

October 15, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

**SUBJECT: Marcy-South Series Compensation Project –
Capital Expenditure Authorization Request
and Contract Award**

SUMMARY

The Trustees are requested to authorize additional capital expenditures in the amount of \$45.4 million for engineering, licensing, equipment procurement and construction for the Marcy-South Series Compensation (“MSSC”) Project (“Project”) (total estimated project cost is \$54.3 million). The President and Chief Executive Officer previously approved \$3.0 million for system studies, preliminary engineering, licensing and initial detail engineering work.

The Trustees are also requested to approve the award of an engineering, procurement, and construction (“EPC”) multi-year contract (2014 through 2016) in the amount of \$23.7 million to ABB Inc. (“ABB”) of Raleigh, NC, to provide professional engineering, procurement, fabrication, installation, testing and commissioning services for two Series Capacitors (“SC”) and ancillary equipment to be installed on land owned by the New York State Electric and Gas Company (“NYSEG”) at Fraser Substation in Delhi, NY.

The Project entails the addition of series compensation capacitors to increase power transfer by reducing the series impedance of the existing Marcy South 345kV circuits. The Project will install three SC banks and ancillary equipment at the Fraser Substation in Delhi, NY, replace/upgrade circuit breakers, protection relays and communication systems at substations owned by NYPA, NYSEG, National Grid, Central Hudson and Orange & Rockland. In addition to increasing power transfers, the Project contributes to solving reliability issues related to the potential retirement of the Indian Point Energy Center.

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’s Expenditure Authorization Procedures (“EAPs”) require the Trustees’ approval for the award of non-personal services, construction, equipment purchase or non-procurement contracts in excess of \$3 million, as well as personal services contracts in excess of \$1 million if low bidder, or \$500,000 if sole-source, single-source or non-low bidder.

Governor Cuomo announced the Energy Highway Initiative during the January 2012 State of the State address. The Energy Highway Initiative recognized a number of challenges to the state's energy infrastructure including expanding the state's transmission system to move excess power from upstate and the need to address potential retirement of several power plants. The Energy Highway Blueprint, developed by the Governor's Energy Highway Task Force, recommended that the Public Service Commission ("PSC") initiate the following actions:

1. Develop and implement a reliability contingency plan for the closure of the Indian Point Energy Center ("IPEC").
2. Invite developers and transmission owners to propose transmission projects to expand the capacity to move electricity from upstate/central New York to the Hudson Valley and New York City.

On November 30, 2012, the PSC issued the following administrative orders:

1. Directed Con Edison, with the assistance from NYPA, to develop a contingency plan for the potential closure of IPEC upon the expiration of its existing licenses by the end of 2015.
2. Solicited written public Statements of Intent from developers and transmission owners proposing projects that will increase transfer capacity through the congested transmission corridor described above.

On February 1, 2013, Con Edison and NYPA submitted an Indian Point Contingency Plan. The Contingency Plan is composed of a three pronged approach including a plan for Con Edison and NYPA to develop three Transmission Owners Transmission Solutions Projects ("TOTS"). The MSSC Project is a part of this plan. NYPA, as a member of the New York Transmission Owners, also submitted a Statement of Intent to propose construction of the MSSC Project to address congestion issues addressed in the PSC Alternating Current Transmission Upgrade Proceeding.

On April 19, 2013, the PSC issued its order authorizing Con Edison, NYSEG and Central Hudson, with the assistance from NYPA, to move forward with the preliminary development activities for the TOTS including the MSSC Project. The MSSC was selected as one of the projects to be constructed to address the IPEC issue. The MSSC project must be completed by June 2016.

On May 7, 2013, the Authority approved preliminary funding of \$2.8M to proceed with preliminary engineering, system studies and detailed engineering and licensing activities to support completion of the MSSC Project by June of 2016. Detailed engineering and licensing activities began in June of 2013. Additional preliminary funding of \$200,000 was authorized by the President and Chief Executive Officer on July 1, 2014.

On January 17, 2014, NYPA submitted an Amendment Application to the PSC seeking approval to construct the SC banks on land owned by NYSEG at the Fraser Substation in Delhi, NY. A public statement hearing was held on September 15, 2014, and subsequent PSC approval is anticipated by the end of October.

DISCUSSION

The MSSC Project will add switchable series compensation capacitors to increase power transfer by reducing series impedance over the existing 345kV Marcy South circuits. Specifically, the Project will add a 915 MVA SC bank (40% compensation) on the Marcy-Coopers Corners 345 kV line, a 315 MVA SC bank (25% compensation) on the Edic-Fraser 345 kV line, and a 240 MVA SC bank (25% compensation) on the Fraser-Coopers Corners 345 kV line. The three SC banks will be installed near the Fraser Substation. In addition, the Project includes replacing the conductor lines on approximately 21.8 miles of the NYSEG-owned Fraser-Coopers Corners 345kV line and will replace/upgrade circuit breakers, protection relays and communication systems at substations owned by NYPA (Marcy, Blenheim-Gilboa), NYSEG (Fraser, Coopers Corners, Oakdale), National Grid (Edic, Clay, Volney, New Scotland), Central Hudson (Rock Tavern) and Orange & Rockland (Middletown).

NYPA will be responsible for reimbursing National Grid, Central Hudson and Orange & Rockland for the engineering, procurement, installation, testing and commissioning of equipment replacement/upgrade at each utility's substation. NYSEG will be responsible for its costs associated with installation of one SC bank and ancillary equipment at Fraser Substation, replacing the conductor lines on 21.8 miles of the Fraser-Coopers Corners 345kV line and equipment/upgrade at NYSEG owned substations. NYSEG costs are not included in the NYPA capital expenditure request.

The Authority issued a Request for Proposals ("RFP") to pre-qualified EPC contractors. The RFP was advertised in the New York State *Contract Reporter* on March 21, 2014 (RFP No. Q14-5580LW), and three proposals were received on June 25, 2014. The bid evaluations have been completed and the recommendation is to award a multi-year contract (2014 through 2016) to ABB, Inc., the lowest priced and highest ranked technically qualified bidder. Actual award notification of this approval to ABB is contingent upon the PSC's approval of the Amendment Application to construct the two NYPA SC banks on land owned by NYSEG. PSC approval is anticipated by the end of October 2014. In the event of a delay with the PSC approval, interim approval will be requested in accordance with the Expenditure Authorization Procedures to commence engineering activities.

The President and Chief Executive Officer previously approved \$3.0 million for the initial engineering and licensing activities necessary to implement an aggressive schedule to complete the work by June of 2016 as required by the PSC Staff. Additional capital expenditure authorization to complete the detailed engineering, procurement and construction phases of the project is summarized below:

• Engineering/Design	\$ 6,302,500
• Procurement	\$ 3,750,000
• Construction/Installation	\$30,960,100
• NYPA Direct/Indirect Expense	<u>\$ 4,421,300</u>
Total Current Request	\$45,433,900

The Estimated Total Capital Expenditure is \$54,333,900. Subsequent to final detailed engineering to be completed at a later date, the remaining funds will be requested.

FISCAL INFORMATION

Payments associated with this project will be made from the Authority's Capital Fund.

RECOMMENDATION

The Senior Vice President and Chief Engineer – Operations Support Services, the Acting Vice President – Project Management, the Vice President – Engineering, the Vice President – Project Development and Licensing, the Acting Vice President – Procurement, the Project Manager, and the Vice President – Transmission recommend that the Trustees approve capital expenditures in the amount of \$45.4 million for the Marcy South Series Compensation Project and the award of a contract in the amount of \$23,634,424.47 to ABB Inc., of Raleigh, NC.

For the reasons stated, I recommend the 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 Authority’s Expenditure Authorization Procedures, additional capital expenditures in the amount of \$45.4 million are hereby authorized for the Marcy South Series Compensation (“Project”) as recommended in the foregoing memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to authorize the award of a contract to ABB, Inc. of Raleigh, NC in the amount of \$23,634,424.47 to provide professional engineering, procurement, installation, testing and commissioning services for the Project, as recommended in the foregoing memorandum of the President and Chief Executive Officer and as set forth below:

Contractor

ABB, Inc.
Raleigh, NC
(Q14-5580LW)

Contract Approval

\$23,634,424.47

AND BE IT FURTHER RESOLVED, That the Authority, in accordance with Treasury Regulation Section 1.150-2, hereby declares its official intent to finance as follows: The Authority intends to reimburse to the maximum extent permitted by law with the process of tax-exempt obligation to be used by the Authority all expenditure made and which may be made in accordance with the Project described in the foregoing memorandum of the President and Chief

Executive Officer, with the maximum principal amount of obligations to be used for such project expected to be \$45.4 million; and be it further

RESOLVED, That the Chairman, the Vice Chair, 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.