

June 26, 2012

**MEMORANDUM TO THE TRUSTEES**

**FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER**

**SUBJECT: Allocation of Expansion Power**

**SUMMARY**

The Trustees are requested to approve an allocation of available Expansion Power (“EP”) totaling 4,000 kilowatts (“kW”) to Welded Tube USA, Inc., as described herein and detailed in Exhibit “A.” The allocation of hydropower will support a capital investment of \$48.25 million and the creation of 121 jobs in Western New York.

**BACKGROUND**

Under §1005(13) of the Power Authority Act, as amended by Chapter 313 of the Laws of 2005, the Authority may contract to allocate 250 megawatts (“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 and RP must be evaluated under criteria that include, but need not be limited to, those set forth in Public Authorities Law (“PAL”) Section 1005(13)(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, 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 and Niagara County Center for Economic Development and Erie County Industrial Development Agency to coordinate other economic development incentives that may help to bring projects to New York State. Staff confers with these entities to help maximize the value of hydropower to improve the economy of Western New York and the State of New York.

## DISCUSSION

At this time, there is 12,975 kW of unallocated EP and 26,818 kW of unallocated RP that are available to be awarded to businesses under the criteria set forth in PAL Section 1005(13)(a). One company has applied for hydropower as described below.

Welded Tube USA, Inc. (“Welded Tube”) submitted an application requesting 9,000 kW of hydropower to serve a new pipe manufacturing operation at the Tecumseh Business Park (the former Bethlehem Steel site) in Lackawanna, New York. The request consists of electric load associated with the equipment for the new production line and some ancillary electric load at the new facility.

Staff recommends that an EP allocation of 4,000 kW be awarded to Welded Tube in return for an investment of \$48.25 million and creation of 121 jobs at its new facility in Lackawanna. The company will be allowed to phase-in use of the 4,000 kW allocation upon satisfying capital spending and job creation milestones that are being discussed in the incentive package under consideration. This recommendation is described in Exhibit “A-1” showing, among other things, the amount of power requested by the applicant, the recommended allocation amount and the applicant’s commitment to job creation and capital investment. Additional information on the project is contained in the application summary attached as Exhibit “A-2.”

Welded Tube of Canada, the applicant’s parent company, is a multi-faceted cold-formed carbon and high-strength low-alloy tubular steel producer headquartered in Concord, Ontario. Welded Tube USA, Inc. will be producing the same products manufactured by the parent company at its Canadian operations. The creation of this start-up facility in Western New York is a result of the growing energy tubular industry. The company is considering locating in the business park, a designated Brownfield site, to produce steel tube drilling pipe to be used in the extraction of oil and natural gas. Post production, the tubing will be exported to Canada for finishing prior to being sold to distributors in the United States and Canada.

With this project, Welded Tube commits to add 121 new jobs to operate and manage this new manufacturing facility. The job creation ratio for a recommended amount of 4,000 kW is 30 new jobs per MW; this ratio is above the recent historic average of 17.5 new jobs per MW. The total project investment of \$48.25 million will result in a capital investment ratio of \$12 million per MW; this ratio is below the recent historic average of \$22.4 million per MW.

An allocation of hydropower would help incentivize the parent corporation to bring the production to Western New York rather than other attractive sites outside of the state. In particular, the State of Alabama is offering an incentive package for Welded Tube to bring its plant to the Southern U.S. The company also has two options under consideration in Ontario – to expand an existing facility or locate to a neighboring property – both providing logistical advantages.

Additionally, low-cost hydropower is one component of a larger incentive package offer being considered by several organizations including Empire State Development Corporation, National Grid, New York Job Development Authority and NYPA. In summary, the incentives range from tax credits to Brownfield real property credit. The company is also being offered assistance from National Grid through its infrastructure grant program.

The Authority's hydropower allocation amounts are subject to enforceable employment and usage commitments. The standard contract includes annual job reporting requirements and a job compliance threshold of 90%. Should the customer's actual jobs reported fall below the compliance threshold, the Authority has the right to reduce the allocation on a pro-rata basis. For the period July 1, 2013 and beyond, the allocations will be sold to the customers under a direct sale arrangement, the contract for which may be brought before the Trustees for approval at that time.

### RECOMMENDATION

The Senior Vice President – Economic Development and Energy Efficiency, the Vice President – Marketing and the Manager – Business Power Allocations and Compliance recommend that the Trustees approve an allocation of hydropower totaling 4,000 kW to Welded Tube USA, Inc. as detailed in Exhibit "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.

Gil C. Quiniones  
President and Chief Executive Officer

Att.  
Hydro Alloc

## **RESOLUTION**

RESOLVED, That an allocation totaling 4,000 kW of Expansion Power to Welded Tube USA, Inc., as detailed in Exhibit "A," be, and hereby is, approved on the terms set forth in the attached memorandum 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 Executive Vice President and General Counsel.

New York Power Authority  
 Expansion Power  
 Recommendation for Allocations

Exhibit "A1"  
 June 26, 2012

Exhibit Number	Company Name	Program	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage & Benefits	Power Recommended (kW)	Contract Term
A1	Welded Tube USA, Inc.	EP	Lackwanna	Erie	9,000	121	\$48,250,000	\$49,620	4,000	7 Years

**APPLICATION SUMMARY**  
**Expansion Power**

**Company:** Welded Tube USA, Inc.

**Location:** Lackawanna

**IOU:** National Grid

**Business Activity:** Produces pipe for the energy industry

**Project Description:** The project involves installing a production line within parcel 3 of the former Bethlehem Steel site. The line will produce tubular pipe used in the extraction of oil and natural gas in the US and Canada. Machinery and equipment to be installed include a 7" mill, anealers, straightener, hydrotester, a coating line and threading line.

**Existing Allocation(s):** None

**Power Request:** 9,000 kW  
**Power Recommended:** 4,000 kW

**Job Commitment:**  
    **Existing:** 0 jobs  
    **New:** 121 jobs

**New Jobs/Power Ratio:** 30 jobs/MW

**New Jobs -  
Avg. Wage and Benefits:** \$49,620

**Capital Investment:** \$48.25 million  
**Capital Investment/MW:** \$12 million/MW

**Other ED Incentives:** ESD tax credits, JDA loan, National Grid infrastructure grant

**Summary:** Welded Tube of Canada, Inc. is prepared to make an investment in Western New York by implementing a production line within a Brownfield site. The company proposes to invest \$48.25 million in New York State to build the new facility and create 121 new well-paying jobs. The company is looking at two alternate sites in Ontario as well as a package incentive from the state of Alabama to site the new plant. A hydropower allocation is one critical piece of the incentives necessary for the company to decide to build the plant in Western New York.