

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

September 29, 1994

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the James A. FitzPatrick Nuclear Power Plant at 10:00 a.m.

Present: Thomas G. Young, Chairman
Thomas R. Frey, Vice Chairman
Hyman M. Miller, Trustee
Robert T. Waldbauer, Trustee

S. David Freeman	President and Chief Executive Officer
Robert G. Schoenberger	First Executive President and Chief Operating Officer
William J. Cahill	Executive Vice President - Nuclear Generation
John F. English	Executive Vice President - System Operations
Robert A. Hiney	Executive Vice President - Marketing and Development
Robert L. Tscherne	Executive Vice President - Finance and Administration
Charles M. Pratt	Senior Vice President and General Counsel
Woodrow W. Crouch	Vice President - Project Management - System Operations
H. Kenneth Haase	Vice President - System Planning
John M. Hoff	Vice President - Procurement and Real Estate
William A. Josiger	Vice President - Nuclear Operations
John L. Lenney	Vice President - Public Affairs
Charles I. Lipsky	Vice President and Chief Engineer - System Operations
Philip J. Pellegrino	Vice President - Power Sales and Rates
Ronald W. Ciamaga	Resident Manager - St. Lawrence/FDR Power Project
James J. McCarthy	Resident Manager - Blenheim-Gilboa Pumped Storage Power Project
Harry P. Salmon, Jr.	Resident Manager - James A. FitzPatrick Nuclear Power Plant
John W. Blake	Director - Environmental Programs
Joseph J. Brennan	Director - Internal Audits
Jules G. Franko	Director - Nuclear Operations
Dennis A. Sacco	Director - Risk Management
Stephen P. Shoenholz	Director - Public Relations
John J. Suloway	Director - Licensing
Laura M. Badamo	Assistant Secretary - Legal Affairs
Anne Wagner-Findeisen	Corporate Secretary

Chairman Young presided over the meeting. Secretary Wagner-Findeisen kept the Minutes.

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1. Approval of the Minutes

The minutes of the Regular Meeting of August 29, 1994 were approved.

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2. Report from the President and Chief Executive Officer

The President submitted the following report:

President Freeman reported that he had been appointed by President Clinton to the Advisory Committee to Develop Options for Reducing Greenhouse Gas Emissions from Personal Motor Vehicles. He explained that one of the Committee's missions is to oversee the expeditious addition of electric vehicles to the federal government's motor vehicle fleet.

Special Topics Report - Senior Management

The General Counsel reported on a recent legal decision affecting in the electric utility industry involving "stranded investments".

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3. Financial Reports for the Eight Months Ended August 31, 1994

4. Purchase of Electric Vehicles under the EV America Program - U.S. Electricar - Expenditure Authorization

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize \$1 million to fund the purchase of electric vehicles ('EVs') from U.S. Electricar as part of the EV America program. The purchase of these vehicles will support the EV America program, provide a beginning market for the first EV manufacturer in New York State, assist New York State in meeting its clean air requirements, demonstrate the energy efficiency, environmental and economic benefits of EVs and help to establish a new market for electricity. This purchase will also help to determine the feasibility of future Authority investment in infrastructure to accommodate and encourage the acquisition and use of EVs by consumers of Authority electricity.

BACKGROUND

"EV America is an initiative established by a number of utilities and four national organizations: Edison Electric Institute; Electric Power Research Institute; Electric Transportation Coalition; and Electric Vehicle Association of the Americas, to advance the introduction of EVs. The specific objectives of EV America are:

- to foster and promote the common business interests of its members by promoting the use of electricity as a transportation fuel in furtherance of U.S. environmental and energy security goals;
- to demonstrate the commitment of the electric utility industry to the commercialization of EVs and to provide leadership in promoting EV technology, testing and evaluation;
- to aggregate purchase orders and facilitate the purchase of a large number of EVs for nation-wide deployment, testing and evaluation.

"The Authority is one of 13 electric utilities which have signed the EV America Memorandum of Understanding which, while making no binding commitment, does express an intent by the utilities to acquire and demonstrate, in aggregate, as many as 500 EVs and to establish a support infrastructure by the end of 1995. Congress has, on the strength of this utility initiative, appropriated approximately \$2 million to support this effort, to date. Other utilities, including Niagara Mohawk Corp. and Virginia Power Company, have recently made significant commitments to purchase electric vehicles.

"U.S. Electricar is the largest producer of electric passenger cars in the U.S. It is one of eight qualified suppliers of EVs under the EV America program. It has been very successful in teaming up with leading suppliers of equipment, e.g. GM Hughes Electronics Corp., and in establishing cooperative agreements for manufacturing and marketing their EVs around the world.

"Under the EV America program, a detailed process is being implemented to select manufacturers, develop vehicle specifications, solicit proposals from qualified bidders and perform test track and field tests of the selected vehicles. Potential New York manufacturers were solicited through the Contract Reporter by the Authority.

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"The Authority evaluated the proposals of the six EV suppliers which entered submissions to EV America for consideration. The vehicle type of interest to the Authority and its cooperating customers is a four-seat electric passenger car. Four of the six suppliers did not submit proposals suitable for the Authority's use and size requirements. The remaining two, including the U.S. Electricar proposal, are competitive. The U.S. Electricar vehicle has been selected due to its greater range and guaranteed delivery as well as the fact the cars will be manufactured in Syracuse. While the U.S. Electricar vehicle is slightly more expensive than its competitor, this expense is due to the vehicle having more batteries which increase the range of the vehicle. The Authority believes this increase in range is an essential factor in selecting a vendor. U.S. Electricar has produced the largest volume of electric vehicles and will likely be able to provide the best support over their competitors for the vehicles supplied.

"With the strong encouragement of the Authority, U.S. Electricar has signed an agreement with Niagara Mohawk Corp. and New York State to establish a major manufacturing plant for EVs in Syracuse. This facility will be the major production facility of EVs for U.S. Electricar in the Northeast. Its product line will primarily consist of compact sedans and pick-up trucks. The U.S. Electricar plant is expected to generate economic development in the Onondaga area. It is expected to create up to 100 new jobs at the plant and another 150 to 200 jobs in related industries. U.S. Electricar will be the only manufacturer of EVs in New York State.

"A large part of New York State has been designated by the federal government as a `severe non-attainment' region for ozone. One half of the ozone precursor emissions in this region originate from automobiles operating on fossil fuels. New York State is one of three states in the U.S. which require that zero emission vehicles make up 2 percent of the vehicles sold in the State beginning in 1998. This requirement is an integral component of the State's plan to achieve clean air standards required by the 1990 federal Clean Air Act Amendments. The only vehicles capable of meeting the zero emission vehicle requirements are electric vehicles. The auto and petroleum industries, among others, are attempting to have the zero emission requirement eliminated. The Authority has taken an active role working with the Governor and the NYS Department of Environmental Conservation to support this requirement and to expand it to the entire Northeast.

"In addition, the 1992 federal Energy Policy Act requires that federal and state fleet vehicles begin to operate on clean fuels, including electricity, with significant purchase requirements of these vehicles beginning in 1996. The availability of U.S. Electricar EVs for use by these fleets will enable them to meet these requirements.

"The Authority is the largest supplier of electricity for transportation in the U.S. It can play a major role in expanding this market which over time will improve the efficiency of Authority power production by providing a large off-peak market for charging batteries at night. Significant energy efficiency, environmental and economic benefits are achieved by substituting EVs for fossil-fueled vehicles. Developing the EV market supports the Authority's activities in other national initiatives as well. For instance, the Clean Cities Program is a federal effort to assist municipalities in meeting the federal requirements for alternative fuel fleet vehicles. The Climate Challenge program is a voluntary effort of the federal government and the electric utilities to reduce, avoid, and sequester greenhouse gas emissions.

DISCUSSION

"The authorization for \$1 million to purchase EVs from U.S. Electricar under the EV America program, at about \$40,000 per vehicle including infrastructure costs, would finance a minimum of 25 vehicles. EV America has proposed a partnership wherein the U.S. Department of Energy would contribute 45 percent of the cost of the first 500 vehicles, up to \$10 million. With this federal funding, and with additional funding from the Authority's participants, the Authority's funds could, if approved by the Trustees, support the purchase of up to 50 vehicles, thus reducing the effective cost to the Authority to \$20,000 each (we paid \$60,000 for the Chrysler electric minivan).

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Since the actual funding to be provided by others is difficult to accurately predict at this time, staff will report subsequently to the Trustees on the actual level of cofunding obtained and on the number of vehicles purchased.

"The Authority has developed a multi-faceted program for the utilization of the EV America vehicles. This program focuses on projects which have the greatest application for the technology and markets which will most likely involve the Authority and its customers. The projects within this program include:

- A. Station Cars - Working with the MTA, Metro-North and Westchester County, a station car demonstration is planned, beginning in 1995, for one or two railroad stations in Westchester. The electric station cars will be evaluated for both commuters traveling to the train station in the morning from their homes in Westchester and reverse commuters traveling from NYC to Westchester by Metro-North and requiring transportation to their work locations.
- B. Public Fleets - Provide EVs to public fleets, e.g. city, county and state, served by the Authority, for their testing. These fleets are among the largest in the State and have shown strong interest in testing alternatively fueled vehicles.
- C. Municipal, Cooperative, and Industrial Customer Fleets - These customers have shown considerable interest in testing EVs. The relative low cost of electricity paid by these customers may enable them to pioneer the introduction of EVs.
- D. Authority Vehicles - Distribute EVs to Authority facilities around New York State for use in their fleets. Use of these vehicles at Authority facilities will familiarize personnel with EV technology and infrastructure. These vehicles will also be used for various educational and marketing purposes in communities around the State.

"This program will build on the Authority's leadership in electric transportation. It will begin to establish a new market for EVs and to realize the energy efficiency, environmental and economic benefits they provide.

FISCAL INFORMATION

"The purchase of EVs under the EV America program will be provided through the Authority Projects' Study Fund and will be incorporated into the 1995 budget.

"The investment in vehicles for the indicated projects will help the Authority and its customers to demonstrate the commercial viability of EVs and to determine the feasibility of future Authority investment in infrastructure to accommodate and encourage the acquisition and use of EVs by consumers of Authority electricity. A new industry in New York will be started, and clean fuels related legal requirements for the fleets of the Authority and others will be facilitated. Evaluating the capital, operating and maintenance costs will enable a clear assessment of the state of the technology to encourage widespread use of EVs to the benefit of the Authority's power system. Future revenues from the sale of electricity will be enhanced. Environmental and energy efficiency benefits from the introduction of EVs will be quantified.

RECOMMENDATION

"The Vice President - Power Sales and Rates recommends that the Trustees authorize the implementation and associated funding for the purchase of electric vehicles from U.S. Electricar under the EV America program in an

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amount not to exceed \$1 million. It is further recommended that the Vice President - Power Sales and Rates, or his designee, be authorized to execute any agreements or other documents between the Authority and participants in this program which are necessary or desirable for its implementation.

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustee Waldbauer, President Freeman explained that in addition to Con Edison and LILCO, Niagara Mohawk has made a major fiscal commitment to the development of electric vehicles, and that the U.S. Defense Department had just announced the earmarking of \$15 million for that purpose. In response to further questions from Trustee Waldbauer, President Freeman explained that in addition to its new plant in Syracuse, U.S. Electricar will continue to carry on its West coast operations from Santa Rosa and supply the Western U.S. market from that location. Chairman Young commended Mr. Freeman for his efforts to build new markets for electricity as well as for his success in persuading the manufacturer to expand its operations to New York State.

Trustee Waldbauer urged that Mr. Freeman explore with U.S. Electricar the possibility of further expanding its operations to Long Island, in particular, to Grumman's extensive manufacturing site capabilities. Messrs. Freeman and Chezar responded that Authority staff is currently working with Grumman on a hybrid (dual fuel) truck, of which U.S. Electricar already has a version, and that Grumman is well suited to such a role. Trustee Waldbauer stated that he would support the proposed resolution with the hope that his fellow Trustees would support a similar resolution in the event that the production of electric vehicles were also undertaken on Long Island in the future. The Chairman, Vice Chairman and Trustee Miller indicated that they would welcome such a development.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the Vice President - Power Sales and Rates or his designee be, and hereby is, authorized to execute such agreements or other documents between the Authority, U.S. Electricar and the participants in the EV America program as may be necessary or desirable with

respect to the purchase of electric vehicles as recommended in the foregoing report; and be it further

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RESOLVED, That the expenditures are hereby approved as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>Projects'</u> <u>Study Fund</u>	<u>Expenditure</u> <u>Authorization</u>
Purchase of electric vehicles	
U.S. Electricar	<u>\$1 million</u>

5. Charles Poletti Power Project - Termination of the Authority's Participation in the Liberty Pipeline Project

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve termination of the Authority's participation in the Liberty Pipeline Project. The project was for the purpose of providing firm natural gas transportation service to the Charles Poletti Power Project ('Poletti'). The termination would be effected by the Authority's refusal to execute delay-of-project amendments to the precedent agreements with Liberty Pipeline Company ('Liberty'), Texas Eastern Transmission Corporation ('Texas Eastern'), and Texas Gas Transmission Corporation ('Texas Gas').

BACKGROUND

"The Liberty Project was originally conceived in 1991, as a \$152 million, 38 mile interstate natural gas pipeline with a planned capacity of 500,000 Dth per day. It would deliver gas supplies across the Raritan and Lower New York Bays, from the vicinity of South Amboy, New Jersey, to a point near JFK Airport. The project would interconnect upstream to the pipeline facilities of Texas Eastern and Transcontinental Gas Pipe Line Corporation ('Transco'), and downstream with the New York Facilities System. The project's in-service date was originally scheduled for November 1, 1994.

"At the time the project was proposed, it was forecast that firm and interruptible gas transportation would be at a premium in the Northeast during the mid 1990's. This was at a time when the Authority would need such transportation. As a result, the Authority negotiated in August 1992, a precedent agreement with Liberty for transportation of 35,000 Dth per day, and precedent agreements with Texas Eastern and Texas Gas for comparable upstream transportation. This transportation, together with other resources, would have met Poletti's minimum load requirement of approximately 40,000 dth per day.

"Liberty's letter of May 14, 1993 notified the Authority that the initial in-service date of the Project would be revised from November 1, 1994 to November 1, 1995. Recently Liberty announced that the in-service date had been further delayed until November 1, 1996.

"The precedent agreements require that the three interstate pipeline companies receive and accept the regulatory authorizations necessary for construction by November 1, 1994. If such contract condition is not met, and upon 60 days' notice by the Authority, the precedent agreements will terminate. It appears unlikely that the Liberty Project will have such a construction permit, thus providing the Authority an option to discontinue its participation.

DISCUSSION

"At their meeting of July 28, 1992, the Trustees approved participation in the Liberty Project. Significant changes have occurred in the electric and gas industries since that time. The electric industry has seen a significant increase in the amount of power sold by independent power producers ('IPPs') to utilities. This has forced many utilities to curtail production from their units, which very often produce electricity cheaper than the price for power they are required to purchase from the IPP's. Such cheaper power is then made available to the power pool. This

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has exerted competitive pressure on plants such as Poletti. As a result, staff anticipates that Poletti will be in a standby or reserve shutdown capacity for several months each year. These developments, and the fact that Liberty's firm transportation ('FT') requires that the demand charge be paid whether or not the transportation is used, makes it apparent that the situation today is not the same as when Liberty was originally authorized. The demand charge of about \$1.2 million per month (averaging \$1.16 per Dth) represents greater than 80 percent of the gas transportation cost.

"The gas industry also has not evolved as anticipated. The Authority had projected that starting in the mid 1990s, there would be a tightening of interruptible transportation ('IT'). It was also thought IT prices would converge with higher priced FT. Based on such thinking, it was assumed that unneeded FT could be resold and the transportation cost recovered. The tightening of transportation availability has not materialized, and today unused FT must be deeply discounted in order to be sold.

"The first delay of the Liberty Project, from November 1, 1994 to November 1, 1995, increased the cost of the Project by approximately 10 million dollars. It seems probable that the latest delay will add further costs, thus resulting in increased rates.

Consolidated Edison Company of New York, Inc. ('Con Edison')

"The Authority executed a precedent agreement with Con Edison on August 21, 1992. This precedent agreement relates to two local gas transportation agreements and a gas balancing service that would become effective if the Authority obtains Liberty service. One transportation agreement provides for the Authority to receive firm service in the amount of 40,000 Dth per day. The rate for such service would be \$0.182 per Dth. The other agreement is for interruptible service, which together with the firm service would not exceed 200,000 Dth per day. The Authority would pay \$0.165 per Dth for the interruptible service in excess of the 40,000 Dth per day of firm service. The balancing services would cover the firm and interruptible agreements. In addition, the Authority executed a Winter Season Gas Purchase and Sales Agreement under which the Authority must provide peaking services for 30 days during the winter period.

"If the Authority withdraws from the Liberty Project, the above agreements terminate. As a result, the Authority will need to renegotiate a rate for local gas transportation or revert back to the Public Service Commission approved tariff rate designated the 'SC9' rate. This rate is highly variable and has in the last year ranged from a low of \$0.16 to a high of \$0.64 per Dth. The cost of local gas transportation will probably be more expensive as a result of the termination of the Liberty Project.

FISCAL INFORMATION

"Termination of Authority's participation in the Liberty Project is expected to save approximately \$7.5 million dollars per year during the period November 1, 1996 through December 31, 2003. This estimate is based on burning oil during the winter months and all gas burned during the summer months being transported at IT rates. The estimated savings uses an IT rate which is approximately \$1.00 per Dth cheaper than the cost of Liberty FT service. The estimate also assumes an increase of \$.10 per Dth to cover the increased cost of local gas transportation. The current Long Range Financial Plan reflects this potential savings.

RECOMMENDATION

"The Executive Vice President - Marketing and Development recommends that the Trustees approve

termination of the Authority's participation in the Liberty Pipeline Project.

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"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustee Miller, Mr. Hiney explained that there is no fiscal or legal exposure to the Authority should the Trustees determine to terminate the Authority's participation since, under the terms of the existing agreement, termination of the Authority's interest in the project would ensue automatically from the Authority Trustees' stated refusal to agree to further delay in obtaining regulatory permits. Mr. Hiney further explained that no Authority moneys have been involved; the Authority's participation would be that of a "shipper", i.e., to take or pay for a certain quantity of gas transportation service. In response to questions from Trustee Waldbauer, Mr. Hiney opined that the pipeline project would probably proceed but on a smaller scale.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the Trustees approve terminating the Authority's participation in the Liberty Pipeline Project.

6. Proposed Contracts for the Sale of Firm Power to Governmental Customers in Westchester County - Notice of Public Hearing

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the holding of a public hearing on proposed contracts for the sale of firm power to the Greenville Fire District, and Fire District No. 4 - Town of Harrison ('Fire Districts'); Hawthorne Cedar Knolls Union Free School District and Mt. Pleasant Cottage Union Free School District ('U.F.S.D. Schools'); the Pocantico Hills Central School District ('Pocantico'), and the Village of Rye Brook ('Rye Brook').

BACKGROUND

"In accordance with the provisions of Section 1005 of the Public Authorities Law, the Authority provides firm power service to 109 public corporations in the metropolitan area of the City of New York. These customers include, among others, the Metropolitan Transportation Authority; the Port Authority of New York and New Jersey; the City of New York, and the State of New York.

"Since the initial contracts with southeast New York governmental customers were completed in the 1970s, two additional contracts for service to public corporations in the metropolitan area (the Jacob K. Javits Convention Center Operating Authority and the Roosevelt Island Operating Authority) were completed in 1986, and one additional contract (the United Nations Development Corporation) has been submitted to the Governor for his approval.

"The proposed applicants are located within Westchester Country and involved in the provision of municipal or educational services within their areas. The applicants are eligible for power service because they are public corporations authorized to receive Authority service under Section 1005 of the Public Authorities Law.

DISCUSSION

"The Fire Districts' combined territory is approximately ten square miles with a population of over 37,000 residents. The Fire Districts are owned and operated by resident taxpayers and are operated under a Board of Commissioners form of government. They provide fire protection services to the residents of the respective districts.

"The U.F.S.D. Schools are Special Act Schools which were created between 1967-1985. Enrollment at these year-round schools is 580 students. These U.F.S.D. Schools provide education to special needs children.

"Pocantico Hills was established in 1930; it is an elementary school with an enrollment of 320 students. It provides education to children who live in that school district and the surrounding areas of Pleasantville; Elmsford; Briarcliff Manor; and Tarrytown.

"The Village of Rye Brook was established in 1982. It has a general population of approximately 8,000 residents who reside within 3 1/2 square miles. Rye Brook is a voluntary corporation organized by the action of their own residents for their own local benefit and limited by statute with respect to population or area and extent.

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"The power sold under these proposed contracts will be used by these customers at their fire houses, municipal and school buildings, and other facilities and locations.

"Submitted herewith are proposed contracts with these governmental applicants substantially in the form attached hereto as Exhibit '6-A'. They all have agreed to the terms of the proposed contract. The proposed contracts under consideration are similar to other contracts with existing governmental customers in the SENY area. The applicants will pay the same rates as other governmental customers in the same service class.

"The U.F.S.D. Schools, the Fire Districts and Pocantico will be served under Service Tariff No. 12, while Rye Brook will be served under Service Tariff No. 11. Based on current rates, staff estimates that the applicants would realize electric cost savings of about 20 percent compared with payments to Consolidated Edison Company of New York, Inc. ('Con Edison'), their current supplier.

"The total load of these new customers is approximately 800 kW. Pursuant to the Authority's March 10, 1989 Planning and Supply Agreement with Con Edison, the Authority will assume responsibility for meeting the load growth of these applicants. The Authority has sufficient capacity available from the resources dedicated to the SENY governmental customers to meet their current and projected power requirements.

RECOMMENDATION

"The Manager - Customer Relations recommends that the Trustees authorize the advertisement of a public hearing on the proposed contracts and that the President & CEO be authorized to direct the advertisement and notice of a public hearing upon the proposed contracts and pursuant to Section 1009 of the Public Authorities Law, the Secretary be authorized to transmit copies of the proposed contracts to the Governor and the Legislative leaders.

"The Senior Vice President and General Counsel, the Executive Vice President - Marketing and Development, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to a question from Vice Chairman Frey, Mr. Hiney stated that the Authority is now providing electric service to most of the larger governmental entities in New York City and Westchester Counties, other than a few such as the Battery Park City Authority.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the Authority hereby authorizes the advertising of a public hearing on the terms of proposed contracts with Greenville Fire District; Fire District No. 4, Town of Harrison; Hawthorne Cedar Knolls Union Free School District; Mt. Pleasant Cottage Union Free School District; Pocantico Hills Central School District; and the Village of Rye Brook substantially in the form attached hereto as Exhibit "6-A"; and be it further

RESOLVED, That the President and CEO be, and hereby is, authorized to direct the advertisement and notice of a public hearing upon the proposed contracts; and be it further

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RESOLVED, That the Secretary be, and hereby is, authorized to transmit copies of such proposed contracts to the Governor; the Speaker of the Assembly; the Minority Leader of the Assembly; the Chairman of the Assembly Committee on Ways and Means; 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 subsequent to such public hearing the Authority shall reconsider the terms of the proposed contracts and negotiate such changes as it deems necessary or advisable.

7. Proposed Consideration of Integrated Resource Planning and Three Other Ratemaking Standards - Energy Policy Act of 1992

The President submitted the following report:

SUMMARY

"The Trustees are requested to initiate consideration of four new federal ratemaking standards, including a standard on integrated resource planning ('IRP'), which were enacted as a part of the federal Energy Policy Act of 1992 ('1992 Act').

BACKGROUND

"IRP is the process of evaluating all supply resource and demand side management options available to a utility in order to provide adequate and reliable service to its electric customers at the lowest overall cost. Prior to the 1992 Act, the Authority had no obligation under federal law to prepare or submit an integrated resource plan.

"The 1992 Act requires the Authority to consider an IRP standard which calls for the development of an integrated resource plan following an opportunity for public participation and comment.

"The investor-owned utilities in New York have each been required under New York law to prepare and submit an integrated resource plan to the Public Service Commission ('PSC'). Public hearings have been held by the PSC in connection with those plans. On July 1, 1993, the Authority and the other New York electric utilities submitted their integrated resource plans to the State Energy Planning Board as required by Section 6-106 of the State Energy Law. The Authority's IRP filing was not subjected to a public participation process nor a public hearing.

"In addition to IRP, the 1992 Act requires the Authority to consider three additional ratemaking standards pertaining to: (1) investments in conservation and demand management; (2) energy efficiency investments in power generation and supply; and (3) the effects of wholesale power purchases on utility cost of capital, etc. All four federal standards are reproduced in Exhibit '7-A'.

"Pursuant to the 1992 Act, the Authority is required to provide public notice, conduct hearings and decide whether to adopt any or all of the four federal standards (including IRP). With respect to the IRP standard, while the Authority is already required by the State to prepare an integrated resource plan, preparation of such a plan ought to include public participation, and a utility's IRP is revised from time to time.

"The 1992 Act requires the Authority to complete its consideration of these four standards by October 24, 1995. Since the Authority is required to submit an updated integrated resource plan to the State Energy Planning Board by July 1, 1995, it is necessary to make the IRP determination required by Federal law by that date.

DISCUSSION

"It is proposed that the Trustees authorize and direct the President to undertake the necessary actions to comply with the Federal law. Provision should be made to allow public comment on the draft IRP with the goal that a final integrated resource plan be submitted to the Trustees in time to permit Trustees' review prior to its being filed with the State Energy Planning Board pursuant to the requirements of the State Energy Law.

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"The President should also prepare recommendations to the Trustees regarding the remaining three standards after public input as required by the 1992 Act in time for their review and discussion prior to the October 24, 1995 deadline. The President should periodically report to the Trustees on matters related to the staff and public review and consideration of these four standards.

RECOMMENDATION

"It is recommended by the Vice President - System Planning, the Senior Vice President and General Counsel, and the Executive Vice President - Marketing and Development that the President and Chief Executive Officer be authorized to commence a process to consider the four federal ratemaking standards contained in the Energy Policy Act of 1992 as outlined above.

"It is further recommended the President should direct the preparation of an integrated resource plan for submittal to the Trustees by the June 1995 meeting.

"It is further recommended that the President & CEO be authorized to perform any and all actions necessary to expedite, direct and implement the review processes described above.

"The First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Vice Chairman Frey and Trustee Waldbauer, President Freeman explained that adoption of the proposed resolution by the Trustees would essentially set the process in motion and that the Trustees would be asked to take further action in mid-1995, prior to the October 1995 deadline for the holding of public hearings.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the President or his designee be, and hereby is, authorized to commence a process to consider the four federal ratemaking standards contained in the Energy Policy Act of 1992 as outlined above; and be it further

RESOLVED, That the President should direct the preparation of an integrated resource plan for submittal to the Trustees by the June 1995 meeting; and be it further

RESOLVED, That the President be, and hereby is, authorized to perform any and all actions necessary to expedite, direct and implement the review process described above.

**Exhibit `7-A`
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Integrated Resource Planning 16 U.S.C.A. § 2621(d)(7)

Each electric utility shall employ integrated resource planning. All plans or filings before a state regulatory authority to meet the requirements of this paragraph must be updated on a regular basis, must provide the opportunity for public participation and comment, and contain a requirement that the plan be implemented.

Investments in conservation and demand management 16 U.S.C.A. § 2621(d)(8)

The rates allowed to be charged by a State regulated electric utility shall be such that the utility's investment in and expenditures for energy conservation, energy efficiency resources and other demand side management measures are at least as profitable, giving appropriate consideration to income lost from reduced sales due to investments in and expenditures for conservation and efficiency, as its investments in and expenditure for the construction of new generation, transmission, and distribution equipment. Such energy conservation, energy efficiency resources and other demand side management measures shall be appropriately monitored and evaluated.

Energy efficiency investments in power generation and supply 16 U.S.C.A. § 2621(d)(9)

The rates charged by any electric utility shall be such that the utility is encouraged to make investments in, and expenditures for, cost-effective improvements in the energy efficiency of power generation, transmission and distribution. In considering regulatory changes to achieve the objectives of this paragraph, State regulatory authorities and nonregulated electric utilities shall consider the disincentives caused by existing ratemaking policies, and practices, and consider incentives that would encourage better maintenance, and investment in more efficient power generation, transmission and distribution equipment.

**Consideration of the effects of wholesale power purchases on utility cost of capital; effects of leveraged capital structures on the reliability of wholesale power sellers; and assurance of adequate fuel supplies
16 U.S.C.A. § 2621(d)(10)**

(A) To the extent that a State regulatory authority requires or allows electric utilities for which it has ratemaking authority to consider the purchase of long-term wholesale power supplies as a means of meeting electric demand, such authority shall perform a general evaluation of:

- (i) the potential for increases or decreases in the costs of capital for such utilities, and any resulting increases or decreases in the retail rates paid by electric consumers, that may result from purchases of long-term wholesale power supplies in lieu of the construction of new generation facilities by such utilities;
- (ii) whether the use by exempt wholesale generators (as defined in section 79z-5a of Title 15) of capital structures which employ proportionately greater amounts of debt than the capital structures of such utilities threatens reliability or provides an unfair advantage for exempt wholesale generators over such utilities;
- (iii) whether to implement procedures for the advance approval or disapproval of the purchase of a particular long-term wholesale power supply; and
- (iv) whether to require as a condition of approval of the purchase of power that there be reasonable assurances

of fuel supply adequacy. . . .

16 U.S.C.A. § 2621(d)(A). Subsections (B)-(E) omitted.

8. Procurement (Services) Contracts - Public Schools High Efficiency Lighting Program ("HELP") - HEC Energy Services - Award and Expenditure Authorization

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a one year procurement services contract, with an option of a one year extension with the approval of the Chairman and the President, to HEC Energy Services ('HEC') for program management and implementation of the previously approved Public Schools HELP program. The estimated cost of these implementation services will not exceed \$10 million.

"The Trustees are also requested to increase the \$6.5 million previously approved spending authorization given to the existing HELP Implementation Contractors ('ICs') to begin the Public Schools HELP program to \$28.5 million and to authorize staff to allocate these funds to these ICs as required.

BACKGROUND

"The Authority's Guidelines for Procurement Contracts require Trustees' approval for procurement contracts involving nonpersonal services which will exceed \$3,000,000.

"At their meeting of April 26, 1994, the Trustees approved additional funding for the installation of electricity saving measures in school district facilities and community colleges eligible for Public Schools HELP. Public Schools HELP is a turn-key approach to identifying, procuring, and implementing energy efficient electrical technologies.

"As with all HELP initiatives, the Authority contracts for the installation of energy conservation measures through the use of Implementation Contractors ('ICs'). The services provided by each IC complements headquarters office administrative staff resources implementing the HELP programs. The typical IC contract scope-of-work consists of the following:

- facility audits;
- customized engineering and design;
- cost effectiveness analysis;
- meetings with facility representatives;
- preparation of customer installation commitment documents;
- competitive solicitation of equipment and installation labor;
- coordination of hazardous disposal activities; and

construction management.

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"The IC is required to work directly with the customer from the initial site surveys to the final acceptance of equipment installation. The installation of the recommended energy conservation measures are competitively bid by the ICs to installation subcontractors. The ICs guarantee the quality of all work performed by their installers.

"The program will be directly administered by the Authority. A Cost Recovery Agreement ('CRA') is executed by the facilities participating in the program and the Authority, covering repayment terms and program responsibilities. Exhibit '8-A' is a listing of all of the school districts which have executed CRAs to date.

DISCUSSION

"At their meeting of February 23, 1993, the Trustees authorized an initial expenditure of \$10 million to fund the installation of electricity saving measures in school district facilities and community colleges located throughout New York¹. The Trustees also authorized the issuance of change orders to five existing HELP ICs in the amount of \$6.5 million to begin the new program. In addition, the Trustees also directed the issuance of new competitive proposals for implementation services once the demand, for the new program could be determined.

"Implementation work began in March 1993, with three of the existing five ICs providing most of the service. Of the remaining two, one IC decided not to continue as a HELP IC, and the other, just beginning Long Island HELP projects, concentrated its efforts in that market.

"By April 1994, about 100 districts eligible for this new program had signed Cost Recovery Agreements. Based on this strong demand, the Trustees approved an increase in the initial funding from \$10 million to a total of \$50 million. The Trustees also extended the maximum customer repayment period for the Public Schools, Statewide, and Long Island HELP programs to ten years from seven years. The extension of the repayment period was due primarily to reduced rebates being offered by the IOU's. About \$39 million in projects have been identified to date, which will provide savings to the affected school districts of \$5.5 million annually, after the Authority is repaid.

"Since 1989, Authority staff has gained considerable experience and knowledge implementing HELP programs and has found areas where there is a clear duplication of effort between the services that an IC and Authority in-house staff provide during the course of completing a project. This includes items such as program support, marketing, and construction management. There are clear opportunities to reduce costs and improve program quality and flexibility by replacing ICs with Authority in-house staff.

"Staff has begun this transition by planning the organization that will perform the work previously completed by the ICs. It is envisioned that three field offices will ultimately be established to complete this work. The first office will be located in the New York City metropolitan area and will service the Southeastern part of the State. Once this field office is fully operational by November 1994, a second and third office will be established in the Albany and Western New York regions to complete the full transfer of work from the IC's to Authority staff. It is envisioned that these two latter offices will be operational by mid 1995.

"New HELP participants continue to enroll in the programs and outstanding work assignments are significant.

¹ The market is all public schools not served by LILCO or located in the SENY service territories. Public schools in the excluded areas are covered under separate Authority program offerings. Two community colleges in the LILCO territory are included in the program.

Consequently, in parallel with the establishment of the Authority field offices, IC resources must be kept intact to

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complete projects in the near term. Even though staff envisions bringing this work in-house, consistent with the earlier direction of the Trustees, a Request for Proposals ('RFP') was issued requesting implementation services for new work assignments, rather than extending current contracts. The RFP clearly stated the Authority's intentions to bring the work in-house over time.

New Contract Award

"In May 1994, the Authority advertised in the Contract Reporter requesting contractors to submit bids to implement the Public Schools HELP program. As a result of that advertisement, and those that were invited to bid, 24 firms were sent bid packages. A bidders' conference was held in June to explain the proposed scope of work and to provide an opportunity for potential bidders to ask questions and seek clarification. The conference was attended by five bidders. At that meeting bidders were advised of the Authority's intention to award one contract. In early July, seven bids were received. The firms responding included Energy Investment; HEC; Noresco; Proven Alternatives; Ram-Tec; Wendel; and Xenergy. The bids were reviewed by an evaluation team consisting of staff from Energy Efficiency, Contract Administration and Project Management disciplines. The bids were evaluated on the basis of a number of technical criteria, including relevant experience of the firm, experience with utility sponsored programs, organization of the project team, and ability to support a statewide effort. Based on this evaluation, HEC Energy Services was selected as the winning bidder.

"HEC was selected over the remaining bidders because of the limitations in their proposals. Energy Investments took exception to the fee that the Authority proposed in the RFP and these exceptions would have raised the cost of implementing the program. Noresco wanted to limit involvement in the program to the NYSE&G and RG&E territories. Proven Alternatives had impressive credentials, but lacked a significant east coast presence, does not have a current New York office, and is unfamiliar with New York State Education Department building requirements. Ram-Tech operates a single office in Syracuse and has little prior experience with utility turnkey programs. Wendel is based in Buffalo. Its proposal was impressive. While the firm has experience with utility programs, HEC has an advantage because of its direct involvement with the HELP program in the past. Wendel's Buffalo location would impede its support to other areas of the State. HEC has located field offices both upstate and downstate. Lastly, Xenergy wanted the ability to limit bidders lists and to add costs to the project above the fee schedule in the RFP.

"In keeping with the plan to bring this work in-house, it is recommended that HEC be awarded a one year contract with an option to renew for one year. It is estimated that HEC can complete approximately \$10 million in installations during this period.

"The following is a brief synopsis of the qualifications of HEC Energy Service:

HEC

"HEC is a subsidiary of Northeast Utilities. It is a full service energy management company. HEC has been performing energy services for the past 12 years. Over this period, HEC has completed over 1,000 audits and analyses of various facilities in all sectors: institutional, industrial, commercial, governmental and multi-family residential. HEC has also worked extensively with a number of utilities to provide more direct engineering, evaluation, commissioning, customer service and load retention services.

"HEC has been an exemplary contractor to the Authority for the past three years in connection with HELP. It has completed conservation projects for Long Island Lighting Company, Connecticut Light & Power, and Boston

Edison. In addition, HEC has broad experience in complex energy projects, including chiller replacement projects at

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Charleston Area Medical Center, Teradyne Inc, Harvard University's John F. Kennedy School of Government, Massachusetts Institute of Technology and the \$4 million refrigeration plant recently approved by the Trustees for the Hunts Point Cooperative Market.

Increase in Compensation Limit - Existing Contracts

"As previously indicated, the level of interest in the Public Schools HELP initiative has been extraordinary. By April 1994, when the Trustees approved the higher funding authorization of \$50 million, a great deal of anticipation had developed on the part of the eligible school districts. Hence work assignments were made to the existing IC's to ensure the orderly advancement of the HELP projects. If all projects currently underway are completed, it is estimated that the existing IC's will require \$28.5 million of the \$39 million in identified projects for fees and to pay for installation, labor and materials. Staff cannot predict how the ICs (other than HEC) currently implementing Public Schools HELP will opt to proceed once they learn that they will no longer be part of the Authority's long term plan. Most will complete their current assignments but some may opt to stop work on each project at some logical break point and to turn the projects back to the Authority to complete. For that reason, it is difficult to determine at this date how funding should be allocated to each of the current ICs to finish the work they currently have in progress. It is therefore requested that the Trustees approve the extension of the \$6.5 million to a total of \$28.5 million and authorize staff to allocate these funds as required to each IC.

"The Authority's contracts with the recommended ICs will include the Authority's Minority and Women-Owned Business Enterprise ('M/WBE') provisions which state the following M/WBE goals:

Minority-Owned Business Enterprise Subcontracting Goal - 20%
Women-Owned Business Enterprise Subcontracting Goal - 10%

FISCAL INFORMATION

"As previously authorized by the Trustees at their meeting of April 26, 1994, expenditures for IC services will be paid from the Energy Conservation Effectuation and Construction Fund. The customer repayment period for each project financing will not exceed ten years. Full recovery of all program costs including the cost of advancing funds as well as Authority overhead charges is anticipated from each participating school district and community college.

RECOMMENDATION

"The Vice President - Power Sales and Rates recommends that the Trustees approve the award of Public Schools HELP procurement services contracts to HEC Energy Services in an amount not to exceed \$10 million for a period of one year, with an option of a one year extension with the approval of the Chairman and the President, commencing October 1, 1994.

"It is also recommended that the spending limit for the current ICs be extended to a total of \$28.5 million from \$6.5 million. These funds will be assigned to each of these IC's as needed to complete existing projects.

"The Vice President - Procurement and Real Estate, the Senior Vice President - General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

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Trustee Miller expressed his support for the proposed action, stressing that the concerns he had raised at the prior Trustees' meeting relating to school boiler conversions are not applicable to this program.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the spending limit for the current Implementation Contractors be extended to a total of \$28.5 million from the present spending limit of \$6.5 million and that these funds be assigned to each of these ICs as needed to complete existing projects; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award contracts for a period of one year, with an option to extend an additional one year with the approval of the Chairman and the President, commencing October 1, 1994, to HEC Energy Services to provide project management and implementation services in connection primarily with the Public Schools HELP, as recommended in the foregoing report of the President, in the amounts for the purposes listed below:

<u>Energy Conservation Effectuation and Construction Fund</u>	<u>Contract Approval (not to exceed)</u>	<u>Projected Closing Date</u>
Public Schools HELP Implementation Services:		
HEC Energy Services	<u>\$10 million</u>	09/31/95
Public Schools HELP Implementation Services:		
BEI Energy Corporation Energy Investment, Inc. HEC Energy Services Xenergy	<u>\$28.5 million</u>	09/31/96

New York Power Authority
Public Schools HELP
Signed Cost Recovery Agreements

Albion CSD	Medina Central Schools
Allegany CSD	Millbrook CSD
Altmar-Parish-Williamstown	Minisink Valley
Arlington CSD	Monroe-Woodbury
Baldwinsville	Monticello CSD
Belfast CSD	Morristown
BOCES Orange-Ulster	Nassau Community
Broome Community College	New York Mills UFSD
Brushton-Moira CSD	Newfare CSD
Buffalo CSD	Niagara Falls
Canton CSD	Niagara County Community
Carmel	Niagara Wheatfield CSD
Cattrugus-Allegany-Erie BOCES	North Tonawanda
Central Square CSD	North Colonie
Charlotte Valley CSD	North Country
Cincinnatus CSD	North Syracuse
Clarence CSD	Olean City Schools
Cleveland Hill UFSD	Onondaga-Cortland-Madison BOCES
Cohoes	Orleans-Niagara BOCES
Corinth CSD	Pine Bush
Cortland CSD	Port Jervis
Erie Community	Portville CSD
Fayetteville-Manlius	Pulaski
Finger Lakes Community	Ramapo CSD
Franklinville CSD	Randolph CSD
Friendship CSD	Rhinebeck CSD
Fulton-Montgomery	Rockland
Galway	Rottendam-Mohonasen
Genesee Community	Royalton-Hartland
Goshen CSD	Salmon UFSD
Guilderland	Sandy Creek
Hadley-Luzerne CSD	Schuylerville
Hannibal CSD	Scotia-Glenville CSD
Harrisville CSD	South Colonie CSD
Herkimer Community	South Glens Falls
Hermon-Dekalb	South Orangetown CSD
Highland Falls	South Kortright
Homer CSD	Suffolk Community
Jefferson Community College	Sugar Loaf
Jefferson CSD	Syracuse City Schools
LaFayette CSD	Thousand Island
Lewiston-Porter CSD	Tonawanda CSD
Lisbon CSD	Vestal CSD
Lyncourt UFSD	Voorheesville
Madison CSD	Wappingers CSD
Mahopac CSD	West Irondequoit
Maplewood Colonie	West Valley Central
Maryvale CSD	Whitesboro CSD
Mayfield	Wilson CSD

9. Procurement (Services) Contracts - High Efficiency Lighting Program - Ballast Removal - Aptus, Inc.; Lamp Disposal - FulCircle Ballast Recyclers - Awards

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement contract for the disposal of polychlorinated biphenyl ('PCB') light ballasts removed from various facilities participating in the High Efficiency Lighting Program ('HELP') to Aptus, Inc. ('Aptus') for a one year term in an estimated amount of \$2.5 million with an option to extend for an additional one to two years, with the approval of the Chairman and the President.

"The Trustees are also requested to approve a service contract for the recycling of lamps removed from various facilities participating in HELP to FulCircle Ballast Recyclers ('FulCircle') for a one year term in the estimated amount of \$500,000 with an option to extend for an additional one to two years, with the approval of the Chairman and the President. The contract with FulCircle will include a contingent provision to extend the services to recycling light ballasts, in lieu of using Aptus services, subject to satisfying evolving EPA regulations and the Authority's environmental criteria.

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.

"As a result of HELP, the Authority is required to dispose of light ballasts and lamps generated from the retrofitting of existing fixtures. Ballasts manufactured before 1979 contain PCBs which are extensively regulated by the United States Environmental Protection Agency ('EPA'). Most types of lamps contain mercury and/or lead (e.g., fluorescent and high intensity discharge lamps ('HID')) which require recycling.

"The Authority is currently recycling whole ballasts under a contract with Salesco Systems USA, which will expire by October 30, 1994. The disposal cost under this contract has averaged approximately \$2.97/per ballast.

"In order to have a contract in place for the disposal of ballasts and fluorescent lamps, a Request For Proposal ('RFP') was issued in May 1994, to 22 bidders. The RFP was also advertised in the Contract Reporter.

DISCUSSION

"In response to the Authority's RFP, eight bids were received on June 10, 1994, for the disposal of light ballasts and fluorescent lamps.

"The proposals were evaluated by the Environmental Division, the Project Management Division and the Procurement and Contract Administration Division.

Ballast Disposal

"The bids from Alta; Remac; Global; and Lighting Resources for ballast disposal did not address the PCB

disposal permitting requirements and were found to be technically unacceptable. Accordingly, their bids were

eliminated from further consideration. The remaining bids are as follows:

<u>BIDDER</u>	<u>Base Bid/Per Ballast</u>	
	<u>Recycling</u>	<u>Whole Incineration</u>
Aptus	No Bid	\$2.35
FulCircle	\$1.37	\$2.52
Salesco	\$2.57	\$5.58
Dynex	\$2.10	\$9.77

"The bids of Salesco and Dynex were not considered due to higher unit cost.

"FulCircle, the lowest bidder for recycling, has submitted an application to the EPA for approval of its recycling process. While recycling is a goal the Authority should be moving toward in an effort to minimize waste, it must be done in a way that will not increase the Authority's potential long-term liability. Authority staff has learned, within the past several months, that PCB contamination of potting compound in a majority of light ballasts may exceed levels which would cause disposal of whole ballasts, rather than just the small capacitors contained in the ballasts, to be regulated by the EPA. The EPA, however, has not yet established any uniform operating standards for ballast recyclers. There is a significant inconsistency in the permitting approach currently being taken by EPA Headquarters and various EPA regions, including Region 2 which is currently processing FulCircle's permit application. The EPA is currently developing rulemaking on ballast recycling, but these regulations will not be promulgated for some time.

"The Authority, as a party involved in the disposal of HELP ballasts, and, therefore, sharing liability for any mismanagement of the waste, must ensure to the maximum extent possible that the ballasts are handled in a way that is in compliance with applicable regulations and that minimizes its potential liability. Although the Authority uses its best judgement and expertise to evaluate different disposal/recycling processes based on technical and liability considerations in selecting a contractor, it is the EPA that will ultimately determine basic and consistent permitting requirements that must be met in order for these companies to be able to legally operate in the first place. Therefore, because of new issues raised with regard to ballast liability and the fact that the EPA has not yet formulated a uniform policy for permitting ballast recyclers, it appears that the most prudent action for the Authority to take at this time is to dispose of the ballasts by means of proven technology, such as incineration.

"It is for these reasons that FulCircle's bid for recycling ballasts has been rejected at the present time. A provision will be included in the lamp recycling contract with FulCircle that in the event FulCircle develops the capability to recycle ballasts in accordance with evolving EPA regulations and the Authority's criteria, FulCircle's recycling services will be used at the costs submitted in lieu of incineration services as indicated below.

"Aptus, the low bidder for whole ballast incineration, is now permitted to dispose of waste PCBs. The Aptus incinerator in Coffeyville, Kansas meets the Authority's technical criteria and has passed two previous environmental audits by the Environmental Division. Its proposal is about 21 percent lower than the current contract with Salesco. It is recommended that a contract be awarded to Aptus for whole ballast incineration of all PCB ballasts being generated under HELP for a period of one year with an option to extend for an additional one to two years.

Lamp Disposal

"The bids of Lighting Resources; Dynex; and Remac for lamp recycling were found to be technically

inadequate. Their responses to follow-up questions were also inadequate. Their bids were therefore rejected. The

bids from the remaining five bidders are tabulated below:

<u>BIDDER</u>	<u>Base Bid/Per Lamp</u>
Aptus	\$0.36
FulCircle	\$0.40
Global Recycling Technologies ('Global')	\$0.32
Alta	\$0.36
Salesco	\$0.40

"Global, the low bidder, does not have the capability for processing HID and crushed fluorescent lamps. In addition, the phosphor powder collected from handling whole lamps has to be shipped off site for processing, making it difficult for the Authority to track disposal of all lamp components. Its bid was thus eliminated from further consideration. AERC submitted its proposal as a subcontractor to Alta; Aptus; FulCircle; and Salesco. Authority staff has determined through environmental audits that AERC is capable of processing fluorescent and HID lamps in accordance with EPA regulations and the Authority's criteria.

"FulCircle's bid for processing lamps (using AERC) is about 10 percent higher than Aptus. However, because of its status as New York State certified MBE, it is recommended that the contract for recycling lamps be awarded to FulCircle with AERC as its subcontractor. As stated above, if FulCircle develops the capability to recycle ballasts in accordance with the Authority's criteria, it will be better positioned to handle the disposal of all HELP wastes from its facility located in the South Bronx.

FISCAL INFORMATION

"Payment will be made from the Energy Conservation Effectuation and Construction Fund.

RECOMMENDATION

"The Director - Environmental Division, and the Vice President - Project Management - System Operations, and the Vice President - Procurement and Real Estate recommend that the Trustees approve the award of a contract to Aptus, Inc. for ballast disposal in the estimated amount of \$2,500,000.

"It is also recommend that a contract be awarded to FulCircle Ballast Recyclers for the disposal of fluorescent and HID lamps, where necessitated by local requirements, in the estimated amount of \$500,000.

"The Vice President - Power Sales and Rates, the Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendations.

Mr. Pellegrino added that the reference to the disposal process in the report from the President to the Trustees would be clarified to reflect 100% recycling. In response to questions from Trustee Waldbauer, Mr. Pellegrino explained that the ballasts can be disposed of by incineration and that staff may opt for full recycling because it could be less expensive, but that the ultimate determination will depend upon local regulatory

requirements. In response to questions from Trustee Waldbauer, Mr. Pellegrino explained that storage of the lamps would be an even more expensive option since it would involve additional packaging, shipping and handling costs.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a one year contract, with an option to extend for an additional one to two years, with the approval of the Chairman and the President, commencing October 1, 1994, to Aptus, Inc., for removal and disposal of polychlorinated biphenyl light ballasts from various facilities throughout New York State during implementation of the HELP project, as recommended in the foregoing report of the President; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a one year contract, with an option to extend for an additional one to two years, with the approval of the Chairman and the President, commencing October 1, 1994, to FulCircle Ballast Recyclers, for removal and disposal of fluorescent and high intensity discharge lamps from various facilities throughout New York State during implementation of the HELP project, as recommended in the foregoing report of the President; and be it further

RESOLVED, That the contract with FulCircle will include a contingent provision to extend the services to recycling light ballasts, in lieu of using Aptus services, subject to satisfying evolving EPA regulations and the Authority's environmental criteria, in the amounts and for the purposes listed below:

<u>Energy Conversation Effectuation and Construction Fund</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
HELP PCB Ballast Incineration Services:		
Aptus, Inc.	09/30/95	<u>\$2.5 million</u>
HELP Lamp/Ballast Recycling Services:		
FulCircle Ballast Recyclers	09/30/95	<u>\$500,000</u>

10. Procurement (Services) Contract - Indian Point 3 and James A. FitzPatrick Nuclear Power Plants - Furnishing and Delivery of Enrichment Services - Urenco, Inc. - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a contract to Urenco, Inc. to furnish and deliver 30 percent of the Authority's enrichment services², measured in separative work units ('SWU')³, for the Indian Point 3 ('IP3') and James A. FitzPatrick ('JAF') Nuclear Power Plants during the federal government's fiscal years ('F/Y') 1996 through 1999, and 30 percent to 50 percent from 2000 to 2002. The total contract value is estimated to be \$33.2 million in 1994 dollars.

BACKGROUND

"Enrichment services represent the largest single cost component of the nuclear fuel cycle. The most recent IP3 reload, reload number 8, cost approximately \$48 million, with enrichment accounting for \$21 million, uranium \$17 million, and fabrication \$10 million.

"In September 1984, the Authority and the Department of Energy ('DOE') entered into a Uranium Enrichment Services Contract. This contract covered the supply of 70 percent to 100 percent of the Authority's enrichment requirements. During the summer of 1993, Congress created the United States Enrichment Corporation ('USEC') as a private enterprise replacing the DOE enrichment operation. As part of the transition to a private entity, the Authority's contract was assigned to USEC.

"The Authority's contract with USEC provides for full termination with ten years' advance notice, and partial termination with five years' notice. The Authority has exercised such rights and is presently committed to purchase 100 percent of its enrichment services from USEC through F/Y 1995, 70 percent from F/Y 1996 through F/Y 1999, and thereafter has no further obligations. The Authority now has an opportunity to reduce its enrichment costs.

"USEC has stated its intention to be more competitive than DOE had been. There has been discussion of closing one of the two DOE enrichment facilities in the interest of reduced government spending. In addition, USEC may purchase highly enriched uranium from the Russian weapons program and process it into commercial fuel. USEC is also pursuing the development of its AVLIS process. This more efficient and less costly process uses laser technology. How these efforts will affect future enrichment pricing is not known at this time.

"During June 1994, the Authority solicited bids from five primary suppliers and two broker/traders. The

² Enrichment is the raising of the isotope U235's fraction in natural uranium. Natural uranium has 0.7 percent U235; light water reactor fuel requires 3 to 5 percent U235. The services provided by the enricher includes receipt of the natural uranium, storage, and delivery of the enriched uranium.

³ A SWU is a measure of the enrichment services required to concentrate the isotope U235 in uranium to the desired level.

primary suppliers included USEC; Urenco, Inc.; Cogema, Inc. ('Cogema'); Louisiana Energy Services ('LES'); and Global Nuclear Services and Supply ('GNSS'). The broker/traders supplying bids were Nuexco and UG U.S.A.

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"Cogema handles marketing of Eurodif SWU in the United States. Eurodif is a partnership consisting of France, Belgium, Italy, Spain, and Iran. Cogema of France owns a consolidated share amounting to 51 percent of Eurodif's stock. Enrichment for Eurodif is accomplished using the gaseous diffusion process. The plant is located at the Tricastin site in the south of France.

"Urenco is owned by the governments of the United Kingdom, Germany and the Netherlands. This supplier utilizes centrifuge technology which requires far less energy input than does diffusion. It uses only about two percent of the power needed for USEC's gaseous diffusion process. While the recently reorganized central organization in London is responsible for marketing and research, each country maintains one facility. Urenco's office in the United States will administer the contract if it is approved.

"Urenco is the smallest of the world's leading enrichment service suppliers. It provides 25 percent of the Western European market, 4 percent in the United States and 10 percent in the Far East and elsewhere. Its current capacity is close to 3 million SWU/year from the three production facilities. Its facilities are modular in nature, and it builds for a particular contract, incurring little or no excess capacity. It takes Urenco only 2 1/2 years to expand on an existing, licensed site.

"Urenco will deliver enriched uranium directly to the Authority's fuel fabricators. Exact quantities will depend upon the fuel design which will be established approximately nine months prior to the delivery of fabricated fuel to the Authority's nuclear plants. During F/Y 1996, Urenco will deliver 80,000 kg SWU to the Authority at a fixed price well below the current market value. The contract with Urenco would cover the agreed upon percentage of the Authority's requirements for each F/Y from 1997. If there were no requirements in a F/Y beyond 1996, the Authority would have no purchase obligation during that year.

"LES is a joint venture of Urenco, Duke, Fluor, and several U.S. utilities that wish to build a centrifuge enrichment facility in Louisiana. LES has chosen a location and is in the process of trying to license and finance the new facility. If the LES facility in northwest Louisiana is completed during the term of this contract, the Authority will have the option to transfer its contract with Urenco to that facility.

"GNSS is the marketing entity in the U.S. for Technabexport ('TENEX'). GNSS is a Russian-American joint venture, whose shareholders include NUEXCO, TENEX, the Ural Electrochemical Integrated Plant and the Priargunsky Mining and Chemical Integrated Plant in Russia. TENEX was an agency of the Ministry of Atomic Power and Industry ('MAPI') of the former Soviet Union. Rather than bidding separately at this time, GNSS is offering a combined bid with USEC.

"Nuexco is an American trading company that buys and sells uranium and enrichment services. It is the largest supplier of these services on the international spot market. The Authority has entered into several spot market uranium contracts with NUEXCO in the past and all have been satisfactorily completed. The Authority has a long term uranium agreement with Nuexco for the 1997-2000 period.

"UG U.S.A. is a broker/trader in Atlanta with ties to major German organizations but is now owned by Cogema. It offered to supply the Authority's 1996 enrichment requirements with a spot bid.

"Each prospective bidder was required to meet the following supply and contract criteria:

1. Provide 30 percent of the Authority's enrichment supply during F/Y 1996 through 1999;

2. The bidder may offer to extend the contract during F/Y 2000 through F/Y 2002; however, if bidder makes such an offer, the Authority would have the option to choose from 30 percent to 50 percent of Authority's enrichment supply.
3. Provide contract terms similar to DOE - in particular a short uranium delivery lead time; and
4. Provide a substantial performance guarantee.

DISCUSSION

"Bids were received from the major suppliers on June 20, 1994. Exhibit 'A' is a summary of the results. Although there was a spot bid from UG U.S.A., it was not the lowest spot bid and is not reflected on the table. Both Nuexco and Urenco included spot bids for the 1996 Authority requirements and these have been incorporated into the results shown. Cogema did respond with a long term bid, but since it was not responsive, the results are not shown.

"An economic analysis was performed by the Fuel Staff. The analysis examined all the available options, including offers to buy the enrichment services on the spot market and hold the material until needed. The analysis showed that the spot purchases generally have an advantage, when made in 1996, over any of the long term offers. Urenco offered a firm spot price in F/Y 1996 which, when coupled with Urenco's long term offer starting in F/Y 1997, had some major advantages. Since the spot services can be purchased and utilized in the same fiscal year, the cost of money is minimized by short holding times.

"In addition, by purchasing enrichment services from Urenco, the Authority can purchase uranium from Russia at a reduced price. The current arrangements with the United States Department of Commerce ('DOC'), based on a suspension agreement with the uranium miners located in the United States, resulted in DOC stating that Russia was dumping uranium into the United States at unfair prices. The end result of this is a two-tiered pricing scenario, with the price for uranium that can be brought into this country legally currently being about \$9.50 a pound. However, this arrangement with Urenco means the Authority can purchase 30 percent of its uranium at a reduced price, currently about \$7.00/lb. This difference can result in an additional \$3 million savings.

"Although there are some potential economic benefits in the proposed offer by USEC, particularly if the ability to buy Russian uranium at discount prices does not continue throughout the contract term, there are some potential risks as well. The current USEC contract has a most 'favored nation' clause. This means that USEC is obliged to offer to sell to the Authority enrichment services at no less favorable terms than are offered to any other contract customer. If the Authority chose USEC to be its enrichment supplier now, this clause would be eliminated by the new contract.

"In addition, about 20 utilities throughout the United States have been working with Shaw Pittman, a law firm located in Washington D. C., for the purpose of filing a lawsuit against USEC because of USEC's pricing methodology under the current enrichment contract. These utilities contend that USEC's current price of \$125/SWU is too high by about \$10 to \$15, in part because of the inclusion in the USEC price of a decontamination and decommissioning cost component, which the utilities assert should not be part of the USEC pricing methodology. The Authority could benefit from this lawsuit if it retains its current contract with USEC, with such benefits possibly amounting to approximately \$10 million if successful. If a new contract were entered into with USEC, the Authority would be required by USEC to give up its rights to any claims from a successful lawsuit. It is impossible to predict the outcome of such a lawsuit, which has not yet been filed.

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"Nuexco does not produce enrichment services. Its offer to the Authority depends upon its ability to obtain these services on the spot market, or to make arrangements on its own with the primary suppliers. Although it has never failed to deliver material under contract, it currently is under investigation by DOC for alleged infractions of the suspension agreement in place with Russia. Its offer was considered more risky than those from the primary producers.

"Nuexco offered a long term enriched uranium deal at very favorable prices. Its offer included an option to purchase natural uranium at reasonable prices. Its offer, while ostensibly the lowest price offer, comes with the largest risks, as explained above. The Fuel Staff felt that the benefits of Nuexco's low price offer were outweighed by the risks and therefore recommends Urenco as its long term supplier for the portion of enrichment services described above.

FISCAL INFORMATION

"The contract value is estimated at \$ 33.2 million (1994 dollars) for the base supply of 30 percent of F/Y 1996-1999 requirements, and the supply from 30 to 50 percent for F/Y 2000-2002, with any amount above 30 percent being at the option of the Authority. Payment will be made from the Fuel Reserve Account of the Operating Fund.

RECOMMENDATION

"The Executive Vice President - Marketing and Development recommends that the Trustees authorize entering the award of a contract for enrichment services to Urenco, Inc. for 30 percent of the Authority's enrichment requirements during F/Y 1996-1999, and for 30-50 percent for such requirements during F/Y 2000 to 2002 (through December 2001).

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operations Officer, and I concur in the recommendation."

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the President or his designee is hereby authorized to execute a new contract with Urenco, Inc. for the furnishing and delivery of enriched uranium services for the Indian Point 3 and the James A. FitzPatrick Nuclear Power Plants, having such terms as he or she deems necessary or advisable and as are consistent with the foregoing report of the President; in the amount and for the purpose listed below:

<u>Capital</u>	<u>Contract Approval (1994\$)</u>	<u>Expenditure Approval</u>
Enriched Uranium Services		
Urenco, Inc.		
30% Fiscal Years 1996-1999		
30-50% Fiscal Years		

2000-2002

\$33.2 million

\$33.2 million

11. Procurement (Services) Contracts - James A. FitzPatrick and Indian Point 3 Nuclear Power Plants; Sound Cable Project and System Operations - Extensions and Increases in Compensation Ceiling

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the continuation of the procurement (services) contracts listed in Exhibit `11-A' for the Indian Point 3 (`IP3') and James A. FitzPatrick (`JAF') Nuclear Power Plants, as well as the Sound Cable Project and System Operations. In addition, the Trustees are requested to approve an increase in the compensation ceiling of the procurement (services) contract with General Electric to \$15,200,000 from the previously approved ceiling of \$9,900,000. A detailed explanation of the nature of such services, the reason(s) for extension, and the projected expiration dates are listed below.

BACKGROUND

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

"The Authority's Expenditure Authorization Procedures require Trustees' approval when a personal services contract exceeds a cumulative change order value of \$500,000, or when a non-personal services contract exceeds a cumulative change order limit of \$3,000,000.

DISCUSSION

"Although the consultants and service vendors identified in Exhibit `11-A' have provided effective services, the issues or projects requiring these services have not been resolved or completed and the need exists for continuing these contracts. Trustees' approval is required because the terms of these contracts exceed one year and/or because the cumulative change order limits will exceed the levels authorized by the Expenditure Authorization Procedures in forthcoming change orders. All of the subject contracts contain provisions allowing the Authority to terminate the services at will, without liability other than paying for acceptable services rendered to the effective date of termination.

"Extension of each of the contracts identified in Exhibit `11-A' is requested for one or more of the following reasons: 1) additional time is required to complete the current contractual work scope or additional services related to the original work scope; 2) to accommodate an Authority or external regulatory agency schedule change, which has delayed, re-prioritized, or otherwise suspended required services; 3) the original consultant is uniquely qualified to perform services and/or continue their presence and rebidding would not be practical; 4) the contractor provides a proprietary technology or specialized equipment at reasonable negotiated rates, which the Authority needs to continue until a permanent system is put in place; or 5) issues are related to IP3 re-start.

"The contract with Altran Corp. (S93-50151), which provides for Motor Operated Valve (`MOV') weak link thrust valve design basis calculation work at IP3, commenced on August 27, 1993. The original award was for a term of up to one year. Additional MOV testing, to study the potential for overthrusting valves and necessitating additional calculations, will be performed during the outage period, in compliance with the Generic Letter 89-10

program. An extension is therefore required to provide continuity in addressing valve overthrust and operability

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assessment/acceptance during static and differential pressure ('DP') testing through IP3 restart. It is estimated that an additional \$100,000 will be required to support these services through the extended term. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through April 30, 1995.

"The contract with Aviation Service Unlimited Inc. (C94-B0034), which provides helicopter service for photographic and routine patrols of the Authority's Blenheim-Gilboa Pumped Storage Project ('B-G') and related transmission lines, commenced on October 1, 1993. A three-month extension through December 31, 1994 is required in order to allow sufficient time for rebidding and combining services for B-G and the Frederick R. Clark Energy Center ('CEC') into one new blanket order, which would commence January 1, 1995. No additional funding will be required to support these services through the extended term. Trustees' approval is requested to extend this contract through December 31, 1994.

"The contract with Carl J. Walters, Ph. D. (S93-51653), which provides modification and an independent review of Hudson River fish stock population assessments, commenced on October 7, 1993. The assessments were used to evaluate the impact of fish mortality on fish populations (due to the operation of power plants on the Hudson River) and were included in a Draft Environmental Impact Statement ('DEIS') jointly prepared by the Authority, Con Edison, Orange and Rockland, and Central Hudson Utilities. The DEIS was a requirement for renewal of the State Pollutant Discharge Elimination System ('SPDES') permits covering Indian Point, Bowline, and Roseton power plants. The New York State Department of Environmental Conservation ('DEC') reviewed the DEIS and determined that the utilities must revise it. An extension is therefore required since the DEC anticipates that the revision process will continue into 1995 and considers Dr. Walters an important part in the DEIS review process. The cost of work performed under this contract is shared based on percentages set forth in the Utilities' Cost Sharing Agreement (Authority = 22.89%; Con Edison = 50.52%; Central Hudson = 17.08%; and Orange and Rockland = 9.51%); no additional funding is expected to be required for the duration of the contract. Trustees' approval is requested to extend this contract through December 31, 1995.

"The contract with Cataract (S93-51044), which provides for the conversion of the No. 6 fuel oil storage facility at JAF to No. 2 fuel oil, commenced on September 24, 1993. The original award was for a term of up to one year. An extension is required to provide field engineering support and to prepare installation and testing procedures in order to complete the work in progress. It is estimated that an additional \$13,000 will be required to support these services through the extended term. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through December 31, 1994, although it is anticipated that work may be completed by an earlier date. The contract ceiling is increased by less than \$4,000.

"The contract with Ebasco Constructors Inc., now known as the Ebasco Division of Raytheon Engineering and Constructors (S93-51160), was awarded on a sole source basis on September 27, 1993. As the original designer of the Sound Cable Project, Ebasco was uniquely qualified to provide engineering, design, and testing services related to the commissioning of a cathodic protection system for the submarine cable portion of the Sound Cable Project. Due to the severe weather conditions of last winter, soil resistivity and other related tasks were delayed. An extension is required to complete the work, which involves groundbed installation and testing; this activity, in turn, is dependent on approval from the Public Service Commission and obtaining the necessary land easements. Trustees' approval is requested to extend this contract through September 26, 1995, at no anticipated additional cost.

"The contract with Entech Engineering Inc. (S93-55101), which provides radiological engineering and health physics services to support headquarters, IP3, and JAF, commenced on January 1, 1994. The original award was for one year with the option to extend for up to two additional years. Trustees' approval is requested to exercise the

option to extend this contract for one year through December 31, 1995 at an estimated additional cost of \$102,500.

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"The three contracts with James A. Asselstine (C93-Z0013), Ken Harris (C93-Z0012), and Leon Eliason (C93-Z0014), who serve as members of the Authority's Nuclear Advisory Committee, commenced on July 14, 1993. The Committee was established to advise and assist the Authority's Board of Trustees in the discharge of their responsibilities for the safe, reliable and economic operation and effective management of the nuclear facilities, and effective management systems for the self-identification of problems and potential problems and for prompt implementation of the appropriate corrective action to resolve them. It is estimated that an additional \$45,000 per committee member will be required to support these services through the extended term. This amount has already been committed to the respective contracts. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend the subject contracts through July 13, 1995.

"The contract with Keetech AG (S93-50369), which provides quality assurance and surveillance services for IP3, commenced September 2, 1993. The original contract was awarded for a one year term to monitor the fabrication and testing process of a replacement transition stub shaft being furnished by ABB-Switzerland (under warranty) for the IP3 low pressure turbine unit. However, it was recently determined that during the machining process, the replacement stub shaft was found to be defective and unacceptable to the Authority for usage in the IP3 low pressure turbine. Through negotiations, ABB has agreed to remanufacture and furnish a new piece to the Authority at no charge (under warranty). An extension is required to continue these surveillance and quality assurance services until the part being surveilled is properly manufactured by ABB and accepted by the Authority. It is estimated that an additional \$25,000 will be required to support these services through the extended term. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through September 1, 1995.

"The contract with Normandeau Associates (S93-46224), which provides a macro-fouling monitoring program at IP3, commenced on May 6, 1993. An extension through November 30, 1994 was required to allow sufficient time for rebidding, while providing continuity in the macrofouling monitoring program, in compliance with NRC Generic Letter 89-13. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through November 30, 1994 at no anticipated additional cost.

"The contract with O'Brien & Gere Engineers (S93-49434), which provides professional services in support of the preparation of a permit application for the storage of mixed waste at IP3, commenced on August 6, 1993. An extension is required to continue their presence, at no anticipated additional cost, for any additional documentation and support that may be required, until the NYS Dept. of Environmental Conservation acts on the Authority's application, currently projected to be no sooner than December 31, 1994. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through June 30, 1995.

"The contract with PATSCO (S94-55526), which provides radiological engineering and health physics services to support headquarters, IP3, and JAF, commenced on January 18, 1994. The original award was for one year with the option to extend for up to two additional years. Trustees' approval is requested to exercise the option to extend this contract for one year through January 17, 1996 at an estimated additional cost of \$130,000.

"The contract with PDMA Corp. (C93-J0015), which provides certified oil analysis of used oil samples drawn on various plant equipment at JAF, commenced on June 1, 1993. The contract, which was competitively bid, has an option to extend services for an additional two years; prices will remain firm for the duration of the contract. It is estimated that only \$18,500 needs to be added to the original contract amount, since all funding for the first year was not expended. An extension is requested to exercise this option. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through May 31, 1996.

"The contract with Proto-Power (S93-48947), which provides engineering and design services for installation

of an electric nitrogen vaporizer at JAF, commenced on July 26, 1993. An extension is required to write installation

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and testing procedures and to provide field installation support. This extension will include work to be performed during the 1994 Refueling Outage, whereas the original schedule planned to complete the work prior to the Refueling Outage. It is currently estimated that an additional \$50,000 will be required for the term of the contract. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through March 31, 1995.

"The contract with QES Inc., formerly Quadrex, (S93-52918), which provides National Fire Protection Association code compliance walkdowns at IP3 and JAF and completion of hydraulic analyses updating for water-based fire suppression systems at both plants, commenced on November 4, 1993. An extension is required since all hydraulic analyses and other requisite services will not be completed by November 3, 1994, when the term will reach one year. This effort is dependent on the Authority's gathering and turnover of updated fire protection drawings, which has been delayed due to the volume of drawings required and, in part, due to the extended IP3 outage and start-up related issues. Trustees' approval is requested to extend this contract through June 30, 1995 at no anticipated additional cost.

"The contract with Radiation Analytics (S93-54111), which provides radiological transport engineering services to support headquarters, IP3, and JAF, commenced on November 22, 1993. The contract was awarded for a term of one year with the option to extend for up to two additional years. Trustees' approval is requested to exercise the option for one year and extend this contract through November 21, 1995 at an additional cost of \$120,000.

"The contract with Rust Utility Services, formerly Brand Utility Services, and NUC Services, respectively, (S91-11324), which provides for the installation of five (5) maximum density spent fuel storage racks for JAF, became effective on April 17, 1991. Although some minor services for tool fabrication and procedure writing were provided by subcontractors to NUC Services/Brand Utility prior to this time, the contract was basically considered 'on hold' until November 29, 1993, when services related to the installation of the spent fuel racks actually began. The project was delayed due to the 1992 extended outage, which, in turn, pushed off the refueling outage; in addition, the spent fuel pool cleanup, which was also delayed, had to be completed prior to commencement of the actual installation. It is anticipated that the work will be completed prior to the start of the 1994 refueling outage or by December 31, 1994 at the latest and that an additional \$50,000 will be required for overtime and potential delays caused by the Authority. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through December 31, 1994.

"The contract with Utility Management Service Group, Inc. (S93-43424), which provides a PACE benchmarking study in substation maintenance/operations, transmission, and fossil generation for System Operations as well as additional work for MIS, commenced on March 3, 1993. An extension is required in order to complete the milestones of the study. The President's interim approval was obtained through September 30, 1994. Trustees' approval is requested to extend this contract through December 31, 1994 at no anticipated additional cost.

"The Trustees' approval is also requested for an increase in the compensation ceiling of the JAF Multi-cycle refueling outage support services contract with General Electric (C91-Z0038). The award to GE of a contract for the subject services was approved by the Trustees at their meeting of April 30, 1991, and, subsequently, on November 24, 1992. This contract covered three refueling outages, starting with the extended 1991 outage. The total amount of \$9,900,000 was authorized by the Trustees for work performed by GE during that outage. The total amount authorized to date includes an additional \$270,041, which can be authorized by the Department Head, in accordance with the Expenditure Authorization Procedures. It is currently anticipated that an additional \$5,300,000 will be required for these services to support the 1994-95 JAF Refueling and Maintenance Outage.

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"GE has been requested to perform activities on the Nuclear Island and Turbine Generator in conjunction with the forthcoming 1994-95 Refueling and Maintenance Outage. The base scope includes pre-outage preventive maintenance activities associated with refueling the reactor vessel and outage planning. During the outage, GE will perform refueling normal invessel visual examinations and other reactor vessel maintenance activities. The core shroud and dryer inspections are included in the contract authorization amount. The base scope includes the necessary planning, scheduling, job management, technical direction, supervision, craft labor and startup technicians to perform preventive maintenance on the main turbine, both low pressure turbines, and auxiliary turbine generator components. Contingency funding has also been included in the authorization amount, but will not be awarded at this time.

FISCAL INFORMATION

"Funding for IP3 and JAF expenditures has been included in the 1994 Approved O&M Budget. Funds for subsequent years will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

"Funds required to support contract services for capital projects have been included as part of the approved capital expenditures for those projects. Payment will be made from the appropriate Nuclear Improvement Fund.

"Funds required to support contract services for Sound Cable Project and Headquarters System Operations has been included in the 1994 Approved O&M Budget. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Resident Manager - James A. FitzPatrick Nuclear Power Plant, the Resident Manager - Indian Point 3 Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, the Executive Vice President - Nuclear Generation, and the Executive Vice President - System Operations recommend the Trustees' approval of the extension of procurement (services) contracts with the companies listed in Exhibit '11-A' and of an increase in the compensation ceiling of the contract with General Electric.

"The Vice President - Procurement and Real Estate, the Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Vice Chairman Frey and Trustee Waldbauer, President Freeman gave assurances that each of the existing contracts had been reviewed by staff with a view toward ultimate reduction and, where practicable, elimination of outside contractors; and that with respect to the contracts presently under consideration, he is satisfied that such extensions and compensation ceiling increases are warranted at this time.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit "11-A" is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed, as recommended in the foregoing report of the President; and be it further

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RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, an increase in the compensation ceiling of the contract with General Electric be, and hereby is, approved as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>O & M</u>	<u>Contract Approval (Increase in Compensation Ceiling)</u>	<u>Projected Closing Date</u>
Provide Multi-cycle refuel outage support services		
General Electric (C91-Z0038)	\$5,300,000	12/31/95
Previously Approved Compensation Ceiling	<u>9,900,000</u>	
TOTAL REVISED COMPENSATION CEILING	<u>\$15,200,000</u>	

**12. Procurement (Services) Contract - Third Party Claims Administration
Services for the Authority's Workers Compensation Program - Sedgwick
James of New York, Inc./New York Consortium of Minority Brokers - Award**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a contract for third party claims administration for the workers' compensation program to Sedgwick James of New York Inc. ('Sedgwick James')/New York Consortium of Minority Brokers ('NYCOMB') for a period of three years at an estimated cost of \$220,800.

"It is anticipated that a self-insured plan will provide the Authority with cost savings and will afford the Authority better claims administration.

BACKGROUND

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

"Workers' compensation coverage is statutorily mandated in the State of New York. Coverage can be purchased through a commercial insurer, the New York State Insurance Fund ('SIF'), or an employer may qualify as a self insurer. The purchase of the coverage through a commercial insurer has historically been the most expensive alternative. Currently, the workers' compensation program is fully insured with the SIF. Premiums paid to the SIF have risen dramatically in recent years prompting staff to investigate the feasibility of self insuring the Authority's workers' compensation program.

DISCUSSION

"Based upon an actuarial study, staff concluded there would be significant savings realized by self-insuring the workers' compensation program. Staff estimates that short term savings would be approximately \$1,000,000 while sustained long-term savings would be approximately \$250,000 - \$300,000 per year in 1994 dollars.

"The savings from self-insuring will be realized in the short term from paying claims on an occurred basis rather than funding external reserves. Long term savings will be realized from standardized and simplified reporting, and more proactive claims handling.

"To implement the self-insured program, the Authority will require the services of a third party administrator. This administrator will provide claims administration, including claims investigation, statutory filings, hearing representatives and the expertise to assure medical cost containment and catastrophic medical case management.

"The Authority received eight proposals for claims administration services by the August 22nd deadline. The SIF does not provide third party administration services. Five vendors were eliminated due to incomplete bids, limitation of location (no upstate or downstate facilities), and/or inability to provide adequate service levels. The fee schedules of the remaining three proposals were analyzed on a claims constant basis resulting in the following three

year estimated costs:

<u>BIDDER</u>	<u>COST</u>
Sedgwick James/NYCMB	\$220,800
Wausau Insurance Group	\$263,850
Liberty Mutual	\$264,256

"Of the three estimates evaluated, Sedgwick James in a joint venture with the NYCOMB is the lowest evaluated bidder. Sedgwick James is an established global brokerage house and third party administrator while NYCOMB is a partnership of minority owned brokers, claims investigators and safety and loss control specialists.

"In the interest of continuity of union and salaried claims, training of facilities personnel, data transfer and cost, a three year contract is recommended.

"With the Trustees' approval of the third party claims administrator, the Authority will have satisfied the remaining requirement to obtain approval as a qualified self-insurer in New York State. With this certification, the SIF will be notified of the Authority's intention to not renew its coverage.

FISCAL INFORMATION

"Funds required for this contract will be included in the 1995 O&M Budget. Additional funds for 1996 and 1997 will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Director - Risk Management, and the Vice President - Corporate Finance recommend that the Trustees approve the award of a three year contract to Sedgwick James of New York Inc./New York Consortium of Minority Brokers for claims administration in the total amount of \$220,800.

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the Power Authority of the State of New York elects to self-insure its workers' compensation program; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract for claims administration of the Workers' Compensation program to Sedgwick James of New York Inc./New York Consortium of Minority Brokers is hereby approved, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

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<u>O&M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
Third party claims administration services		
Sedgwick James of New York, Inc./New York Consortium of Minority Brokers	12/31/97	1995 - \$ 69,600
		1996 - 73,200
		1997 - <u>78,000</u>
	TOTAL	<u>\$220,800</u>

13. Procurement (Services) Contract - Testing Services and Equipment Rental - Doble Engineering Company - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a sole source procurement (services) contract to Doble Engineering Company ('Doble') in an amount not to exceed \$200,000 for a three year period commencing October 22, 1994. The contract provides test equipment rental and testing services for large electrical power equipment at the Authority's facilities.

BACKGROUND

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

"The services to be provided to the System Operations and Nuclear Generation Department's are required to support diagnostic testing of electrical equipment of all Authority facilities. Proper operation of the Authority's power equipment is essential to maintain electrical system reliability and personal safety at the Operating Projects. Doble's testing services and equipment rental have been an integral part of the Authority's overall predictive maintenance effort.

DISCUSSION

"Doble has provided the Authority with state of the art electrical testing services and test equipment rental. These services have proven invaluable in all aspects of operations and maintenance. The previous three year contracts helped to reduce in-service failures and levelize maintenance expenditures. The annual training, by Doble, provides state of the art knowledge of equipment testing. Doble's biannual conferences provide an international exchange of client experiences on all types of electrical power equipment, and its worldwide equipment database offers clients a means to a valuable reference.

"Among Doble's many publications is the 'Doble Exchange'. Published biannually, this newsletter notifies clients of potential problems with electrical equipment and decreases the probability of in-service failures.

"Based on the firm's technical capabilities, experience and past performance, the Engineering System Operations staff recommends that a contract be awarded to the Doble Engineering Company, for a period of three years commencing on October 22, 1994.

FISCAL INFORMATION

"Funds required for this contract are included in the Preliminary 1995 O & M Budget for each Project. Funds required for 1996 and 1997 will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

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RECOMMENDATION

"The Vice President and Chief Engineer - System Operations, and the Vice President - Production - System Operations recommend that the Trustees approve the award of a contract for equipment rental and testing services to the Doble Engineering Company through October 21, 1997.

"The Senior Vice President and General Counsel, the Executive Vice President - System Operations, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract to supply testing services and equipment rental to the Doble Engineering Company is hereby approved, as recommended in the foregoing report from the President, in the amount and for the purposes listed below:

<u>O & M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
Testing Services and Rental Equipment		
Doble Engineering Company of Watertown, MA	Not to Exceed <u>\$200,000</u>	10/21/97

14. Procurement (Services) Contract - Third-Party Administrative Services for Salaried and Utility Workers of America Medical Plans - Metropolitan Life Insurance Company - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the award of a sole source contract to Metropolitan Life Insurance Company ('MetLife') for third-party administrative ('TPA') services for the salaried staff and Utility Workers Union of America ('UWUA') employee medical plans and for administering the Authority's flexible spending account plan, for a three year period in the amount of \$2,400,000 for TPA fees commencing on January 1, 1995. An additional amount of approximately \$17,000,000 reflecting estimated Authority employee claims to be paid as a pass through with no mark-up is included.

BACKGROUND

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

"Effective August 1, 1992, the funding method of the Salaried and Utility Workers' Major Medical and Prescription Drug Plans changed from a fully insured contract with MetLife to a self-insured arrangement with MetLife continuing to provide the participating provider network ('PPN') and TPA services. TPA services include claims adjudication and processing, coordinating benefits with other carriers, customer service, and reporting.

"In July 1992, a one year sole source agreement with MetLife was approved. Sole source approval was sought at that time, and now, for two reasons. First, the UWUA negotiated health plan includes the MetLife PPN. No other vendor has a comparable network. MetLife has 13,000 providers enrolled. The Authority cannot unilaterally impose a change. About 75 percent of all claims submitted to MetLife by the UWUA are PPN claims. Also, staff has confirmed that if the PPN for salaried employees is removed, MetLife will not extend the PPN to UWUA employees because of the drastic decrease in employee participants from 2,400 to 400.

"MetLife is the only organization that has a single PPN that benefits all of the Authority's salaried employees throughout New York State. It would be less efficient and more expensive to contract with multiple networks to serve the Authority's various locations. Further, MetLife is negotiated discounts with its participating providers are substantial. For 1992, the average non-PPN doctor fee was \$115 of which 80 percent is reimbursed after an annual deductible is met. The average PPN doctor fee was \$61 of which MetLife reimbursed \$39. The low cost and high utilization of the PPN provides the Authority with a significant savings over the reimbursement cost of services for non-PPN providers.

"Under the flexible spending account plan salaried employees can, in accordance with Sections 125 and 129 of the Internal Revenue Code, annually designate a fixed amount of money be deducted from their pay pre-tax for health care and dependent care expenses. Administering the flexible spending accounts involves maintaining an account balance for each participant and adjudicating and processing claims against that balance.

"In July 1993, a 17 month extension of the agreement with MetLife was approved. This extension expires

December 31, 1994.

DISCUSSION

"In July 1994, the Procurement and Real Estate Department posted a notice in the Contract Reporter that indicated the Authority's intention to enter into a three year agreement with MetLife on the basis that MetLife is the only known carrier with one PPN throughout the entire State of New York. Two vendors did respond to the notice, but did not reply to the Authority's request for additional information.

"This award is for medical plan and flexible spending account administration only. The prescription drug plans currently administered by MetLife have been included in a separate bid.

FISCAL INFORMATION

"Funds required for the first year of this agreement will be included in the 1995 O&M Budget. Additional funds for 1996 and 1997 will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

"The estimated three year TPA costs are: 1995-\$735,000; 1996-\$790,000; 1997- \$875,000 for a total of \$2,400,000. The additional pass through amount for employee claims is: 1995-\$5,000,000; 1996-\$5,700,000; 1997-\$6,300,000 for a total of \$17,000,000.

RECOMMENDATION

"The Vice President - Human Resources and the Vice President - Procurement and Real Estate recommend that the Trustees approve the contract with Metropolitan Life Insurance Company for a period of three years commencing January 1, 1994, in the amount of \$19,400,000.

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the sole source award of a contract to Metropolitan Life Insurance Company for third-party administrative services with additional funding as a pass through for claims for the Salaried and Utility Workers of America medical plans and salaried flexible spending account plans is hereby approved for a period of three years commencing on January 1, 1995, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>O&M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>		
Employee Benefits Claims and Third Party Administration Services				
Metropolitan Life Insurance Company	12/31/97	1995	\$ 790,000	\$ 5,000,000
		1996	735,000	5,700,000
		1997	875,000	6,300,000
TOTAL			<u>\$ 2,400,000</u>	<u>17,000,000</u>

GRAND TOTAL

\$19,400,000

September 29, 1994

15. **Next Meeting**

The next Regular meeting of the Trustees will be held on **Tuesday, October 25, 1994, at the Charles Poletti Power Project at 10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

September 29, 1994

Closing Remarks of Chairman Young

The Chairman and Vice Chairman commended President Freeman for the presentation made by him at the legislative hearings on IP3.

Closing

On motion made and seconded, the meeting was closed at 11:30 a.m.

Anne Wagner-Findeisen
Corporate Secretary

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