers

The Customer may not assign or otherwise transfer an interest in this Agreement without written approval of the Authority.

XIV. Previous Agreements and Communications

A. This Agreement shall constitute the sole and complete agreement of the Parties hereto with respect to the sale, transmission and delivery of the Allocation and supersedes all previous communications and agreements between the Parties hereto, either oral or written, with reference to said Allocation, including the Interim Agreement.

B. Except as otherwise provided in this Agreement, no modification of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

XV. Severability and Voidability

A. If any term or provision of this Agreement shall be invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not be deemed to invalidate the remaining terms or provisions hereof.

B. Notwithstanding the preceding paragraph, if any provision of this Agreement is rendered void or unenforceable or otherwise modified by a court or agency of competent jurisdiction, the entire Agreement shall, at the option of either Party and only in such circumstances in which such Party’s interests are materially and adversely impacted by any such action, be rendered void and unenforceable by such affected Party.

XVI. Waiver

A. Any waiver at any time by either the Authority or the Customer of their rights with respect to a default or of any other matter arising out of this Agreement shall not be deemed to be a waiver with respect to any other default or matter.

B. No waiver by either Party of any rights with respect to any matter arising in connection with this Agreement shall be effective unless made in writing and signed by the Party making the waiver.

XVII. Execution

To facilitate execution, this Agreement may be executed in as many counterparts as may be required, and it shall not be necessary that the signatures of, or on behalf of, each Party, or that the signatures of all persons required to bind any Party, appear on each counterpart; but it shall be sufficient that the signature of, or on behalf of, each Party, or that the signatures of the persons required to bind any Party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the Parties hereto. The delivery of an executed counterpart of this Agreement by email as a PDF file shall be legal and binding and shall have the same full force and effect as if an original executed counterpart of this Agreement had been delivered.

[SIGNATURES FOLLOW ON NEXT PAGE]

AGREED:

ITT ENIDINE INC.

By: ____

Title: ____

Date: ____

AGREED:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: ____

Title: ____

Date: ____

SCHEDULE A TO AGREEMENT FOR THE SALE OF EXPANSION POWER AND ENERGY TO ITT ENIDINE INC.

EXPANSION POWER ALLOCATIONS

Customer: ITT ENIDINE INC.

Facility: The Facility (located at 7 Center Drive, Orchard Park, New York 14127)

	Type of Allocation	Allocation (kW)	Expiration Date	Extended Expiration Date
1.	EP	200		N/A
TOTALS:		200 kW		

SCHEDULE B TO AGREEMENT FOR THE SALE OF EXPANSION POWER AND ENERGY TO ITT ENIDINE INC.

EXPANSION POWER COMMITMENTS

I. Employment Commitments

A. Employment Levels

The provision of Expansion Power to the Customer hereunder is in consideration of, among other things, the Customer's creation and/or maintenance of the employment level set forth in Appendix A of this Schedule (the "Base Employment Level"). Such Base Employment Level shall be the total number of full-time positions held by: (1) individuals who are employed by the Customer at Customer's facilities identified in Appendix A to this Schedule, and (2) individuals who are contractors or who are employed by contractors of the Customer and assigned to the facilities identified in such Appendix A (collectively, "Base Level Employees"). The number of Base Level Employees shall not include individuals employed on a part-time basis (less than 35 hours per week); provided, however, that two individuals each working 20 hours per week or more at such facilities shall be counted as one Base Level Employee.

The Base Employment Level shall not be created or maintained by transfers of employees from previously held positions with the Customer or its affiliates within the State of New York, except that the Base Employment Level may be filled by employees of the Customer laid off from other Customer facilities for *bona fide* economic or management reasons.

The Authority may consider a request to change the Base Employment Level based on a claim of increased productivity, increased efficiency or adoption of new technologies or for other appropriate reasons as determined by the Authority. Any such change shall be within Authority's sole discretion.

B. Employment Records and Reports

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority, of the total number of Base Level Employees who are employed at or assigned to the Customer's facilities identified in Appendix A to this Schedule, as reported to the United States Department of Labor (or as reported in such other record as agreed upon by the Authority and the Customer). Such report shall separately identify the individuals who are employed by the Customer, and the individuals who are contractors or who are employed by contractors of the Customer, and shall be certified to be correct by an officer of the Customer, plant manager or such other person authorized by the Customer to prepare and file such report and shall be provided to the Authority on or before the last day of February following the end of the most recent calendar year. The Authority shall have the right to examine and audit on reasonable advance written notice all non-confidential written and electronic records and data concerning employment levels including, but not limited to, personnel records and summaries held by the Customer and its affiliates relating to employment in New York State.

II. Reductions of Contract Demand

A. Employment Levels

If the year-end monthly average number of employees is less than 90% of the Base Employment Level set forth in this Schedule B, for the subject calendar year, the Authority may reduce the Contract Demand subject to Article II.D of this Schedule. The maximum amount of reduction will be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average monthly employment during the subject calendar year divided by the Base Employment Level. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, the Agreement shall automatically terminate.

B. Power Utilization Levels

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority on or before the last day of February following the end of the most recent calendar year, of the maximum demand utilized each month in the facilities receiving the power covered by the Agreement. If the average of the Customer's six (6) highest Billing Demands (as such term is described in the Service Tariffs) for Expansion Power is less than 90% of the Customer's Contract Demand in such calendar year the Authority may reduce the Contract Demand subject to Article II.D of this Schedule. The maximum amount by which the Authority may reduce the Contract Demand shall be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average of the six (6) highest Billing Demands for in such calendar year divided by the Contract Demand. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, this Agreement shall automatically terminate.

C. Capital Investment Levels

The Customer has completed the Capital Investment set forth in the Appendix to this Schedule B. No other Capital Investment commitments are applicable to the Allocation.

D. Notice of Intent to Reduce Contract Demand

In the event that the Authority determines that the Contract Demand will be wholly or partially reduced pursuant to this Schedule , the Authority shall provide the Customer with at least thirty (30) days prior written notice of such reduction, specifying the amount of the reduction of Contract Demand and the reason for the reduction, provided, however, that before making the reduction, the Authority may consider the Customer's scheduled or unscheduled maintenance or facilities upgrading periods when such events temporarily reduce plant employment levels or electrical demand as well as business cycle.

III. <u>Energy Efficiency Audits; Information Requests</u>

The Customer shall undergo an energy efficiency audit of its facilities and equipment at which the Allocation is consumed at the Customer's expense at least once during the term of this Agreement. The Customer will provide the Authority with a copy of the audit or, at the Authority's option, a report describing the results of the audit, and provide documentation requested by the Authority to verify the implementation of any efficiency measures implemented at the facilities.

The Customer agrees to cooperate to make its facilities available at reasonable times and intervals for energy audits and related assessments that the Authority desires to perform, if any, at the Authority's own expense.

The Customer shall provide information requested by the Authority or its designee in surveys, questionnaires and other information requests relating to energy efficiency and energy-related projects, programs and services.

The Customer may, after consultation with the Authority, exclude from written copies of audits, reports and other information provided to the Authority under this Article trade secrets and other information which if disclosed would harm the competitive position of the Customer.

APPENDIX TO SCHEDULE B

Base Employment Level

In consideration of receiving the Allocation, the Customer agrees to attain a Base Employment Level of 310 persons at the Customer's Facility within 3 years of commencement of Electric Service under the Agreement and to maintain such Base Employment Level thereafter for the term of the allocation in accordance with Article I of Schedule B. The Base Employment Level is derived from (1) a stipulation by the Customer that there exists 290 jobs at the Facility at the time of the award of the Allocation by the Authority, and (2) a commitment by the Customer to create 20 new jobs at the Facility.

Capital Investment Level

The Customer designs and manufactures shock absorption and vibration isolation devices for aerospace and industrial applications. In consideration of receiving the Allocation, the Customer has made a capital investment of $2.55 million in the Facility, consisting of $1.5 million in a 12,500 square foot addition and $1.05 million in new manufacturing equipment. The Customer will move finished goods to the addition, and locate new manufacturing equipment in vacated existing floor space. The manufacturing equipment will include two new machine tools valued at $350,000 each.

NYPA PROPOSED EXPANSION AND REPLACEMENT

POWER CONTRACTS WITH

ITT ENIDINE, INC. and MOOG, INC.,

PUBLIC HEARING

HELD

MARCH 15, 2011.

Minutes transcribed from NYPA PUBLIC HEARING, held pursuant to Public Notice, taken at 5777 Lewiston Road, Lewiston, New York 14092, on MARCH 15, 2011 scheduled to begin at 3:00 p.m. before LORI COVENTRY, Notary Public.

APPEARANCES:

NEW YORK POWER AUTHORITY
KAREN DELINCE, CORPORATE SECRETARY
123 Main Street, 15-M
White Plains, New York 10601
Appearing on Behalf of the New York Power Authority.

ALSO PRESENT: JAMES PASQUALE, Senior Vice President for Marketing and Economic Development
LORI COVENTRY, Court Stenographer

MS. DELINCE: Okay. Good afternoon. My name is Karen Delince. And I'm the Corporate Secretary of the New York Power Authority. This public hearing is being conducted by the Power Authority to provide an overview and receive public comment on the proposed Expansion and Replacement Power Contracts with ITT Enidine, Inc. and Moog, Inc. Pursuant to Section 1009 subsection one of the Public Authorities Law, notice of this hearing was published in the following six newspapers, once a week for the four weeks leading up to the hearing: Buffalo News, Niagara Gazette, Buffalo First, Albany Times Union, The Post Standard, The Journal News.

During the thirty-day period prior to today's hearing, copies of the proposed contracts have been available for inspection at the Authority's office in White Plains, as well as on the Authority's website. Also, pursuant to Section 1009, Subsection 1 of the Public Authorities Law, notice of this hearing and copies of the proposed contracts were sent to: Governor Andrew Cuomo; President Pro Tem of the New York State Senate Malcolm Smith; Speaker of the Assembly Sheldon Silver; Chairman of the Senate Finance Committee Carl Kruger; Chairman of the Assembly Ways and Means Committee Herman Farrell; Senate Minority Leader Dean Skelos and Assembly Minority Leader Brian Kolb.

If you plan to make an oral statement at this hearing and you have not yet filled out the form at the sign-in desk, please do so now.

We ask that you give copies of the written statement to the reporter and Lorna Johnson before or after you deliver your remarks.

Although your written statement can be

whatever length you like, we would ask those presenting an oral statement to limit their remarks to five minutes. If your oral statement summarizes a written statement, both will appear in the record of the hearing.

The record of this hearing will remain open through close of business Wednesday, March 16th, for the submission of any additional comments or statements. These should be addressed to the Authority's Corporate Secretary at 123 Main Street, 15-M, White Plains, New York 10601; or may be faxed to (914) 390-8040; or emailed to secretarys.office@nypa.gov. Please see Lorna Johnson on your way out if you have any additional questions.

Full stenographic minutes of the hearing will be made and will be incorporated, along with the written submissions, into the record that will be reviewed by the Authority's Trustees. The transcript will be available for review at the Authority's office in White Plains and

on the Authority's website, www.nypa.gov.
At this point, I will turn the microphone over to James Pasquale, NYPA's Senior Vice President of Marketing and Economic Development, who will provide additional details on the proposed contract extensions.
I will then call on speakers, starting with any elected officials present.
Thank you.
MR. PASQUALE: Thank you, Ms. Delince. Good afternoon. My name is James F. Pasquale and I am the Senior Vice President for Marketing and Economic Development at the New York Power Authority. I am here today to present an overview of a proposed contract with two customers, ITT Enidine, Inc. and Moog, Inc., for the sale of two hundred kilowatts of Expansion Power and twelve hundred kilowatts of Replacement Power, respectively, from the New York Power Project.
Under Section 1005, Subsection 13, of the Power Authority Act, as amended by Chapter 313 of the Laws of 2005, the Authority may

contract to allocate two hundred fifty megawatts of firm hydroelectric power known as Expansion Power, or EP, and up to four hundred forty-five megawatts of firm hydroelectric power of Replacement Power, or RP, to businesses within thirty miles of the Niagara Power Project. Each application for an allocation of Expansion Power or Replacement Power must be evaluated under criteria that includes, but need not be limited to, those set forth in the Public Authorities Law Section 1005, Subsection 13, Paragraph A, which details 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, and the type and cost of buildings, equipment and facilities to be constructed, enlarged or installed.

At their meeting of May 22nd, 2007, the Power Authority Trustees approved an allocation of two hundred kilowatts of Expansion Power to ITT Enidine for a term of five years.

Approval of the allocation was based on an evaluation of the customer's allocation for hydropower, in which it proposed to invest $2.5 million to expand its facility, to purchase and install new equipment, and to commit to creating twenty new jobs in addition to their existing two hundred jobs.

The allocation amount will be subject to an enforceable employment commitment for two hundred twenty jobs, and includes an annual job reporting requirement and a job compliance threshold of ninety percent.

Should ITT Enidine's actual jobs reported fall below the compliance threshold of ninety percent, or one hundred ninety-eight jobs, the Authority has the right to reduce the allocation on a pro rata basis.

Regarding Moog, the Power Authority Trustees, on July 31st, 2007, approved an allocation of twelve hundred kilowatts of Replacement Power. Approval of the Allocation was based on an evaluation of the customers proposed investment of $16.8 million, adding seventy thousand square feet of manufacturing and office space, along with installing new production machinery and equipment. Moog has committed to create one hundred forty new jobs, in addition to the existing 2,036 jobs. The allocation amount will be subject to an enforceable employment commitment of 2,446 jobs, and includes an annual job reporting requirement and a job compliance threshold of ninety percent. Should Moog's actual jobs reported fall below the compliance threshold of ninety percent, or 2,201 jobs, the Authority has the right to reduce the allocation on a pro rata basis.

On February 1st, 2011 the Authority and Moog signed an interim agreement for the sale of Replacement Power and Energy. The purpose of the agreement was to enable Moog to accept delivery of its allocation after completion of its project last year and prior to execution of the long term contract that is the subject of this hearing. The agreement includes an appendix cosigned by the Authority, Moog, and the delivering utility, New York State Electric and Gas, to effectuate a March 1st, 2011 delivery.

The Authority will provide firm electric service from the Niagara plant, consisting of firm power capacity and energy service. The service is subject to pro rata curtailment when there is insufficient generation at the Niagara and St. Lawrence/FDR facilities to meet all of its firm load requirements. The power and energy will be sold on a direct sale basis. Delivery will be provided by the local utility, New York State Electric and Gas, and billed directly to the customers.

The rates, terms and conditions for the sales are contained in the relevant service tariffs, EP-1 for Expansion Power and NP-F1 for Replacement Power. Effective July 1st, 2013, Service Tariff Western New York-1 will become effective for all Replacement Power and Expansion Power allocations. The contracts also require that an energy efficiency audit be performed not less than once every five years during the term of electric service.

The contract is subject to a public hearing and approved by the Governor, as set forth in Section 1009 of the Public Authorities Law. As Ms. Delince stated earlier, the Authority will accept your comments on the proposed contracts until the close of business on March 16th, 2011. I will now turn the forum back to Ms. Delince.

MS. DELINCE: Thank you, Mr. Pasquale. We will wait for testimony.

(Whereupon, a recess was taken to wait for testimony.)

MS. DELINCE: Having no one present wishing to make a testimony, I now declare this hearing closed.

*   *   *   *

Trustees’ Meeting

May 24, 2011

New York Power Authority

2a. Monthly Report

Richard M. Kessel

President & Chief Executive Officer

Key Issues

- Report on Summer Readiness – prepared by Edward Welz (**Exhibit "A"**)

Key Activities

Community Outreach – Upstate/Downstate

March

- March 30 – Tour of Flynn Plant

April

- April 1 – LIMBA speech
- April 4 – NYPA Special Board meeting
- April 7 – Advanced Energy Research and Technology Center Board meeting, Tour Uncle Wallys
- April 12 – meeting Senator George Maziarz
- April 13 – Speech Stony Brook University School of Journalism
- April 20 – meeting TransElect
- April 21 – NYPA Special Board meeting, Senior Staff meeting, Power Supply – Mission Critical positions

Key Activities

Upstate/Downstate – continued

May

- May 2 – Security meeting
- May 3 – All staff security meeting, Economic Development meeting
- May 4 – Hofstra University meeting, SUNY Old Westbury speech
- May 11 – Saratoga - NYAPP guest speaker for luncheon

Key Issues
Exhibit "A"
Summer Readiness
(presentation from Edward Welz, EVP Power Supply)

<u>Executive Summary</u>

The New York Power Authority's Power Supply Business Unit, which has operational responsibility for all of NYPA's generating facilities, as well as NYPA's transmission system, has prepared the following Summer Readiness Summary.

In general, NYPA's Generation and Transmission facilities are well prepared to manage the expected summer load in New York State for the upcoming summer. Completed, scheduled, and ongoing maintenance activities, as well as summer system operational preparedness, will ensure that the NYPA power system is at its peak readiness for reliability.

The Summer 2010 NYISO forecasted Load was 33,025 MW and the actual peak for 2010 on July 6, was 33,452 MW.

The All-time NYISO Peak Load occurred on August 2nd, 2006, at 33,939 MW.

The NYISO Load Forecast for 2011 is 33,025 MW, which is the same as the 2010 forecast, and less than the 2006 peak by 914 MW.

The following is a summary of some specific steps and actions that have been taken within the NYPA wide Transmission System, as well as, within each of Power Supply's four (4) operating regions:

<u>Transmission (Energy Control Center, Clark Energy Center and Line Maintenance)</u>

Summer outages have been minimized through long range planning, TBU has carried out personnel training, conducted restoration drills, completed high priority maintenance, and completed aerial and ground patrols.

Western Region - Niagara Power Project (Robert Moses and LPGP)

The NIA Operations Department will be monitoring plant conditions during the summer such as temperature sensitive equipment that is directly related to power production, and make adjustments as necessary.

The NIA Maintenance Departments have conducted both Corrective and Preventive Maintenance on plant systems in preparation for the upcoming warmer temperatures.

Northern Region – St. Lawrence Power Project

The STL Operations Department will be monitoring the water storage and flows on the St. Lawrence River. In addition, STL Operations will be monitoring local voltage support. If additional local voltage support is needed, the Synchronous Condensers, capacitor bank facilities, and the upgraded hydro units can manage this support if required.

The STL Maintenance Departments have conducted both Corrective and Preventive Maintenance on plant systems in preparation for the upcoming warmer temperatures.

Central Region – Blenheim-Gilboa Power Project (Including Small Hydro)

The Central Region's operating plants, transmission system, and operational staff, are prepared for the summer's peak energy demand. In preparation, resources have been deployed throughout the Central Region performing routing O&M activities to support NYPA's high level of generator reliability. As always, necessary resources can be re-directed in response to system emergencies as required.

All of BG's generating assets are expected to be in service and fully ready for the summer load. In addition, all Small Hydro generating facilities (Ashokan, Jarvis, Crescent, and Vischer Ferry) are operational and running as water is available.

Southeast NY Region – (Astoria 500MW, Flynn, and SCPP's)

Operations and Maintenance staff have been performing their usual annual PM program, which includes but is not limited to Air Chiller maintenance; start up of the air inlet chiller system, cleaning of the Air Cooled Condenser, as well as conducting boroscope inspections.

Outages have been taken at the 500 MW, Flynn, and the SCPP's to perform summer preparation preventative maintenance.

Attachment #1 – Regional Specific Preparations

Transmission (Energy Control Center, Clark Energy Center and Line Maintenance)

Energy Control Center (ECC)

Major Transmission outages are not normally scheduled in the summer. During Peak Load days, the NYISO has the discretion to cancel scheduled work.

Significant NYPA System Changes to note since Summer 2010:

- New Astoria Annex 345 kV station expected to be in service.
- Expected connection of Astoria Energy Unit 2.
- Harlem River Unit 1 expected return to service from transformer replacement.

.
ECC Staff Preparations:

- Meeting with Con Ed regarding the 500MW/SCPP.
- CSC series-mode tested following annual outage.
- All ECC Operators completed Spring NYISO SOTS training.
- Emergency ECC utilized.
- NYISO Interim Control Operation drill to be conducted in April.
- NYISO Restoration Drill to be conducted in April.

Clark Energy Center (CEC) – 345kV & 765kV Switchyard Preparations

- Maintenance of the yard's relay systems completed.
- Maintenance & testing of the yard's auxiliary systems up to date.
- Replaced all lighting arrestor counters on the auto banks, 765KV side.
- PCB 7223X factory refurbishment completed, breaker installed & tested.
- CT 7404 A-Phase, repaired damaged porcelain & energized.
- Thermal scan conducted & repairs made from the inspection.
- CSC/FACT maintenance completed.
- VU-19 relay replacement to be completed.
- PCB 3402 (Cap Bank 1), 6-Year maintenance to be completed.

Transmission Line Maintenance (CEC, BG, STL, NIA)

The following steps have taken place, or will take place, to ensure NYPA's Transmission Line readiness for the upcoming summer season:

- Annual Ground Patrol of the entire system completed.
- Bi-Annual Aerial Patrol of the entire system completed.
- On-going Vegetation Management, including side-trimming, of specific portions of the system.
- Bi-Annual Aerial Patrol of the entire system is scheduled May/June 2011

Western Region - Niagara Power Project (Robert Moses and LPGP)

The NIA Operations Department will be monitoring plant conditions during the summer such as:

- Stator temperatures during cooling season, and adjust output as necessary. This is balance with the relationship between water temp and air temp and usually does not happen until later in the summer season.
- Tunnel temperatures and work with HVAC to increase cooling capability through additional chillers.
- Unit trash rack differentials and respond with scrapping or clamming as needed.
- Water cooling for the Autobanks, and set up additional cooling which will be turned on manually during high temp conditions.

The NIA Maintenance Departments have conducted both Corrective and Preventive Maintenance on plant systems to be prepared for the upcoming warmer temperatures. Some examples are as follows:

- All Water Cooled Chiller Condenser tubes are brushed and flushed.
- Air Cooled Chillers in the S&R and Fan buildings will be washed.
- Damper PM's on Power Tunnel Fans/Air Handling Unit's are performed to insure proper operation.
- PM's are performed on both Chilled water and Condenser water pumps.
- Cooling Tower preparations are performed in the S&R bldg.
- Zebra mussel chlorination readiness.
- Chilled water line temperature sensors have been replaced as needed.

Northern Region – St. Lawrence Power Project

The STL Operations Department will be monitoring the following conditions during the summer such as:

- Water Storage - Currently there isn't any stored water on Lake Ontario. The board's current philosophy is not to store water while managing to the current regulation plan. If additional generation is required during a high load period in the summer, STL Operations can ask the board for a flow deviation from plan flow. In the past they have granted additional flows for critical power requirements. This is not expected to be an issue.

- Local voltage support – This is expected to not be an issue this summer. There are no specific planned outages of the Synchronous Condensers and capacitor bank facilities. In addition, our upgraded hydro units can also handle voltage support due to their increased cooler capacity if required.

The STL Maintenance Departments have conducted both Corrective and Preventive Maintenance on plant systems to be prepared for the upcoming warmer temperatures. Some significant maintenace activities which have been, or will be conducted are:

- All maintenance work associated with the Bulk Electric System (BES) was approved with the NYPA Energy Control Center in September 2010.
- The only significant summer Generator outage is for the Life Extension and Modernization of Generator Unit 19. This is scheduled to begin on June 16, 2011 following the completion of Generator Unit 24.
- The only significant Transmission outages for the summer involve half breakers on the L33P and L34P lines. All summer, at least one line will be running on a single breaker.
- The Battery Banks at Moses were load tested in March 2011. The Battery Banks are critical to the power system.

Central Region – Blenheim-Gilboa Power Project (Including Small Hydro)

- The BG1 starting motor rotor repair is progressing well, with actual damage found to be less severe than was feared. It is now expected to be returned to service as early as June 1, which will restore all of BG's generating assets to full readiness for the summer load.

- The BG3 scheduled maintenance outage for this spring had to be postponed until fall, due to the emergent outage on BG1. A short outage will be performed in April or May to ensure its readiness for summer service.

- BG staff has completed repairs to the plant's main cooling water header which will add flexibility to keep the units operational while isolating, removing, and cleaning the filters.

<u>Southeast NY Region – (Astoria 500MW, Flynn, and SCPP's)</u>

SENY is planning a maintenance outage on the Astoria 500 MW Unit 7B. This outage is not directly related to summer preparedness, but it is due based on unit operational hours~~.~~

123 Main Street
White Plains, NY 10601-3170

914.681.6621
914.681-6804 (Fax)
Gil.Quiniones@nypa.gov

New York Power Authority

Gil C. Quiniones
Chief Operating Officer

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 generation[1] was 2,303,403 megawatt-hours[2] (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 factor[3] was 96.8 percent in March and 91.3 percent in April. Generation market readiness factor[4] 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 event[5] 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 reliability[6] 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 events[7] 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 Modernization[8] (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 pH[10] measurement allowed under its SPDES permit, based on sampling at one of the Plant's outfalls[11].

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 Corporation[13] (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 Commission[14] (FERC) Order No. 693, and in July it will be audited for Critical Infrastructure Protection[15] (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 Operator[16] (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 Entity[17] (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 Initiative[18] (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 Initiative[19] 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 l00-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 CO_2 emissions from the power sector, and will require a 10 percent reduction in these emissions by 2018. RGGI is composed of individual CO_2 Budget Trading Programs in each of the 10 participating states. Regulated power plants can use a CO_2 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 CO_2 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.

New York Power Authority

Report of the Chief Financial Officer

For the Three Months Ended March 31, 2011

Report of the Chief Financial Officer
For the Three Months Ended March 31, 2011
Executive Summary

Results of Operations

Net income for the three months ended March 31, 2011 was $29.7 million which was $13.8 million below budget due to lower net margins on sales ($9.4 million), lower non-operating income ($0.4 million) and higher O&M ($2.6 million). Through March, lower net margins at Niagara ($18.4 million) primarily due to lower generation volumes (8%) were partially offset by higher net margins at St. Lawrence ($4.8 million) resulting from higher generation and higher prices on market-based sales. Net generation was lower than budgeted at Niagara due to low water flows and the need to manage ice conditions at the facility. In addition, higher than anticipated purchased power costs were incurred to support customer loads at Niagara due to an extended transmission line outage. Non-operating income reflected a mark-to-market loss on the Authority's investment portfolio resulting from an increase in market interest rates substantially offset by lower interest costs. O&M was higher due to several timing related differences including earlier than anticipated outage expenses at the 500MW plant and earlier than expected transmission maintenance expenses.

Net income through March 2011 ($29.7 million) was $45.6 million higher than the comparable period in 2010 (loss of $15.9 million). The positive impact of lower voluntary contributions to New York State during the period ($82 million) was partially offset by lower net margins on sales ($27.6 million) and lower investment income ($9 million). Year-to-date voluntary contributions were $25 million in 2011 compared to $107 million through March 2010. Net margins on sales were lower primarily due to lower water flows at Niagara and higher purchased power costs to support customer loads, due to an extended transmission line outage. Investment income was lower in 2011 due to mark-to-market losses on NYPA's investment portfolio in 2011 compared to market value gains in 2010. Higher market interest rates in 2011 resulted in the current year losses.

Year-end Projection

Year-end net income is currently projected at $135 million, an increase of approximately $10 million from last month's projection, but $44 million below the budget for the year. The primary drivers of the year-end variance to the budget are lower than forecasted hydro flows, decreased market prices for rest-of-state capacity, and an expected voluntary contribution associated with the recent extension of the Power for Jobs Program.

The current annual hydro generation forecast of 18.7 TWh is 0.4 TWh below the budget, and has a negative impact of approximately $14 million on 2011 net income. The lower hydro generation is attributable to an 18.8% decrease in average precipitation levels over the Great

Lakes over the past six months. (Precipitation in March was higher than average contributing to this month's increase in the year-end projection.) The net impact of lower capacity prices outside of New York City and higher in-city capacity prices was a reduction of projected net income of $14 million. The recently approved NY State budget included a $13.5 million voluntary contribution associated with the extension of the Power for Jobs Program which was $8.5 million higher than the amount included in the budget.

Cash & Liquidity

The Authority ended the month of March with total operating funds of $1,103 million as compared to $1,069 million at the end of 2010. The increase of $34 million was primarily attributable to net cash generated by operations and the Value Sharing payment received from Entergy in January partially offset by a voluntary contribution to New York State and scheduled debt service payments. Looking forward, we are anticipating the operating fund balance to increase to $1,171 million at the end of the year.

Energy Risk

At March 31, 2011, the fair market value of outstanding energy derivatives was an unrealized loss of $209 million for contracts extending through 2017. Year to date, energy derivative settlements resulted in a realized net loss of $11 million. The amount of these losses is subject to virtually full cost recovery, whereby the resulting hedge settlements are recovered through customer rates.

Net Income
Three Months ended March 31, 2011
($ in millions)

	Actual	Budget	Variance
Niagara	$14.7	$33.7	($19.0)
St. Lawrence	6.4	2.2	4.2
Blenheim-Gilboa	(4.4)	(3.3)	(1.1)
SENY	14.1	10.1	4.0
SCPP	(2.0)	(2.5)	0.5
Market Supply Power	(9.3)	(8.9)	(0.4)
Flynn	3.2	1.9	1.3
Transmission	11.8	12.3	(0.5)
Non-facility*	(4.8)	(2.0)	(2.8)
Total	**$29.7**	**$43.5**	**($13.8)**

Major Factors	**Better (Worse)**
Niagara Lower net margins on sales due to lower generation volumes (8%) resulting from lower hydro flows and ice management conditions. This resulted in lower market-based revenues and higher purchased power costs to support customer loads. Purchased power costs were also higher due to an extended outage at an upstate transmission line.	($19.0)
St. Lawrence Higher net margins ($4.8) resulting from 8% higher generation and higher prices on market sales ($42/mwh vs $38/mwh).	4.2
Other facilities Primarily SENY due to timing differences in recovery of fixed costs.	3.8
Non-facility (including investment income) Primarily mark-to-market loss on the Authority's investment portfolio due to an increase in market interest rates during the period.	(2.8)
Total	**($13.8)**

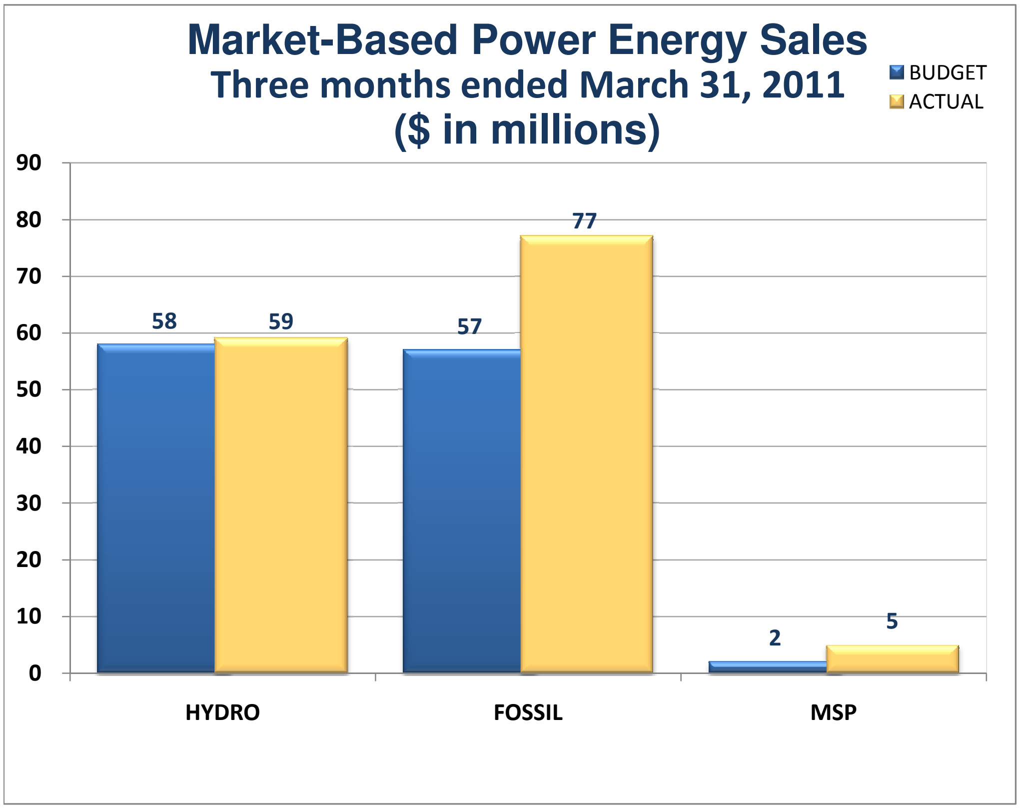
Net Income
Three Months Ended March 31, 2011 and March 31, 2010
($ in millions)

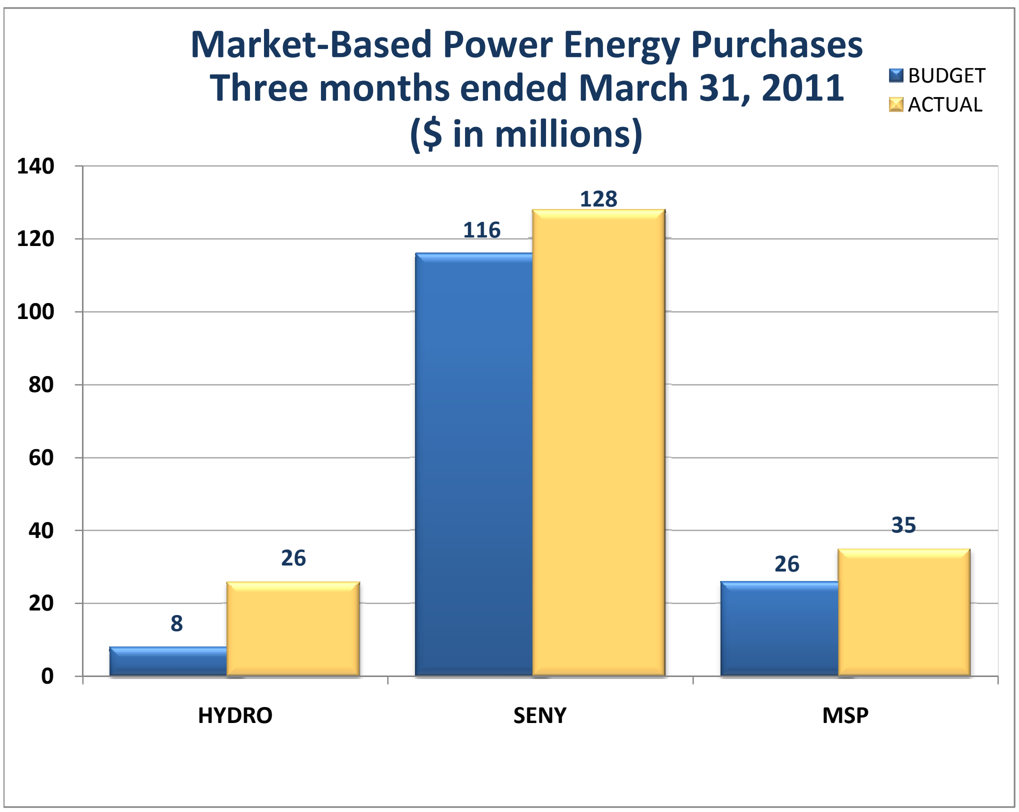
	2011	2010	Variance Favorable/ (Unfavorable)
Operating Revenues	**$620.1**	**$611.0**	**$9.1**
Operating Expenses			
Fuel consumed - oil & gas	70.6	73.7	3.1
Purchased power and ancillary services	250.1	211.1	(39.0)
Wheeling	106.7	105.9	(.8)
	427.4	390.7	(36.7)
Net Margin	**192.7**	**220.3**	**(27.6)**
Operations and maintenance	68.7	71.3	2.6
Other expenses	37.6	33.6	(4.0)
Depreciation and amortization	39.5	41.0	1.5
Allocation to capital	(1.3)	(2.2)	(.9)
Net Operating Income	**48.2**	**76.6**	**(28.4)**
Investment and other income	35.3	36.5	(1.2)
Mark to Market Adjustment	(5.1)	2.7	(7.8)
Total Nonoperating Income	**30.2**	**39.2**	**(9.0)**
Contributions to New York State	25.0	107.0	82.0
Interest and other expenses	23.7	24.7	1.0
Total Nonoperating Expenses	**48.7**	**131.7**	**83.0**
Net Nonoperating Income (Loss)	**(18.5)**	**(92.5)**	**74.0**
Net Income (Loss)	**$29.7**	**($15.9)**	**$45.6**

Net income through March 2011 ($29.7) was $45.6 higher than the comparable period in 2010 (loss of $15.9). The positive impact of lower voluntary contributions to New York State during the period ($82) was partially offset by lower net operating income ($28.4) and lower investment income ($9). Net operating income included lower net margins on sales at Niagara ($14) due to lower production resulting from low water flows and the need to manage ice conditions at the facility. In addition, higher purchased power costs were incurred to support customer loads at Niagara due to an extended transmission line outage. The negative variance in net operating income was also attributable to higher other operating expenses in 2011, including higher Western New York stimulus program payments and higher retiree health benefit costs.

Investment income was lower in 2011 due to mark-to-market losses on NYPA's investment portfolio in 2011 compared to market value gains in 2010. Higher market interest rates in 2011 resulted in the current year losses.

Non-operating expenses in 2011 were lower than the prior year ($83) due to lower voluntary contributions to the State. A voluntary contribution of $107 was made in March 2010. Voluntary contributions to the State in 2011 include $25 made in January for the State's fiscal year 2010/2011.





REVENUES

SALES (MWH)

	BUDGET	ACTUAL
Hydro*	1,327,372	1,282,740
Fossil	900,519	1,063,667
MSP	54,867	114,080
TOTAL	2,282,758	2,460,487

PRICES ($/MWH)

	BUDGET	ACTUAL
Hydro*	$43.36	$45.60
Fossil	$63.96	$72.76
MSP	$36.58	$44.57
AVERAGE	$51.33	$57.29

** Includes Niagara, St. Lawrence, B-G, and Small Hydro.*

REVENUES

SALES (MWH)

	BUDGET	ACTUAL
Niagara	777,202	717,135
St. Law.	359,110	448,212

PRICES ($/MWH)

	BUDGET	ACTUAL
Niagara	$38.19	$38.55
St. Law.	$37.77	$41.79

COSTS

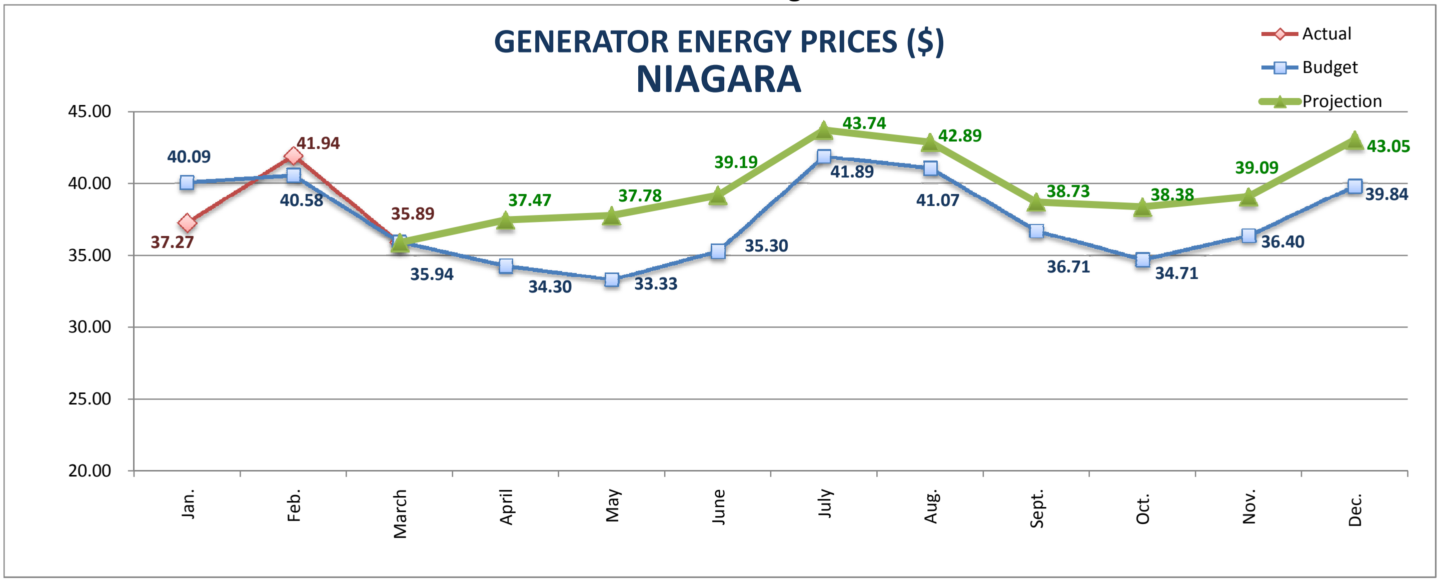
PURCHASES (MWH)

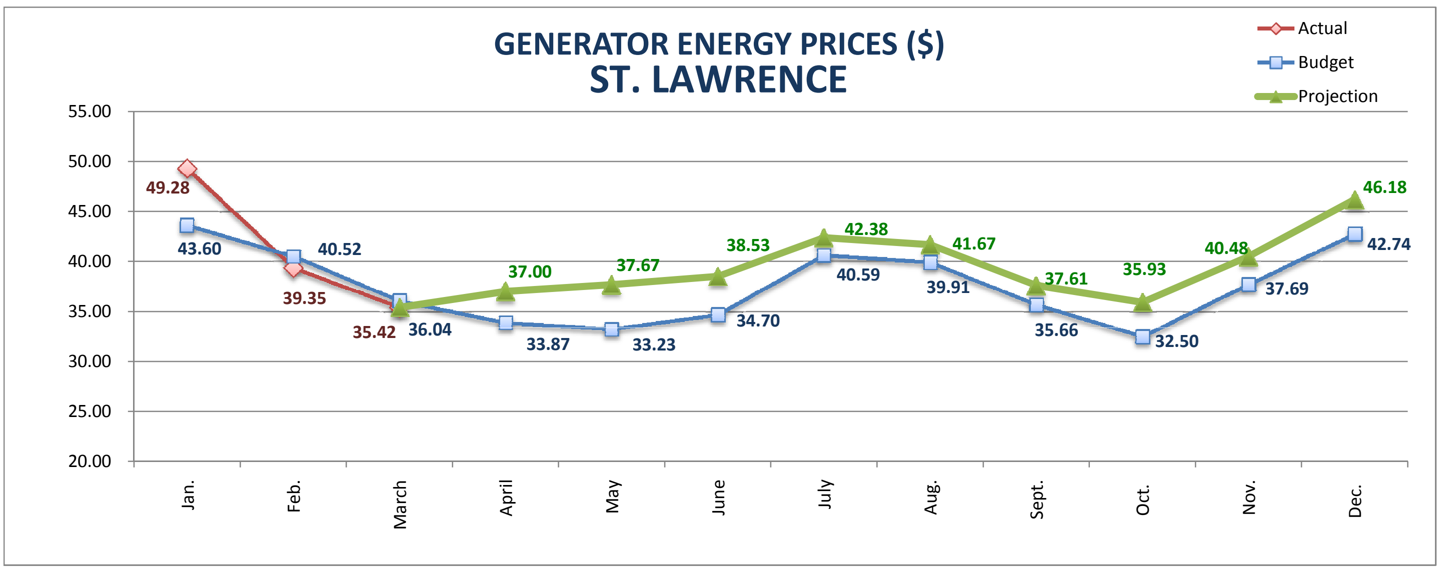
	BUDGET	ACTUAL
Hydro	333,241	645,457
SENY	2,210,435	2,341,296
MSP	689,750	776,026
TOTAL	3,233,426	3,762,779

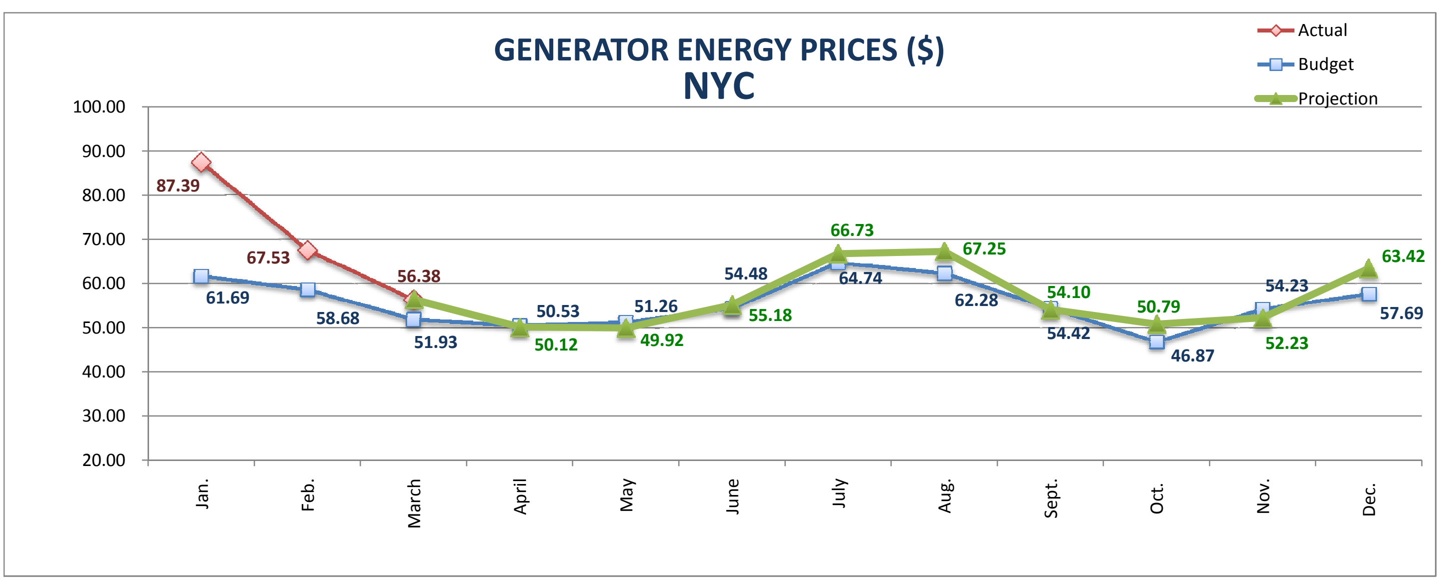
COSTS ($/MWH)

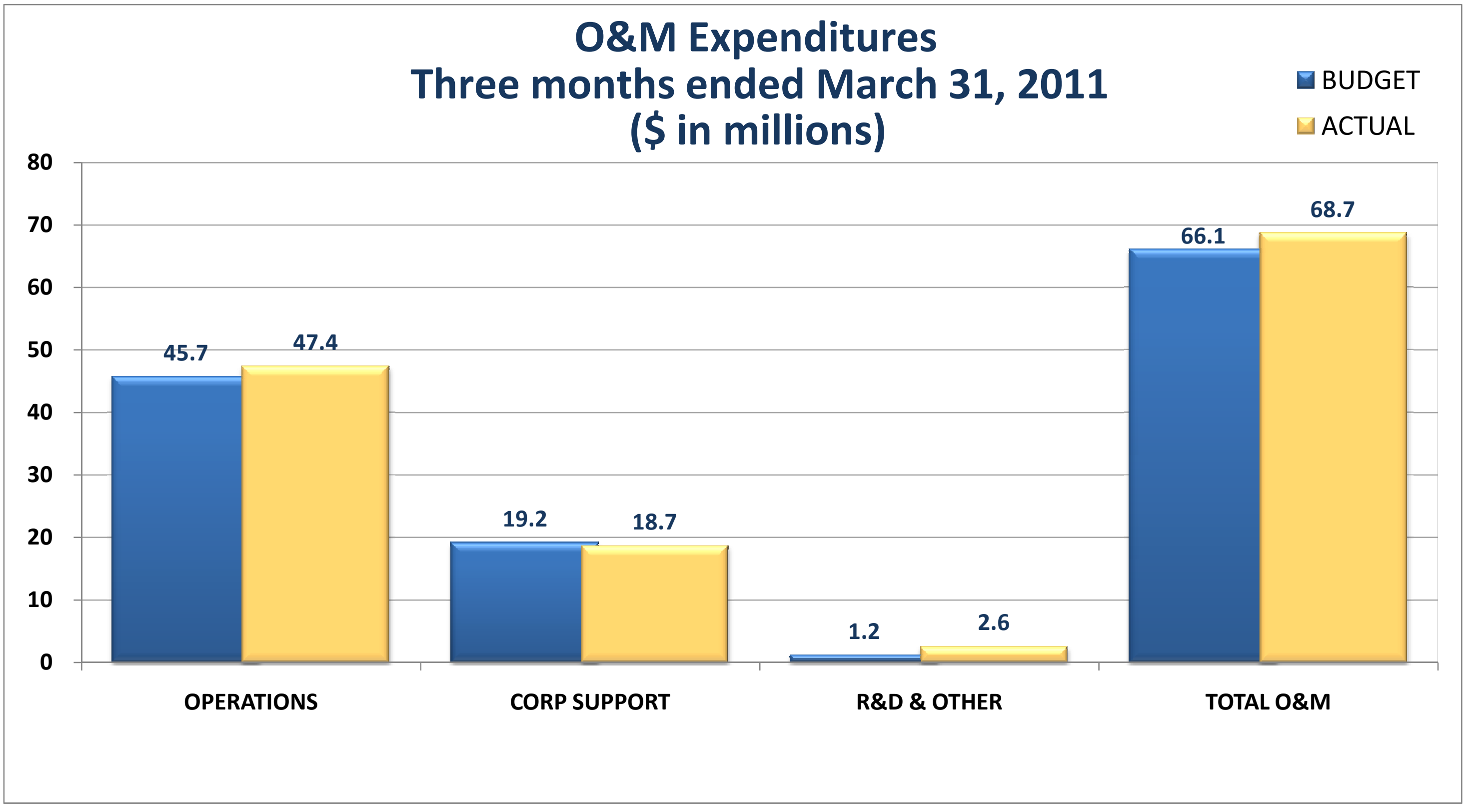
	BUDGET	ACTUAL
Hydro	$24.98	$39.87
SENY	$52.36	$54.64
MSP	$38.04	$45.56
AVERAGE	$46.49	$50.23

RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget







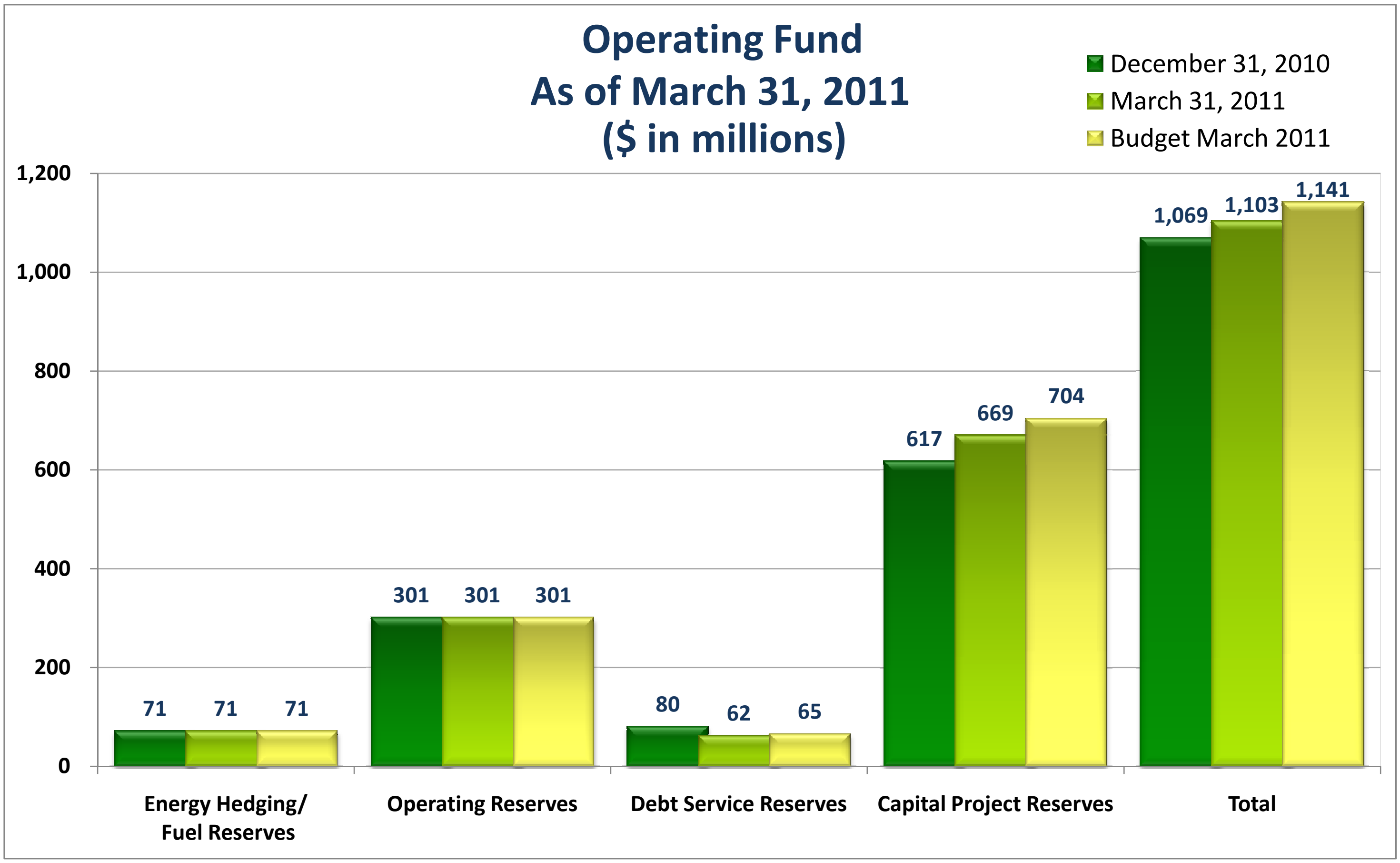


- Through March, O&M expenses were $2.6 higher than the budget.

- Operations expenditures were over budget by $1.7. This overrun was due to several timing related differences including earlier than expected outage expenses (500MW plant, budgeted in April) and timing for recurring maintenance (mainly transmission, right-of-way maintenance).

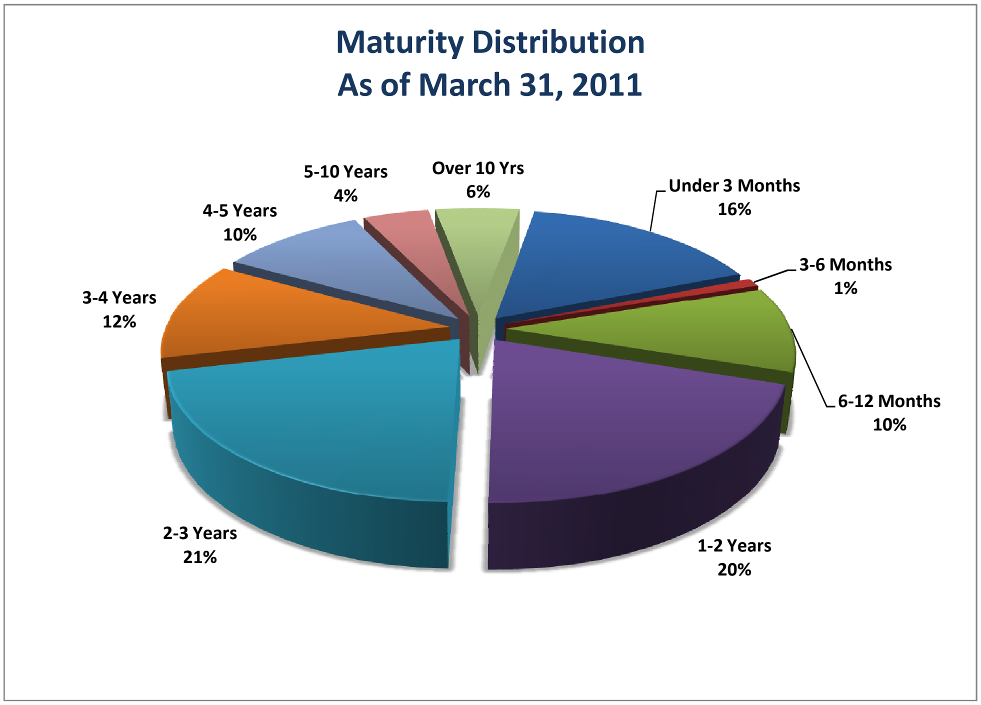
- HQ Corporate Support was under budget due to lower expenditures for outside legal counsel and lower than expected WPO building expenses, partially offset by greater hardware and software purchases.

- Research and Development was over budget due to earlier than expected spending by Energy Services on renewable energy related projects.

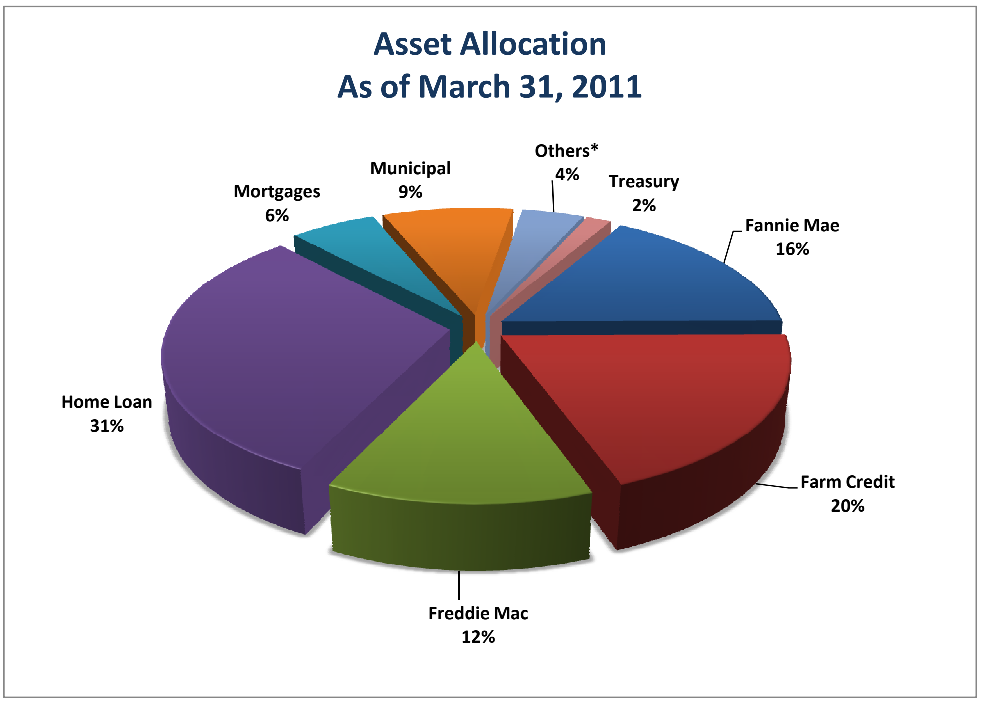


The increase of $34 in the Operating Fund (from $1,069 to $1,103) was primarily attributable to positive net cash provided by operating activities and the Value Sharing payment of $72 received from Entergy, substantially offset by voluntary contributions to New York State ($25) and repayments on commercial paper ($50) and ART Notes ($8). The variance from budget is the result of lower net income for the period and the timing of cash payments related to prior year accruals.

CASH AND LIQUIDITY
INVESTMENT PORTFOLIO

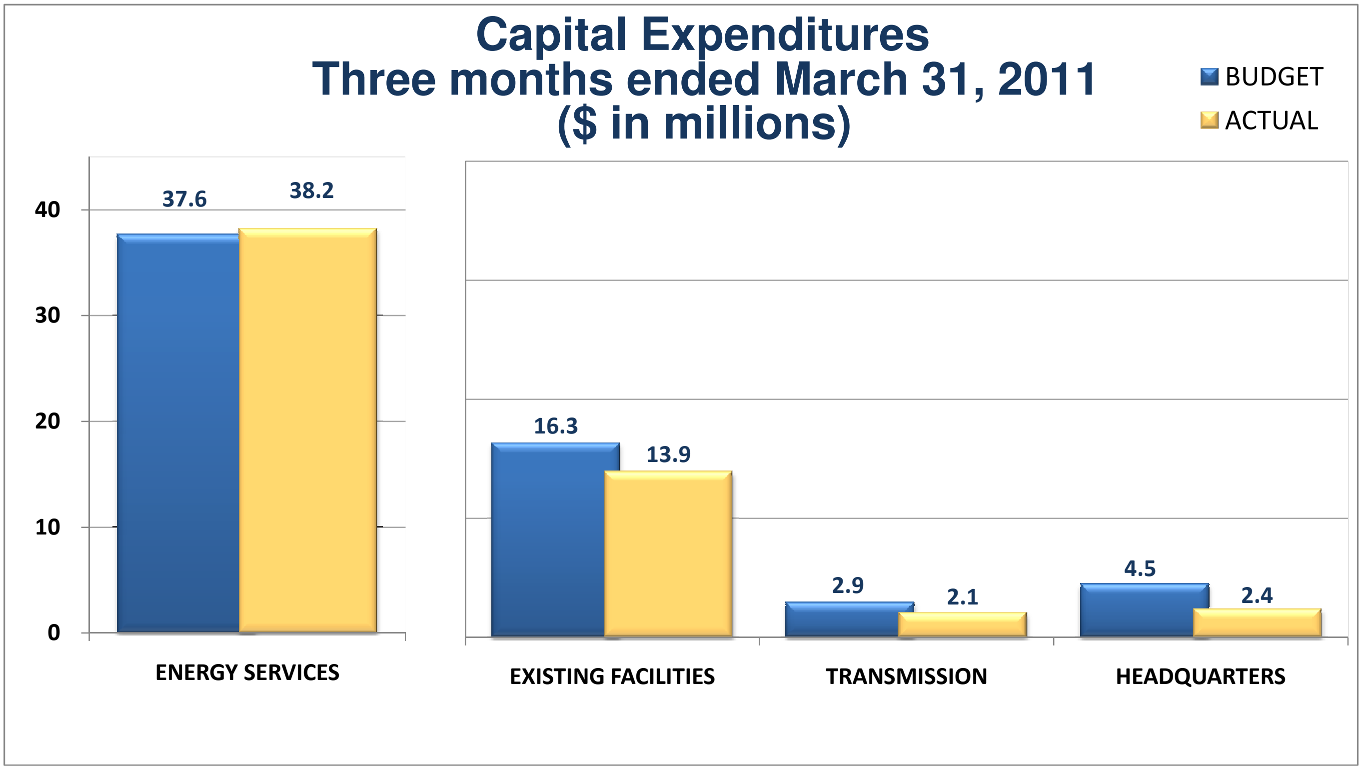


MATURITY DISTRIBUTION	
($ in millions)	
Under 3 Months	$197.9
3-6 Months	11.9
6-12 Months	126.4
1-2 Years	249.5
2-3 Years	257.0
3-4 Years	145.6
4-5 Years	118.8
5-10 Years	53.5
Over 10 Yrs	69.0
Total	**$1,229.6**



ASSET ALLOCATION	
($ in millions)	
Fannie Mae	$203.9
Farm Credit	240.9
Freddie Mac	154.7
Home Loan	380.2
Mortgages	70.9
Municipal	108.2
Others*	50.8
Treasury	20.0
Total	**$1,229.6**

*Includes CDs and Repos



• Existing facilities expenditures were under budget by $2.4 primarily due to the delays in permitting for projects related to St. Lawrence Relicensing Implementation and Compliance.

• Headquarters expenditures were under budget by $2.1 due to timing for several IT projects.

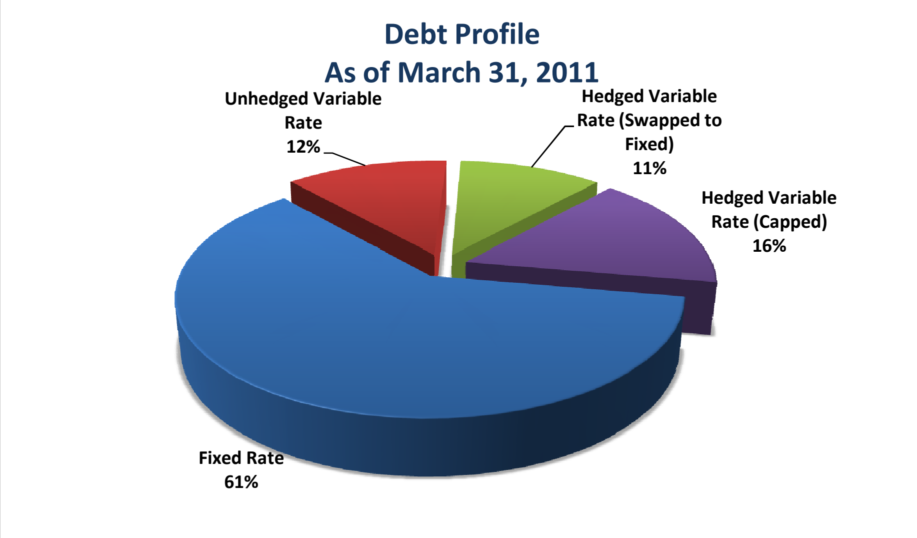
• Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of $10.1 for 2011. In March the President authorized $2.9 in preliminary funding for various capital projects budgeted in 2011 primarily for engineering and design work.

YTD March 31, 2011 Debt Activity
($ in millions)

	Beginning Balance	New Issues	Scheduled Retirements	Additional Retirements	Ending Balance
Fixed Rate Debt	$1,134.4	-	-	-	$1,134.4
Variable Rate Debt	443.0	-	57.0	-	386.0
Variable Rate Energy Srvcs Debt	347.2	36.5	-	33.6	350.1
Sub-total Variable Rate Debt	790.2	36.5	57.0	33.6	736.1
Total	**$1,924.6**	**$36.5**	**$57.0**	**$33.6**	**$1,870.5**

New York Power Authority

DEBT



DEBT PROFILE	
($ in millions)	
Fixed Rate	1,134.4
Unhedged Variable Rate	231.4
Hedged Variable Rate (Swapped)	204.7
Hedged Variable Rate (Capped) **(1)**	300.0
Total	**1,870.5**

(1) In January 2011 the Authority purchased a SIFMA based interest rate cap on a $300 notional amount of Commercial Paper Series 1 Notes.

Interest Rate Derivatives

The Authority periodically enters into Interest Rate Swaps and Caps to manage interest rate volatility associated with variable rate debt and to hedge future debt issuance. Each transaction is approved by the Board of Trustees and is governed by NYPA's SWAP policy and an ISDA Master Agreement and Schedule to the Agreement with authorized Counterparties. The EVP, CFO and the Treasury department, in consultation with the Authority's financial advisor Public Financial Management, continually monitor market conditions for potential hedging strategies that may benefit the Authority and its customers. All transactions were competitively bid.

Open Positions

The 1998B transaction is an interest rate swap that was bid March 13, 1998 with an effective date of November 15, 2002. The swap had the effect of fixing the rate on tax-exempt commercial paper at 5.123% on a forward starting basis. It was one component of the 1998 debt refinancing that reduced debt service costs by $740 million and allowed the Authority to adopt a new *General Resolution authorizing Revenue Obligations* in preparation for the competitive marketplace.

The ARTN transaction is an interest rate swap that was bid July 27, 2006 with an effective date of September 1, 2006. It allowed the Authority to lock in a 3.7585% synthetic fixed rate on the Adjustable Rate Tender Notes ("ARTN's"). The synthetic fixed rate was below the historical average rate on the ARTN's and below the rate used in developing NYPA's transmission tariff.

On January 24, 2011 the Authority purchased an interest rate cap on the Series 1 Commercial Paper with a strike rate of 5.50% and term of 2 years. The transaction provides customers participating in the energy services program an interest rate ceiling on their financial rate. The cap was approved by the Board in October 2010 and PFM Asset Management, the Authority's swap advisor, administered the competitive bid.

Summary of Derivative Positions ($ in millions)

Transaction	Counterparty	Notional Amount*	Effective Date	Type of Swap	Mark-to-Market
1998B	Goldman Sachs Mitsui Marine Derivatives	$24.5	11/15/2002	Floating-to-Fixed	($2.4)
1998B	Merrill Lynch Cap. Srvcs	40.9	11/15/2002	Floating-to-Fixed	(4.1)
1998B	Citigroup Financial Prod.	16.4	11/15/2002	Floating-to-Fixed	(1.6)
ARTN	Merrill Lynch Cap. Srvcs	122.9	9/1/2006	Floating-to-Fixed	(11.8)
CP - 1	Morgan Stanley Cap. Srvcs	300.0	1/26/2011	CAP	-
Totals		**$504.7**			**($19.9)**

* *The notional amount of each SWAP amortizes according to the provisions contained in the transaction documents.*

ENERGY DERIVATIVES

Results

Year-to-date, energy derivative settlements have resulted in a net loss of $10.71 million by entering into hedge positions as requested by or transacted on behalf of the Authority's Customers. Gains and losses on these positions are substantially passed through to customers as resulting hedge settlements are incorporated into and recovered through customer rates.

Year-to-Date 2011 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions

($ in Millions)

	Settlements	Fair Market Value			
	YTD	2011	2012	>=2013	Total
NYPA	$ (0.15)	$ 0.67	$ -	$ -	$ 0.67
Customer Contracts	$ (10.56)	$ (61.36)	$ (75.74)	$ (72.24)	$ (209.34)
Total	**$ (10.71)**	**$ (60.69)**	**$ (75.74)**	**$ (72.24)**	**$ (208.67)**

At the end of March, the fair market value of outstanding positions was valued at an unrealized loss of $208.67 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of May to December 2011 futures contracts and how they have traded since the beginning of 2010, while Exhibit 2 illustrates the average price of futures contracts for entire year 2012.

Exhibit 1: Average May to December 2011 Forward Price

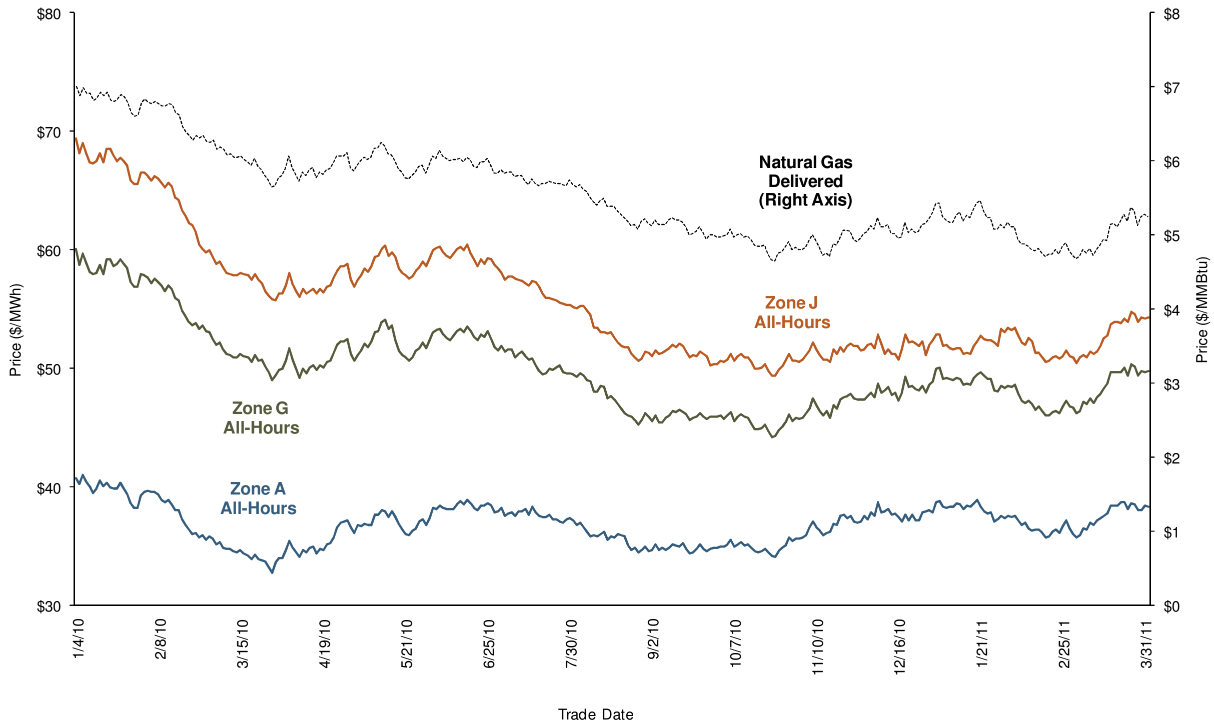
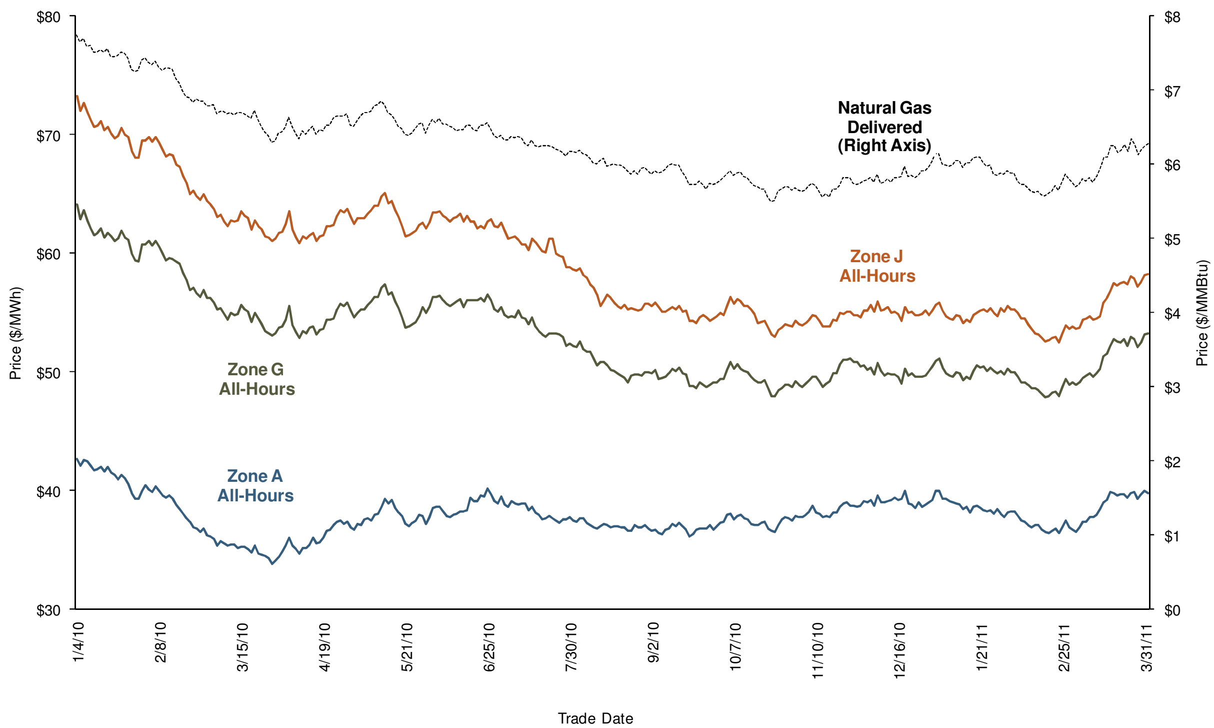


Exhibit 2: Average January to December 2012 Forward Price



STATEMENT OF NET INCOME
For the Three Months Ended March 31, 2011
($ in millions)

Annual Budget		Actual	Budget	Variance Favorable/ (Unfavorable)
	Operating Revenues			
$2,070.5	Customer	**$459.1**	**$463.9**	**($4.8)**
463.4	Market-based power sales	122.7	86.5	36.2
30.6	Ancillary services	8.6	8.1	.5
114.9	NTAC and other	29.7	30.7	(1.0)
608.9	Total	**161.0**	**125.3**	**35.7**
2,679.4	**Total Operating Revenues**	**620.1**	**589.2**	**30.9**
	Operating Expenses			
804.7	Purchased power	234.7	187.4	(47.3)
295.6	Fuel consumed - oil & gas	70.6	67.7	(2.9)
108.2	Ancillary services	15.4	25.5	10.1
543.4	Wheeling	106.7	106.4	(.3)
327.1	Operations and maintenance	68.7	66.1	(2.6)
194.9	Depreciation and amortization	39.5	40.6	1.1
135.5	Other expenses	37.6	35.6	(2.0)
(10.9)	Allocation to capital	(1.3)	(1.7)	(.4)
2,398.5	**Total Operating Expenses**	**571.9**	**527.6**	**44.3**
280.90	**Net Operating Income**	**48.2**	**61.6**	**(13.4)**
	Nonoperating Revenues			
88.0	Post nuclear sale income	25.6	25.6	-
39.9	Investment income	9.6	9.5	.1
(7.0)	Mark to market - investments	(5.1)	(1.7)	(3.4)
120.9	**Total Nonoperating Revenues**	**30.1**	**33.4**	**(3.3)**
	Nonoperating Expenses			
65.0	Contributions to New York State	25.0	25.0	-
157.5	Interest and other expenses	23.6	26.5	2.9
222.5	**Total Nonoperating Expenses**	**48.6**	**51.5**	**2.9**
(101.6)	**Net Nonoperating Income (Loss)**	**(18.5)**	**(18.1)**	**(.4)**
$179.3	**Net Income**	**$29.7**	**$43.5**	**($13.8)**

COMPARATIVE BALANCE SHEETS
March 31, 2011
($ in millions)

Assets		March 2011	March 2010	December 2010
Current Assets				
	Cash	$0.1	$0.1	$0.1
	Investments in government securities	1,120.4	870.5	1,091.1
	Interest receivable on investments	5.4	6.1	5.5
	Accounts receivable - customers	213.5	194.0	204.0
	Materials and supplies, at average cost:			
	Plant and general	77.1	84.6	75.1
	Fuel	14.9	17.4	15.3
	Prepayments and other	174.8	169.7	190.5
	Total Current Assets	**1,606.2**	**1,342.4**	**$1,581.6**
Noncurrent Assets				
Restricted Funds	Investment in decommissioning trust fund	1,057.9	972.0	1,032.4
	Other	83.3	94.4	83.3
	Total Restricted Funds	**1,141.2**	**1,066.4**	**1,115.7**
Capital Funds	Investment in securities and cash	129.1	193.4	144.8
	Total Capital Funds	**129.1**	**193.4**	**144.8**
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,330.5	3,317.4	3,344.1
	Construction work in progress	115.6	156.7	123.3
	Net Utility Plant	**3,446.1**	**3,474.1**	**3,467.4**
Other Noncurrent Assets	Receivable - NY State	318.0	318.0	318.0
	Deferred charges, long-term receivables and other	594.8	690.3	604.6
	Notes receivable - nuclear plant sale	110.7	124.0	157.1
	Total other noncurrent assets	**1,023.5**	**1,132.3**	**1,079.7**
	Total Noncurrent Assets	**5,739.9**	**5,866.2**	**5,807.6**
	Total Assets	**$7,346.1**	**$7,208.6**	**$7,389.2**

Liabilities and Net Assets				
Current Liabilities	Accounts payable and accrued liabilities	$872.8	$838.6	$880.4
	Short-term debt	325.1	298.0	323.2
	Total Current Liabilities	**1,197.9**	**1,136.6**	**1,203.6**
Noncurrent Liabilities				
Long-term Debt	Revenue bonds	1,150.5	1,192.1	1,151.2
	Adjustable rate tender notes	123.0	130.5	130.5
	Commercial paper	288.1	341.1	336.5
	Total Long-term Debt	**1,561.6**	**1,663.7**	**1,618.2**
Other Noncurrent Liabilities	Nuclear plant decommissioning	1,057.9	972.0	1,032.4
	Disposal of spent nuclear fuel	216.2	215.9	216.1
	Deferred revenues and other	281.7	415.9	316.5
	Total Other Noncurrent Liabilities	**1,555.8**	**1,603.8**	**1,565.0**
	Total Noncurrent Liabilities	**3,117.4**	**3,267.5**	**3,183.2**
	Total Liabilities	**4,315.3**	**4,404.1**	**4,386.8**
Net Assets	Accumulated Net Revenues - January 1	3,001.1	2,820.4	2,820.4
	Net Income (Loss)	29.7	(15.9)	182.0
	Total Net Assets	**3,030.8**	**2,804.5**	**3,002.4**
	Total Liabilities and Net Assets	**$7,346.1**	**$7,208.6**	**$7,389.2**

SUMMARY OF OPERATING FUND CASH FLOWS
For the Three Months Ended March 31, 2011
($ in millions)

Operating Fund	
Opening	$1,069.2
Closing	1,103.1
Increase/(Decrease)	**33.9**
Cash Generated	
Net Operating Income	48.2
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	39.5
Net Change in Receivables, Payables & Inventory	(34.5)
Other	(1.5)
Net Cash Generated from Operations	**51.7**
(Uses)/Sources	
Utility Plant Additions	(12.7)
Debt Service	
Commercial Paper 2	(44.8)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(4.7)
ART Notes	(7.6)
Investment Income	6.3
Entergy Value Sharing Agreement	72.0
Voluntary Contribution to NY State	(25.0)
Other	(1.3)
Total (Uses)/Sources	**(17.8)**
Net Increase in Operating Fund	**$33.9**

New York Power Authority

Report of the Chief Financial Officer

For the Four Months Ended April 30, 2011

Report of the Chief Financial Officer
For the Four Months Ended April 30, 2011
Executive Summary

Results of Operations

Net income for the four months ended April 30, 2011 was $48.4 million which was $3.2 million below budget primarily due to lower net margins on sales ($8.8 million) partially offset by higher non-operating income ($5.8 million). Through April, a lower net margin at Niagara ($17.2 million) primarily due to lower generation volume (5%) was partially offset by a higher net margin at St. Lawrence ($11.2 million) resulting from higher generation and higher prices on market-based sales. Net generation was lower than budgeted at Niagara due to low water flows and the need to manage ice conditions at the facility. In addition, higher than anticipated purchased power costs were incurred at Niagara to support customer loads due to an extended transmission line outage. Non-operating income reflected the positive effect of lower interest costs and a mark-to-market gain on the Authority's investment portfolio resulting from a decrease in market interest rates.

Net income through April 2011 ($48.4 million) was $41.5 million higher than the comparable period in 2010 ($6.9 million). The positive impact of lower voluntary contributions to New York State during the period ($82 million) was partially offset by lower net margins on sales ($26.8 million), lower investment income ($4.9 million) and higher other operating expenses ($5.5 million). Year-to-date voluntary contributions were $25 million in 2011 compared to $107 million through March 2010. Net margins on sales were lower primarily due to lower water flows at Niagara and higher purchased power costs to support customer loads, due to an extended transmission line outage.

Year-end Projection

Significant precipitation over the Great Lakes during March and April led to a sharp increase in lake levels and a corresponding increase in expected generation levels at the hydro units. As a result, year-end net income is currently projected at $172 million, which is $38 million above last month's year-end forecast, and $7 million below the official 2011 budget.

The current annual hydro generation forecast of 19.8 TWh is 0.7 TWh above the official budget, which produced a positive swing of $36 million over last month's annual net income forecast and $22 million better than the budget. The increased hydro generation is attributable to precipitation levels over the Great Lakes being nearly twice the historical average during April.

The impact of lower capacity prices outside of New York City, offset in part by increased prices in NYC, results in an annual net income reduction from budget of approximately $17 million, with the most significant negative impacts at the Blenheim-Gilboa and Niagara plants.

The newly approved Recharge NY Power Program included an $8.5 million higher than budgeted voluntary contribution associated with the extension of the Power for Jobs program also contributing to the negative variance in year-end net income.

Cash & Liquidity

The Authority ended the month of April with total operating funds of $1,127 million as compared to $1,069 million at the end of 2010. The increase of $58 million was primarily attributable to net cash generated by operations and the Value Sharing payment received from Entergy in January partially offset by a voluntary contribution to New York State and scheduled debt service payments. Looking forward, we are anticipating the operating fund balance to increase to $1,187 million at the end of the year.

Energy Risk

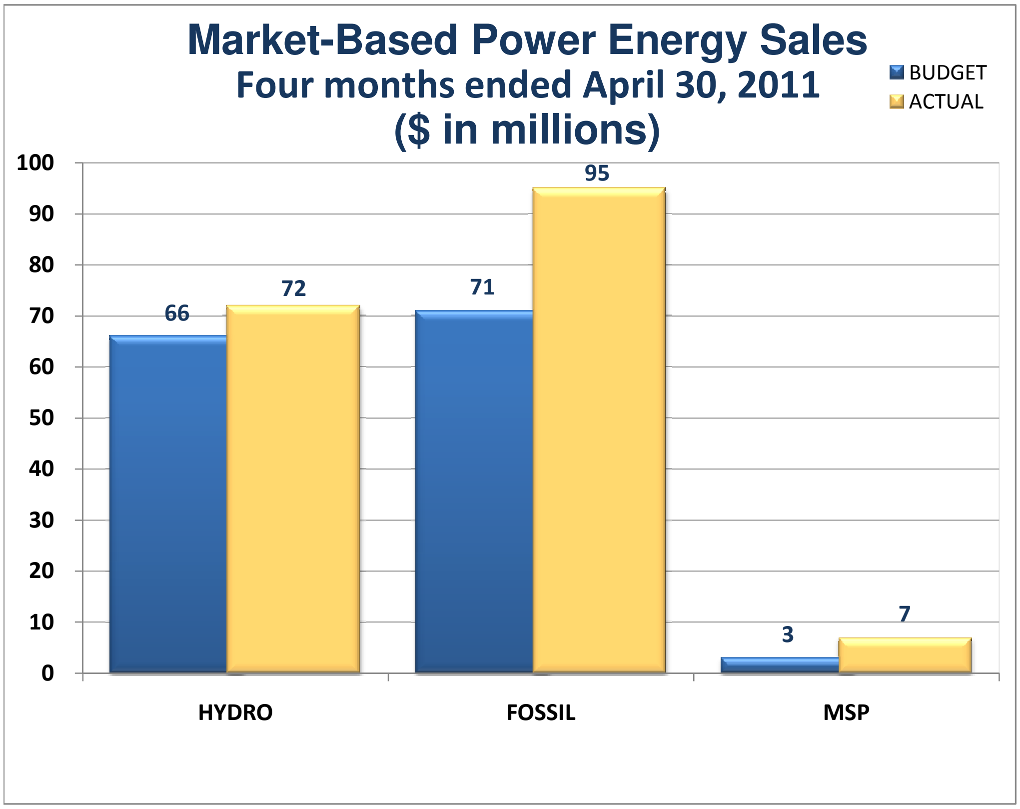
At April 30, 2011, the fair market value of outstanding energy derivatives was an unrealized loss of $189 million for contracts extending through 2017. Year to date, energy derivative settlements resulted in a realized net loss of $20 million. The amount of these losses is subject to virtually full cost recovery, whereby the resulting hedge settlements are recovered through customer rates.

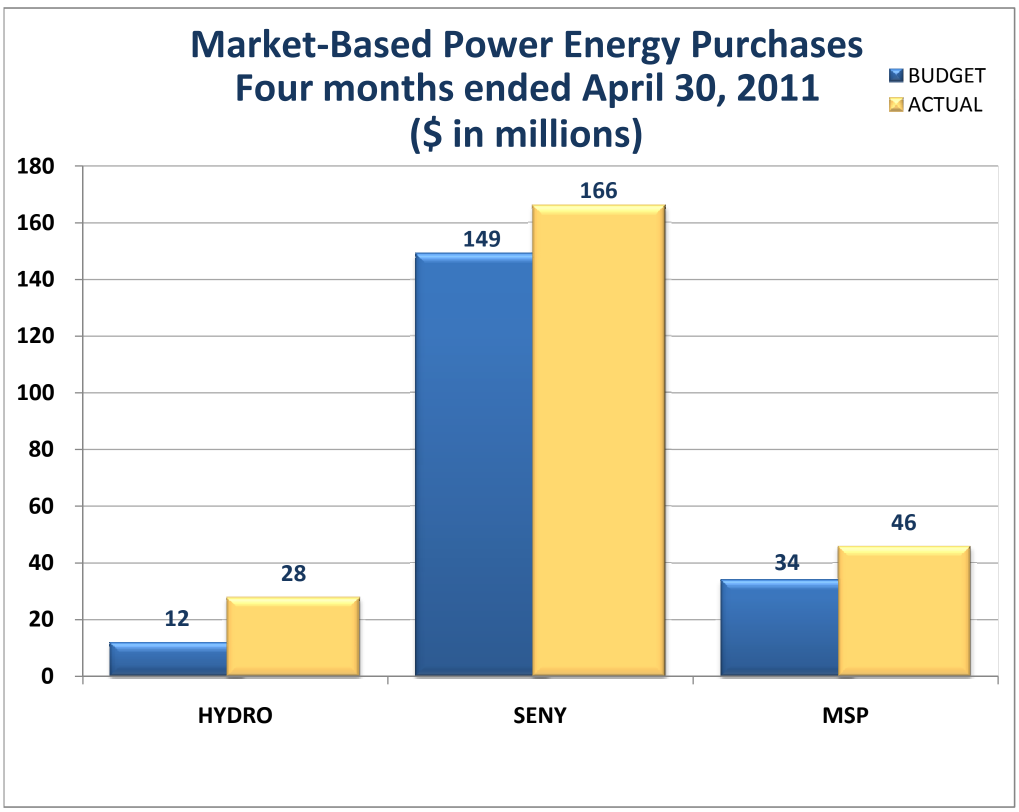
Net Income
Four Months ended April 30, 2011
($ in millions)

	Actual	Budget	Variance
Niagara	$21.1	$37.2	($16.1)
St. Lawrence	13.3	1.9	11.4
Blenheim-Gilboa	(5.7)	(5.1)	(0.6)
SENY	10.0	8.0	2.0
SCPP	(2.9)	(3.2)	0.3
Market Supply Power	(14.1)	(10.5)	(3.6)
Flynn	3.9	2.6	1.3
Transmission	14.4	14.4	0.0
Non-facility*	8.4	6.3	2.1
Total	**$48.4**	**$51.6**	**($3.2)**

Major Factors	**Better (Worse)**
Niagara Lower net margins on sales due to lower generation volumes (5%) resulting from lower hydro flows and ice management conditions. This resulted in lower market-based revenues and higher purchased power costs to support customer loads. Purchased power costs were also higher due to an extended outage at an upstate transmission line.	($16.1)
St. Lawrence Higher net margins ($11.2) resulting from 9% higher generation and higher prices on market sales ($40/mwh vs $37/mwh).	11.4
Market Supply Power Higher purchased power costs (due to higher prices), combined with accrual of higher voluntary contribution (extension of Power for Jobs program).	(3.6)
Other facilities Primarily SENY due to timing differences in recovery of fixed costs.	3.0
Non-facility (including investment income) Primarily mark-to-market gain on the Authority's investment portfolio due to an decrease in market interest rates during the period.	2.1
Total	**($3.2)**

RESULTS OF OPERATIONS





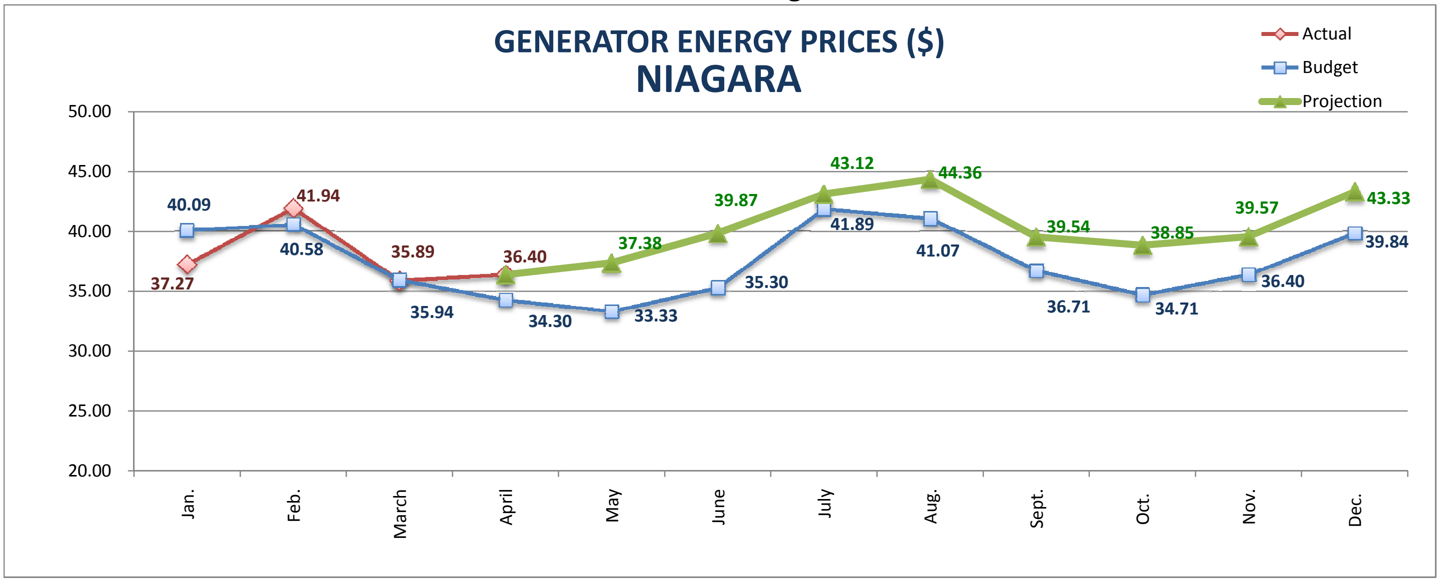
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	1,549,266	1,645,917
Fossil	1,122,470	1,328,055
MSP	73,157	168,982
TOTAL	2,744,893	3,142,954
PRICES ($/MWH)		
Hydro*	$42.88	$43.87
Fossil	$62.84	$71.35
MSP	$35.42	$44.13
AVERAGE	$50.85	$55.50

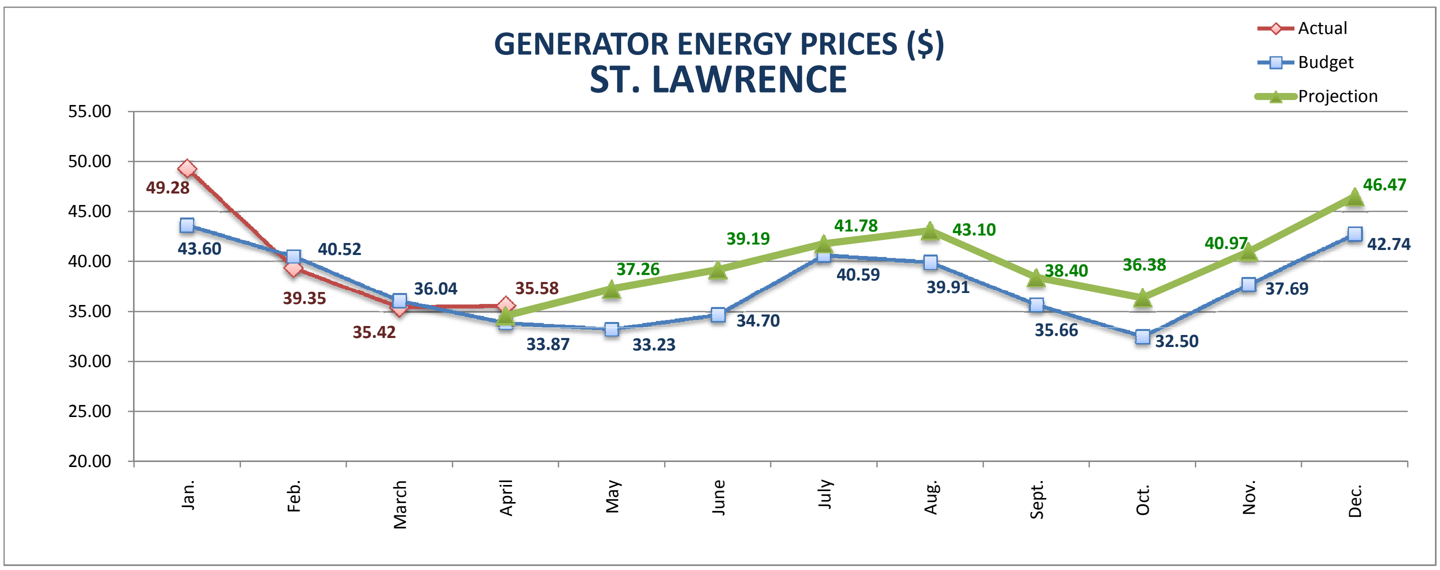
** Includes Niagara, St. Lawrence, B-G, and Small Hydro.*

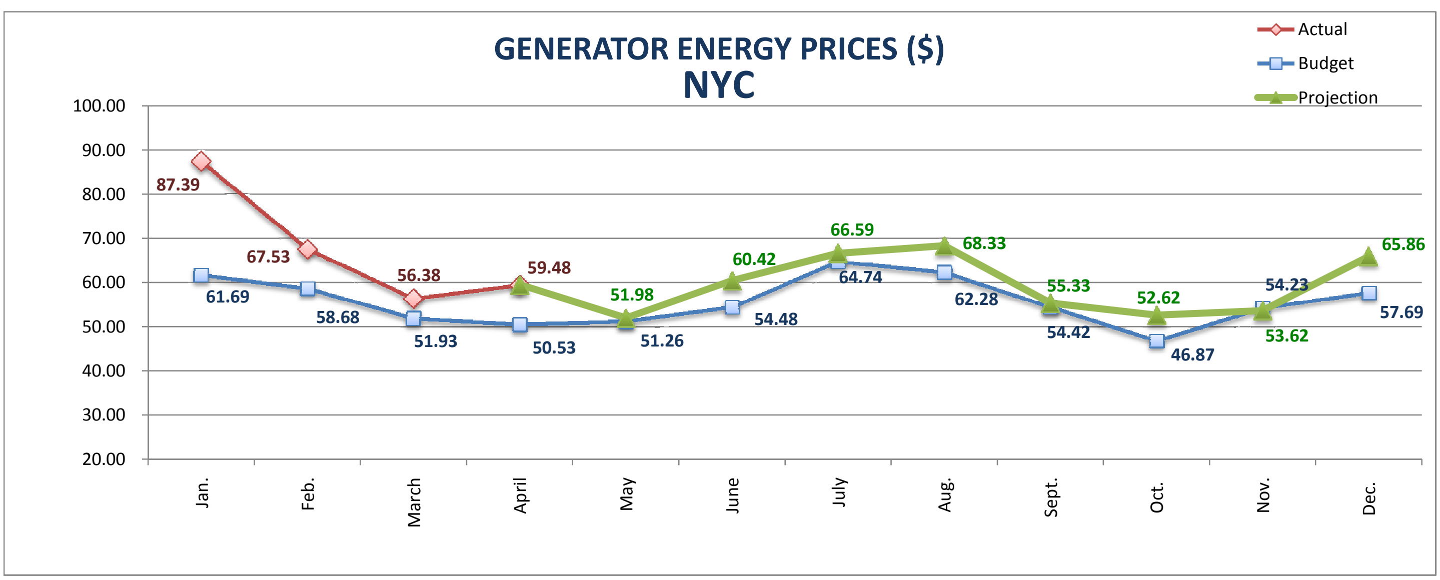
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Niagara	873,608	851,739
St. Law.	424,181	640,311
PRICES ($/MWH)		
Niagara	$38.14	$38.25
St. Law.	$37.00	$39.98

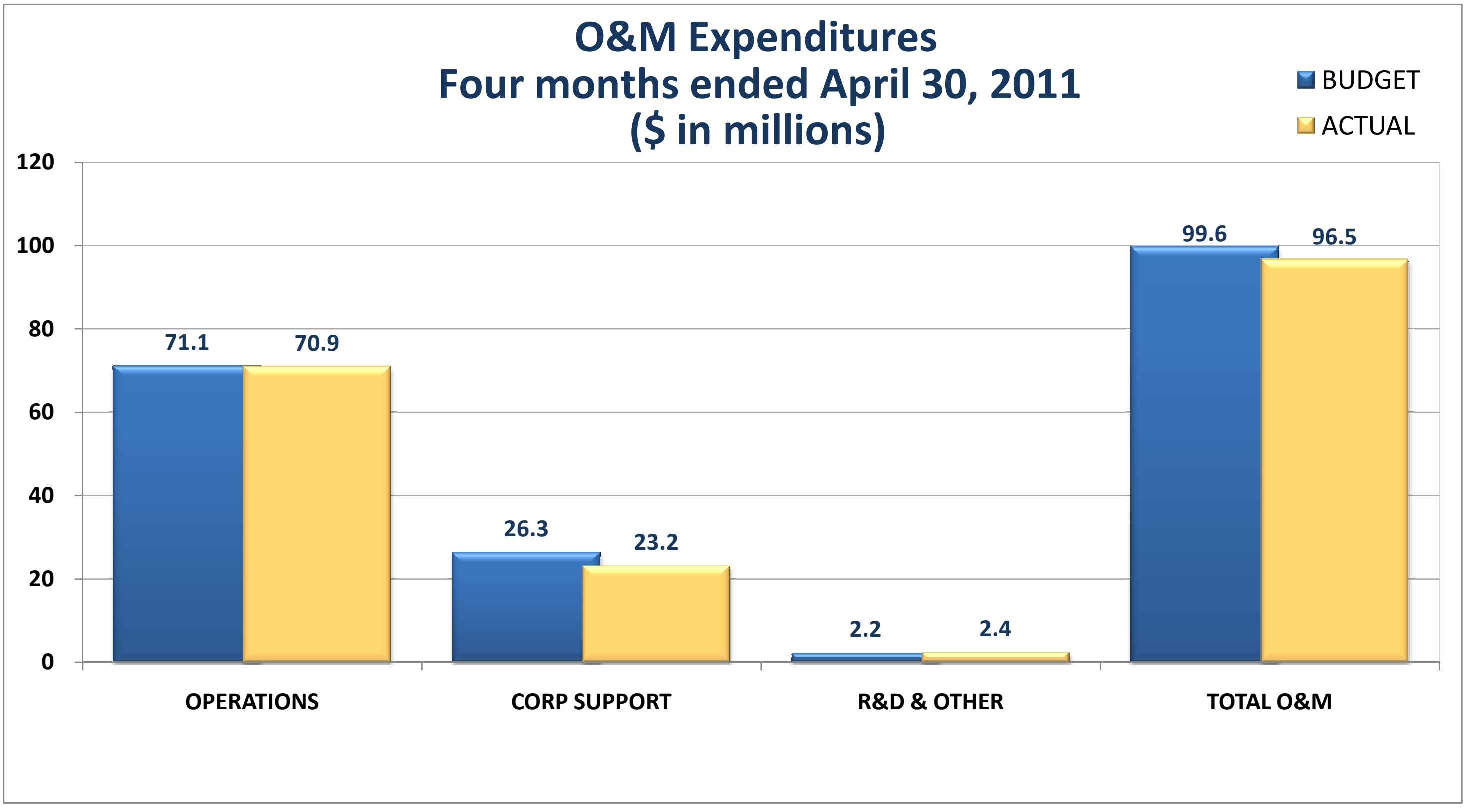
COSTS		
PURCHASES (MWH)		
	BUDGET	ACTUAL
Hydro	505,883	732,810
SENY	2,866,190	3,086,180
MSP	912,318	1,017,976
TOTAL	4,284,391	4,836,966
COSTS ($/MWH)		
Hydro	$24.39	$38.17
SENY	$51.98	$53.98
MSP	$37.16	$44.97
AVERAGE	$45.57	$49.69

RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget





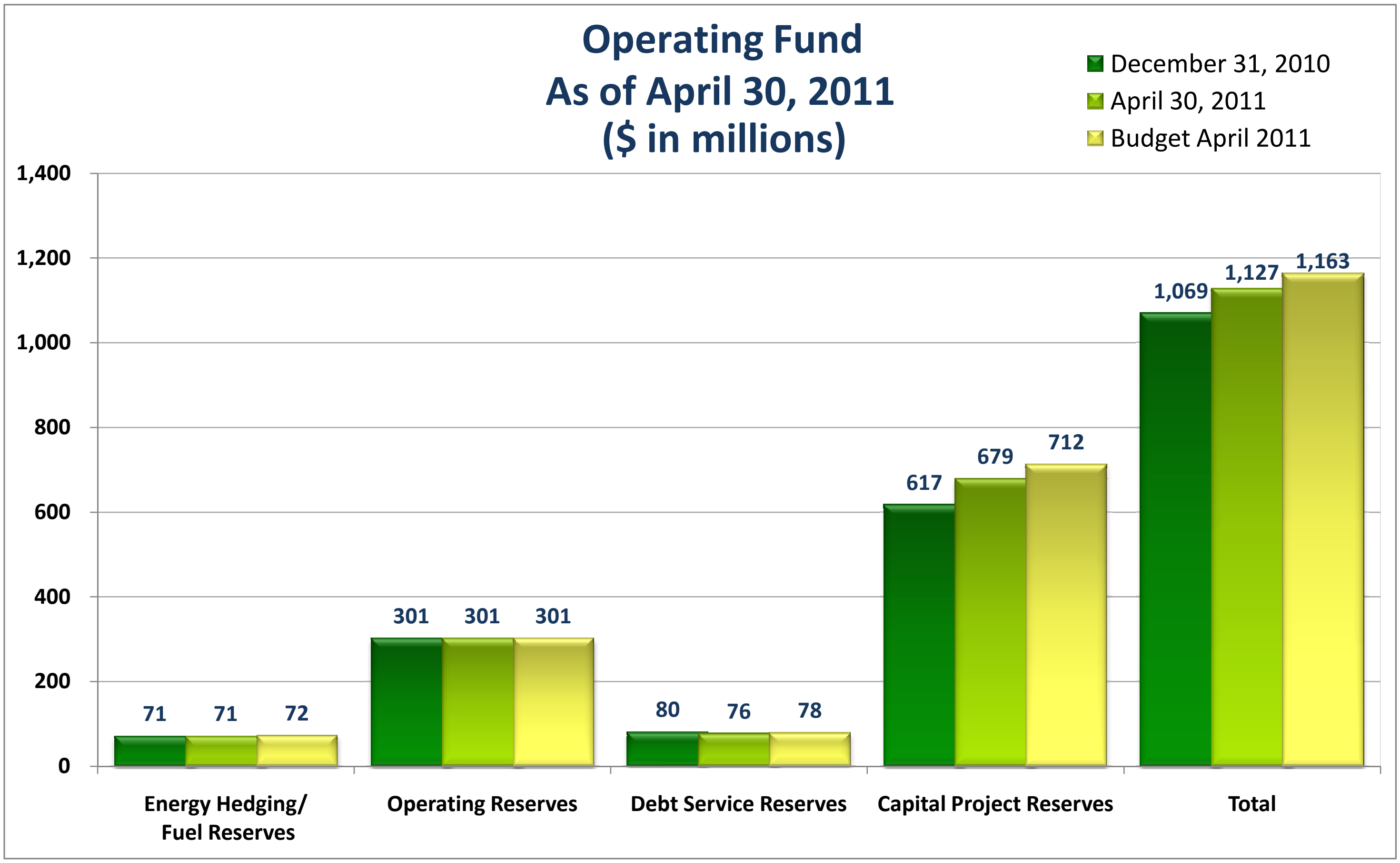




- Through April, O&M expenses were $3.1 lower than the budget.

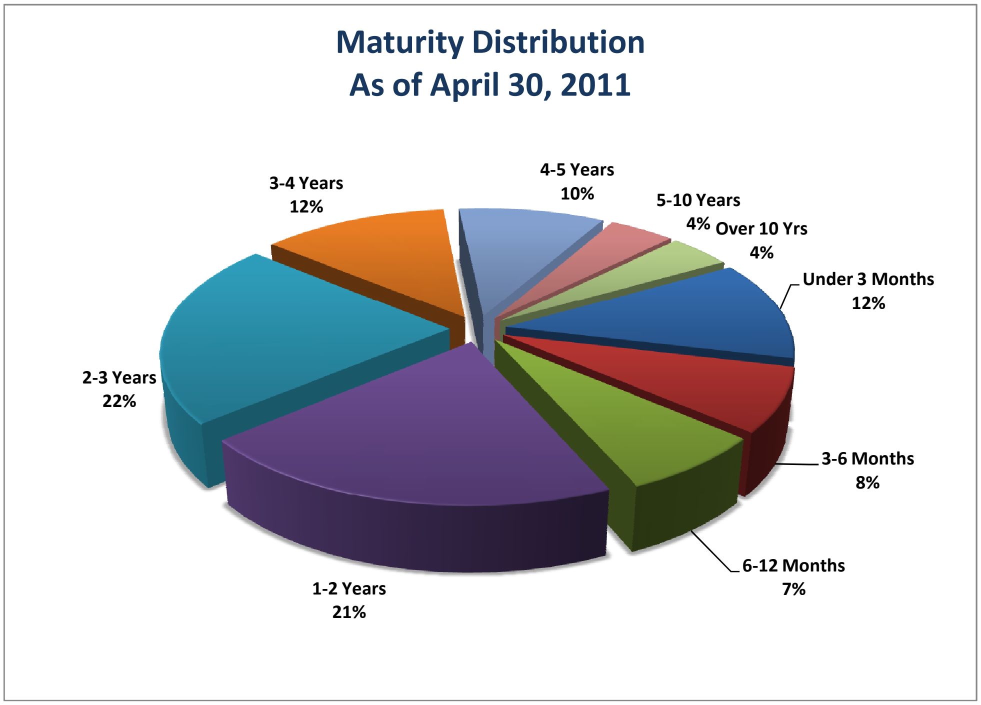
- HQ Corporate Support was under budget by $3.1 due to lower than expected expenses for outside legal counsel, WPO building operations, computer software, hardware and services, and books and publications

- Operations expenditures were slightly lower than budgeted primarily due to timing differences in expenses related to the 500 MW plant outage and in non-recurring projects at Niagara. This was substantially offset by an overrun in Operations Shared Services due to less than anticipated labor charged to capital projects.

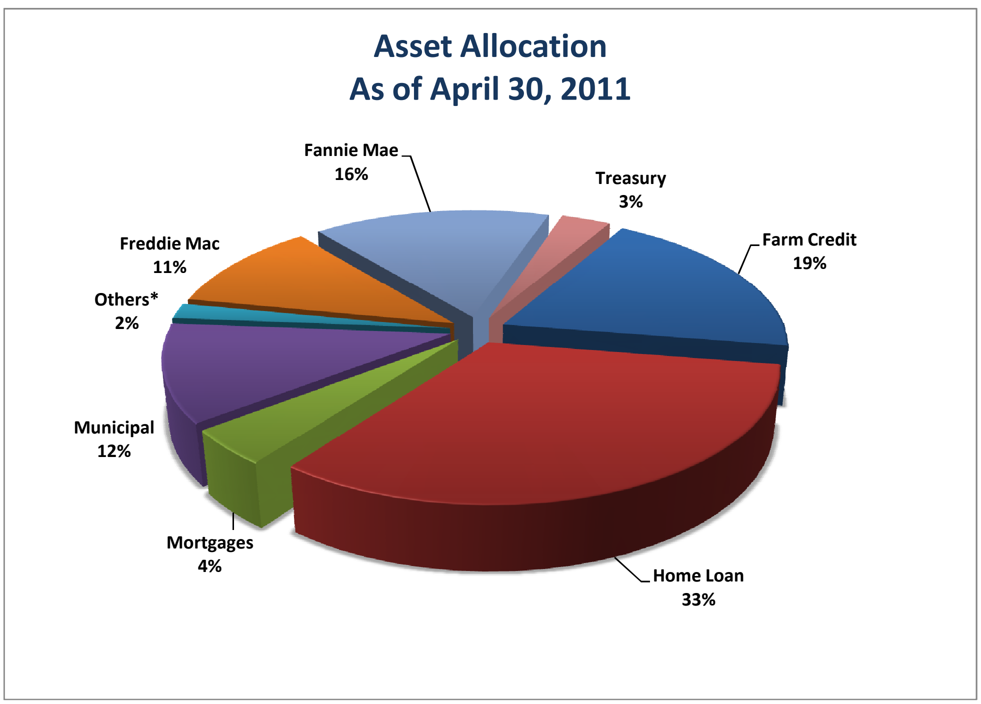


The increase of $58 in the Operating Fund (from $1,069 to $1,127) was primarily attributable to positive net cash provided by operating activities and the Value Sharing payment of $72 received from Entergy, substantially offset by voluntary contributions to New York State ($25) and repayments on commercial paper ($50) and ART Notes ($8). The variance from budget is primarily the result of the timing of cash payments related to prior year accruals.

CASH AND LIQUIDITY
INVESTMENT PORTFOLIO

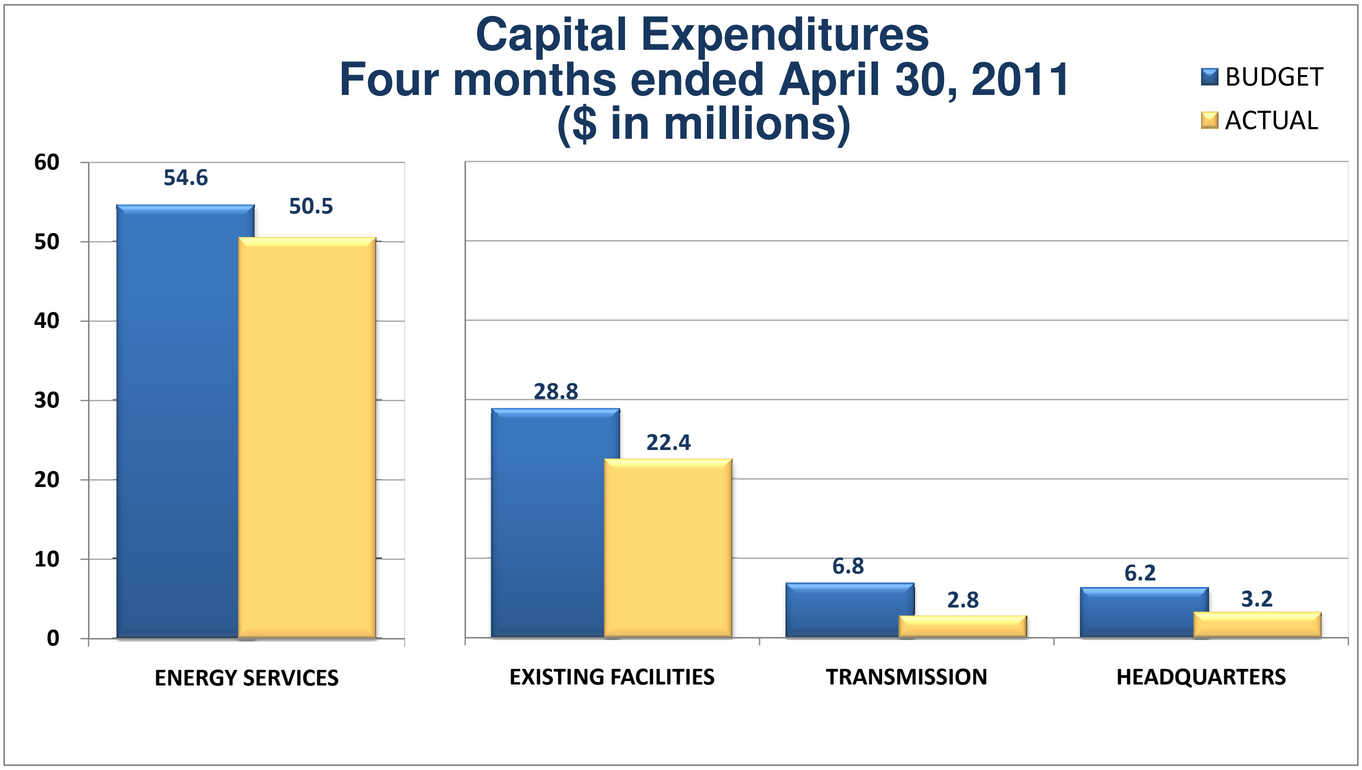


MATURITY DISTRIBUTION	
($ in millions)	
Under 3 Months	$147.4
3-6 Months	92.7
6-12 Months	86.1
1-2 Years	249.5
2-3 Years	271.8
3-4 Years	150.8
4-5 Years	118.7
5-10 Years	53.4
Over 10 Yrs	50.6
Total	**$1,221.0**

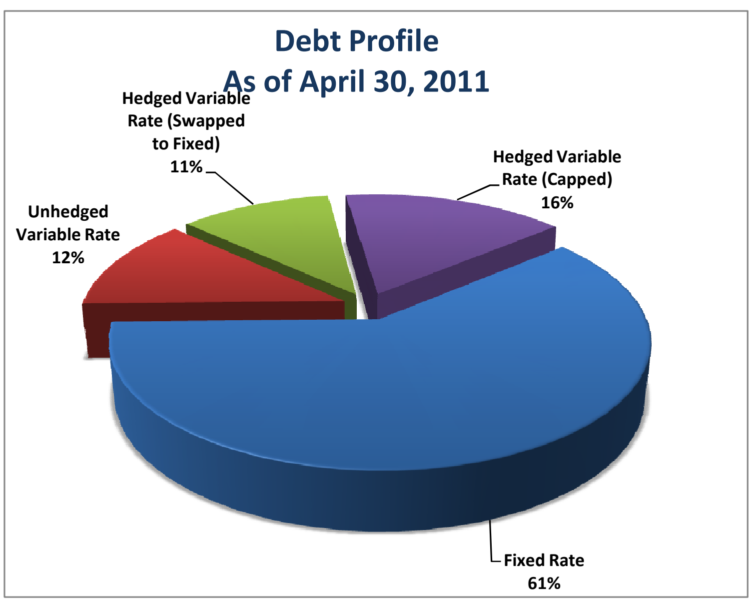


ASSET ALLOCATION	
($ in millions)	
Farm Credit	$234.7
Home Loan	399.1
Mortgages	52.4
Municipal	143.3
Others*	22.7
Freddie Mac	134.4
Fannie Mae	194.4
Treasury	40.0
Total	**$1,221.0**

*Includes CDs and Repos



- Energy Services expenditures were under budget primarily due to scheduling of projects (mainly Bronx Community College HVAC upgrade).
- Existing facilities expenditures were under budget by $6.4 primarily due to the delays in permitting for projects related to St. Lawrence Relicensing Implementation and Compliance.
- Transmission expenditures were less than anticipated due to timing for several projects, primarily the ISO Metering Upgrade.
- Headquarters expenditures were less than budgeted due to timing for several IT projects.
- Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of $11.1 for 2011. In April, the President authorized $1.0 for the Harlem River Emergency Transformer Replacement project.



DEBT PROFILE	
($ in millions)	
Fixed Rate	$1,134.4
Unhedged Variable Rate	226.8
Hedged Variable Rate (Swapped to Fixed)	204.8
Hedged Variable Rate (Capped) **(1)**	300.0
Total	**$1,866.0**

(1) ***In*** *January 2011 the Authority purchased a SIFMA based interest rate cap on a $300 notional amount of Commercial Paper Series 1 Notes.*

ENERGY DERIVATIVES

Results

Year-to-date, energy derivative settlements have resulted in a net loss of $19.8 million by entering into hedge positions as requested by or transacted on behalf of the Authority's Customers. Gains and losses on these positions are substantially passed through to customers as resulting hedge settlements are incorporated into and recovered through customer rates.

Year-to-Date 2011 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions

($ in Millions)

	Settlements	Fair Market Value			
	YTD	**2011**	**2012**	**>=2013**	**Total**
NYPA	$ (0.06)	$ 2.03	$ -	$ -	$ 2.03
Customer Contracts	$ (19.74)	$ (49.43)	$ (71.03)	$ (70.71)	$ (191.16)
Total	**$ (19.79)**	**$ (47.39)**	**$ (71.03)**	**$ (70.71)**	**$ (189.13)**

At the end of April, the fair market value of outstanding positions was valued at an unrealized loss of $189.1 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of June to December 2011 futures contracts and how they have traded since the beginning of 2010, while Exhibit 2 illustrates the average price of futures contracts for entire year 2012.

Exhibit 1: Average May to December 2011 Forward Price

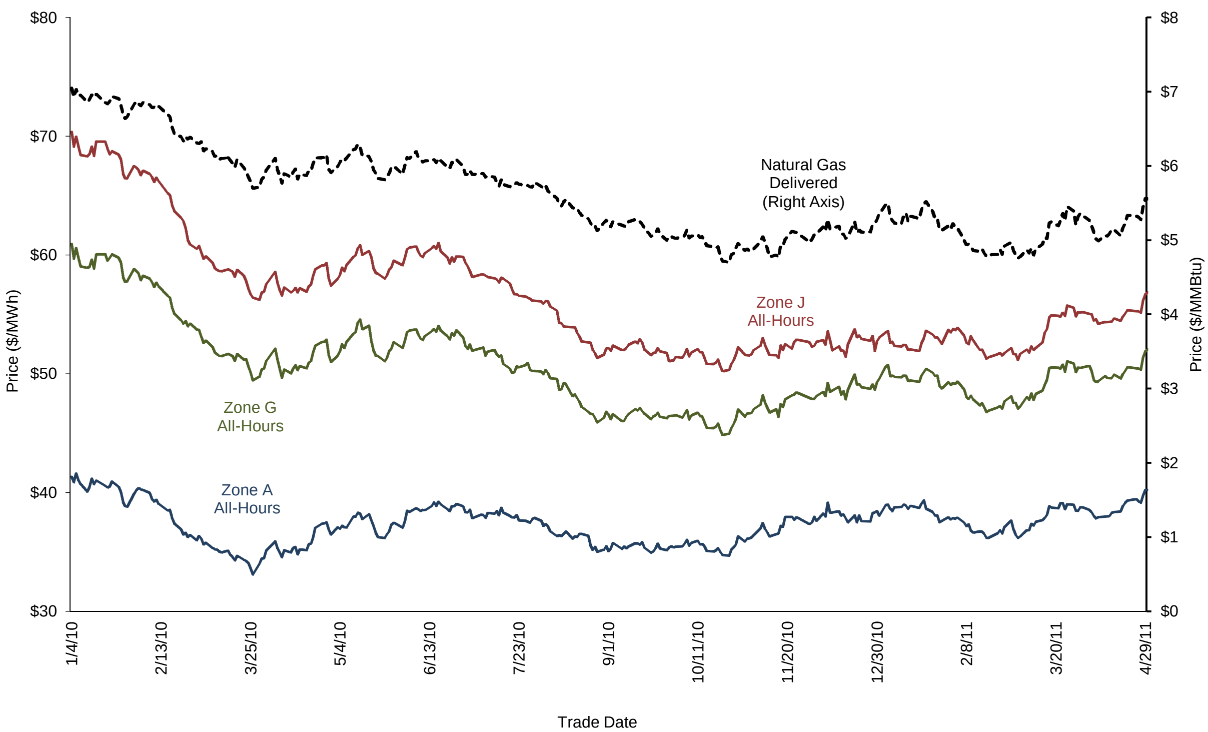
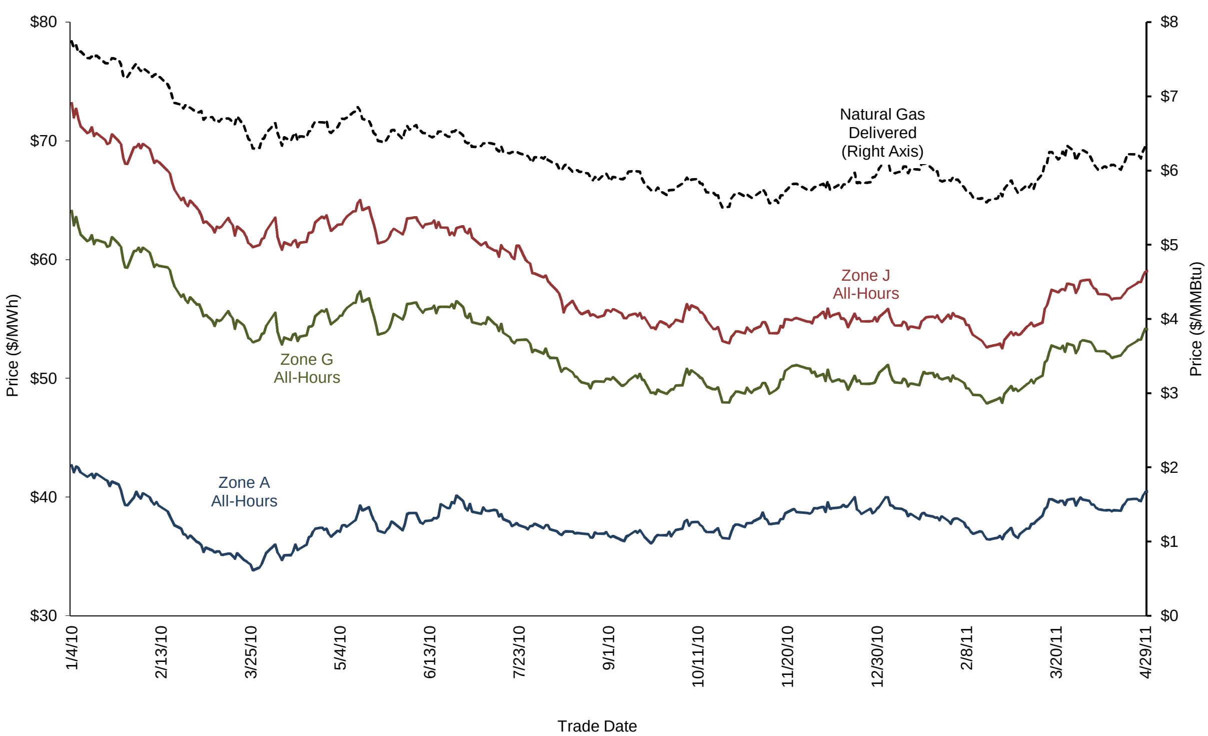


Exhibit 2: Average January to December 2012 Forward Price



STATEMENT OF NET INCOME
For the Four Months Ended April 30, 2011
($ in millions)

Annual Budget		Actual	Budget	Variance Favorable/ (Unfavorable)
	Operating Revenues			
$2,070.5	Customer	**599.0**	**613.2**	**(14.2)**
463.4	Market-based power sales	151.7	107.2	44.5
30.6	Ancillary services	10.8	10.1	0.7
114.9	NTAC and other	38.8	39.7	(0.9)
608.9	Total	**201.3**	**157.0**	**44.3**
2,679.4	**Total Operating Revenues**	**800.3**	**770.2**	**30.1**
	Operating Expenses			
804.7	Purchased power	299.0	251.3	(47.7)
295.6	Fuel consumed - oil & gas	84.4	81.5	(2.9)
108.2	Ancillary services	19.3	34.2	14.9
543.4	Wheeling	142.1	138.8	(3.3)
327.1	Operations and maintenance	96.5	99.6	3.1
194.9	Depreciation and amortization	52.8	54.1	1.3
135.5	Other expenses	50.2	46.6	(3.6)
(10.9)	Allocation to capital	(1.8)	(2.7)	(0.9)
2,398.5	**Total Operating Expenses**	**742.5**	**703.4**	**39.1**
280.90	**Net Operating Income**	**57.8**	**66.8**	**(9.0)**
	Nonoperating Revenues			
88.0	Post nuclear sale income	34.2	34.2	-
39.9	Investment income	12.5	12.7	(0.2)
(7.0)	Mark to market - investments	0.9	(1.8)	2.7
120.9	**Total Nonoperating Revenues**	**47.6**	**45.1**	**2.5**
	Nonoperating Expenses			
65.0	Contributions to New York State	25.0	25.0	-
157.5	Interest and other expenses	32.0	35.3	3.3
222.5	**Total Nonoperating Expenses**	**57.0**	**60.3**	**3.3**
(101.6)	**Net Nonoperating Income (Loss)**	**(9.4)**	**(15.2)**	**5.8**
$179.3	**Net Income**	**48.4**	**51.6**	**(3.2)**

COMPARATIVE BALANCE SHEETS
April 30, 2011
($ in millions)

Assets		April 2011	April 2010	December 2010
Current Assets				
	Cash	0.1	0.1	0.1
	Investments in government securities	1,149.6	905.4	1,091.1
	Interest receivable on investments	5.3	5.4	5.5
	Accounts receivable - customers	226.6	208.1	204.0
	Materials and supplies, at average cost:			
	Plant and general	76.9	85.0	75.1
	Fuel	14.8	17.5	15.3
	Prepayments and other	155.6	150.2	190.5
	Total Current Assets	**1,628.9**	**1,371.7**	**1,581.6**
Noncurrent Assets				
Restricted Funds	Investment in decommissioning trust fund	1,078.0	984.2	1,032.4
	Other	82.7	94.3	83.3
	Total Restricted Funds	**1,160.7**	**1,078.5**	**1,115.7**
Capital Funds	Investment in securities and cash	119.8	172.4	144.8
	Total Capital Funds	**119.8**	**172.4**	**144.8**
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,320.2	3,304.5	3,344.1
	Construction work in progress	123.0	165.5	123.3
	Net Utility Plant	**3,443.2**	**3,470.0**	**3,467.4**
Other Noncurrent Assets	Receivable - NY State	318.0	318.0	318.0
	Deferred charges, long-term receivables and other	579.4	666.6	604.6
	Notes receivable - nuclear plant sale	119.2	132.6	157.1
	Total other noncurrent assets	**1,016.6**	**1,117.2**	**1,079.7**
	Total Noncurrent Assets	**5,740.3**	**5,838.1**	**5,807.6**
	Total Assets	**7,369.2**	**7,209.8**	**7,389.2**
Liabilities and Net Assets				
Current Liabilities	Accounts payable and accrued liabilities	871.9	830.8	880.4
	Short-term debt	320.1	293.2	323.2
	Total Current Liabilities	**1,192.0**	**1,124.0**	**1,203.6**
Noncurrent Liabilities				
Long-term Debt	Revenue bonds	1,150.3	1,191.8	1,151.2
	Adjustable rate tender notes	122.9	130.5	130.5
	Commercial paper	288.5	341.1	336.5
	Total Long-term Debt	**1,561.7**	**1,663.4**	**1,618.2**
Other Noncurrent Liabilities	Nuclear plant decommissioning	1,078.0	984.2	1,032.4
	Disposal of spent nuclear fuel	216.2	215.9	216.1
	Deferred revenues and other	271.8	394.9	316.5
	Total Other Noncurrent Liabilities	**1,566.0**	**1,595.0**	**1,565.0**
	Total Noncurrent Liabilities	**3,127.7**	**3,258.4**	**3,183.2**
	Total Liabilities	**4,319.7**	**4,382.4**	**4,386.8**
Net Assets	Accumulated Net Revenues - January 1	3,001.1	2,820.4	2,820.4
	Net Income	48.4	7.0	182.0
	Total Net Assets	**3,049.5**	**2,827.4**	**3,002.4**
	Total Liabilities and Net Assets	**7,369.2**	**7,209.8**	**7,389.2**

SUMMARY OF OPERATING FUND CASH FLOWS
For the Four Months Ended April 30, 2011
($ in millions)

Operating Fund	
Opening	1,069.2
Closing	1,126.5
Increase/(Decrease)	**57.3**
Cash Generated	
Net Operating Income	57.8
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	52.8
Net Change in Receivables, Payables & Inventory	(25.6)
Other	(1.9)
Net Cash Generated from Operations	**83.1**
(Uses)/Sources	
Utility Plant Additions	(21.8)
Debt Service	
Commercial Paper 2	(44.8)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(4.7)
ART Notes	(7.6)
Investment Income	8.1
Entergy Value Sharing Agreement	72.0
Voluntary Contribution to NY State	(25.0)
Other	(2.0)
Total (Uses)/Sources	**(25.8)**
Net Increase in Operating Fund	**57.3**

New York Power Authority
Preservation Power
Recommendation for Allocation

Exhibit "4-A"
May 24, 2011

	Company Name	Program	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage Benefits	Power Recommended (kW)	Contract Term
1	Newton Falls Fine Paper Company, LLC	PP	Newton Falls	St. Lawrence	6,300	91	$21,700,000	$47,000	**5,000**	3 Years
2	Upstate Niagara Cooperative, Inc.	PP	North Lawrence	St. Lawrence	3,000	80	$11,000,000		**3,000**	5 Years
	Total PP Recommended					**171**	**$32,700,000**		**8,000**	

May 24, 2011
Exhibit "4-B-1"

APPLICATION SUMMARY
Preservation Power

Company:	Newton Falls Fine Paper, LLC
Location:	Newton Falls
County:	St. Lawrence
IOU:	National Grid
Business Activity:	Paper mill
Project Description:	Company is planning to re-start the paper mill it idled in 2010 due to operational cost and profitability concerns. The plan is to invest $6.7 million in refurbishing existing but idled equipment and install new or used papermaking machinery. Additionally, it will build a biomass cogeneration plant to supply the steam and electric requirements of the facility. The cogeneration plant will cost $15 million and is expected to be fully operable in three years.
Existing Allocation(s):	None
Power Request:	6,300 kW
Power Recommended:	5,000 kW
Job Commitment:	
Existing:	18 jobs
New:	91 jobs
New Jobs/Power Ratio:	18.2 jobs/MW
New Jobs - Avg. Wage and Benefits:	$47,000
Capital Investment:	$21.7 million ($6.7 million - paper production; $15 million - cogen)
Capital Investment/MW:	$4.3 million/ MW
Other ED Incentives:	ESD, National Grid, NYSERDA
Summary:	Newton Falls Fine Paper Co. ("NFFP") is proposing to invest a total of $21.7 million to re-start operations at its paper mill and to build a biomass cogeneration plant to self-supply steam and electricity. The renovated and newly equipped plant would produce high quality, heavy weight specialty paper with high recycled content. The biomass cogeneration plant, to be operational in three years, would burn locally harvested wood chips and would be designed and built to use the highest efficiency and environmentally sound state-of-the-art

equipment. The company is requesting an allocation for three years in anticipation of the cogeneration plant coming online within that timeframe.

If NFFP were to receive an allocation of Preservation Power, it would commit to reopening the facility and rehiring 87 people for paper production operations in the first year, thus providing an immense boost to, and reinvigoration of, the local economy. Overall, the company would commit to 109 jobs by the end of two years of operation, comprised of 18 existing employees and creation of 91 jobs. An allocation of Preservation Power is a major factor in the decision to move forward with this project. The hydropower cost savings over three years would give the company the ability to move forward now with the investment in the biomass plant.

May 24, 2011
Exhibit "4-B-2"

APPLICATION SUMMARY
Preservation Power

Company: Upstate Niagara Cooperative, Inc.

Location: North Lawrence

County: St. Lawrence

IOU: National Grid

Business Activity: Dairy product manufacturing

Project Description: Purchase of a dairy processing plant that recently closed and investment in 2 new high-speed production lines. The plan is to invest $11 million total and be fully operable and producing yogurt products in September 2011. The 121,000 square feet facility has 2 existing production lines that will be put back in-service and 2 new high-speed lines will be purchased and installed.

Existing Allocation(s): None (Company currently receives EP and PFJ at its WNY facilities)

Power Request: 3,000 kW

Power Recommended: 3,000 kW

Job Commitment:
- **Existing:** 0 jobs
- **New:** 80 jobs

New Jobs/Power Ratio: 26.7 jobs/MW

New Jobs - Avg. Wage and Benefits: $57,000

Capital Investment: $11.0 million

Capital Investment/MW: $3.7 million/ MW

Other ED Incentives: Working with ESD and St. Lawrence IDA to secure incentives

Summary: Upstate Niagara Cooperative is a dairy processing and manufacturing company owned by 375 New York State dairy farmers. The plan is to purchase the recently closed North Lawrence Dairy facility, restart the plant, and investing in 2 new high-speed production lines. The plant would produce yogurt products using milk sourced 100% from New York State. Upstate Niagara would quickly rehire 60 people in the first year and 20 more within 3 years. An allocation of hydropower would enable the company to return the facility to productive use and make this NYS location competitive compared to investing in a facility nearer to its regional markets.

POWER AUTHORITY

OF THE

STATE OF NEW YORK

30 South Pearl Street
10th Floor
Albany, New York 12207-3425

AGREEMENT FOR THE SALE OF
PRESERVATION POWER AND ENERGY

TO NEWTON FALLS FINE PAPER COMPANY, LLC

The Power Authority of the State of New York ("Authority"), created pursuant to Chapter 772 of the New York Laws of 1931 and existing under Title 1 of Article 5 of the New York Public Authorities Law, having its office and principal place of business at 30 South Pearl Street, 10th Floor, Albany, New York 12207-3425, hereby enters into this Agreement for the Sale of Preservation Power and Energy ("Agreement") to Newton Falls Fine Paper Company, LLC, having facilities at 875 County Route 60, Newton Falls, NY 13666 ("Customer"). The Authority and the Customer are from time to time referred to in this Agreement individually as a "Party" or collectively as the "Parties" and agree as follows:

RECITALS

WHEREAS, the Authority is authorized to sell hydroelectric power produced by the St. Lawrence-FDR Power Project known as Preservation Power (or "PP"), as further defined in this Agreement, to qualified businesses in New York State in accordance with PAL § 1005(5) and (13);

WHEREAS, PP consists of 490 megawatts ("MW") of firm hydroelectric power and associated energy produced by the St. Lawrence-FDR Power Project;

WHEREAS, St. Lawrence-FDR Power Project hydroelectric power plays an important role in providing competitively priced power for sale to attract and retain business investment and to promote economic development in New York State;

WHEREAS, the Authority has the authority under PAL § 1005(13)(a) to award and extend allocations of PP based on, among other things, the criteria listed in the PAL, including but not limited to an applicant's long-term commitment to the region as evidenced by the current and planned capital investment; the type and number of jobs supported or created by the allocation; and the state, regional and local economic development strategies and priorities supported by local units of governments in the area in which the recipient's facilities are located;

WHEREAS, the Customer has applied for an allocation of PP for use at facilities located at 875 County Route 60, Newton Falls, NY 13666 defined in Article I of this Agreement as the "Facility");

WHEREAS, on May 24, 2011, the Authority's Board of Trustees ("Trustees") approved a 5,000 kilowatt allocation of PP to the Customer for a three year term (defined in Article 1 of this Agreement as the "Allocation"), as further described in this Agreement;

WHEREAS, the provision of Electric Service (defined in Article I of this Agreement) associated with the Allocation is an unbundled service separate from the transmission and delivery service necessary for the Customer to receive the Allocation which will be performed by the Customer's local utility company;

WHEREAS, the Authority has complied with requirements of PAL § 1009 which specifies the approval process for contracts negotiated by the Authority; and

WHEREAS, the Governor of the State of New York has approved the terms of this Agreement pursuant to PAL § 1009(3).

NOW THEREFORE, in consideration of the mutual covenants herein, the Authority and the Customer agree as follows:

Article I. Definitions

A. **Agreement** means this Agreement as further described in the preamble, including all documents and other matters attached to and incorporated into the Agreement.

B. **Allocation** refers to the total amount of PP and associated energy set forth in Schedule A to this Agreement awarded to the Customer.

C. **Contract Demand** has the meaning set forth in the Service Tariff.

D. **Electric Service** is Firm Power and Firm Energy associated with the Allocation and sold to the Customer in accordance with the provisions of this Agreement, the Service Tariff, and the Rules.

E. **Facility** means the Customer's paper mill operations located at 875 County Route 60, Newton Falls, NY 13666.

F. **Firm Energy** has the meaning set forth in the Service Tariff.

G. **Firm Power** has the meaning set forth in the Service Tariff.

H. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).

I. **FERC License** means the license issued by FERC to the Authority for the continued operation and maintenance of the St. Lawrence Project, pursuant to Section 15 of the Federal Power Act, which became effective October 22, 2003 after expiration of the Project's original license issued in 1953.

J. **Hydro Projects** is a collective reference to the Authority's Niagara Project and St. Lawrence-FDR Project.

K. **International Joint Commission** (or **IJC**) refers to the entity with responsibility to prevent and resolve disputes between the United States of America and Canada under the *1909 Boundary Waters Treaty* and pursues the common good of both countries as an independent and objective advisor to the two governments. The IJC rules upon applications for approval of projects affecting boundary or transboundary waters and may regulate the operation of these projects.

L. **Load Serving Entity** (or **LSE**) means 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.

M. **NYISO** means the New York Independent System Operator, Inc. or any successor organization.

N. **NYISO Charges** has the meaning set forth in the Service Tariff.

O. **NYISO Tariffs** means the NYISO's Open Access Transmission Tariff or the NYISO's Market Administration and Control Area Services Tariff, as applicable, as such tariffs are modified from time to time, or any successor to such tariffs.

P. **PAL** means the New York Public Authorities Law.

Q. **Preservation Power** (or **PP**) has the meaning set forth in the Service Tariff.

R. **Niagara Project** means the Authority's Niagara Power Project, FERC Project No. 2216.

S. **Rules** refers to the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as may be modified from time to time by Authority.

T. **Service Tariff** means the Authority's Service Tariff No. 10, as may be modified from time to time by the Authority, which contains, among other things, the rate schedule establishing rates and other commercial terms for sale of Electric Service to Customer under this Agreement.

U. **St. Lawrence Project** means the Authority's St. Lawrence-FDR Power Project, FERC Project No. 2000.

V. **Schedule A** refers to the Schedule A to this Agreement entitled "Preservation Power Allocation" which is attached to and made part of this Agreement.

W. **Schedule B** refers to the Schedule B to this Agreement entitled "Preservation Power Commitments" which is attached to and made part of this Agreement.

X. **Schedule C** refers to Schedule C to this Agreement entitled "Applicable Representations Concerning Local Utility" which is attached to and made part of this Agreement.

Y. **Substitute Energy** means energy that the Authority provides at the request of the Customer to replace hydroelectric power that would otherwise have been supplied to the Customer under this Agreement.

Z. **Taxes** have the meaning set forth in the Service Tariff.

AA. **Unforced Capacity** (or **UCAP**) is the electric capacity required to be provided by Load Serving Entities to serve electric load as defined by the NYISO Tariffs, rules, manuals and procedures.

Article II. Electric Service

A. The Authority shall provide Electric Service to the Customer to enable the Customer to receive the Allocation in accordance with this Agreement, the Service Tariff and the Rules. The Customer shall not be entitled to receive Electric Service for any PP Allocation that is not specified in Schedule A.

B. The Authority shall provide UCAP in amounts necessary to meet the Customer's NYISO UCAP requirements associated with the Allocation in accordance with the NYISO Tariffs.

C. The Contract Demand and the Allocation may be modified by the Authority if the amount of Firm Power and Firm Energy available for sale as PP from the St. Lawrence Project is modified as required to comply with any ruling, order, or decision of any regulatory or judicial body having jurisdiction, including but not limited to FERC. Any such modification will be made on a pro rata basis to all PP customers, as applicable, based on the terms of such ruling, order, or decision. The Authority will use reasonable efforts to provide at least thirty (30) days prior written notice to the Customer of any such modification unless such notice is inconsistent with such ruling, order or decision.

D. The Contract Demand may not exceed the Allocation.

Article III. Rates, Terms and Conditions

A. The Authority will provide Electric Service to the Customer based on the rates, terms and conditions established in accordance with this Agreement, the Service Tariff and the Rules.

B. The Service Tariff and the Rules may be amended from time to time by the Authority. The Authority shall provide at least thirty (30) days prior written notice to the Customer of any proposed change in the Service Tariff or the Rules. No subsequent amendment to the Service Tariff or the Rules shall affect the determination of rates for PP to the Customer during the term of the Agreement except insofar as otherwise authorized by this Agreement. This provision shall not limit the Authority's discretion to determine rates applicable to allocations of power and energy awarded to the Customer beyond or in addition to the Allocation.

C. Notwithstanding any provision of this Agreement to the contrary, the power and energy rates shall be subject to increase by the Authority at any time upon 30 days prior written notice to Customer if, after consideration by the Authority of its legal obligations, the marketability of the output or use of the St. Lawrence Project and the Authority's competitive position with respect to other suppliers, the Authority determines in its discretion that increases in rates obtainable from any other Authority customers will not provide revenues, together with other available Authority funds not needed for operation and maintenance expenses, capital expenses, and reserves, sufficient to meet all requirements specified in the Authority's bond and note resolutions and covenants with the holders of its financial obligations. The Authority shall use its best efforts to inform the Customer at the earliest practicable date of its intent to increase the power and energy rates pursuant to this provision. Any rate increase to the Customer under this subsection shall be on a non-discriminatory basis as compared to other Authority customers that are subject to the Service Tariff after giving consideration to the factors set forth in the first sentence of this subsection. With respect to any such increase, the Authority shall forward to the Customer with the notice of increase, an explanation of all reasons for the increase, and shall also identify the sources from which the Authority will obtain the total of increased revenues and the bases upon which the Authority will allocate the increased revenue requirements among its customers. Any such increase in rates shall remain in effect only so long as the Authority determines such increase is necessary to provide revenues for the purposes stated in the preceding sentences.

Article IV. Billing Methodology

A. The billing methodology for the Allocation shall be determined on a "load factor sharing" basis in a manner consistent with the local electric utility's applicable tariffs.

B. The Authority shall render bills for power and energy by the tenth (10^{th}) business day of the month for charges due for the previous month. Such bills shall include the NYISO Charges and Taxes (as such terms are defined in the Service Tariff) associated with the Allocation. NYISO Charges and Taxes billed to the Customer are subject to adjustments consistent with any subsequent NYISO re-billings to Authority.

C. All other provisions with respect to billing are set forth in the Service Tariff.

Article V. Transmission and Delivery of Power and Energy

A. The Customer shall responsible for securing arrangements with its local utility for transmission and delivery service associated with the Allocation unless otherwise agreed to by the Parties.

B. The Customer will pay its local utility for transmission and delivery service associated with the Allocation in accordance applicable contracts and all applicable tariffs, rulemakings, and orders, in order to deliver to the Customer the Firm Power and Firm Energy supplied by the Authority under this Agreement. To the extent the Authority incurs transmission and delivery service charges or other costs associated with the Allocation during the term of this Agreement, the Customer agrees to compensate the Authority for all such charges and costs incurred.

C. Each Party makes the representations, if any, contained in Schedule C to this Agreement concerning this Agreement and any agreement between the Authority, the Customer and the Customer's local utility company.

D. The Customer understands and acknowledges that delivery of the Allocation will be made over transmission facilities under the control of the NYISO. The Authority will act as the LSE with respect to the NYISO, or arrange for another entity to do so on the Authority's behalf as may be required under the applicable local utility company tariffs. In no event shall the Authority act as the LSE for the power and energy consumed by Customer other than Electric Service (inclusive of Substitute Energy, if any) sold by the Authority under this Agreement. The Customer understands and acknowledges that it will be responsible to the Authority for all charges and other costs incurred by the Authority associated with the provision of Electric Service to enable the Customer to receive the Allocation, including charges and costs contained in the NYISO Tariffs or other applicable tariffs (including local utility company tariffs), regardless of whether such charges and costs are transmission-related. Such charges and costs are in addition to the charges for power and energy.

Article VI. Preservation Power Customer Commitments

Schedule B sets forth the Customer's specific "Preservation Power Commitments." The commitments agreed to in Schedule B are in addition to any other rights and obligations of the Parties provided for pursuant to this Agreement.

Article VII. Rules and Service Tariff; Conflicts

The Service Tariff is hereby incorporated into this Agreement with the same force and effect as if set forth herein at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariff and the Rules, the provisions of the Service Tariff shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of this Agreement and the Service Tariff, the provisions of this Agreement shall govern.

Article VIII. Hydropower Curtailments and Substitute Energy

A. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of the Authority's firm power customers served by the Authority from the Hydro Projects, curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy associated with the Allocation to which the Customer is entitled shall be applied on a *pro rata* basis to all firm power and energy customers served from the Hydro Projects, consistent with the Service Tariff as applicable.

B. The Authority shall provide reasonable notice to the Customer of any curtailments referenced in Article VIII.A of this Agreement that could impact Customer's Electric Service under this Agreement.

C. Upon written request by the Customer, the Authority will provide Substitute Energy to the Customer to replace the hydroelectricity that would otherwise have been supplied under this

Agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

D. For each kilowatt-hour of Substitute Energy supplied by the Authority, the Customer will pay the Authority directly during the billing month: (1) the difference between the market cost of the Substitute Energy and the charge for firm energy as provided for in this Agreement; and (2) any NYISO charges and taxes the Authority incurs in connection with the provision of such Substitute Energy. Billing and payment for Substitute Energy shall be governed by the Billing and Payments provision of the Authority's Rules (Section 454.6) and shall apply directly to the Substitute Energy service supplied to the Customer.

E. The Parties may enter into a separate agreement to facilitate the provision of Substitute Energy, provided, however, that the provisions of this Agreement shall remain in effect notwithstanding any such separate agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

Article IX. Additional Allocations

A. Upon application by the Customer, the Authority may award additional allocations of PP to the Customer at such rates and on such terms and conditions as set forth in the Service Tariff. Once the Customer agrees to purchase Electric Service associated with such additional allocations, the Authority will produce modified Schedules A and B which will reflect any such additional allocations and other pertinent terms as appropriate. The Authority will furnish the Customer with any such modified Schedules within thirty (30) days of the commencement of Electric Service for any such additional allocation.

B. The Customer shall furnish such documentation and other information as the Authority requests to enable the Authority to evaluate whether any additional allocations should be made to the Customer and the terms of any additional allocation.

Article X. Notification

A. Correspondence involving the administration of this Agreement shall be addressed as follows:

To: The Authority

Michael J. Huvane
Director, Marketing
New York Power Authority
123 Main Street
White Plains, New York 10601
Telephone: (914) 390-8117
Facsimile: (914) 390-8156
Electronic mail: michael.huvane@nypa.gov

To: Customer

Mr. Gordon McLennan
Government Liaison & Project Manager
Newton Falls Fine Paper Company, LLC
875 County Route 60
Newton Falls, NY 13666
Telephone: _____
Facsimile: _______
Electronic mail: _____

B. Except where otherwise herein specifically provided, any notice, communication or request required or authorized by this Agreement by either Party to the other shall be deemed properly given: (1) if sent by U.S. First Class mail addressed to the Party at the address set forth above; (2) if sent by a nationally recognized overnight delivery service, two (2) calendar days after being deposited for delivery to the appropriate address set forth above; (3) if delivered by hand, with written confirmation of receipt; (4) if sent by facsimile to the appropriate fax number as set forth above, with written confirmation of receipt; or (5) if sent by electronic mail to the appropriate address as set forth above, with written confirmation of receipt. Either Party may change the addressee and/or address for correspondence sent to it by giving written notice in accordance with the foregoing.

Article XI. Applicable Law

Any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and rulings by the IJC and without regard to conflicts of law provisions.

Article XII. Venue

Each Party consents to the exclusive jurisdiction and venue of any state or federal court within or for Albany County, New York, with subject matter jurisdiction for adjudication of any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement.

Article XIII. Successors and Assigns; Resale of PP

A. This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of either Party hereto; provided, however, that no assignment by either Party or any successor or assignee of such Party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other Party in each case obtained.

B. The Customer may not resell any PP that it has purchased from the Authority under this Agreement.

Article XIV. Previous Agreements and Communications

This Agreement shall constitute the sole and complete agreement of the Parties hereto with respect to the sale of PP, and supersedes all previous communications between the Parties hereto, either oral or written, with respect to the sale of PP. No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

Article XV. Waiver

A. Any waiver at any time by either the Authority or the Customer of their rights with respect to a default or of any other matter arising out of this Agreement shall not be deemed to be a waiver with respect to any other default or matter.

B. No waiver by either Party of any rights with respect to any matter arising in connection with this Agreement shall be effective unless made in writing and signed by the Party making the waiver.

Article XVI. Severability and Voidability

A. If any term or provision of this Agreement is invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not invalidate the remaining terms or provisions hereof.

B. Notwithstanding the preceding paragraph, if any provision of this Agreement is rendered void or unenforceable or otherwise modified by a court or agency of competent jurisdiction, the entire Agreement shall, at the option of either Party and only in such circumstances in which such Party’s interests are materially and adversely impacted by any such action, be rendered void and unenforceable by such affected Party.

Article XVII. Term, Modification, Termination and Effect

A. Electric Service under this Agreement shall continue with respect to an Allocation until the earliest of: (1) termination by the Customer with respect to all of the Allocation upon at least thirty (30) days prior written notice to the Authority; (2) termination by Authority pursuant to the Rules upon required notice; or (3) expiration of the Allocation by its own term as specified in Schedule A.

B. The Customer may exercise a partial termination of the Allocation upon at least thirty (30) days prior written notice to the Authority. The termination shall be effective commencing with the first “Billing Period” as defined in the Service Tariff following the required notice.

C. The Authority may modify or terminate Electric Service hereunder or modify the quantities of power and energy associated with an Allocation: (1) if such termination or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency); or (2) as otherwise provided in this Agreement or in the Rules.

D. This Agreement shall become legally binding and effective only upon satisfaction of the following conditions precedent: (1) receipt of approval of this Agreement by the Authority Board of Trustees; (2) receipt of approval of this Agreement by the Governor of the State of New York pursuant to PAL § 1009; and (3) execution of this Agreement by the Authority and the Customer.

Article XVIII. Execution

To facilitate execution, this Agreement may be executed in as many counterparts as may be required, and it shall not be necessary that the signatures of, or on behalf of, each Party, or that the signatures of all persons required to bind any Party, appear on each counterpart; but it shall be sufficient that the signature of, or on behalf of, each Party, or that the signatures of the persons required to bind any Party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the Parties hereto. The delivery of an executed counterpart of this Agreement by email as a PDF file shall be legal and binding and shall have the same full force and effect as if an original executed counterpart of this Agreement had been delivered.

[SIGNATURES FOLLOW ON NEXT PAGE]

AGREED:

NEWTON FALLS FINE PAPER COMPANY, LLC

BY: ______________________________

Title: ______________________________

Date: ______________________________

AGREED:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY: ______________________________

Title: ______________________________

Date: ______________________________

SCHEDULE A TO AGREEMENT FOR THE SALE OF PRESERVATION POWER AND ENERGY TO NEWTON FALLS FINE PAPER COMPANY, LLC

PRESERVATION POWER ALLOCATIONS

Customer: Newton Falls Fine Paper Company, LLC

Facility: 875 County Route 60, Newton Falls, NY 13666

Type of Allocation	Allocation (kW)	Expiration Date
Preservation Power	5,000	3 years after initial delivery of the Allocation
TOTALS:	5,000 kW	

SCHEDULE B TO AGREEMENT FOR THE SALE OF PRESERVATION POWER AND ENERGY TO NEWTON FALLS FINE PAPER COMPANY, LLC

PRESERVATION POWER COMMITMENTS

ARTICLE I. EMPLOYMENT COMMITMENTS

A. Base Employment Level

The Customer agrees to create and maintain the employment level (the "Base Employment Level") set forth in the Appendix to this Schedule.

The Authority may consider a request to change the Base Employment Level based on a claim of increased productivity, increased efficiency or adoption of new technologies or for other appropriate reasons as determined by the Authority. Any such change shall be within Authority's sole discretion.

B. Employment Records and Reports

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority, of the total number of Customer employees and contractor employees at the Facility, as reported to the United States Department of Labor (or as reported in such other record as agreed upon by the Authority and the Customer). Such report shall separately identify Customer employees and contractor employees and shall be certified to be correct by an officer of the Customer, plant manager or such other person authorized by the Customer to prepare and file such report and shall be provided to the Authority on or before the last day of February following the end of the most recent calendar year. The Authority shall have the right to examine and audit on reasonable advance written notice all non-confidential written and electronic records and data concerning employment levels including, but not limited to, personnel records and summaries held by the Customer and its affiliates relating to employment in New York State.

ARTICLE II. REDUCTIONS OF CONTRACT DEMAND

A. Employment Levels

If the year-end monthly average number of employees is less than 90% of the Base Employment Level set forth in this Schedule B, for the subject calendar year, the Authority may reduce the Contract Demand subject to Article II.C of this Schedule. The maximum amount of reduction will be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average monthly employment during the subject calendar year divided by the Base Employment Level. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, the Agreement shall automatically terminate.

B. Power Utilization Levels

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority on or before the last day of February following the end of the most recent calendar year, of the maximum demand utilized each month in the facilities receiving the power covered by the Agreement. If the average of the Customer's six (6) highest Billing Demands (as such term is defined in the Service Tariff) for PP is less than 90% of the Customer's Contract Demand in such calendar year the Authority may reduce the Contract Demand subject to Article II.C of this Schedule. The maximum amount by which the Authority may reduce the Contract Demand shall be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average of the six (6) highest Billing Demands for in such calendar year divided by the Contract Demand. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, this Agreement shall automatically terminate.

C. Notice of Intent to Reduce Contract Demand

In the event that the Authority determines that the Contract Demand will be wholly or partially reduced pursuant to this Schedule, the Authority shall provide the Customer with at least thirty (30) days prior written notice of such reduction, specifying the amount of the reduction of Contract Demand and the reason for the reduction, provided, however, that before making the reduction, the Authority may consider the Customer's scheduled or unscheduled maintenance or facilities upgrading periods when such events temporarily reduce plant employment levels or electrical demand as well as business cycle.

ARTICLE III. CAPITAL INVESTMENT

The Customer agrees to undertake the Capital Expansion Program set forth in the Appendix to this Schedule.

ARTICLE IV. ENERGY EFFICIENCY AUDITS AND INFORMATION REQUESTS

In the event the Customer undergoes an energy efficiency audit of its facilities and equipment at which the Allocation is consumed during the term of this Agreement , the Customer will provide the Authority with a copy of the audit or, at the Authority's option, a report describing the results of the audit, and provide documentation requested by the Authority to verify the implementation of any efficiency measures implemented at the facilities.

The Customer agrees to cooperate to make its facilities available at reasonable times and intervals for energy audits and related assessments that the Authority desires to perform, if any, at the Authority's own expense.

The Customer shall provide information requested by the Authority or its designee in surveys, questionnaires and other information requests relating to energy efficiency and energy-related projects, programs and services.

The Customer may, after consultation with the Authority, exclude from written copies of audits, reports and other information provided to the Authority under this Article trade secrets and other information which if disclosed would harm the competitive position of the Customer.

APPENDIX TO SCHEDULE B

I. <u>Base Employment Level</u>

The Customer will employ one hundred and nine (109) persons at the Facility ("Base Employment Level"), within two (2) years of the delivery of the Allocation to the Facility.

The Base Employment Level shall be the number of full-time positions held by employees and contractors of the Customer assigned to the Facility. The number of full-time Customer employees and contractor employees shall not include part-time positions (less than 35 hours per week); provided, however, that two part-time employees each working 20 hours per week or more shall be counted as one full-time employee.

The Base Employment Level shall not be created or maintained by transfers of employees from previously held positions with the Customer or its affiliates within the State of New York, except that the Base Employment Level may be filled by employees of the Customer laid off from other Customer facilities for bona fide economic or management reasons.

II. Capital Expansion Program

The Customer will re-start operations at the Facility and begin producing paper within one (1) year of approval of the Allocation.

The Customer will complete a Capital Expansion Plan consisting of the following elements:

- The Customer will purchase and install new equipment, and refurbish existing equipment and machinery, including paper-making and ancillary equipment, at the Facility, to enable the Customer to produce paper from pulp and to process the paper into heavy weight, specialty paper products.

- The Customer will purchase and install at the Facility a used biomass cogeneration plant. The boiler and associated ancillary equipment will be housed in a newly-constructed addition to the Customer's existing boiler house. The addition will be approximately 35' wide by 70' long by 50' high. The biomass boiler will be connected to the Customer's existing 5 MW turbine generator, and will be equipped with new emissions control equipment as well as a new SCADA boiler control system.

The estimated start dates and the completion dates for the Capital Expansion Program are as follows:

Phase	Description	Start Dates	Completion Dates
A	Cleaning/ Screening Phase II	August 2011	October 2011
B	PM4 Wet End Rebuild (Headbox Retrofit)	August 2011	October 2011
C	PM4 Calendar Stack Replacement	August 2011	October 2011
D	Roll Wrap Line Upgrade	August 2011	October 2011
E	PM4 Coater Rebuild	June 2012	July 2012
F	New Biomass (Cogen) Boiler	August 2011	June 2012

The Customer's total capital investment in the Capital Expansion Program will total at least $21.7 million, comprised roughly of $6.7 million associated with restarting the Facility and $15 million associated with installation of the biomass cogeneration plant.

The Authority shall have the right to inspect the Facility and to request pertinent information from the Customer for the purpose of verifying the progress of the Capital Expansion Program and the Customer's compliance with Capital Expansion Program requirements at reasonable times during the Capital Expansion Program and prior to the takedown of the Allocation by the Customer. The Customer shall provide the Authority with Facility access and pertinent information requested by the Authority for these purposes.

In the event the Customer fails satisfy the requirements for the Capital Expansion Program, the Authority, in its sole discretion, may reduce or cancel the Allocation.

Upon request of the Customer, the Authority, in its sole discretion, may consent to modifications to the Capital Expansion Program requested by the Customer, including but not limited to modifications to Start Dates and Completion Dates and to the scope of the Capital Expansion Program.

SCHEDULE C TO AGREEMENT FOR THE SALE OF PRESERVATION POWER AND ENERGY TO NEWTON FALLS FINE PAPER COMPANY, LLC

APPLICABLE REPRESENTATIONS CONCERNING LOCAL UTILITY

Local Utility: National Grid

Representations:

None.

POWER AUTHORITY OF THE STATE OF NEW YORK
30 SOUTH PEARL STREET
ALBANY, NY 12207

Schedule of Rates for Sale of Firm Power to Preservation Power Customers

Service Tariff No. 10

Date of Issue: December 20, 2010

Date Effective: July 1, 2010

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

Table of Contents

Schedule of Rates for Firm Power Service

I. Applicability

To sales of Preservation Power (as defined below) directly to a qualified business Customer (as defined below) for firm power service.

II. Abbreviations and Terms

A. The following abbreviations are used:

kW	kilowatt(s)
kW-mo.	kilowatt-month
kWh	kilowatt-hour(s)
MWh	megawatt-hour(s)
NYISO	New York Independent System Operator, Inc. or any successor organization
PAL	New York Public Authorities Law
OATT	Open Access Transmission Tariff

B. The term "Agreement" means an executed Agreement for the Sale of Preservation Power and Energy between the Authority and the Customer (each as defined below).

C. The term "Annual Adjustment Factor" or "AAF" shall have the meaning set forth in Section V herein.

D. The term "Authority" means the Power Authority of the State of New York, a corporate municipal instrumentality and a political subdivision of the State of New York created pursuant to Chapter 772 of the New York Laws of 1931 and existing and operating under Title 1 of Article 5 of the PAL, also known as the "New York Power Authority."

E. The term "Customer" means a business customer who has received an allocation for Preservation Power from the Authority and who purchases Preservation Power directly from the Authority.

F. The term "Electric Service" means the power and energy provided to the Customer in accordance with the Agreement, this Service Tariff and the Rules.

G. The term “Preservation Power” means Firm Power and Firm Energy made available under this Service Tariff by the Authority from the Project for sale to the Customer for business purposes pursuant to PAL § 1005(5) and (13).

H. The term “Firm Power” means capacity (kW) that is intended to be always available from the Project subject to the curtailment provisions set forth in the Agreement between the Authority and the Customer and this Service Tariff. Firm Power shall not include peaking power.

I. The term “Firm Energy” means energy (kWh) associated with Firm Power.

J. The term “Load Serving Entity” or “LSE” shall have the meaning set forth in the Agreement.

K. The term “Project” means the Authority’s St. Lawrence-FDR Power Project, FERC Project No. 2000.

L. The term “Rate Year” or “RY” means the period from July 1 through June 30 of the following year.

M. The term “Rules” means the applicable provisions of Authority’s rules and regulations (Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as may be modified from time to time by the Authority.

N. The term “Service Tariff” means this Service Tariff No. 10.

All other capitalized terms and abbreviations used but not defined herein shall have the same meaning as set forth in the Agreement.

III. Monthly Rates and Charges

A. Preservation Power Base Rates

The monthly base rates for demand and energy charges paid by Customer to Authority shall be:

Rate Year	Demand Charge $/kW-mo.	Energy Charge $/MWh
2010	6.15	10.52
2011	6.71	11.48
2012	7.32	12.52
2013	7.99	13.66

Beginning with the 2014 Rate Year (July 1, 2014), and for each Rate Year thereafter, such rates shall be subject to an Annual Adjustment Factor set forth in Section V herein.

B. Preservation Power Rates No Lower Than Rural/Domestic Rate

At all times the applicable base rates for demand and energy determined in accordance with Sections III.A and V of this Service Tariff shall be no lower than the rates charged by the Authority for the sale of hydroelectricity for the benefit of rural and domestic customers receiving service in accordance with the Niagara Redevelopment Act, 16 U.S.C. § 836(b)(1) and PAL § 1005(5) (the "Rural/Domestic Rate"). This provision shall be implemented as follows: if the base rates, as determined in accordance with Sections III.A and V of this Service Tariff, are lower than the Rural/Domestic Rate on an average $/MWh basis, each set of rates measured at 80% load factor which is generally regarded as representative for Preservation Power Customers, then the base rates determined under Sections III.A and V of this Service Tariff will be revised to make them equal to the Rural/Domestic Rate on an average $/MWh basis. However, the base rates as so revised will have no effect until such time as these base rates are lower than the Rural/Domestic Rate.

C. Monthly Base Rates Exclude Delivery Service Charges

The monthly base rates set forth in this Section III exclude any applicable costs for delivery services provided by the local electric utility.

D. Minimum Monthly Charge

The minimum monthly charge shall equal the product of the demand charge and the contract demand (as defined herein). Such minimum monthly charge shall be in addition to any NYISO Charges or Taxes (each as defined herein) incurred by the Authority with respect to the Customer's Allocation.

E. Billing Period

Any period of approximately thirty (30) days, generally ending with the last day of each calendar month but subject to the billing cycle requirements of the local electric utility in whose service territory the Customer's facilities are located.

F. Billing Demand

The billing demand shall be determined by applying the applicable billing methodology to total meter readings during the billing period. See Section IV.E, below.

G. Billing Energy

The billing energy shall be determined by applying the applicable billing methodology to total meter readings during the billing period. See Section IV.E, below.

H. Contract Demand

The contract demand of each Customer will be the amount of Preservation Power, not to exceed the Customer's Allocation, provided to such Customer by the Authority in accordance with the Agreement. The minimum Contract Demand for any Preservation Power Allocation is 100 kW.

IV. General Provisions

A. Character of Service

Alternating current; sixty cycles, three-phase.

B. Availability of Energy

1. Subject to Section IV.B.2, the Authority shall provide to the Customer in any billing period Firm Energy associated with Firm Power. The offer of Firm Energy for delivery shall fulfill the Authority's obligations for purposes of this provision whether or not the Firm Energy is taken by the Customer.

2. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of NYPA's Firm Power customers served from the Hydro Projects, hydropower curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy to which the Customer is entitled shall be applied on a *pro rata* basis to all Firm Power and Firm Energy customers served from the Hydro Projects. Reductions as a percentage of the otherwise required Firm Power and Firm Energy sales will be the same for all Firm Power and Firm Energy customers served from the Hydro Projects. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to the Customer in later billing periods. The Customer will receive appropriate bill credits as provided under the Rules.

C. Delivery

For the purpose of this Service Tariff, Firm Power and Firm Energy shall be deemed to be offered when the Authority is able to supply Firm Power and Firm Energy to the Authority's designated NYISO load bus. If, despite such offer, there is a failure of delivery caused by the Customer, NYISO or local electric utility, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D. Adjustment of Rates

To the extent not inconsistent with the Agreement, the rates contained in this Service Tariff may be revised from time to time on not less than thirty (30) days written notice to the Customer.

E. Billing Methodology and Billing

Unless otherwise specified in the Agreement, the following provisions shall apply:

1. The billing methodology to be used to render bills to the Customer related to its Allocation shall be determined in accordance with the Agreement and delivery agreement between the Authority and, as applicable, the Customer or local electric utility or both.

2. Billing Demand – Unless separately metered, the billing demand charged by the Authority to each Customer will be the highest 15-minute integrated demand during each billing period recorded on the Customer's meter multiplied by a percentage based on load factor sharing, as applicable.

3. Billing Energy – Unless separately metered, the kilowatt-hours charged by the Authority to each Customer will be the total number of kilowatt-hours recorded on the Customer's meter for the billing period multiplied by a percentage based on load factor sharing, as applicable.

F. Payment by Customer to Authority

1. Demand and Energy Charges, Taxes

   The Customer shall pay the Authority for Firm Power and Firm Energy during any billing period the higher of either (i) the sum of (a), (b) and (c) below or (ii) the monthly minimum charge as defined herein:

   a. The demand charge per kilowatt for Firm Power specified in this Service Tariff or any modification thereof applied to the Customer's billing demand (as defined in Section IV.E, above) for the billing period; and

   b. The energy charge per MWh for Firm Energy specified in this Service Tariff or any modification thereof applied to the Customer's billing energy (as defined in Section IV.E, above) for the billing period; and

   c. A charge representing reimbursement to the Authority for all applicable Taxes incurred by the Authority as a result of providing Preservation Power allocated to the Customer.

2. Transmission Charge

The Customer shall compensate the Authority for all transmission costs incurred by the Authority with respect to the Allocation, including such costs that are charged pursuant to the OATT.

3. NYISO Transmission and Related Charges ("NYISO Charges")

The Customer shall compensate the Authority for the following NYISO Charges assessed on the Authority for services provided by the NYISO pursuant to its OATT or other tariffs (as the provisions of those tariffs may be amended and in effect from time to time) associated with providing Electric Service to the Customer:

A. Ancillary Services 1 through 6 and any new ancillary services as may be defined and included in the OATT from time to time;

B. Marginal losses;

C. The New York Power Authority Transmission Adjustment Charge ("NTAC");

D. Congestion costs, less any associated grandfathered Transmission Congestion Contracts ("TCCs") as provided in Attachment K of the OATT;

E. Any and all other charges, assessments, or other amounts associated with deliveries to Customers or otherwise associated with the Authority's responsibilities as a Load Serving Entity for the Customers that are assessed on the Authority by the NYISO under the provisions of its OATT or under other applicable tariffs; and

F. Any charges assessed on the Authority with respect to the provision of Electric Service to Customers for facilities needed to maintain reliability and incurred in connection with the NYISO's Comprehensive System Planning Process (or similar reliability-related obligations incurred by the Authority with respect to Electric Service to the Customer), applicable tariffs, or required to be paid by the Authority in accordance with law, regardless of whether such charges are assessed by the NYISO or another third party.

The NYISO Charges, if any, incurred by the Authority on behalf of the Customer, are in addition to the Authority production charges that are charged to the Customer in accordance with other provisions of this Service Tariff.

4. Taxes Defined

    Taxes shall be any adjustment as the Authority deems necessary to recover from the Customer any taxes, assessments or any other charges mandated by federal, state or local agencies or authorities that are levied on the Authority or that the Authority is required to collect from the Customer if and to the extent such taxes, assessments or charges are not recovered by the Authority pursuant to another provision of this Service Tariff.

5. Substitute Energy

    The Customer shall pay for Substitute Energy, if applicable, as specified in the Agreement.

6. Payment Information

    Bills computed under this Service Tariff are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by the Authority. In the event that there is a dispute on any items of a bill rendered by the Authority, the Customer shall pay such bill in full. If necessary, any adjustments will be made thereafter.

G. Adjustment of Charges

1. Distribution Losses

    The Authority will make appropriate adjustments to compensate for distribution losses of the local electric utility.

2. Transformer Losses

    If delivery is made at transmission voltage but metered on the low-voltage side of the Customer's substation, the meter readings will be increased two percent to compensate for transformer losses.

3. Power Factor

    Power factor is the ratio of real power (kW) to apparent power (kVa) for any given load and time. The Authority may require the Customer to maintain a power factor of not less than 90%, lagging or leading, at the point of delivery, or as may otherwise be imposed upon the Authority by the local electric utility providing delivery and/or NYISO.

H. Conflicts

In the event of any inconsistencies, conflicts or differences between the provisions of this Service Tariff and the Rules, the provisions of this Service Tariff shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of the Agreement and this Service Tariff, the provisions of the Agreement shall govern.

I. Customer Resales Prohibited

The Customer may not resell any quantity of Preservation Power.

V. Annual Adjustment Factor

A. Adjustment of Rates

1. The AAF will be based upon a weighted average of three indices described below. For each new Rate Year, the index value for the latest available calendar year ("Index Value for the Measuring Year") will be compared to the index value for the calendar year immediately preceding the latest available calendar year (the Index Value for the Measuring Year -1"). The change for each index will then be multiplied by the indicated weights. As described in detail below, these products are then summed, producing the AAF. The AAF will be multiplied by the base rate for the current Rate Year to produce the base rates for the new Rate Year."

   Index 1, "BLS Industrial Power Price" (35% weight): The average of the monthly Producer Price Index for Industrial Electric Power, commodity code number 0543, not seasonally adjusted, as reported by the U.S. Department of Labor, Bureau of Labor Statistics ("BLS") electronically on its internet site and consistent with its printed publication, "Producer Price Index Detailed Report". For Index 1, the Index Value for the Measuring Year will be the index for the calendar year immediately preceding July 1 of the new Rate Year.

   Index 2, "EIA Average Industrial Power Price" (40% weight): The average weighted annual price (as measured in cents/kWh) for electric sales to the industrial sector in the ten states of CT, MA, ME, NH, NJ, NY, OH, PA, RI and VT ("Selected States") as reported by Coal and Electric Data and Renewables Division; Office of Coal, Nuclear, Electric and Alternate Fuels; Energy Information Administration ("EIA"); U.S. Department of Energy Form EIA-861 Final Data File. For Index 2, the Index Value for the Measuring Year will be the index for the calendar year two years preceding July 1 of the new Rate Year.

   Index 3, "BLS Industrial Commodities Price Less Fuel" (25% weight): The monthly average of the Producer Price Index for Industrial Commodities less fuel, commodity code number 03T15M05, not seasonally adjusted, as reported by the U.S. Department of Labor, BLS electronically on its internet site and consistent with its printed publication, "Producer Price Index Detailed Report". For Index 3, the Index Value for the Measuring Year will be the index for the calendar year immediately preceding July 1 of the new Rate Year.

2. Annual Adjustment Factor Computation Guide

   Step 1: For each of the three Indices, divide the Index Value for Measuring Year by the Index Value for the Measuring Year-1.

   Step 2: Multiply the ratios determined in Step 1 by percentage weights for each Index. Sum the results to determine the weighted average. This is the AAF.

   Step 3: Multiply the current Rate Year base rate by the AAF calculated in Step 2 to determine the new Rate Year base rate.

   The foregoing calculation shall be performed by the Authority consistent with the sample presented in Section V.B below.

3. The Authority shall provide the Customer with notice of any adjustment to the current base rate per the above and with all data and calculations necessary to compute such adjustment by June 15th of each year to be effective on July 1 of such year, commencing in 2014. The values of the latest officially published (electronically or otherwise) versions of the indices and data provided by the BLS and EIA as of June 1 shall be used notwithstanding any subsequent revisions to the indices.

4. If during the term of the Agreement any of the three above indices ceases to be available or ceases to be reflective of the relevant factors or of changes which the indices were intended by the Parties to reflect, the Customer and the Authority shall mutually select a substitute Index. The Parties agree to mutually select substitute indices within 90 days, once notified by the other party that the indices are no longer available or no longer reflect the relevant factors or changes with the indices were intended by the Parties to reflect. Should the 90-day period cover a planned July 1 rate change, the current base rates will remain in effect until substitute indices are selected and the adjusted rates based on the substitute indices will be retroactive to the previous July 1. If unable to reach agreement on substitute indices within the 90-day period, the Parties agree to substitute the mathematic average of the PPI—Intermediate Materials, Supplies and Components (BLS Series ID WPUSOP2000) and the PPI-- Finished Goods (BLS Series ID WPUSOP3000) indices for one or more indices that have ceased to be available and shall assume the percentage weighting(s) of the one or more discontinued indices as indicated in Section V.A.1.

B. <u>Sample Computation of the AAF (hypothetical values for July 1, 2014 implementation):</u>

STEP 1

Determine the Index Value for the Measuring Year (MY) and Measuring Year - 1 (MY-1) for Each Index

- Index 1 - Producer Price Index, Industrial Power

	Measuring Year (2013)	Measuring Year - 1 (2012)
January	171.2	167.8
February	172.8	167.6
March	171.6	168.2
April	173.8	168.6
May	175.1	171.6
June	185.7	180.1
July	186.4	182.7
August	184.7	179.2
September	185.5	181.8
October	175.5	170.2
November	172.2	168.8
December	171.8	166.6
Average	177.2	172.8
Ratio of MY/MY-1		**1.03**

- Index 2 – EIA Industrial Rate

State	Revenues ($000s)	Sales (MWh)	Avg. Rate (cents/kWh)
Measuring Year (2012)			
CT	590,972	6,814,757	
MA	1,109,723	13,053,806	
ME	328,594	4,896,176	
NH	304,363	2,874,495	
NJ	1,412,665	15,687,873	
NY	2,001,588	26,379,314	
OH	3,695,978	78,496,166	
PA	3,682,192	63,413,968	
RI	152,533	1,652,593	
VT	155,903	2,173,679	
TOTAL	13,434,511	215,442,827	**6.24**
Measuring Year -1 (2011)			
CT	579,153	6,678,462	
MA	1,076,431	12,662,192	
ME	310,521	4,626,886	
NH	298,276	2,817,005	
NJ	1,370,285	15,217,237	
NY	1,891,501	24,928,452	
OH	3,622,058	76,926,243	
PA	3,571,726	61,511,549	
RI	144,144	1,561,700	
VT	152,785	2,130,205	
TOTAL	13,016,880	209,059,931	**6.23**
	Ratio of MY/MY-1		**1.00**

- Index 3 – Producer Price Index, Industrial Commodities Less Fuel

	Measuring Year (2013)	Measuring Year -1 (2012)
January	190.1	187.2
February	190.9	188.0
March	191.6	188.7
April	192.8	189.9
May	194.7	191.8
June	195.2	192.3
July	195.5	192.3
August	196.0	193.1
September	196.1	193.2
October	196.2	193.8
November	196.6	193.7
December	196.7	194.0
Average	194.4	191.5
Ratio of MY/MY-1		**1.02**

STEP 2

Determine AAF by Summing the Weighted Indices

Index	Ratio of MY to MY-1	Weight	Weighted Factors
PPI Industrial Power	1.03	0.35	0.361
EIA Industrial Rate	1.00	0.40	0.400
PPI Industrial Commodities less fuel	1.02	0.25	0.255
AAF			**1.016**

STEP 3

Apply AAF to Calculate the New Rate Year Base Rate

	Demand $/kW-mo.	Energy $/MWh
Current Rate Year Base Rate	7.99	13.66
New Rate Year Base Rate	8.12	13.88

May 24, 2011
Exhibit "4-C-2"

POWER AUTHORITY

OF THE

STATE OF NEW YORK

30 South Pearl Street
10th Floor
Albany, New York 12207-3425

AGREEMENT FOR THE SALE OF
PRESERVATION POWER AND ENERGY

TO UPSTATE NIAGARA COOPERATIVE, INC.

The Power Authority of the State of New York ("Authority"), created pursuant to Chapter 772 of the New York Laws of 1931 and existing under Title 1 of Article 5 of the New York Public Authorities Law, having its office and principal place of business at 30 South Pearl Street, 10th Floor, Albany, New York 12207-3425, hereby enters into this Agreement for the Sale of Preservation Power and Energy ("Agreement") to Upstate Niagara Cooperative, Inc., having facilities at 22 County Route 52, North Lawrence, NY 12967 ("Customer"). The Authority and the Customer are from time to time referred to in this Agreement individually as a "Party" or collectively as the "Parties" and agree as follows:

RECITALS

WHEREAS, the Authority is authorized to sell hydroelectric power produced by the St. Lawrence-FDR Power Project known as Preservation Power (or "PP"), as further defined in this Agreement, to qualified businesses in New York State in accordance with PAL § 1005(5) and (13);

WHEREAS, PP consists of 490 megawatts ("MW") of firm hydroelectric power and associated energy produced by the St. Lawrence-FDR Power Project;

WHEREAS, St. Lawrence-FDR Power Project hydroelectric power plays an important role in providing competitively priced power for sale to attract and retain business investment and to promote economic development in New York State;

WHEREAS, the Authority has the authority under PAL § 1005(13)(a) to award and extend allocations of PP based on, among other things, the criteria listed in the PAL, including but not limited to an applicant's long-term commitment to the region as evidenced by the current and planned capital investment; the type and number of jobs supported or created by the allocation; and the state, regional and local economic development strategies and priorities supported by local units of governments in the area in which the recipient's facilities are located;

WHEREAS, the Customer has applied for an allocation of PP for use at facilities located at 22 County Route 52. North Lawrence, NY 12967 defined in Article I of this Agreement as the "Facility");

WHEREAS, on May 24, 2011, the Authority's Board of Trustees ("Trustees") approved a 3,000 kilowatt allocation of PP to the Customer for a five year term (defined in Article 1 of this Agreement as the "Allocation"), as further described in this Agreement;

WHEREAS, the provision of Electric Service (defined in Article I of this Agreement) associated with the Allocation is an unbundled service separate from the transmission and delivery service necessary for the Customer to receive the Allocation which will be performed by the Customer's local utility company;

WHEREAS, the Authority has complied with requirements of PAL § 1009 which specifies the approval process for contracts negotiated by the Authority; and

WHEREAS, the Governor of the State of New York has approved the terms of this Agreement pursuant to PAL § 1009(3).

NOW THEREFORE, in consideration of the mutual covenants herein, the Authority and the Customer agree as follows:

Article I. Definitions

A. **Agreement** means this Agreement as further described in the preamble, including all documents and other matters attached to and incorporated into the Agreement.

B. **Allocation** refers to the total amount of PP and associated energy set forth in Schedule A to this Agreement awarded to the Customer.

C. **Contract Demand** has the meaning set forth in the Service Tariff.

D. **Electric Service** is Firm Power and Firm Energy associated with the Allocation and sold to the Customer in accordance with the provisions of this Agreement, the Service Tariff, and the Rules.

E. **Facility** means the Customer's paper mill operations located at 22 County Route 52. North Lawrence, NY 12967.

F. **Firm Energy** has the meaning set forth in the Service Tariff.

G. **Firm Power** has the meaning set forth in the Service Tariff.

H. **FERC** means the Federal Energy Regulatory Commission (or any successor organization).

I. **FERC License** means the license issued by FERC to the Authority for the continued operation and maintenance of the St. Lawrence Project, pursuant to Section 15 of the Federal Power Act, which became effective October 22, 2003 after expiration of the Project's original license issued in 1953.

J. **Hydro Projects** is a collective reference to the Authority's Niagara Project and St. Lawrence-FDR Project.

K. **International Joint Commission** (or **IJC**) refers to the entity with responsibility to prevent and resolve disputes between the United States of America and Canada under the *1909 Boundary Waters Treaty* and pursues the common good of both countries as an independent and objective advisor to the two governments. The IJC rules upon applications for approval of projects affecting boundary or transboundary waters and may regulate the operation of these projects.

L. **Load Serving Entity** (or **LSE**) means 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.

M. **NYISO** means the New York Independent System Operator, Inc. or any successor organization.

N. **NYISO Charges** has the meaning set forth in the Service Tariff.

O. **NYISO Tariffs** means the NYISO's Open Access Transmission Tariff or the NYISO's Market Administration and Control Area Services Tariff, as applicable, as such tariffs are modified from time to time, or any successor to such tariffs.

P. **PAL** means the New York Public Authorities Law.

Q. **Preservation Power** (or **PP**) has the meaning set forth in the Service Tariff.

R. **Niagara Project** means the Authority's Niagara Power Project, FERC Project No. 2216.

S. **Rules** refers to the Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as may be modified from time to time by Authority.

T. **Service Tariff** means the Authority's Service Tariff No. 10, as may be modified from time to time by the Authority, which contains, among other things, the rate schedule establishing rates and other commercial terms for sale of Electric Service to Customer under this Agreement.

U. **St. Lawrence Project** means the Authority's St. Lawrence-FDR Power Project, FERC Project No. 2000.

V. **Schedule A** refers to the Schedule A to this Agreement entitled "Preservation Power Allocation" which is attached to and made part of this Agreement.

W. **Schedule B** refers to the Schedule B to this Agreement entitled "Preservation Power Commitments" which is attached to and made part of this Agreement.

X. **Schedule C** refers to Schedule C to this Agreement entitled "Applicable Representations Concerning Local Utility" which is attached to and made part of this Agreement.

Y. **Substitute Energy** means energy that the Authority provides at the request of the Customer to replace hydroelectric power that would otherwise have been supplied to the Customer under this Agreement.

Z. **Taxes** have the meaning set forth in the Service Tariff.

AA. **Unforced Capacity** (or **UCAP**) is the electric capacity required to be provided by Load Serving Entities to serve electric load as defined by the NYISO Tariffs, rules, manuals and procedures.

Article II. Electric Service

A. The Authority shall provide Electric Service to the Customer to enable the Customer to receive the Allocation in accordance with this Agreement, the Service Tariff and the Rules. The Customer shall not be entitled to receive Electric Service for any PP Allocation that is not specified in Schedule A.

B. The Authority shall provide UCAP in amounts necessary to meet the Customer's NYISO UCAP requirements associated with the Allocation in accordance with the NYISO Tariffs.

C. The Contract Demand and the Allocation may be modified by the Authority if the amount of Firm Power and Firm Energy available for sale as PP from the St. Lawrence Project is modified as required to comply with any ruling, order, or decision of any regulatory or judicial body having jurisdiction, including but not limited to FERC. Any such modification will be made on a pro rata basis to all PP customers, as applicable, based on the terms of such ruling, order, or decision. The Authority will use reasonable efforts to provide at least thirty (30) days prior written notice to the Customer of any such modification unless such notice is inconsistent with such ruling, order or decision.

D. The Contract Demand may not exceed the Allocation.

Article III. Rates, Terms and Conditions

A. The Authority will provide Electric Service to the Customer based on the rates, terms and conditions established in accordance with this Agreement, the Service Tariff and the Rules.

B. The Service Tariff and the Rules may be amended from time to time by the Authority. The Authority shall provide at least thirty (30) days prior written notice to the Customer of any proposed change in the Service Tariff or the Rules. No subsequent amendment to the Service Tariff or the Rules shall affect the determination of rates for PP to the Customer during the term of the Agreement except insofar as otherwise authorized by this Agreement. This provision shall not limit the Authority's discretion to determine rates applicable to allocations of power and energy awarded to the Customer beyond or in addition to the Allocation.

C. Notwithstanding any provision of this Agreement to the contrary, the power and energy rates shall be subject to increase by the Authority at any time upon 30 days prior written notice to Customer if, after consideration by the Authority of its legal obligations, the marketability of the output or use of the St. Lawrence Project and the Authority's competitive position with respect to other suppliers, the Authority determines in its discretion that increases in rates obtainable from any other Authority customers will not provide revenues, together with other available Authority funds not needed for operation and maintenance expenses, capital expenses, and reserves, sufficient to meet all requirements specified in the Authority's bond and note resolutions and covenants with the holders of its financial obligations. The Authority shall use its best efforts to inform the Customer at the earliest practicable date of its intent to increase the power and energy rates pursuant to this provision. Any rate increase to the Customer under this subsection shall be on a non-discriminatory basis as compared to other Authority customers that are subject to the Service Tariff after giving consideration to the factors set forth in the first sentence of this subsection. With respect to any such increase, the Authority shall forward to the Customer with the notice of increase, an explanation of all reasons for the increase, and shall also identify the sources from which the Authority will obtain the total of increased revenues and the bases upon which the Authority will allocate the increased revenue requirements among its customers. Any such increase in rates shall remain in effect only so long as the Authority determines such increase is necessary to provide revenues for the purposes stated in the preceding sentences.

Article IV. Billing Methodology

A. The billing methodology for the Allocation shall be determined on a "load factor sharing" basis in a manner consistent with the local electric utility's applicable tariffs.

B. The Authority shall render bills for power and energy by the tenth (10^{th}) business day of the month for charges due for the previous month. Such bills shall include the NYISO Charges and Taxes (as such terms are defined in the Service Tariff) associated with the Allocation. NYISO Charges and Taxes billed to the Customer are subject to adjustments consistent with any subsequent NYISO re-billings to Authority.

C. All other provisions with respect to billing are set forth in the Service Tariff.

Article V. Transmission and Delivery of Power and Energy

A. The Customer shall responsible for securing arrangements with its local utility for transmission and delivery service associated with the Allocation unless otherwise agreed to by the Parties.

B. The Customer will pay its local utility for transmission and delivery service associated with the Allocation in accordance applicable contracts and all applicable tariffs, rulemakings, and orders, in order to deliver to the Customer the Firm Power and Firm Energy supplied by the Authority under this Agreement. To the extent the Authority incurs transmission and delivery service charges or other costs associated with the Allocation during the term of this Agreement, the Customer agrees to compensate the Authority for all such charges and costs incurred.

C. Each Party makes the representations, if any, contained in Schedule C to this Agreement concerning this Agreement and any agreement between the Authority, the Customer and the Customer's local utility company.

D. The Customer understands and acknowledges that delivery of the Allocation will be made over transmission facilities under the control of the NYISO. The Authority will act as the LSE with respect to the NYISO, or arrange for another entity to do so on the Authority's behalf as may be required under the applicable local utility company tariffs. In no event shall the Authority act as the LSE for the power and energy consumed by Customer other than Electric Service (inclusive of Substitute Energy, if any) sold by the Authority under this Agreement. The Customer understands and acknowledges that it will be responsible to the Authority for all charges and other costs incurred by the Authority associated with the provision of Electric Service to enable the Customer to receive the Allocation, including charges and costs contained in the NYISO Tariffs or other applicable tariffs (including local utility company tariffs), regardless of whether such charges and costs are transmission-related. Such charges and costs are in addition to the charges for power and energy.

Article VI. Preservation Power Customer Commitments

Schedule B sets forth the Customer's specific "Preservation Power Commitments." The commitments agreed to in Schedule B are in addition to any other rights and obligations of the Parties provided for pursuant to this Agreement.

Article VII. Rules and Service Tariff; Conflicts

The Service Tariff is hereby incorporated into this Agreement with the same force and effect as if set forth herein at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariff and the Rules, the provisions of the Service Tariff shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of this Agreement and the Service Tariff, the provisions of this Agreement shall govern.

Article VIII. Hydropower Curtailments and Substitute Energy

A. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of the Authority's firm power customers served by the Authority from the Hydro Projects, curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy associated with the Allocation to which the Customer is entitled shall be applied on a *pro rata* basis to all firm power and energy customers served from the Hydro Projects, consistent with the Service Tariff as applicable.

B. The Authority shall provide reasonable notice to the Customer of any curtailments referenced in Article VIII.A of this Agreement that could impact Customer's Electric Service under this Agreement.

C. Upon written request by the Customer, the Authority will provide Substitute Energy to the Customer to replace the hydroelectricity that would otherwise have been supplied under this

Agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

D. For each kilowatt-hour of Substitute Energy supplied by the Authority, the Customer will pay the Authority directly during the billing month: (1) the difference between the market cost of the Substitute Energy and the charge for firm energy as provided for in this Agreement; and (2) any NYISO charges and taxes the Authority incurs in connection with the provision of such Substitute Energy. Billing and payment for Substitute Energy shall be governed by the Billing and Payments provision of the Authority's Rules (Section 454.6) and shall apply directly to the Substitute Energy service supplied to the Customer.

E. The Parties may enter into a separate agreement to facilitate the provision of Substitute Energy, provided, however, that the provisions of this Agreement shall remain in effect notwithstanding any such separate agreement. The provision of Substitute Energy may be terminated by the Authority or the Customer on fifteen (15) days' prior written notice.

Article IX. Additional Allocations

A. Upon application by the Customer, the Authority may award additional allocations of PP to the Customer at such rates and on such terms and conditions as set forth in the Service Tariff. Once the Customer agrees to purchase Electric Service associated with such additional allocations, the Authority will produce modified Schedules A and B which will reflect any such additional allocations and other pertinent terms as appropriate. The Authority will furnish the Customer with any such modified Schedules within thirty (30) days of the commencement of Electric Service for any such additional allocation.

B. The Customer shall furnish such documentation and other information as the Authority requests to enable the Authority to evaluate whether any additional allocations should be made to the Customer and the terms of any additional allocation.

Article X. Notification

A. Correspondence involving the administration of this Agreement shall be addressed as follows:

To: The Authority

Michael J. Huvane
Director, Marketing
New York Power Authority
123 Main Street
White Plains, New York 10601
Telephone: (914) 390-8117
Facsimile: (914) 390-8156
Electronic mail: michael.huvane@nypa.gov

To: Customer

Mr. John J. Wilhelm
Director of Purchasing
Upstate Niagara Cooperative, Inc.
25 Anderson Road
Buffalo, NY 14225
Telephone: _____
Facsimile: _______
Electronic mail: _____

B. Except where otherwise herein specifically provided, any notice, communication or request required or authorized by this Agreement by either Party to the other shall be deemed properly given: (1) if sent by U.S. First Class mail addressed to the Party at the address set forth above; (2) if sent by a nationally recognized overnight delivery service, two (2) calendar days after being deposited for delivery to the appropriate address set forth above; (3) if delivered by hand, with written confirmation of receipt; (4) if sent by facsimile to the appropriate fax number as set forth above, with written confirmation of receipt; or (5) if sent by electronic mail to the appropriate address as set forth above, with written confirmation of receipt. Either Party may change the addressee and/or address for correspondence sent to it by giving written notice in accordance with the foregoing. Any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement shall be governed by and construed in accordance with the laws of the State of New York to the extent that such laws are not inconsistent with the FERC License and rulings by the IJC and without regard to conflicts of law provisions.

Article XII. Venue

Each Party consents to the exclusive jurisdiction and venue of any state or federal court within or for Albany County, New York, with subject matter jurisdiction for adjudication of any claim, suit, action or any other proceeding in law or equity arising under, or in any way relating to this Agreement.

Article XIII. Successors and Assigns; Resale of PP

A. This Agreement shall be binding upon, shall inure to the benefit of, and may be performed by, the legal successors and assigns of either Party hereto; provided, however, that no assignment by either Party or any successor or assignee of such Party of its rights and obligations hereunder shall be made or become effective without the prior written consent of the other Party in each case obtained.

B. The Customer may not resell any PP that it has purchased from the Authority under this Agreement.

Article XIV. Previous Agreements and Communications

This Agreement shall constitute the sole and complete agreement of the Parties hereto with respect to the sale of PP, and supersedes all previous communications between the Parties hereto, either oral or written, with respect to the sale of PP. No modifications of this Agreement shall be binding upon the Parties hereto or either of them unless such modification is in writing and is signed by a duly authorized officer of each of them.

Article XV. Waiver

A. Any waiver at any time by either the Authority or the Customer of their rights with respect to a default or of any other matter arising out of this Agreement shall not be deemed to be a waiver with respect to any other default or matter.

B. No waiver by either Party of any rights with respect to any matter arising in connection with this Agreement shall be effective unless made in writing and signed by the Party making the waiver.

Article XVI. Severability and Voidability

A. If any term or provision of this Agreement is invalidated, declared unlawful or ineffective in whole or in part by an order of the FERC or a court of competent jurisdiction, such order shall not invalidate the remaining terms or provisions hereof.

B. Notwithstanding the preceding paragraph, if any provision of this Agreement is rendered void or unenforceable or otherwise modified by a court or agency of competent jurisdiction, the entire Agreement shall, at the option of either Party and only in such circumstances in which such Party's interests are materially and adversely impacted by any such action, be rendered void and unenforceable by such affected Party.

Article XVII. Term, Modification, Termination and Effect

A. Electric Service under this Agreement shall continue with respect to an Allocation until the earliest of: (1) termination by the Customer with respect to all of the Allocation upon at least thirty (30) days prior written notice to the Authority; (2) termination by Authority pursuant to the Rules upon required notice; or (3) expiration of the Allocation by its own term as specified in Schedule A.

B. The Customer may exercise a partial termination of the Allocation upon at least thirty (30) days prior written notice to the Authority. The termination shall be effective commencing with the first "Billing Period" as defined in the Service Tariff following the required notice.

C. The Authority may modify or terminate Electric Service hereunder or modify the quantities of power and energy associated with an Allocation: (1) if such termination or modification is required to comply with any final ruling, order or decision of any regulatory or judicial body of competent jurisdiction (including any licensing or re-licensing order or orders of the FERC or its successor agency); or (2) as otherwise provided in this Agreement or in the Rules.

D. This Agreement shall become legally binding and effective only upon satisfaction of the following conditions precedent: (1) receipt of approval of this Agreement by the Authority Board of Trustees; (2) receipt of approval of this Agreement by the Governor of the State of New York pursuant to PAL § 1009; and (3) execution of this Agreement by the Authority and the Customer.

Article XVIII. Execution

To facilitate execution, this Agreement may be executed in as many counterparts as may be required, and it shall not be necessary that the signatures of, or on behalf of, each Party, or that the signatures of all persons required to bind any Party, appear on each counterpart; but it shall be sufficient that the signature of, or on behalf of, each Party, or that the signatures of the persons required to bind any Party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the Parties hereto. The delivery of an executed counterpart of this Agreement by email as a PDF file shall be legal and binding and shall have the same full force and effect as if an original executed counterpart of this Agreement had been delivered.

[SIGNATURES FOLLOW ON NEXT PAGE]

AGREED:

UPSTATE NIAGARA COOPERATIVE, INC.

BY: ______________________________

Title: ______________________________

Date: ______________________________

AGREED:

POWER AUTHORITY OF THE STATE OF NEW YORK

BY: ______________________________

Title: ______________________________

Date: ______________________________

SCHEDULE A TO AGREEMENT FOR THE SALE OF PRESERVATION POWER AND ENERGY TO UPSTATE NIAGARA COOPERATIVE, INC.

PRESERVATION POWER ALLOCATIONS

Customer: Upstate Niagara Cooperative, Inc.

Facility: 22 County Route 52. North Lawrence, NY 12967

Type of Allocation	Allocation (kW)	Expiration Date
Preservation Power	3,000	5 years after initial delivery of the Allocation
TOTALS:	3,000 kW	

SCHEDULE B TO AGREEMENT FOR THE SALE OF PRESERVATION POWER AND ENERGY TO UPSTATE NIAGARA COOPERATIVE, INC.

PRESERVATION POWER COMMITMENTS

ARTICLE I. EMPLOYMENT COMMITMENTS

A. Base Employment Level

The Customer agrees to create and maintain the employment level (the "Base Employment Level") set forth in the Appendix to this Schedule.

The Authority may consider a request to change the Base Employment Level based on a claim of increased productivity, increased efficiency or adoption of new technologies or for other appropriate reasons as determined by the Authority. Any such change shall be within Authority's sole discretion.

B. Employment Records and Reports

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority, of the total number of Customer employees and contractor employees at the Facility, as reported to the United States Department of Labor (or as reported in such other record as agreed upon by the Authority and the Customer). Such report shall separately identify Customer employees and contractor employees and shall be certified to be correct by an officer of the Customer, plant manager or such other person authorized by the Customer to prepare and file such report and shall be provided to the Authority on or before the last day of February following the end of the most recent calendar year. The Authority shall have the right to examine and audit on reasonable advance written notice all non-confidential written and electronic records and data concerning employment levels including, but not limited to, personnel records and summaries held by the Customer and its affiliates relating to employment in New York State.

ARTICLE II. REDUCTIONS OF CONTRACT DEMAND

A. Employment Levels

If the year-end monthly average number of employees is less than 90% of the Base Employment Level set forth in this Schedule B, for the subject calendar year, the Authority may reduce the Contract Demand subject to Article II.C of this Schedule. The maximum amount of reduction will be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average monthly employment during the subject calendar year divided by the Base Employment Level. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, the Agreement shall automatically terminate.

B. Power Utilization Levels

A record shall be kept monthly by the Customer, and provided on a calendar year basis to the Authority on or before the last day of February following the end of the most recent calendar year, of the maximum demand utilized each month in the facilities receiving the power covered by the Agreement. If the average of the Customer's six (6) highest Billing Demands (as such term is defined in the Service Tariff) for PP is less than 90% of the Customer's Contract Demand in such calendar year the Authority may reduce the Contract Demand subject to Article II.C of this Schedule. The maximum amount by which the Authority may reduce the Contract Demand shall be determined by multiplying the Contract Demand by the quantity one minus the quotient of the average of the six (6) highest Billing Demands for in such calendar year divided by the Contract Demand. Any such reduction shall be rounded to the nearest fifty (50) kW. In the event of a reduction of the Contract Demand to zero, this Agreement shall automatically terminate.

C. Notice of Intent to Reduce Contract Demand

In the event that the Authority determines that the Contract Demand will be wholly or partially reduced pursuant to this Schedule, the Authority shall provide the Customer with at least thirty (30) days prior written notice of such reduction, specifying the amount of the reduction of Contract Demand and the reason for the reduction, provided, however, that before making the reduction, the Authority may consider the Customer's scheduled or unscheduled maintenance or facilities upgrading periods when such events temporarily reduce plant employment levels or electrical demand as well as business cycle.

ARTICLE III. CAPITAL INVESTMENT

The Customer agrees to undertake the Capital Expansion Program set forth in the Appendix to this Schedule.

ARTICLE IV. ENERGY EFFICIENCY AUDITS AND INFORMATION REQUESTS

The Customer shall undergo an energy efficiency audit of its facilities and equipment at which the Allocation is consumed at the Customer's expense at least once during the term of this Agreement but in any event not less than once every five years. The Customer will provide the Authority with a copy of the audit or, at the Authority's option, a report describing the results of the audit, and provide documentation requested by the Authority to verify the implementation of any efficiency measures implemented at the facilities.

The Customer agrees to cooperate to make its facilities available at reasonable times and intervals for energy audits and related assessments that the Authority desires to perform, if any, at the Authority's own expense.

The Customer shall provide information requested by the Authority or its designee in surveys, questionnaires and other information requests relating to energy efficiency and energy-related projects, programs and services.

The Customer may, after consultation with the Authority, exclude from written copies of audits, reports and other information provided to the Authority under this Article trade secrets and other information which if disclosed would harm the competitive position of the Customer.

APPENDIX TO SCHEDULE B

I. <u>Base Employment Level</u>

The Customer will employ eighty (80) persons at the Facility ("Base Employment Level") within three (3) years of the initial delivery of the Allocation to the Facility.

The Base Employment Level shall be the number of full-time positions held by employees and contractors of the Customer assigned to the Facility. The number of full-time Customer employees and contractor employees shall not include part-time positions (less than 35 hours per week); provided, however, that two part-time employees each working 20 hours per week or more shall be counted as one full-time employee.

The Base Employment Level shall not be created or maintained by transfers of employees from previously held positions with the Customer or its affiliates within the State of New York, except that the Base Employment Level may be filled by employees of the Customer laid off from other Customer facilities for bona fide economic or management reasons.

II. Capital Expansion Program

The Customer will complete a Capital Expansion Plan consisting of the following elements:

(1) Within one (1) year of the approval of the Allocation, the Customer will:

(a) purchase, refurbish and re-start operations at a manufacturing facility in North Lawrence, NY (defined in Article 1 of the Agreement as "Facility");

(b) commence two new high speed production lines at the Facility for the production of dairy products; and

(c) begin producing dairy products.

(2) The Customer's total capital investment in the Capital Expansion Program will total at least \$11.0 million, comprised roughly of (1) \$5.0 million for the purchase and refurbishment of the Facility, and (2) \$6.0 million for the installation of the two new production lines.

The Authority shall have the right to inspect the Facility and to request pertinent information from the Customer for the purpose of verifying the progress of the Capital Expansion Program and the Customer's compliance with Capital Expansion Program requirements at reasonable times during the Capital Expansion Program and prior to the takedown of the Allocation by the Customer. The Customer shall provide the Authority with Facility access and pertinent information requested by the Authority for these purposes.

In the event the Customer fails satisfy the requirements for the Capital Expansion Program, the Authority, in its sole discretion, may reduce or cancel the Allocation.

Upon request of the Customer, the Authority, in its sole discretion, may consent to modifications to the Capital Expansion Program requested by the Customer, including but not limited to modifications to Start Dates and Completion Dates and to the scope of the Capital Expansion Program.

SCHEDULE C TO AGREEMENT FOR THE SALE OF PRESERVATION POWER AND ENERGY TO UPSTATE NIAGARA COOPERATIVE, INC.

APPLICABLE REPRESENTATIONS CONCERNING LOCAL UTILITY

Local Utility: National Grid

Representations:

None.

POWER AUTHORITY OF THE STATE OF NEW YORK
30 SOUTH PEARL STREET
ALBANY, NY 12207

Schedule of Rates for Sale of Firm Power to Preservation Power Customers

Service Tariff No. 10

Date of Issue: December 20, 2010

Date Effective: July 1, 2010

Issued by James F. Pasquale, Senior Vice President
Power Authority of the State of New York
30 South Pearl Street, Albany, NY 12207

Table of Contents

Schedule of Rates for Firm Power Service

I. Applicability

To sales of Preservation Power (as defined below) directly to a qualified business Customer (as defined below) for firm power service.

II. Abbreviations and Terms

A. The following abbreviations are used:

kW	kilowatt(s)
kW-mo.	kilowatt-month
kWh	kilowatt-hour(s)
MWh	megawatt-hour(s)
NYISO	New York Independent System Operator, Inc. or any successor organization
PAL	New York Public Authorities Law
OATT	Open Access Transmission Tariff

B. The term “Agreement” means an executed Agreement for the Sale of Preservation Power and Energy between the Authority and the Customer (each as defined below).

C. The term “Annual Adjustment Factor” or “AAF” shall have the meaning set forth in Section V herein.

D. The term “Authority” means the Power Authority of the State of New York, a corporate municipal instrumentality and a political subdivision of the State of New York created pursuant to Chapter 772 of the New York Laws of 1931 and existing and operating under Title 1 of Article 5 of the PAL, also known as the “New York Power Authority.”

E. The term “Customer” means a business customer who has received an allocation for Preservation Power from the Authority and who purchases Preservation Power directly from the Authority.

F. The term “Electric Service” means the power and energy provided to the Customer in accordance with the Agreement, this Service Tariff and the Rules.

G. The term “Preservation Power” means Firm Power and Firm Energy made available under this Service Tariff by the Authority from the Project for sale to the Customer for business purposes pursuant to PAL § 1005(5) and (13).

H. The term “Firm Power” means capacity (kW) that is intended to be always available from the Project subject to the curtailment provisions set forth in the Agreement between the Authority and the Customer and this Service Tariff. Firm Power shall not include peaking power.

I. The term “Firm Energy” means energy (kWh) associated with Firm Power.

J. The term “Load Serving Entity” or “LSE” shall have the meaning set forth in the Agreement.

K. The term “Project” means the Authority’s St. Lawrence-FDR Power Project, FERC Project No. 2000.

L. The term “Rate Year” or “RY” means the period from July 1 through June 30 of the following year.

M. The term “Rules” means the applicable provisions of Authority’s rules and regulations (Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York), as may be modified from time to time by the Authority.

N. The term “Service Tariff” means this Service Tariff No. 10.

All other capitalized terms and abbreviations used but not defined herein shall have the same meaning as set forth in the Agreement.

III. Monthly Rates and Charges

A. Preservation Power Base Rates

The monthly base rates for demand and energy charges paid by Customer to Authority shall be:

Rate Year	Demand Charge $/kW-mo.	Energy Charge $/MWh
2010	6.15	10.52
2011	6.71	11.48
2012	7.32	12.52
2013	7.99	13.66

Beginning with the 2014 Rate Year (July 1, 2014), and for each Rate Year thereafter, such rates shall be subject to an Annual Adjustment Factor set forth in Section V herein.

B. Preservation Power Rates No Lower Than Rural/Domestic Rate

At all times the applicable base rates for demand and energy determined in accordance with Sections III.A and V of this Service Tariff shall be no lower than the rates charged by the Authority for the sale of hydroelectricity for the benefit of rural and domestic customers receiving service in accordance with the Niagara Redevelopment Act, 16 U.S.C. § 836(b)(1) and PAL § 1005(5) (the "Rural/Domestic Rate"). This provision shall be implemented as follows: if the base rates, as determined in accordance with Sections III.A and V of this Service Tariff, are lower than the Rural/Domestic Rate on an average $/MWh basis, each set of rates measured at 80% load factor which is generally regarded as representative for Preservation Power Customers, then the base rates determined under Sections III.A and V of this Service Tariff will be revised to make them equal to the Rural/Domestic Rate on an average $/MWh basis. However, the base rates as so revised will have no effect until such time as these base rates are lower than the Rural/Domestic Rate.

C. Monthly Base Rates Exclude Delivery Service Charges

The monthly base rates set forth in this Section III exclude any applicable costs for delivery services provided by the local electric utility.

D. Minimum Monthly Charge

The minimum monthly charge shall equal the product of the demand charge and the contract demand (as defined herein). Such minimum monthly charge shall be in addition to any NYISO Charges or Taxes (each as defined herein) incurred by the Authority with respect to the Customer's Allocation.

E. Billing Period

Any period of approximately thirty (30) days, generally ending with the last day of each calendar month but subject to the billing cycle requirements of the local electric utility in whose service territory the Customer's facilities are located.

F. Billing Demand

The billing demand shall be determined by applying the applicable billing methodology to total meter readings during the billing period. See Section IV.E, below.

G. Billing Energy

The billing energy shall be determined by applying the applicable billing methodology to total meter readings during the billing period. See Section IV.E, below.

H. Contract Demand

The contract demand of each Customer will be the amount of Preservation Power, not to exceed the Customer's Allocation, provided to such Customer by the Authority in accordance with the Agreement. The minimum Contract Demand for any Preservation Power Allocation is 100 kW.

IV. General Provisions

A. Character of Service

Alternating current; sixty cycles, three-phase.

B. Availability of Energy

1. Subject to Section IV.B.2, the Authority shall provide to the Customer in any billing period Firm Energy associated with Firm Power. The offer of Firm Energy for delivery shall fulfill the Authority's obligations for purposes of this provision whether or not the Firm Energy is taken by the Customer.

2. If, as a result of reduced water flows caused by hydrologic conditions, there is insufficient energy from the Hydro Projects to supply the full power and energy requirements of NYPA's Firm Power customers served from the Hydro Projects, hydropower curtailments (*i.e.* reductions) in the amount of Firm Power and Firm Energy to which the Customer is entitled shall be applied on a *pro rata* basis to all Firm Power and Firm Energy customers served from the Hydro Projects. Reductions as a percentage of the otherwise required Firm Power and Firm Energy sales will be the same for all Firm Power and Firm Energy customers served from the Hydro Projects. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to the Customer in later billing periods. The Customer will receive appropriate bill credits as provided under the Rules.

C. Delivery

For the purpose of this Service Tariff, Firm Power and Firm Energy shall be deemed to be offered when the Authority is able to supply Firm Power and Firm Energy to the Authority's designated NYISO load bus. If, despite such offer, there is a failure of delivery caused by the Customer, NYISO or local electric utility, such failure shall not be subject to a billing adjustment pursuant to Section 454.6(d) of the Rules.

D. Adjustment of Rates

To the extent not inconsistent with the Agreement, the rates contained in this Service Tariff may be revised from time to time on not less than thirty (30) days written notice to the Customer.

E. Billing Methodology and Billing

Unless otherwise specified in the Agreement, the following provisions shall apply:

1. The billing methodology to be used to render bills to the Customer related to its Allocation shall be determined in accordance with the Agreement and delivery agreement between the Authority and, as applicable, the Customer or local electric utility or both.

2. Billing Demand – Unless separately metered, the billing demand charged by the Authority to each Customer will be the highest 15-minute integrated demand during each billing period recorded on the Customer's meter multiplied by a percentage based on load factor sharing, as applicable.

3. Billing Energy – Unless separately metered, the kilowatt-hours charged by the Authority to each Customer will be the total number of kilowatt-hours recorded on the Customer's meter for the billing period multiplied by a percentage based on load factor sharing, as applicable.

F. Payment by Customer to Authority

1. Demand and Energy Charges, Taxes

   The Customer shall pay the Authority for Firm Power and Firm Energy during any billing period the higher of either (i) the sum of (a), (b) and (c) below or (ii) the monthly minimum charge as defined herein:

   a. The demand charge per kilowatt for Firm Power specified in this Service Tariff or any modification thereof applied to the Customer's billing demand (as defined in Section IV.E, above) for the billing period; and

   b. The energy charge per MWh for Firm Energy specified in this Service Tariff or any modification thereof applied to the Customer's billing energy (as defined in Section IV.E, above) for the billing period; and

   c. A charge representing reimbursement to the Authority for all applicable Taxes incurred by the Authority as a result of providing Preservation Power allocated to the Customer.

2. Transmission Charge

The Customer shall compensate the Authority for all transmission costs incurred by the Authority with respect to the Allocation, including such costs that are charged pursuant to the OATT.

3. NYISO Transmission and Related Charges ("NYISO Charges")

The Customer shall compensate the Authority for the following NYISO Charges assessed on the Authority for services provided by the NYISO pursuant to its OATT or other tariffs (as the provisions of those tariffs may be amended and in effect from time to time) associated with providing Electric Service to the Customer:

A. Ancillary Services 1 through 6 and any new ancillary services as may be defined and included in the OATT from time to time;

B. Marginal losses;

C. The New York Power Authority Transmission Adjustment Charge ("NTAC");

D. Congestion costs, less any associated grandfathered Transmission Congestion Contracts ("TCCs") as provided in Attachment K of the OATT;

E. Any and all other charges, assessments, or other amounts associated with deliveries to Customers or otherwise associated with the Authority's responsibilities as a Load Serving Entity for the Customers that are assessed on the Authority by the NYISO under the provisions of its OATT or under other applicable tariffs; and

F. Any charges assessed on the Authority with respect to the provision of Electric Service to Customers for facilities needed to maintain reliability and incurred in connection with the NYISO's Comprehensive System Planning Process (or similar reliability-related obligations incurred by the Authority with respect to Electric Service to the Customer), applicable tariffs, or required to be paid by the Authority in accordance with law, regardless of whether such charges are assessed by the NYISO or another third party.

The NYISO Charges, if any, incurred by the Authority on behalf of the Customer, are in addition to the Authority production charges that are charged to the Customer in accordance with other provisions of this Service Tariff.

4. Taxes Defined

Taxes shall be any adjustment as the Authority deems necessary to recover from the Customer any taxes, assessments or any other charges mandated by federal, state or local agencies or authorities that are levied on the Authority or that the Authority is required to collect from the Customer if and to the extent such taxes, assessments or charges are not recovered by the Authority pursuant to another provision of this Service Tariff.

5. Substitute Energy

The Customer shall pay for Substitute Energy, if applicable, as specified in the Agreement.

6. Payment Information

Bills computed under this Service Tariff are due and payable by electronic wire transfer in accordance with the Rules. Such wire transfer shall be made to J P Morgan Chase NY, NY / ABA021000021 / NYPA A/C # 008-030383, unless otherwise indicated in writing by the Authority. In the event that there is a dispute on any items of a bill rendered by the Authority, the Customer shall pay such bill in full. If necessary, any adjustments will be made thereafter.

G. Adjustment of Charges

1. Distribution Losses

The Authority will make appropriate adjustments to compensate for distribution losses of the local electric utility.

2. Transformer Losses

If delivery is made at transmission voltage but metered on the low-voltage side of the Customer's substation, the meter readings will be increased two percent to compensate for transformer losses.

3. Power Factor

Power factor is the ratio of real power (kW) to apparent power (kVa) for any given load and time. The Authority may require the Customer to maintain a power factor of not less than 90%, lagging or leading, at the point of delivery, or as may otherwise be imposed upon the Authority by the local electric utility providing delivery and/or NYISO.

H. Conflicts

In the event of any inconsistencies, conflicts or differences between the provisions of this Service Tariff and the Rules, the provisions of this Service Tariff shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of the Agreement and this Service Tariff, the provisions of the Agreement shall govern.

I. Customer Resales Prohibited

The Customer may not resell any quantity of Preservation Power.

V. Annual Adjustment Factor

A. Adjustment of Rates

1. The AAF will be based upon a weighted average of three indices described below. For each new Rate Year, the index value for the latest available calendar year ("Index Value for the Measuring Year") will be compared to the index value for the calendar year immediately preceding the latest available calendar year (the Index Value for the Measuring Year -1"). The change for each index will then be multiplied by the indicated weights. As described in detail below, these products are then summed, producing the AAF. The AAF will be multiplied by the base rate for the current Rate Year to produce the base rates for the new Rate Year."

   Index 1, "BLS Industrial Power Price" (35% weight): The average of the monthly Producer Price Index for Industrial Electric Power, commodity code number 0543, not seasonally adjusted, as reported by the U.S. Department of Labor, Bureau of Labor Statistics ("BLS") electronically on its internet site and consistent with its printed publication, "Producer Price Index Detailed Report". For Index 1, the Index Value for the Measuring Year will be the index for the calendar year immediately preceding July 1 of the new Rate Year.

   Index 2, "EIA Average Industrial Power Price" (40% weight): The average weighted annual price (as measured in cents/kWh) for electric sales to the industrial sector in the ten states of CT, MA, ME, NH, NJ, NY, OH, PA, RI and VT ("Selected States") as reported by Coal and Electric Data and Renewables Division; Office of Coal, Nuclear, Electric and Alternate Fuels; Energy Information Administration ("EIA"); U.S. Department of Energy Form EIA-861 Final Data File. For Index 2, the Index Value for the Measuring Year will be the index for the calendar year two years preceding July 1 of the new Rate Year.

   Index 3, "BLS Industrial Commodities Price Less Fuel" (25% weight): The monthly average of the Producer Price Index for Industrial Commodities less fuel, commodity code number 03T15M05, not seasonally adjusted, as reported by the U.S. Department of Labor, BLS electronically on its internet site and consistent with its printed publication, "Producer Price Index Detailed Report". For Index 3, the Index Value for the Measuring Year will be the index for the calendar year immediately preceding July 1 of the new Rate Year.

2. Annual Adjustment Factor Computation Guide

   Step 1: For each of the three Indices, divide the Index Value for Measuring Year by the Index Value for the Measuring Year-1.

   Step 2: Multiply the ratios determined in Step 1 by percentage weights for each Index. Sum the results to determine the weighted average. This is the AAF.

   Step 3: Multiply the current Rate Year base rate by the AAF calculated in Step 2 to determine the new Rate Year base rate.

   The foregoing calculation shall be performed by the Authority consistent with the sample presented in Section V.B below.

3. The Authority shall provide the Customer with notice of any adjustment to the current base rate per the above and with all data and calculations necessary to compute such adjustment by June 15th of each year to be effective on July 1 of such year, commencing in 2014. The values of the latest officially published (electronically or otherwise) versions of the indices and data provided by the BLS and EIA as of June 1 shall be used notwithstanding any subsequent revisions to the indices.

4. If during the term of the Agreement any of the three above indices ceases to be available or ceases to be reflective of the relevant factors or of changes which the indices were intended by the Parties to reflect, the Customer and the Authority shall mutually select a substitute Index. The Parties agree to mutually select substitute indices within 90 days, once notified by the other party that the indices are no longer available or no longer reflect the relevant factors or changes with the indices were intended by the Parties to reflect. Should the 90-day period cover a planned July 1 rate change, the current base rates will remain in effect until substitute indices are selected and the adjusted rates based on the substitute indices will be retroactive to the previous July 1. If unable to reach agreement on substitute indices within the 90-day period, the Parties agree to substitute the mathematic average of the PPI—Intermediate Materials, Supplies and Components (BLS Series ID WPUSOP2000) and the PPI-- Finished Goods (BLS Series ID WPUSOP3000) indices for one or more indices that have ceased to be available and shall assume the percentage weighting(s) of the one or more discontinued indices as indicated in Section V.A.1.

B. <u>Sample Computation of the AAF (hypothetical values for July 1, 2014 implementation):</u>

STEP 1

Determine the Index Value for the Measuring Year (MY) and Measuring Year - 1 (MY-1) for Each Index

- Index 1 - Producer Price Index, Industrial Power

	Measuring Year (2013)	Measuring Year - 1 (2012)
January	171.2	167.8
February	172.8	167.6
March	171.6	168.2
April	173.8	168.6
May	175.1	171.6
June	185.7	180.1
July	186.4	182.7
August	184.7	179.2
September	185.5	181.8
October	175.5	170.2
November	172.2	168.8
December	171.8	166.6
Average	177.2	172.8
Ratio of MY/MY-1		**1.03**

- Index 2 – EIA Industrial Rate

State	Revenues ($000s)	Sales (MWh)	Avg. Rate (cents/kWh)
Measuring Year (2012)			
CT	590,972	6,814,757	
MA	1,109,723	13,053,806	
ME	328,594	4,896,176	
NH	304,363	2,874,495	
NJ	1,412,665	15,687,873	
NY	2,001,588	26,379,314	
OH	3,695,978	78,496,166	
PA	3,682,192	63,413,968	
RI	152,533	1,652,593	
VT	155,903	2,173,679	
TOTAL	13,434,511	215,442,827	**6.24**
Measuring Year -1 (2011)			
CT	579,153	6,678,462	
MA	1,076,431	12,662,192	
ME	310,521	4,626,886	
NH	298,276	2,817,005	
NJ	1,370,285	15,217,237	
NY	1,891,501	24,928,452	
OH	3,622,058	76,926,243	
PA	3,571,726	61,511,549	
RI	144,144	1,561,700	
VT	152,785	2,130,205	
TOTAL	13,016,880	209,059,931	**6.23**
	Ratio of MY/MY-1		**1.00**

- Index 3 – Producer Price Index, Industrial Commodities Less Fuel

	Measuring Year (2013)	Measuring Year -1 (2012)
January	190.1	187.2
February	190.9	188.0
March	191.6	188.7
April	192.8	189.9
May	194.7	191.8
June	195.2	192.3
July	195.5	192.3
August	196.0	193.1
September	196.1	193.2
October	196.2	193.8
November	196.6	193.7
December	196.7	194.0
Average	194.4	191.5
Ratio of MY/MY-1		**1.02**

STEP 2

Determine AAF by Summing the Weighted Indices

Index	Ratio of MY to MY-1	Weight	Weighted Factors
PPI Industrial Power	1.03	0.35	0.361
EIA Industrial Rate	1.00	0.40	0.400
PPI Industrial Commodities less fuel	1.02	0.25	0.255
AAF			**1.016**

STEP 3

Apply AAF to Calculate the New Rate Year Base Rate

	Demand	Energy
	$/kW-mo.	$/MWh
Current Rate Year Base Rate	7.99	13.66
New Rate Year Base Rate	8.12	13.88

New York Power Authority
Expansion Power
Recommendation for Allocation

Exhibit "5-A"
May 24, 2011

	Company Name	Program	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage Benefits	Power Recommended (kW)	Contract Term
1	Falls Metal Recycling, LLC	EP	Niagara Falls	Niagara	5,200	45	$14,580,000	$60,500	**2,500**	5 Years
	Total EP Recommended					**45**	**$14,580,000**		**2,500**	

May 24, 2011
Exhibit "5-A-1"

APPLICATION SUMMARY
Expansion Power

Company:	Falls Metal Recycling, LLC
Location:	Niagara Falls
County:	Niagara
IOU:	National Grid
Business Activity:	Metals Recycling
Project Description:	The project consists of purchasing 14 acres and building a new metals recycling facility that will use state-of-the-art metal processing and separation technology. The primary use of the power is for operating a 4,000- horsepower shredder. The projected capital investment is $14.58 million, including a metal shredder ($5.5 million); a non-ferrous separator system ($5.0 million) and several buildings ($1.3 million).
Existing Allocation(s):	None
Power Request:	5,200 kW
Power Recommended:	2,500 kW
Job Commitment:	
Existing:	0 jobs
New:	45 jobs
New Jobs/Power Ratio:	18.0 jobs/MW
New Jobs - Avg. Wage and Benefits:	$60,500
Capital Investment:	$14.58 million
Capital Investment/MW:	$5.8 million/MW
Other ED Incentives:	Non-financial support from Buffalo Niagara Enterprise, City of Niagara Falls
Summary:	Falls Metal Recycling, a New York State entity formed in January 2011, belongs to a family of regional, privately held recycling facilities. The metals recycling business is regionally based; this project would allow the company to enter New York and Canadian markets. Roughly

half of the proposed 14-acre site is situated on a brownfield site. The company would partner with a local trucking concern for feedstock supply and distribution, creating 15 indirect jobs due to the project. Commodity businesses operate on fine margins and an allocation of hydropower would be an incentive for Falls Metal Recycling to build a viable new business in economically distressed Niagara Falls, creating 45 new jobs.