



**Date:** March 29, 2016

**To:** THE TRUSTEES

**From:** THE PRESIDENT and CHIEF EXECUTIVE OFFICER

**Subject:** **Non-Procurement Contract —  
Renewal of License Agreement for  
Management of HTP Transmission Capacity**

**SUMMARY**

The Trustees are requested to approve a contract extension for the 2013 agreement entered into between the Authority and Consolidated Edison Energy, Inc. (“CEE”), a subsidiary of Consolidated Edison Company of New York, Inc., for the management of energy-related transactions related to NYPA’s contractual entitlements on the Hudson Transmission Partners, LLC (“HTP”) undersea cable. The proposed extension would extend the current contract for three years, plus give the Authority the ability to exercise two additional three-year extensions, thus enabling the Authority to potentially extend the relationship for up to nine years. The Authority would retain its existing contractual ability to terminate the contract for any reason upon 90 days’ notice.

**BACKGROUND**

Section 2879 of the Public Authorities Law and the Authority’s Guidelines for Procurement Contracts require the Trustees’ approval of contracts, including contract extensions, involving services to be rendered for a period in excess of one year.

On March 21, 2013, the Trustees authorized the Authority to enter into a License Agreement (“License”) with CEE for the management of the energy transactions related to Authority’s rights on the HTP cable. The Authority negotiated the terms of a three-year License with CEE after selecting CEE through a 2012 competitive request for proposals process for these services. After Trustee authorization, the License was executed by the parties and became effective on April 2, 2013, for a term ending on May 31, 2016.

The Authority’s rights on the HTP cable stem from its Firm Transmission Capacity Purchase Agreement (“FTCPA”) with HTP entered into in April 2011, which grants the Authority 75% of the transmission capacity on the HTP cable, and other related energy rights.

The Trustees’ authorization noted that during the term of the License, Authority staff would determine whether to “rebid these services, perform them in-house, or proceed with another viable approach based upon the knowledge staff anticipates it will acquire about the economic aspects of the [HTP] resource.”

Based on Authority staff’s experience in working with CEE over the last three years, staff recommends an extension of this business relationship, as explained below.

## DISCUSSION

The HTP cable connects New York City to Bergen County, New Jersey, providing New York electric consumers with access to the resources contained in PJM Interconnection, LLC (“PJM”), the neighboring electric control area west of New York City. Lacking expertise in the PJM energy and unforced capacity (or “UCAP”) markets, the Authority entered into its License with CEE to assist the Authority in maximizing the economic value of its HTP rights acquired through the FTCPA, so that the HTP cable could ultimately serve as a beneficial resource for New York City customers.

NYPA and CEE, over the duration of the License, have developed an effective business relationship involving the trading and scheduling of energy products on the HTP facility, as well as hedging contracts related to NYPA’s access rights on the Line. This relationship has enabled NYPA’s Energy Resource Management (“ERM”) staff to better understand the functional, operational and financial aspects of the HTP cable.

From the perspective of developing ERM’s knowledge of the energy market place and how to make effective use of the HTP Line, the partnership has expanded the overall knowledge and effectiveness of NYPA. As an example, NYPA and CEE have developed an effective capacity bidding strategy for the purchase of UCAP in PJM and selling in the NYISO markets for the 2015/16 and 2016/17 planning years. This task was made particularly difficult due to regulations governing the NYISO market which made it difficult for UCAP purchased in PJM to be sold in the NYISO.

Through these coordinated efforts, the Authority has dramatically benefited from this partnership through enhanced revenues for the sales of energy and UCAP, exchange of strategic operational information, and effective financial hedging. In fact, the Authority’s annual revenues under the License have averaged between \$5.5 and \$6.0 million since the License has been in effect. This is well toward the high end of the range of \$900,000 to \$7 million in annual revenues, net of service charges, that Authority staff expected when it described the proposed License to the Trustees in March 2013.

There was a steep learning curve for CEE and NYPA in understanding the nuances of the cable in order to move forward with a coherent strategy for both energy and capacity. In particular, CEE has assisted NYPA in developing its capacity plan strategy in PJM’s capacity auctions for 2016 through the first of half of 2017. The successful bidding strategies employed there form the basis for effectively addressing PJM’s capacity auctions for subsequent years.

Switching energy managers at this point (or bringing this activity in-house) would cause an interruption of the Authority’s goals and successful strategies. Staff does not yet believe it has the capabilities to perform this activity in-house, and adopting a new energy manager would entail the new party confronting the aforementioned steep learning curve in order to be effective, and would be impractical.

For the foregoing reasons, the Authority recommends a three-year extension of the License. To give the Authority the maximum flexibility to maintain its relationship with CEE if it continues to prove beneficial, the proposed extension provision would permit the Authority, in its sole discretion, to extend the License thereafter for two consecutive 3-year terms. Thus, the extension would permit NYPA to continue the License for a maximum of nine additional years. The Authority would retain its current ability to terminate the License upon 90 days’ written notice for any reason. If approved by the Trustees, the extension will be effectuated by a contract amendment between the Authority and CEE, and a new 3-year term would commence on June 1, 2015.

## FISCAL INFORMATION

The fee structure in the current License would continue under the extension. Under the License, CEE's base level fees are capped at \$300,000 per year (\$25,000 per month), and this would continue under an extension. Accordingly, CEE would retain the initial \$25,000/month that is accrued from scheduling/trading aspects of the HTP cable. Beyond the \$25,000/month threshold, CEE and NYPA participate in a revenue sharing agreement, where NYPA receives 85% of the revenues above the threshold, while CEE obtains the remaining 15%. If the \$25,000 monthly threshold is not attained in a given month, the previous monthly amount will be carried over to future time frames when revenues exceed the threshold level. A yearly true-up applies to ensure CEE's \$300,000 annual minimum fee.

As noted, the Authority's annual revenues under the License have averaged between \$5.5 and \$6.0 million since the License has been in effect, staff expects this to continue under normal cable operations. This is consistent with staff's initial estimated range in 2013 of \$900,000 to \$7 million in annual revenues, net of service charges.

## RECOMMENDATION

The Chief Operating Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Vice President – Technical Compliance, and the Vice President – Procurement recommend the Trustees' approval of the contract extension for the agreement between the Authority and Consolidated Edison Energy, Inc. for the management of energy-related transactions related to NYPA's contractual entitlements on the Hudson Transmission Partners, LLC undersea cable.

For the reasons stated, I recommend approval of the above-requested action by adoption of the resolution below.

Gil C. Quiniones  
President and Chief Executive Officer

## **RESOLUTION**

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted for the extension of the Authority's License Agreement with Consolidated Edison Energy, Inc., for the management of energy-related transactions related to the Authority's contractual entitlements on the Hudson Transmission Partners, LLC undersea cable for an initial extension period of three years, with the ability of the Authority to extend the License for two, consecutive three-year terms, which ability the Authority has in its sole discretion, as recommended in the foregoing 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 and 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.