

**MINUTES OF THE SPECIAL MEETING
OF THE
POWER AUTHORITY OF THE STATE OF New York Power Authority**

August 29, 2000

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August 29, 2000

Minutes of the Special Meeting of the Power Authority of the State of New York held at 11:00 a.m.,
Tuesday, August 29, 2000, at the Signature Flight Support, Albany International Airport, Albany, NY 12211.

Present: Clarence D. Rappleyea, Chairman
Gerard D. DiMarco, Trustee
Frank S. McCullough, Trustee
Hyman M. Miller, Trustee

Trustee Ciminelli was excused from attendance.

Eugene Zeltmann	President & Chief Operating Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President – Project Operations
John English	Senior Vice President Corporate Planning
Louise M. Morman	Senior Vice President – Marketing & Economic Development
Daniel Berical	Vice President – Policy & Governmental Affairs
John Hoff	Vice President Procurement & Real Estate
Russell Krauss	Vice President and Chief Information Officer
Charles Lipsky	Vice President & Chief Engineer Power Generation
Woodrow W. Crouch	Vice President – Project Management
Stephen P. Shoenholz	Deputy Vice President Public Affairs
Carmine J. Clemente	Deputy General Counsel
Gary Paslow	Executive Deputy Policy Development
John Osinski	Executive Director Regulatory Affairs
John L. Murphy	Director Public Relations
William Helmer	Principal Attorney
Anne Wagner-Findeisen	Deputy Secretary
Barbara Vahue	Assistant Secretary

August 29, 2000

1. **Trustees' Waiver of Notice of Meeting**

Each Trustee present waived the three-day advance notice of the time, place and purpose of this special meeting as permitted by Article III of the By-laws.”

August 29, 2000

2. Motion to Conduct Executive Session

“Mr. Chairman, I move that the Authority conduct an executive session in connection with discussions concerning the financial history of particular corporations and potential litigation in connection with market decisions affecting the Authority.”

Upon motion duly made and seconded, an executive session was held.

3. Proposed Acquisition of up to 520 MW of Generation to Meet Statewide Generation Requirements

The Executive Vice President – Project Operations submitted the following report:

SUMMARY

“The Trustees are requested to authorize the Executive Vice President – Project Operations, or his designee, to (1) negotiate and enter into procurement contracts acquiring up to 520 MW of generation capacity for Southeastern New York (‘SENY’), including, without limitation, (a) an agreement with GE Packaged Power, Inc. (‘GEPP’), referred to as S&S Energy Products (‘S&S’), for the purchase of up to eleven gas turbine generator sets at a cost of up to \$220 million and (b) an agreement or agreements for licensing, engineering, legal and other services at a cost of up to \$15 million.

BACKGROUND

“Summer capacity requirements are at an all time high as a result of a sustained, robust economy, and the increasing dependence of the state and national economies on electronic devices. Summer capacity highs are being attained many years earlier than predicted in many states. For example, New York State attained a summer capacity high in 1999 that the most recent State Energy Plan had predicted for the year 2003. This problem is particularly acute in New York City, which is severely capacity constrained. Consolidated Edison Company of New York, Inc. (‘Con Edison’) came into the 2000 summer capacity period approximately 300 MW short of its reserve requirement, a figure which assumed the availability of Indian Point 2.

“The capacity constraints now present in the system, combined with start-up problems affecting New York's relatively new Independent System Operator (‘ISO’), have led to higher than normal prices this past summer notwithstanding generally cooler temperatures. Upward pressure on prices was exacerbated by natural gas prices that were roughly twice the previous summer's and by the loss of Indian Point 2 due to a steam generator system failure earlier this year. July prices for retail service in the Con Edison service territory rose over 40% above those experienced during July of last year.

“Although there are numerous large, gas-fired generation projects currently being proposed in New York, including almost a dozen in the Con Edison service territory, it does not appear possible to complete the necessary regulatory reviews, or the construction necessary to build the plants, in time for next summer. In fact, the earliest new, large-scale capacity expected to come on line, the Athens plant, is scheduled for the summer capacity period of 2002. This assumes the Athens generating facility is put in service at that time, although recent delays by the U.S. Environmental Protection Agency and the U. S. Army Corps of Engineers have made meeting that target less likely. Although the Athens facility will help the State as a whole to meet its summer capacity needs thereafter; it will not directly serve the SENY market.

“Although this summer the problems faced by Con Edison were primarily pricing problems, a warmer summer would have challenged the reliability of the electric system in SENY. Other parts of the country have already experienced such problems. If one assumes continued economic growth over the next year, an additional 300 MW of capacity will be required in SENY just to meet existing reliability criteria. Some amount over that figure will be required to prevent significant and substantial market distortion next summer.

DISCUSSION

“In light of the potential shortfalls next summer in generating capacity in the SENY metropolitan area, the Department of Public Service has informed the Authority that immediate action is needed to assure adequate electrical supply next summer and to help protect and preserve human life, health, property and natural resources. To implement such action, at least 520 MW of new generating capacity must be deployed within the Con Edison service territory by next June in order to support the in-city and State-wide capacity requirements. The only available capacity that can meet this time constraint would appear to be small gas turbine generators, and the global competition for these devices is intense right now.

“If measures are not taken promptly to secure these devices on behalf of New York, they will be completely unavailable when needed. At the moment, only the Authority is poised to act immediately to ensure availability of the units. If at some point during the next few months, private entities are willing to step into the Authority's shoes and purchase and operate these units in such a way as to bolster the reliability and price stability of the system, the Authority will consider such offers and might very well defer in part to these entities.

“The Authority staff has made preliminary inquiries with manufacturers regarding their interest in selling or leasing small gas turbine generators. The Authority has received an offer from GEPP to supply eleven (11) LM6000 gas turbine generator sets (the ‘Units’) for a price not to exceed \$220 million. Delivery of the Units would take place over a three-month period commencing on December 1, 2000 and concluding on February 28, 2001. The net rated capacity of each unit is anticipated to be 47 MW, allowing for an aggregate capacity of 517 MW.

“An initial payment in the amount of ten percent (10%) of the contract price must be made to GEPP by August 30, 2000 in order to secure availability and timely delivery of the Units. Additional payments will be required to be made in accordance with a progressive payment schedule to be mutually agreed upon.

“The Authority also considered the feasibility of leasing gas turbine units. Price quotes were obtained from GE Energy Rentals, Inc. (‘GEER’). The size of gas turbines available for leasing is 22.8 MW, which would necessitate installation of 22 units to accomplish the desired 500 MW of increased capacity. The leasing terms quoted for 5 months annually (May - September) over a three year period (2001-2004) is comparable to cost of purchasing eleven (11) LM6000 Units, which have far superior performance specifications. In addition, the small units available for leasing, would, in all likelihood, fail to meet the SENY limits for nitrous oxide. The leasing option was determined to be environmentally and economically infeasible, and was not considered further.

“The Authority also solicited a proposal from another manufacturer, Siemens-Westinghouse, for gas turbine units available for expedited delivery. Siemens-Westinghouse informed the Authority of the availability of only three or four units currently owned by Commonwealth Edison, these units having a lower efficiency than the LM6000 Units, and an estimated cost, including the cost of meeting SENY environmental requirements, which is not significantly different from the GEPP price quotes. The advantage of having common equipment (e.g., lower cost of spare parts inventory, lower training and maintenance costs, and commonality of engineering and licensing study parameters) cannot be achieved by use of Siemens-Westinghouse units due to the availability of only three or four units for expedited delivery. The Siemens-Westinghouse option was not considered further.

“In order to support an extremely aggressive schedule, it is necessary to immediately commence licensing and siting studies and detailed engineering and design efforts. The services of consulting firms qualified to support Authority staff in these efforts are required. The costs for these services are estimated to be \$15 million.

“It should also be pointed out that the Authority has not settled on sites for the new generation. In fact, to put the plants into operation will likely require the close cooperation of Consolidated Edison, the City of New York and the Departments of Public Service and Environmental Conservation. The Authority

staff has been informed that such cooperation from the utility and State agencies will be forthcoming. In addition, preliminary estimates of the total costs of installation of the facilities are approximately \$370 million, including costs for the engineering, equipment and construction of the physical plants.

“The Authority staff anticipates recovery of costs will be accomplished regardless of whether the new generating capacity is ultimately owned by the Authority or by others. In the first instance, the Authority will make power commercially available to serve its own load as well as electric corporations serving the SENY metropolitan area. In the second instance, costs will be recovered from suppliers ultimately purchasing the Units and/or other generating equipment and systems.

“The Authority staff has concluded that the contemplated actions may fall within the definition of ‘Type II’ actions under the Department of Environmental Conservation regulations implementing the State Environmental Quality Review Act (‘SEQRA’). If so, such actions may be undertaken since they are, *inter alia*, ‘immediately necessary for the protection or preservation of life, health, property or natural resources’ and qualify, for the same reasons, as ‘exempt actions’ under the Authority’s SEQRA regulations. Further environmental review may, however, be required, including review in connection with any required permits to site or construct these units.

RECOMMENDATION

“The Executive Vice President – Project Operations recommends that the Trustees authorize the Executive Vice President – Project Operations, or his designee, to (1) negotiate and enter into procurement contracts acquiring up to 520 MW of generation capacity for Southeastern New York (‘SENY’), including, without limitation, (a) an agreement with GE Packaged Power, Inc. (‘GEPP’), referred to as S&S Energy Products (‘S&S’), for the purchase of up to eleven gas turbine generator sets at a cost of up to \$220 million and (b) an agreement or agreements for licensing, engineering, legal and other services at a cost of up to \$15 million.”

“The Senior Vice President – Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, the Senior Vice President - Corporate Planning and I concur in the recommendation”

The attached resolution, as recommended by the Executive Vice President – Project Operations was unanimously adopted.

Mr. Hiney explained that the purchase of up to eleven small gas turbine generators would allow the Authority to add 520 MW of reliable capacity in the New York City area to meet peak demand, particularly in summer. These units can be purchased at a cost of \$220 million, with an additional \$15 million for design and engineering services. Mr. Hiney emphasized that the Authority would have to act immediately to ensure availability and timely delivery of the units in order to meet next summer’s capacity requirements. He further explained that this purchase would not only allow the Authority to assist New York in meeting its in-city and state-wide capacity requirements, but would also allow us to manage risk by providing a good hedge in the event the Poletti Plant went out of service.

In response to Trustee McCullough’s concern regarding available sites, the President noted that the Authority would need the support of all state and city agencies. Mr. English expressed a high degree of confidence that there will be adequate appropriate sites available around the city based on information provided by Consolidated Edison.

The Chairman explained that these are temporary emergency measures with statewide implications. This effort is in keeping with the Authority's mission of helping with the transition to deregulation. Historically, the Authority has stepped in when asked to help in an emergency. The President pointed out that in post-emergency the Authority could keep and operate the units or sell them in the private sector, if appropriate, as these are assets with a value.

RESOLVED, That, pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the Executive Vice President – Project Operations, or his designee, is authorized (1) to negotiate and enter into procurement contracts having such terms as he deems necessary or advisable for the acquisition of up to 520 MW of generation capacity, including, without limitation, (a) an agreement with GE Packaged Power, Inc. in an amount not to exceed \$220 million for the procurement and delivery of up to eleven (11) LM6000 Gas Turbine Generator sets and (b) an agreement or agreements for engineering, licensing, legal, and other services with qualified consultants in amounts not to exceed \$15 million, and to expend any portion of the aforesaid amounts of \$220 million for procurement and \$15 million for licensing, engineering, legal and other services in furtherance of said agreements, including, without limitation, the disbursement of an initial payment equal to ten percent (10%) of the amount of the GEPP contract on or before August 30, 2000; and be it further

RESOLVED, That all officers of the Authority are authorized to take any actions necessary or advisable to effectuate the intent of the foregoing resolution.

August 29, 2000

4. **Motion to Resume Meeting in open Session**

“Mr. Chairman, I move that the Authority resume the meeting in open session.”

Upon motion made and seconded, the meeting resumed in open session.

5. Declaration of Official Intent – Reimbursement of Certain Expenditures with Proceeds of Tax-Exempt Debt; Amendment of Commercial Paper Note Resolution

The Executive Vice President – Project Operations submitted the following report:

SUMMARY

“The Trustees are requested to (1) issue a Declaration of Official Intent expressing the Authority’s intent to reimburse, with future tax-exempt bond or note proceeds, expenditures which may be made in connection with a contemplated installation of up to 520 MW of capacity in the southeastern New York (‘SENY’) area; and (2) amend the Commercial Paper Note Resolution to permit issuance of Series 2 Commercial Paper (‘CP’) Notes, Series 3 CP Notes, and Series 4 CP Notes for the purpose of financing the procurement and installation of such capacity.

DISCUSSION

“The Authority is currently contemplating the installation of up to 520 MW of new capacity, to meet expected capacity deficiencies in the SENY area. These deficiencies will also adversely affect statewide capacity markets. To this end, the Authority has initiated procurement efforts related to installing such capacity. Staff has begun investigating the possibility of financing with tax-exempt debt a portion of the cost of the facilities. Expenditures for these facilities are expected to total approximately \$370 million, and it is anticipated that a portion of these costs could be financed under current tax law and regulations with tax-exempt debt.

“To accomplish the reimbursement of the proposed expenditures with tax-exempt debt, it is advisable, given Internal Revenue Service regulations, for the Trustees to express their intent to reimburse, to the maximum extent permitted by law, such expenditures with future tax-exempt bond or note issuances.

“Staff is also requesting the Trustees to authorize the amendment of the Authority’s Commercial Paper Note Resolution to permit the issuance of Series 2 CP Notes, Series 3 CP Notes, and Series 4 CP Notes for the purpose of financing the new capacity.

RECOMMENDATION

“The Treasurer recommends that the Trustees express their intent to reimburse with tax-exempt obligations, to the maximum extent permitted by law, expenditures made in connection with the procurement and installation of up to 520 MW of capacity in the SENY area, and authorize the amendment of the Authority’s Commercial Paper Note Resolution to permit the issuance of Series 2 CP Notes, Series 3 CP Notes, and Series 4 CP Notes for the purpose of financing the cost of this capacity.

“The Senior Vice President and Chief Financial Officer, the Executive Vice President, Secretary and General Counsel, and I concur in the recommendation.”

The attached resolution, as recommended by the Executive Vice President – Project Operations was unanimously adopted.

Mr. Hiney summarized the proposal to purchase equipment to generate an additional 520 MW of power by next summer to benefit the entire state and meet the City’s transmission needs. He also

explained the need to act immediately to secure the necessary equipment and to authorize the expenditure of \$225 million.

Mr. Blabey explained that the expenditure for this project would be on a tax-exempt basis and that the Authority would be 'grandfathered' in the event the tax laws changed.

RESOLVED, That the Authority, in accordance with Treasury Regulations Section 1.150-2 hereby declares its official intent to finance as follows:

The Authority intends to reimburse to the maximum extent permitted by law with the proceeds of tax-exempt obligations to be issued by the Authority, all expenditures which may be made in connection with the Authority's proposed installation of up to 520 MW of capacity in the SENY area, with the maximum principal amount of obligations to be issued for such capacity expected to be \$370 million; and be it further

RESOLVED, That a copy of these resolutions shall be part of the records of the Authority that are available to the general public and shall be continuously available for public inspection in the office of the Secretary of the Authority during normal business hours on every business day of the Authority; and be it further

RESOLVED, That the Trustees hereby authorize the issuance of Series 2, Series 3, and Series 4 CP Notes to finance the installation of up to 520 MW of capacity in the SENY area, including the financing of the costs of design, engineering, licensing and construction of generation plants as part of such capacity; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer, and the Treasurer be, and each of them hereby is, authorized on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements, and other documents, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel, to effectuate the foregoing resolutions.

August 29, 2000

6. **Cliff Spieler – Resolution**

WHEREAS, Cliff Spieler stands as one of the pre-eminent figures in the history of the New York Power Authority; and

WHEREAS, Mr. Spieler founded the Power Authority’s Public Affairs Department in 1969 and over the next 22 years as the “Voice of the Power Authority” set uncommon standards for integrity, accuracy and respect for the English language; and

WHEREAS, as an award-winning Niagara Falls newspaperman whose reporting and editing exploits became legendary in Western New York, Mr. Spieler covered the construction and early operation of the Niagara Power Project, co-authored the definitive history of power at Niagara Falls and forged a close working relationship with Power Authority Chairman Robert Moses; and

WHEREAS, Mr. Spieler in his years at the Authority was a source of wise and effective counsel to a succession of subsequent Chairmen who benefited from his expertise, his singular dedication to his work and his unswerving loyalty to NYPA and its interests; and

WHEREAS, he devised and implemented public information efforts that built public awareness and support for major Authority facilities such as the Blenheim-Gilboa Pumped Storage Power Project, the FitzPatrick and Indian Point 3 nuclear power plants and the 765-kilovolt transmission line; and

WHEREAS, Mr. Spieler was a leader in numerous utility and journalistic organizations, including service as president of the Deadline Club, the New York City chapter of the Society of Professional Journalists; and

WHEREAS, he was a proud alumnus of Syracuse University, and an equally proud veteran of the United States Marine Corps and adopted member of the Tuscarora Indian Nation; and

WHEREAS, even after his retirement in 1991, Mr. Spieler maintained an abiding interest in Power Authority matters, frequently offering his knowledge, instincts and unmatched historical perspective; and

WHEREAS, Cliff Spieler died on August 14, 2000, at the age of 70;

NOW THEREFORE BE IT RESOLVED, That the Trustees of the Power Authority of the State of New York offer their profound condolences to Mr. Spieler’s wife, Faye; his daughter, Shirley, and sons David and Robert; his four grandchildren and the other members of his family, and convey their appreciation for the talent, the zest and the consummate commitment that he brought to his years of service at the Authority.

August 29, 2000

7. Next Meeting

The regular meeting of the Trustees will be held on **Tuesday, September 26, 2000**, at **the Albany Office at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

August 29, 2000

Closing

Upon motion made and seconded, the meeting closed at 12:20 p.m.

David E. Blabey
Executive Vice President
Secretary and General Counsel