

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

February 20, 2001

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Minutes of the regular meeting of the Power Authority of the State of New York held at the White Plains Office at 10:30 a.m.

Present: Louis P. Ciminelli, Vice Chairman
Frank S. McCullough, Jr., Trustee
Timothy S. Carey, Trustee

Trustee Gerard D. DiMarco was excused from attendance

Eugene W. Zeltmann	President and Chief Operating Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President - Project Operations
Vincent C. Vesce	Executive Vice President – Corporate Services and Human Resources
H. Kenneth Haase	Senior Vice President - Transmission
Louise M. Morman	Senior Vice President – Marketing and Economic Development
Michael Petralia	Senior Vice President – Public and Governmental Affairs
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Michael H. Urbach	Senior Vice President and Chief Financial Officer
Arnold M. Bellis	Vice President – Controller
Woodrow W. Crouch	Vice President – Project Management
John M. Hoff	Vice President – Procurement and Real Estate
Robert J. Deasy	Vice President – Power Contracts and Resource Management
Russell Krauss	Vice President and Chief Information Officer
Charles I. Lipsky	Vice President and Chief Engineer
James H. Yates	Vice President – Business Marketing & Economic Development
Steven Shoenholz	Deputy Vice President of Public Affairs
Carmine J. Clemente	Deputy General Counsel
Arthur T. Cambouris	Assistant General Counsel - Litigation
Joseph Carline	Assistant General Counsel
Gary Paslow	Executive Director – Policy Development
George W. Collins	Treasurer
Arthur M. Brennan	Director – Internal Audit
John B. Hamor	Director – International Government Relations
Angelo S. Esposito	Director – Energy Services Division
Douglas M. Kerr	Director – Marketing Planning
John L. Murphy	Director – Public Relations
William V. Slade	Director – Environmental Programs
Chris DeGraffenried	Director – Pricing and Forecasting
Susan Egginton	Director – Corporate Services
Janis E. Archer	Senior Project Manager
Luis A. Rodriguez	Community Relations Manager
Wayne Gowen	LAN Administrator
Lawrence Gomez	Facility Manager
Lenny Catalino	Technical Specialist Engineer
Leticia Remauro	Administrative Assistant to Trustee Carey
Bonnie Fahey	Executive Administrative Assistant
Anne Wagner-Findeisen	Deputy Secretary
Betty C. Fennell	Assistant Secretary
Alice F. Simon	Assistant Secretary

Vice Chairman Ciminelli presided over the meeting. Executive Vice President, Secretary and General Counsel Blabey kept the Minutes.

1. Approval of the Minutes

The minutes of the Regular Meeting held on January 30, 2001 were approved.

Mr. Blabey called the Trustees' attention to the substance of the resolution adopted on January 30, 2001 concerning the five-year, temporary increase in the Authority's allocation of power to the New York City Public Utility Service ("NYCPUS") for economic development purposes. Mr. Blabey explained that since that time the number has increased from 9.5 MW to 11.3 MW and recommended that the Trustees adopt the minutes as modified in that respect.

2. **Financial Report for the year ended December 31, 2000
and the Month Ended January 31, 2001**
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3. Report from the President and Chief Operating Officer

President Zeltmann, pointing to the ongoing changes and challenges arising in connection with protecting Authority revenues and managing expenditures in the midst of deregulation of the electrical industry, stated that he intends to continue to regularly update the Trustees on measures being taken by Authority to manage the new kinds of risk and exposure that are inherent in the new marketplace.

The President then introduced Doug Kerr, Director - Marketing Planning, who jointly with Paul Rouget, and Janice Archer of the IT group, presented a summary of the current Risk Management Issues being handled internally in an interdisciplinary manner. Mr. Kerr reported on principal risk management tools initiated by staff in 2000: implementation of key hedging measures; development of Risk Management Policies; installation of computerized, an internet-connected energy tracking system for trading transactions; building the Authority's Trustees' and management's awareness of risk management concepts and challenges; as well as the staffing measures and outside expertise put in place to ensure timely market knowledge and analysis. Mr. Kerr further explained that the tracking system's key goals include: facilitation of bidding of generation; capturing physical and financial transactions; generating short term price forecasts; producing risk reports; and providing data analysis capability. Mr. Kerr detailed the seven key elements which the tracking system will ensure: automated acquisition of data and its consolidation into one repository; production of generation bids; tracking of bilateral transactions; short term price estimation capability; and profit and loss and risk reports.

Mr. Kerr then summarized the Risk Management goals for 2001: to implement regular reporting; set limits on "open" market positions and for NYPA's "value at risk"; establishing procedures for risk management activities; implements credit policies and procedures vis a vis counterparties; and conduct an internal audit of risk management functions at the conclusion of the fiscal year.

Vice Chairman Ciminelli questioned whether his understanding, i.e., that the Authority does not engage in hedging for speculative purposes, but rather

only hedges its exposure to risk, is correct. Mr. Kerr responded in the affirmative, stressing that the purpose of risk management is to cover the Authority's risk which is inherent in ISO trading activities. He reiterated that the purpose of such hedging is not financial speculation. Trustee McCullough noted that staff's presentation and proposed approach are very good. The Vice Chairman expressed his concurrence.

At President Zeltmann's request, Mr. Crouch then summarized the principal milestones since inception of the Power Now! Project and reported on significant activities since the most recent Trustees' meeting at the end of January. Measures achieved include the issuance of construction permits from the NYC Department of Transportation for the 138- kV underground electrical connections between Con Edison's and the Authority's existing facilities. Mr. Crouch then submitted and summarized a Capital Summary Report depicting dollars formally budgeted, dollars committed to date, and actual dollar expenditures in the areas of Licensing, Engineering, Procurement, Construction, working Capital, and Direct/Indirect costs. Mr. Crouch also submitted a sample of the newly developed integrated Critical Path Method schedule.

Turning to the chart showing percentages of work completed on each of the seven sites, Vice Chairman Ciminelli observed that the work to date appears to be largely on schedule. Mr. Crouch explained that assessment to be correct with the exception that the North 1st and Grand site may not be ready until August, rather than June in view of emergent work issues. He also questioned Mr. Crouch on certain cash flow projections showing lagging expenditures and was assured that they were unsubstantial and related to certain contractor billing cycle issues. In response to a further question from Trustee McCullough, Mr. Crouch explained that the June 1st schedule does not allow for any delays which may result from litigation.

4. Municipal Development Agency Industrial Economic Development Program – Allocation to the County of Westchester Public Utility Service Agency

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve an additional allocation of 10,000 kW of power under the Municipal Development Agency Industrial Economic Development Program (the ‘Program’) to the County of Westchester Public Utility Service Agency (‘COWPUSA’).

BACKGROUND

“COWPUSA currently receives an allocation of power from the Authority pursuant to a September 10, 1990 contract (the ‘Contract’). The initial allocation of 3,447 kW, subsequently increased to 10,000 kW, is provided pursuant to the Authority Service Tariff No. 35. The current allocation helps to protect more than 18,000 jobs at six businesses and non-profit organizations in Westchester County. COWPUSA’s current delivery service agreement with the Consolidated Edison Company of New York, Inc. (‘Con Ed’) limits that utility’s delivery obligation to 10,000 kW.

DISCUSSION

“In conjunction with the Authority’s sale of its nuclear plants to the Entergy Corporation, COWPUSA renewed a longstanding request that the Authority provide an additional 10,000 kW allocation of power and associated energy under the Program. The County of Westchester expressed a number of concerns about the effects the sale would have on its business and governmental power allocations from the Authority. The resolution of these concerns included a commitment from the Authority to proceed with a 10,000 kW increase in the County’s business power allocation. In the end, the County withdrew its early objections to the Entergy transaction.

“The additional power to be allocated to COWPUSA would be sold under the Contract and would be delivered to COWPUSA’s customers by Con Ed. COWPUSA will negotiate the requisite terms and conditions for expanded delivery service with Con Ed.

RECOMMENDATION

“The Director – Power Contracts and Billing recommends that the Trustees approve the allocation of power to COWPUSA in accordance with the foregoing report of the President.

“The Vice President – Power Contracts and Resource Management, the Senior Vice President – Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel and I concur in the recommendation.”

Mr. Deasy added that any proposed allocations of power under the program to individual companies would be submitted to the Trustees for approval on an ongoing basis. Trustee McCullough underscored the great need for this power in Westchester County.

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

RESOLVED, That the allocation of 10,000 kW of additional power to the County of Westchester Public Utility Service Agency, under the Municipal Service Agency Industrial Economic Development Program, is hereby approved as set forth in the foregoing report of the President; and be it further

February 20, 2001

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel, to effectuate the aforesaid allocation.

**5. Power Now! Generation Project –
Additional Expenditure Authorization**

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

SUMMARY

“The Trustees are requested to authorize an additional \$8,100,000 in capital expenditures in support of the Power Now! Generation Project. This additional funding is comprised of \$5,800,000 for transportation costs associated with General Electric-supplied equipment and \$4,300,000 for start-up costs (including field service engineers and technicians for each major system), through final installation of the eleven LM6000 gas turbine generator sets which have been purchased from GE Packaged Power, Inc., (‘GEPP’), for the acquisition of up to 520 Megawatts (‘MW’) of generation capacity. It should be noted that the additional amount required for transportation costs will be offset by a balance of approximately \$2,000,000 remaining from the total contract amount previously approved by the Trustees, resulting in a net increase of \$3,800,000 for transportation costs. The Trustees are also requested to approve an increase in the compensation ceiling of the aforementioned contract with GEPP (#4500030143), from the previously approved amount of \$230,100,000 to \$238,200,000 for the aforementioned purpose.

BACKGROUND

“As determined by the Trustees at their meeting of August 29, 2000, the Authority has found that there is a deficiency in installed electric generation capacity in New York City and that there is an urgent and compelling need for such deficiency to be cured by installing additional electric generation capacity in New York City before June 1, 2001. The Authority staff reaffirms that the construction of the Projects (i) is necessary or desirable to assist in maintaining an adequate and dependable supply of electricity in New York City by supplying power and energy for one or more of the enumerated beneficiaries of the third unnumbered paragraph of Section 1005 of the New York Public Authorities Law, (ii) will assist in preserving reliability of electric service and in deterring further extraordinary increases in rates for electric service in the New York City metropolitan area, and (iii) will assist in maintaining an adequate, dependable electric power supply for the State of New York.

“At their meeting of August 29, 2000, the Trustees authorized the Executive Vice President – Project Operations, or his designee, to negotiate and enter into procurement contracts having such terms as deemed necessary or advisable for the acquisition of up to 520 MW of generation capacity to support in-city and statewide requirements, including, without limitation: (a) an agreement with GEPP, in an amount not to exceed \$220,000,000, for procurement and delivery of up to eleven LM6000 Gas Turbine Generator sets and (b) to expend any portion of the aforesaid amount for procurement in furtherance of said agreements, including, without limitation, the disbursement of an initial payment equal to ten percent of the amount of the GEPP contract on or before August 30, 2000.

“At their meeting of October 31, 2000, the Trustees authorized additional capital expenditures in the amount of \$10,100,000 to GEPP for Balance of Plant and Automated Control System equipment, as well as for six gas compressor units. They also approved an increase in the compensation ceiling of the contract with GEPP to \$230,100,000.

DISCUSSION

“The contract with GEPP requires the vendor to arrange for transportation of the gas turbines and all balance of plant equipment to the specific plant sites in New York City and Brentwood, Long Island. While GEPP retains all risk of loss or damage until such delivery at the sites, the actual cost of transportation was not included in GEPP’s base price. With the identification of final specific sites in November 2000, GEPP was required to perform a detailed transportation analysis to determine the optimum delivery approach for the equipment, taking into account the size, weight and special permitting required. In fact, the gas turbines have been shipped via ocean-going barges from Houston, Texas to New York City’s port in Brooklyn, where the equipment is offloaded to either trucks or smaller barges for specific site delivery. Special arrangements have to be made at each site to offload such units for

placement on these respective pads. Future shipments of accessories for the gas turbines and balance of plant equipment, such as transformers and gas compressors, will also be extensive. The overall cost for transportation and delivery of all such equipment to the seven specific sites by GEPP, including barge shipments, is estimated to be \$5,800,000. This also includes an amount of \$300,000 for the additional handling and costs associated with delivery of the last three gas turbines on supply-type vessels, instead of barges, to improve delivery times for these units to support the construction schedule. It should be noted that we expect that there will be an amount of \$2,000,000, which was previously authorized by the Trustees for the contract with GEPP, but is expected not to be utilized, resulting in a net increase to this contract of \$3,800,000 for the transportation costs.

“In addition, extensive technical support and assistance by GEPP will be required as mechanical and electrical assembly of the gas turbines and balance of plant equipment proceeds on an accelerated basis to meet the June 1, 2001 target operating date. Specialty Field Engineers for the assembly of gas turbines, Selective Catalytic Reduction (‘SCR’) and Continuous Emissions Monitoring Systems (‘CEMS’), gas compressors and balance of plant equipment will be required at each site, since work will be progressing almost simultaneously at the various plant locations. Specialists in vibration machinery diagnostics, rotor balance analysis, and overall plant synchronization start-up and performance will be required. It will be necessary to mobilize such GEPP personnel in February 2001, as the majority of the gas turbines are expected to be installed on their pads during this timeframe. All such work will be performed on a fixed hourly rate basis, and only those GEPP technicians required will be mobilized. However, since all the sites are proceeding with construction almost simultaneously, the number of such technicians is expected to exceed 30 personnel at the peak of the project. GEPP will also provide any special tooling and analysis equipment to be reimbursed at fixed rental rates. The estimated value of such services is expected to not exceed \$4,300,000.

“The total additional funding for the transportation costs (a net increase of \$3,800,000) and technical support and assistance for start-up (\$4,300,000) by GEPP is \$8,100,000.

FISCAL INFORMATION

“Payment will be made from the Authority's Capital Fund.

RECOMMENDATION

“The Vice President – Project Management, the Vice President and Chief Engineer – Power Generation and the Vice President – Procurement and Real Estate recommend the Trustees approve additional capital expenditures of \$8,100,000 for Transportation and Start-Up costs through final installation to support all equipment associated with the LM6000 gas turbine generator units.

“It is further recommended that the Trustees also approve an increase in the compensation ceiling of the contract with GE Packaged Power, Inc. to \$238,200,000 for the aforementioned purposes.

“The Senior Vice President and Chief Financial Officer, the Senior Vice President – Marketing and Economic Development, the Executive Vice President – Corporate Services and Human Resources, the Executive Vice President, Secretary and General Counsel and I concur in the recommendation.”

Mr. Crouch explained in detail the two components of staff's request to the Trustees. In response to questions from Trustee McCullough concerning whether this amount is included in the recently recalculated total of \$510 million, Mr. Crouch responded in the affirmative. Trustee McCullough requested that henceforth the Trustees be provided with a chart at each status briefing showing the progression of expenditures on a to-date basis.

Vice Chairman Ciminelli, noting that the Power Now! Project is an undertaking of enormous proportions, stressed that the project nonetheless has

been budgeted for by staff and approved by the Trustees; however, it is not always clear where certain proposed expenditures fit within the overall budget picture. Mr. Crouch assured the Vice Chairman that appropriate back up and incremental information will be provided to the Trustees henceforth on a regular basis. With respect to the current request, Mr. Crouch explained that the project includes an additional \$5 million in "community grants" monies. Mr. Crouch further explained that \$18 million is included in the 510 million project budget for contingency purposes. We also stated that as the work progresses Authority staff is increasingly able to quantify and estimate what additional costs may be entailed. The Vice Chairman noted that he understands that the Authority has in effect acquired a total construction "package" for which the dimensions are still being determined. Mr. Crouch then explained that some of the sites, in particular 1st and Grand, are still susceptible to cost increases which cannot be presently quantified.

Vice Chairman Ciminelli, turning to the labor costs discussed in the submittal to the Trustees, asked whether the start-up costs are equivalent to \$50,000 per worker per month. Mr. Hoff explained that these costs are based on total person-hours worked, rather than per person and that the cost of running double shifts reflects a premium. In response to further questions from the Vice Chairman, Mr. Crouch confirmed that a portion of the current requested "takedown", i.e., \$ 2 million, would be from the contingency fund.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts and Expenditure Authorization Procedures adopted by the Authority, additional capital expenditures be, and hereby are, approved as recommended in the foregoing report of the Executive Vice President – Project Operations, in the amount and for the purposes listed below; and be it further

RESOLVED, That an increase in the compensation ceiling of the contract with GE Packaged Power, Inc., be, and hereby is, approved.

<u>Capital</u>	<u>Expenditure Authorization</u>
Power Now! Generation Project – Procurement of 11 gas turbine generator sets:	
GE Packaged Power, Inc. (4500030143)	
Previous Authorization	\$230,100,000
Current Request (for Transportation and Start-Up Costs)	<u>\$8,100,000</u>
	<u>\$238,200,000</u>

6. Next Meeting

The regular meeting of the Trustees will be held on **Tuesday, March 27, 2001 in the Albany Office at 11:00 a.m.**, unless otherwise designated by the Vice Chairman with the concurrence of the Trustees.

7. Closing

Upon motion made and seconded, the meeting was closed at 12:10
P.M.

David E. Blabey
Executive Vice President,
Secretary and General Counsel

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