POWER AUTHORITY OF THE STATE OF NEW YORK
SUMMARY OF THE TRUSTEES'
MEETING MINUTES OF

July 30, 2015

Introduction

Chairman Koelmel welcomed new Trustees, Tracy McKibben and Anthony Picente, fellow Trustees, and staff members who were present at the meeting. He said that the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to the Authority's Bylaws, Article III, Section 3.

1. Adoption of the July 30, 2015 Proposed Meeting Agenda

Upon motion made and seconded the meeting Agenda was adopted.

RESOLUTION	Moved: E. Nicandri	Seconded: J. Foster	Adopted: 6/0

2. Consent Agenda:

a. **Governance Matters**
   i. Minutes of the Regular Meeting held on May 19, 2015
   ii. Committee Appointments

b. **Power Allocations**
   i. Western New York Hydropower Allocation and Notice of Public Hearing
   ii. Transfers and Redistribution Power Allocations
   iii. Contracts for the sale of Western New York Hydropower – Contract Transmittal to Governor
   iv. Amendment to Net Metering Provisions of Authority's Governmental Customer Service Tariffs – Notice of Adoption
   v. Amendment to 2011 Cost Share Agreement for Shore Power with the City of New York

c. **Procurement (Services) Contracts**
   i. Procurement (Services) and Other Contracts – Business Units and Facilities – Awards, Extensions and/or Additional Funding
   ii. Procurement (Services) Contract – Employees' Savings and Deferred Compensation Plans – Contract Award
   iii. Procurement (Services) Contract – Selection of Firm to Provide Financial Advisory Services For Issuance of Debt – Contract Award
   iv. Procurement (Services) Contract – Selection of Firm to Provide Independent Swap Advisory Services – Contract Award

NIAGARA

v. Procurement (Services) Contract – Niagara Power Project – Transmission Life Extension and Modernization Program – Niagara Switchyard Upgrades – Contact Award

d. Capital Expenditure Authorization Request

i. Richard M Flynn Power Plant – 2015 Major Outage – Capital Expenditure Authorization Request

ii. Moses-Adirondack and Moses-Plattsburgh – Structure Replacements Phase II – Capital Expenditure Authorization Request

iii. Robert Moses Niagara Power Project – Visitors Center Upgrade Increase in Capital Expenditure and Contract Authorizations

iv. St. Lawrence/FDR Power Project – Massena Substation Auto-Transformer Replacement Project – Increase in Authorized Funding and Contract Authorization

e. Real Estate

i. Transfer of Real Property to the Erie Canal Harbor Development Corporation

ii. Transfer of Real Property to New York State Office of Parks, Recreation and Historic Preservation

f. Finance

i. Contributions of Funds to the State Treasury

Conflicts of Interest

Trustee Flynn declared conflicts of interest as indicated below and said he would not participate in the discussions or votes as it relates to those matters.

- ***International Business Machines Corporation and JP Morgan Chase (Item 2b ii);***
- ***Bernier, Carr & Associates, PC; E I Team, Inc.; Solar Liberty Energy Systems, Inc.; Trigyn Technologies, Inc. (Item 2c i)***
- ***O'Connell Electric Company, Inc. (Item 2d iv)***
- ***Bausch & Lomb Incorporated and Thomas Electronics, Inc. (Item 4a)***
- ***Ashland Advanced Materials; RHI Monofrax; Saint Gobain Structural Ceramics (Item 4b)***
- ***The Indium Corporation of America (Lincoln Avenue); ITT Corp. (EDO); Universal Photonics, Inc. (Item 4c)***

Chairman Koelmel and Trustees Nicandri, Foster, Picente, and McKibben declared no conflicts.

Upon motion made and seconded, the Consent Agenda was approved.

Trustee Flynn was recused from the votes as they relate to the companies previously indicated.

RESOLUTION	Moved: J. Foster	Seconded: E. Nicandri	Adopted: See Conflicts of Interest note above.

Discussion Agenda:

3a. Report of the President and Chief Executive Officer:

President Quiniones welcomed the new Trustees to the Authority. He then provided the following report on the Authority's performance for April 2015 (Exhibit "3a-A"):

Performance Scorecard

NYPA's balanced scorecard reflects our corporate performance measures and identifies the targets that we aspire to achieve. As of mid-year, six of the nine performance measures have met or exceeded their targets.

NYPA's financial performance continues to be strong. The Debt Coverage Ratio and the O&M Budget measures continue to perform better than target. In addition, our Transmission, Energy Efficiency and Environmental Incidents monthly measures all exceeded their targets for June.

As reported on a quarterly basis, the Workforce Management measure has significantly exceeded its year-to-date target. This measure captures "touch-points" with employees such as the number of students in the NYPA Executive MBA program, the number of mentors and mentees, and the number of attendees at NYPA-provided professional development and continuing education training programs.

Three measures did not meet their targets as of mid-year:

Generation Market Readiness has been impacted year-to-date by several factors including an unexpected repair at the Astoria 500 MW Combined Cycle Plant, ice conditions at the St. Lawrence Power Plant, the Small Clean Power Plant at Pouch Terminal generator rotor rebuild and the Blenheim-Gilboa Pumped Storage Hydro Plant Unit 1 exchanger tube failure. We are looking closely at our performance and working with Enterprise Risk group to do a deeper dive into the Generating Availability Data System ('GADS') data for potential trends; however, the 2015 target of 99.40% will not be met by year-end.

The Energy Efficiency Investment in State Facilities performance measure did not meet its year-to-date target as of June. This is primarily due to timing. In the beginning of the year we exceeded our target but with construction activities there are ebbs and flows, and we expect this to pick up as the year progresses. We are confident we will meet our target by year-end.

The DART rate, our safety performance measure, is above target. Year-to-date, there have been ten injuries that are classified as meeting the DART criteria. We see a decline in reportable incidents in the second quarter, one occurring in April, one in May and none in June. We continue to work towards meeting our target, focusing on leading indicators and proactive management to enhance our performance in our safety measure.

In response to a question from Chairman Koelmel, President Quiniones said even if there is improvement in the Authority's Generation Market Readiness, it is unlikely that this target will be met at the end of the year. However, it is expected that Energy Efficiency will meet or exceed its target by the end of the year. With regard to the safety measures, the Authority continues its endeavors to meet this performance target and for the past three months it has been trending well.

In response to further questioning from Chairman Koelmel, President Quiniones said the Generation Market Readiness performance measure is NYPA's stretch goal and there will be no system implication on the grid or NYPA's system.

Strategic Planning – Implementation and Alignment

The Strategy Management Committee ('SMC'), a key part of our wider strategy governance, is now meeting on a monthly basis. The role of The Committee is to ensure that the six initiatives in our strategic plan and other related activities are being carried out in a way that reflects NYPA's overall strategic intent. To date, they have focused their attentions on gauging initiative implementation progress, addressing risks and barriers to strategic success and managing the specific scope of those initiatives. Next month the strategic initiative teams will present their proposed plans for 2016 and use the SMC to justify proposed activities, budget and resource requests.

We have two foundational elements of a successful strategic transformation in place. First, a strategic plan that continues to hold up to scrutiny in light of changes in the business environment. Secondly, we have six strategic initiatives at the core of that plan that are making good implementation progress. However, we must also take the time to ensure that support functions such as IT, R&TD and Finance are organized in a way that aligns to our overall business strategy and provides the internal resources the businesses need to deliver the expected benefits. The strategy team has been working closely with the shared services staff over the last few months to help them develop their own departmental vision and targets and to help them understand how their organizations need to change in light of our new strategic direction.

As we move into 2016, we will be looking to make some continued enhancements to our strategic planning cycle. In 2015 we included concepts such as the strategic plan health check and SWOT (strengths, weaknesses, opportunities, threats) analysis. Next year, we will look to integrate some key Enterprise Risk concepts such as Scenario Planning. The addition of Scenario Planning will allow us to continue to test the robustness of our strategic plan in light of likely changes in the market and in technology. Given some of the recent unexpected

changes in the market (such as Reforming Energy Vision ('REV'), low gas prices, environmental regulations) we see this Scenario Planning as an integral part of strategic and long range operational planning, going forward.

As we move into the second half of the year, the strategy team will focus more on preparing for 2016. This will include.

1. ***Building out a new set of corporate metrics and initiative targets that reflect our long term strategic vision – this is going to be critical to start to measure whether the business is moving in the right direction and at the right pace.***

2. ***Revamping our approach to capital investment planning to ensure that our investment portfolio is more closely aligned to our strategic aims.***

3. ***Undertaking a business intelligence gathering exercise to ensure that we have the necessary information to conduct the 2016 Annual Strategy Plan refresh workshop planned for January next year.***

<u>Risk Management Status Report</u>

In the area of risk management, I am very pleased to report that our new Chief Risk Officer, Soubhagya Parija, started work on July 1. He is working closely with Jennifer Faulkner, the head of Internal Audits, Bob Lurie the CFO and head of Strategy, and the rest of our executive team to build on the momentum our risk management activities have generated over the past few months.

Output from that process, began last year, has included a draft NYPA risk appetite statement that can provide overall guidance to management on the risk we will and will not consider taking. Following on that, drafting of a risk tolerance statement is underway, defining both in words and numbers the boundaries within which we expect our managers to operate. As you would expect, that tolerance will be specific to each business line (Generation & Transmission operations, Energy Supply group, customer services), and will also make clear that we have no appetite or tolerance for certain risks (such as regulatory compliance).

Also, in the last few months we have developed an initial list of strategic enterprise risks with the executive team, with the help and collaboration of our strategic planning and enterprise risk teams, which will be reviewed and finalized by the CRO and his staff. They have also begun the process of assessing our existing controls of strategic risks, and rating or prioritizing those risks to help guide the attention of management and the board. The product of

that work will include a completed enterprise risk dashboard that we hope to share with you at the September Board meeting.

In the meantime, IT, Internal Audit, and Enterprise Risk have been working with Operations and others to do a "deep dive" into cyber security, and a comprehensive plan is nearing completion, with early implementation underway.

Finally, as reported to you in the last meeting, we are utilizing and refining our hedging strategies and systems to reduce our exposure to energy market price movements in the future.

__Transmission Formula Rate Filing at Federal Energy Regulatory Commission__

On July 2nd we filed with the Federal Energy Regulatory Commission ("FERC") for a formula rate revenue requirement increase to recover increased costs to our transmission system. Unlike the Authority's production rates which need to be approved by the Trustees, NYPA's recovery of transmission costs is under the jurisdiction of the Federal Energy Regulatory Commission ('FERC'). This jurisdiction was established when NYPA became part of the New York Independent System Operator ('NYISO') during the electric utility restructuring in the late 1990s.

With significant capital spending for the Transmission Life Extension and Modernization, the Marcy-South Series Compensation Project and SMART Transmission investments and our plans to update our Moses-Adirondack line, NYPA's filing asks FERC to allow our cost recovery to take place through a formula rate process.

Acceptance of the formula rate process essentially means that NYPA will have the capability of collecting increased costs to its transmission system by simply updating annually, its cost calculations according to agreed-upon data provision, calculations and protocols. It will eliminate the need to do time-consuming and expensive discrete, periodic cost recovery filings.

In the investment mode we are currently in, the lack of a formula rate would necessitate multiple filings over the next ten years and the outcomes could be very unpredictable and potentially adverse. A formula rate provides recovery certainty and better cash flow.

The current filing for the formula rate will likely evolve into a negotiated settlement amongst NYPA, the FERC and market participants. It will likely be a six to nine months settlement process before the formula and its protocols are finalized.

The filing calls for an immediate increase in cost recovery over the amount NYPA is currently allowed to recover. The proposed increase would be spread among all energy consumers across the NYISO jurisdiction. The average increase would be in the order of 1/10th of 1% on consumer bills. When NYPA's transmission investments are nearing completion a decade or so from now, the likely annual impact on total electric charges to consumers would be only about 1% greater than they are now. Keep in mind that the Authority's transmission investments will help reduce congestion charges on the NYS grid and as a result reduce energy charges and costs. These are not easy to quantify at this point, but we are confident that they will happen. The goals of our transmission investments are increased reliability, overall reduction in consumer electric costs and the facilitation and integration of more intermittent of renewable sources such as wind and solar.

In response to a question from Trustee McKibben, President Quiniones said, depending on its actual costs on an annual basis, the Authority will benefit from the new rate formula because it will be able to recover its costs on an annual basis without having to file a new rate case. However, it does, for example, per-determine the Authority's regulated return on equity.

Chairman Koelmel suggested that, going forward, a report from the Chief Risk Officer be included in the staff reports.

3b. Report of the Chief Operating Officer

Mr. Paul Tartaglia, Senior Vice President of Energy Resource Management, provided highlights of the Chief Operating Officer's report to the Trustees (Exhibit "3b-A").

Generation Market Readiness

Mr. Tartaglia said Generation Market Readiness is a calculated measure of the Authority's generating assets and operational availability rated against the markets the systems' needs.

The Authority's generation market readiness did not meet its target for the month of June – Actual 98.62% vs. target 99.4%. This was due to:

- ***The SCPP Pouch facility on Staten Island needed some repairs to its generator roter. This was returned to service June 20.***
- ***The St. Lawrence facility was de-rated due to lower water levels than anticipated.***

Year-to -date the generation market performance has improved with the annual number up from 98.16% to 98.37%. However, we will not be able to make the target of 99.4% this year. Four major outages affected this goal, namely:

1. ***B-G Units 1 and 2 failure***
2. ***SCPP Pouch generator manufacturing defect***
3. ***Astoria 500 MW Unit failed generator***
4. ***STL Facility – impacts due to weather conditions***

Transmission Reliability

- ***Performed above target for June – achieving 98.84% vs. target of 98.6%***
- ***Annual performance remains on track and we expect to exceed expectations with (97.28% vs target of 96.15%).***

Environmental Incidents

- ***Met the June target and on track to meet the annual goal.***

Safety

- ***No DART (Days Away, Restricted or Transferred) incidents for June and we are currently above the annual target. The Dart rate has come down from 1.71% to 1.23%. This is attributed to the measures undertaken this year.***

- ***Conducted a Safety "All Hands" meeting for Operations staff at the WPO and Sites. Motivational speaker, Chuck Evans, was invited to share his story of a devastating injury (double amputation) he suffered from a material handling accident and the impacts it had on his family, friends, co-workers, union and the organization he worked with. Chuck Evans' story is consistent with the message to the Authority's employees regarding safety and the impacts of resultant injuries.***

3c. Report of the Chief Financial Officer

Mr. Robert Lurie presented highlights of the Chief Financial Officer's report to the Trustees (Exhibit "3c-A").

For the benefit of the new Trustees, Mr. Lurie highlighted the Authority's operations from a financial and risk perspective which is divided into three areas, namely:

1) Contracted – Generation that the Authority sells directly to customers (municipal, corporate, governmental customers) under contract. Cash flows from that business are extremely stable and very predictable. It tends to cover most or all of the Authority's operating and debt service expenses and provides for that base cost coverage and cost recovery for the Authority. It does not, however, provide for any of the Authority's profit over and above its costs;

2) Merchant – The merchant business, which is any excess power generated over and above what the Authority sells in the first category, is sold into the wholesale market and we sell it at market price. That represents about fifteen percent of the Authority's total revenue and almost one hundred percent of its profit; and

3) Energy Services – Energy Services is a fee-based business and the Authority tries to recover its costs for that business. The Authority is making the big investments in this area and will realize some net investment over the next couple of years.

In response to a question from Trustee Foster, Mr. Lurie said, the FERC rate filing previously mentioned by President Quiniones is an example of the Authority's attempt to adjust the rates upward to cover not just its construction expenses but also the cost of its capital including equity cost of capital.

Financial Summary

Net Income

During the month of June, the Authority had a net income of $11.1 million, which is $12.8 million less than the budgeted $23.9 million. This is primarily due to a lower net margin on sales, partially offset by lower operating expenses. The reduced net margin on sales was largely due to the extremely low energy prices on the wholesale markets.

Net income for the year-to-date was $27.8 million, which was $89.5 million lower than budgeted, due to lower hydro production and lower energy prices on market sales. Hydro production is starting to pick up, but the Authority is still feeling the effects, year-to-date, of the occurrences in the earlier months.

Lower operating and maintenance expenses and other expenses offset these effects to some degree that reflected timing differences in areas such as industrial incentive awards, the Western New York Utility of the Future Workforce Development Center; and customer and energy solutions.

Hydro Generation and Energy Price Forecast

The actual hydro generation results for June are higher than the last forecast reported because of the heavy rains. We are expecting about .9 kilowatt hours, an indication of positive results, going forward.

Energy prices continue to be extremely lower than forecasted and the forecast is predicting that they will continue to stay low throughout the year; and the Authority does not foresee any major factors that are likely to change that prediction.

<u>Year-End Net Income Projection & Debt Service Coverage</u>

Total Net Income for the year is projected going forward for net income, to be approximately $61 million which is $145 million lower than the budget. This is due primarily to the effects of the hydro production and lower energy prices. Energy margins are predicted to be ten percent lower than previously anticipated because of those low prices. The Authority's debt service coverage and cash flow continues to be very strong. The debt ratios are in the range appropriate for the Authority AA rating.

In response to a question from Chairman Koelmel, Mr. Lurie said the water levels are higher now and the Authority expects that next year hydro generation will be well above the long-term average.

In terms of energy prices, staff does not foresee 2016 prices to be different from this year. As a result, the Authority will be budgeting at a lower amount for next year. This will be reflected in the budget presentation at the meeting in December.

In response to a question from Trustee McKibben, Mr. Tartaglia explained that the forecast deviated from the "actual" forecast because forecasts are very weather-dependent and, as mentioned earlier, the first three months of the year was unprecedented cold. That inhibited the delivery of the water from the upper Great Lakes to the lower Great Lakes. The freezing blocked the channels, stopped the run-off from coming down, and slowed down the movement of the water. Looking at the seven months after the forecast, again, based on weather data, they were the second driest in one hundred twenty years of Great Lakes weather data that we have. We were hit with two weather conditions that statistically had a less than one percent chance of occurring. This caused the deviation for the forecast. Typically, about 75 percent of the time, our forecasts come in under what the actual generation will be and this is the lowest it has ever been. This is actually a weather-driven anomaly. We are working on modeling with the National Oceanographic Atmospheric Administration ("NOAA") and other stakeholders and are also in the very early stages of re-inventing the modeling software that we use in conjunction with all of the Great Lakes stakeholders. Therefore, in the next couple of years, we will have some better modeling tools. Mr. Lurie added that, from a financial perspective, Authority staff is reviewing its budgeting practices to ensure that the budgets presented to the Board are adequately conservative when it comes to the forecasts.

Responding to comments from Chairman Koelmel, Mr. Lurie said the Authority is looking forward to 2016, incorporating the new energy price forecast which is approximately what it is today on the forward markets. In addition to the new modeling that Paul mentioned, we will be trying to "raise the bar" for our financial forecasting as *well. The Authority certainly expects 2016 will be better from a financial perspective than the actuals this year, because it expects volume to increase. The Authority is not betting on any energy price increase such as what it saw a couple years ago when capacity prices spiked up.*

4. POWER ALLOCATIONS AND PROCEEDS

4a. Recharge New York Power Allocations

RESOLUTION	Moved: T. Flynn	Seconded: E. Nicandri	Adopted: 6/0

4b. Annual Compliance Review – Expansion Power, Replacement Power and Preservation Power Programs

Mr. Keith Hayes provided highlights of staff's recommendations to the Trustees.

In response to a question from Chairman Koelmel, Mr. Hayes said a total of twenty-nine companies will be impacted, losing power allocations, for not being in compliance with their job retention and capital investment commitments. Also, two companies in each program did not fill out compliance reports and therefore their allocations will be suspended.

In response to further questioning from Chairman Koelmel, Mr. Hayes said the contractual agreements require customers to fill out annual compliance reports, which include threshold information, and submit to the Authority. Therefore, these customers are aware that they are not in compliance. In addition, staff has open dialogues with the customers regarding their non-compliance and also with other state agencies such as Empire State Development Corporation if they are negotiating other credits for them. This is an ongoing process and is well-documented by Authority staff in its Customer Relationship Management database.

In response to still further questioning from Chairman Koelmel, Mr. Hayes said staff is agreeable with the temporary adjustment of 75% in the compliance threshold level for the companies as recommended in the report. However, staff will be utilizing the 90% threshold going forward.

Responding to another question from Chairman Koelmel, Mr. Hayes said with regard to the company that is still a "work-in-progress," staff is working with ESD and other agencies to effect a resolution expects to come back to the Board with a recommendation and final resolution for that company in September.

In response to a question from Trustee Flynn, Mr. Hayes said the Company that staff is asking them to hold-off on making a decision until September has a job commitment of 500 jobs for 40 megawatts of power. That was predicated on an expansion of their business for a new line of materials, and that has not materialized. Their current job reporting number is 105 jobs, so they are well below their compliance threshold at this time. Responding to further questioning from Trustee Flynn, Mr. Hayes agreed that the Empire State Development has asked the Authority for some time to work with the company to try to address this issue.

In response to comments made by Trustee Flynn, Mr. Hayes said that by the September meeting of the Board staff will provide a recommendation to the Board on this issue.

In response to a question from Trustee Foster, Mr. Hayes said the company was allocated this power for incremental jobs, and to date they have not created any jobs; they retained the 105 jobs. In response to further questioning from Trustee Foster, Mr. Hayes said the company received the new allocation of power in 2009.

RESOLUTION	Moved: E. Nicandri	Seconded: T. McKibben	Adopted: 6/0

4c. <u>Annual Compliance Review – Recharge New York Program</u>

RESOLUTION	Moved: T. McKibben	Seconded: E. Nicandri	Adopted: 6/0

4d. <u>Awards of Fund Benefits from the Western New York Economic Development Fund Recommended by the Western New York Power Proceeds Allocation Board</u>

Mr. Keith Hayes provided highlights of staff's recommendation to the Trustees.

In response to a question from Chairman Koelmel, President Quiniones said the Authority is planning to embark on a campaign to meet with the various business groups – business partnerships; from the Chamber of Commerce; local development organizations – in the Western New York region in order to market and educate the various stakeholders in the area regarding the opportunity for power proceeds allocations.

In response to a question from Trustee Nicandri, President Quiniones said the passing of the legislation for the Northern New York Power Allocation Board will enable opportunities in Northern York; the Authority is waiting for the Governor to make his appointments and the state legislature to make their recommendations to the Governor for the five-person board for the Northern New York proceeds and the Authority is hopeful that this will happen in the near future.

RESOLUTION	Moved: T. McKibben	Seconded: E. Nicandri	Adopted: 6/0

5. Motion to Conduct an Executive Session

RESOLUTION	Moved: A. Picente	Seconded: J. Foster	Adopted: 6/0

6. Motion to Conduct an Executive Session

RESOLUTION	Moved: A. Picente	Seconded: J. Foster	Adopted: 6/0

7. Next Meeting

RESOLUTION	Moved: A. Picente	Seconded: J. Foster	Adopted: 6/0