

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

May 28, 2002

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the Albany Office at 11:00 a.m.

Present: Louis P. Ciminelli, Chairman
Frank S. McCullough, Jr, Trustee
Timothy S. Carey, Trustee
Gerard D. DiMarco, Trustee
Joseph J. Seymour, Trustee

Eugene W. Zeltmann	President and Chief Executive Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President – Power Generation
Vincent C. Vesce	Executive Vice President – Business Services and Administration
H. Kenneth Haase	Senior Vice President – Transmission
Louise M. Morman	Senior Vice President – Marketing, Economic Development and Supply Planning
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
Charles I. Lipsky	Vice President - Chief Engineer
Anne Wagner-Findeisen	Vice President - Ethics & Regulatory Compliance and Deputy Secretary
Thomas H. Warmath	Vice President and Chief Risk Officer, Energy Risk Assessment and Control
James H. Yates	Vice President – Major Account Marketing & Economic Development
George L. Johansen	Inspector General
Dennis T. Eccleston	Chief Information Officer
Carmine J. Clemente	Deputy Secretary and Deputy General Counsel
Stephen P. Shoenholz	Deputy Vice President – Public Affairs
Arthur T. Cambouris	Assistant General Counsel - Litigation
George W. Collins	Treasurer
Arthur M. Brennan	Director – Internal Audit
Angelo S. Esposito	Director – Energy Services
John J. Hahn	Director – Security
John B. Hamor	Director – Intergovernmental Relations
Douglas M. Kerr	Director – Marketing Planning
John L. Murphy	Director – Public Relations
Luis A. Rodriguez	Director – South Eastern New York, Public and Governmental Affairs
Donald A. Russak	Director – Financial Planning
Joan Tursi	Director – Budgets
Dayton Richardson	Human Resources – Security Manager - Poletti
Helen L. Eisenfeld	Manager – Cost Control
John Grzan	Senior Project Manager
Thomas P. Antenucci	Project Manager
Richard E. Kuntz	Regional Manager – Southeastern New York
Wayne Gowen	LAN Administrator
Donna Gentile	Executive Assistant
Betty C. Fennell	Assistant Secretary
Angela D. Graves	Assistant Secretary – Legal Affairs
Andrew J. McLaughlin	Assistant Secretary – Legal Affairs
Alice F. Simon	Assistant Ethics Officer and Assistant Secretary

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 annual meeting of April 30, 2002 were unanimously adopted.

2. **Financial Reports for the Three Months Ending April 30, 2002**

Mr. Bellis provided the final Financial Reports for the four months ending April 30, 2002.

Responding to questions from Chairman Ciminelli, Mr. Bellis noted that, with net revenues higher than expected, the past month was a good one for the Authority financially.

Responding to questions from Trustee Seymour, Mr. Bellis reported that the Authority has not been collecting its full costs of service to SENY governmental customers and that the situation is not expected to improve during the summer months.

3. **Report from the President and Chief Executive Officer**

President Zeltmann indicated that a report on security issues would be provided in executive session.

President Zeltmann advised the Board that the Authority's Y49 transmission line (part of the LI sound cable) had failed and been re-energized over the past weekend and complimented Mr. Lipsky and the Authority's engineers for their hard work in keeping the line in service.

4. Election of Vice Chairman

The Chairman submitted the following report:

SUMMARY

“In accordance with Section 1004 of the Public Authorities Law (the ‘Power Authority Act’), the Trustees are requested to elect Frank S. McCullough, Jr. of Rye, New York as Vice Chairman of the Authority, effective May 28, 2002.

BACKGROUND AND DISCUSSION

“Section 1004 of the Power Authority Act provides that the Trustees may select from among their own a Trustee to hold the position of Vice Chairman of the Authority. Accordingly, Article IV, Section (6)(B) of the Authority’s By-Laws, as adopted on April 9, 1954, and amended from time to time thereafter by the Trustees, establishes the position of Vice Chairman.

“Former Vice Chairman Louis P. Ciminelli was elected to serve as the Authority’s Chairman by the Trustees at their Annual Meeting of April 30, 2002. Accordingly, a vacancy exists in the office of Vice Chairman.

RECOMMENDATION

“Based on his extensive and exemplary public service to the State of New York, and his substantial knowledge of Authority matters as well as dedicated service to the Authority as a Trustee, it is recommended that Frank S. McCullough, Jr. be elected to serve as Vice Chairman of the Authority effective May 28, 2002.”

Chairman Ciminelli introduced the proposed resolution to elect a new Vice Chairman.

Chairman Ciminelli stated that it was his great pleasure to nominate Frank S. McCullough, Jr., Esq. to serve as Vice Chairman of the Authority. Chairman Ciminelli praised Mr. McCullough for his overall value to the organization, his vital expertise on environmental and real estate matters, his integrity and his judicious counsel to the Board of Trustees.

Following the unanimous election of Frank S. McCullough, Jr., Chairman Ciminelli extended the Trustees’ congratulations to Vice Chairman McCullough. Trustee Carey stated that he has known Vice Chairman McCullough for over 20 years and commended him for having served in an exemplary manner in every office he has occupied throughout his career. Trustees DiMarco and Seymour concurred in these sentiments and also congratulated Vice Chairman McCullough on his election.

Vice Chairman McCullough then thanked the Chairman and the Trustees for their kind words and stated that it is a rewarding experience to work on such a distinguished board and to work with the great people throughout the Authority.

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

RESOLVED, That Frank S. McCullough, Jr. of Rye, New York be and is hereby selected as Vice Chairman of the Power Authority of the State of New York, effective May 28, 2002.

5. Appointment of Timothy S. Carey to Audit Committee

The Vice Chairman submitted the following report:

SUMMARY

“In accordance with the Article V, Section (2) of the By-laws of the Power Authority of the State of New York, adopted December 17, 1996, and as amended from time to time, and in accordance with the Charter of the Audit Committee, as adopted at that same meeting, the Trustees are requested to select Timothy S. Carey as a member of the Audit Committee, effective May 28, 2002.

BACKGROUND

“At their meeting of December 17, 1996, the Trustees adopted a resolution adding a new Section 2 to Article V of the By-laws of the Authority, which provided for the establishment of an Audit Committee consisting of two Trustees, other than the Chairman.

“The Charter of the Audit Committee, also adopted at December 17, 1996 meeting, provides that neither Audit Committee member should serve as Chief Executive Officer or in any other position of Authority management. Audit Committee members are to be selected from eligible Trustees by vote of the Trustees. Audit Committee members serve for a period of two years subject to their term of office, and may serve for additional periods subject to their term.

“At their meeting of April 30, 2002, the Trustees elected Louis P. Ciminelli as Chairman. Mr. Ciminelli has served with distinction on the Audit Committee since March 25, 1997. The other member of the Audit Committee is Vice Chairman Frank S. McCullough, Jr. who has served since December 19, 2000.

DISCUSSION

“In view of the election of Chairman Ciminelli on April 30, 2002, it is desirable to appoint another eligible Trustee to serve on such Committee to replace Chairman Ciminelli.”

Vice Chairman McCullough introduced the proposed resolution to appoint a member of the Board of Trustees to fill the vacancy created on the Authority’s Audit Committee by the election of Trustee Ciminelli as Chairman of the Authority.

Vice Chairman McCullough stated that it was his pleasure to nominate Trustee Carey to serve on the Audit Committee replacing Chairman Ciminelli.

Following Trustee Carey’s unanimous appointment to the Audit Committee, Chairman Ciminelli, on behalf of all of the Trustees, congratulated him on his appointment and stated that he knew that Trustee Carey would do a great job in his new position.

RECOMMENDATION

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

RESOLVED, That Timothy S. Carey is hereby selected as a member of the Audit Committee, effective May 28, 2002.

**6. Peak Load Management Incentive –
Extensions and Additional Expenditures**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize a further expansion of the Peak Load Management (‘PLM’) program by 50 MW to 100 MW, and to expand funding for the program to up to \$4,000,000. The Trustees are also requested to extend the program term by two additional years through April 30, 2005. Additionally, the Trustees are requested to authorize new expenditures of \$50,000 for low sulfur diesel fuel mitigation measures and additional expenditures of \$250,000 for permitting, testing and tuning of customer emergency back-up generators.

BACKGROUND

“The New York Independent System Operator (‘NYISO’) determines the installed capacity requirements of Load Serving Entities (‘LSE’s’) to ensure reliability of the electric system throughout the State. Certain areas of the State, such as the City of New York, have special, more stringent, locational installed capacity requirements.

“The NYISO has adopted a 71.46 % ‘in-City’ capacity requirement for LSE’s serving load in New York City. The Authority is the LSE for our Governmental, Business, and Power for Jobs customers located in New York City and hence is responsible for meeting this requirement. The Authority can satisfy the NYISO installed capacity requirement to serve its customers through the use of existing in-City generation, new capacity construction, capacity purchases or, by temporary reductions in customer peak loads, which lowers the Authority’s installed capacity obligation.

“At their meeting of March 30, 1999, the Trustees authorized implementation of a 25 MW PLM program to encourage temporary reductions of customer loads. At their meeting of July 24, 2001, the Trustees increased the size of the program to 50 MW. Since its inception, the PLM program has proven to be a successful program that has reduced summer 2001 loads by over 50 MW. This load reduction is a significant accomplishment by the Marketing, Economic Development and Supply Planning Department and demonstrates the effectiveness of customer relationship management. Marketing’s ability to work with customers to modify their electric end-use behavior is noteworthy.

“The PLM program has been providing additional benefits to customers in the areas of contingency and emergency planning. Customers are given the opportunity to review and effectively revise their emergency plans and upgrade equipment with the Authority’s assistance. These benefits have become an essential part of the PLM program and further cement our important relationships with the Authority’s Governmental, Business, and Power for Jobs customers.

“Expansion of the PLM program is necessary to continue to meet the NYISO ‘in-City’ installed capacity requirement. The term extension of the PLM program will fill the gap until the 500 MW Combined Cycle plant goes into commercial operation.

“A complete description of the PLM program is set forth in Exhibit ‘6-A’.

DISCUSSION

“Following the successful summer 2001 results, the PLM program has become part of a larger effort initiated by the Governor’s Office coordinating various State agency attempts to reduce electric loads at critical times, to improve system reliability. We have been working with the Long Island Power Authority (‘LIPA’), the Public Service Commission (‘PSC’), the Department of Environmental Conservation (‘DEC’) and the New York State Energy Research & Development Authority (‘NYSERDA’) to meet the Governor’s objectives and the Authority has coordinated its efforts with the NYISO.

“The Governor’s Office has identified 1,300 MW of potential statewide load reductions from numerous sources. The Authority has committed to a 250 MW statewide load reduction, with 150 MW located in New York City and on Long Island, the region identified as most critical.

“Further, to ensure that the operation of emergency back-up generation does not have undesirable environmental impacts, the Governor’s Office has developed a statewide protocol for customer back-up generators. The emergency back-up generation protocol ensures that only the newest generators will be called upon at critical times, and if older generators are used, environmental mitigation measures will be employed.

“As part of the statewide emergency back-up generator protocol, the Authority has agreed to reduce sulfur emissions by three times the amount that would have been consumed assuming the use of ultra low sulfur diesel fuel. To achieve this ambitious goal, staff worked with LIPA, which will burn additional ultra low sulfur diesel fuel on the Authority’s behalf at two of their generation facilities.

“Also, as part of the emergency back-up generator protocol, staff will only be offering the PLM program to the newest generators or those with reduced NOx emissions. An expedited permitting process has been set up with the DEC and staff is actively engaged with customers to ensure that their back-up generators are reliable, tested, tuned and properly permitted.

“Expenditures to fund the low sulfur mitigation measures and the costs of permitting, testing and tuning emergency back-up generators are necessary to comply with the Governor’s office statewide protocol.

FISCAL INFORMATION

“Funding for the 2002 PLM program will be from the operating fund as follows: up to \$4,000,000 in incentive payments to program participants; \$50,000 in expenditures for low sulfur fuel cost mitigation; and \$250,000 in expenditures for testing, tuning and permitting of generators.

“The load reductions associated with the PLM program are an enormously cost-effective method to meet our ‘in-City’ capacity requirements. Expenditures for the PLM program are offset to the extent our ‘in-City’ installed capacity requirement is reduced by the program.

“The financial incentive paid to customers for participating in the PLM program is less costly than the construction of new generation or purchasing capacity from the NYISO on a monthly basis. For example, while the PLM incentive payment is \$40/kW-season, ‘in-City’ capacity has a value of over \$100/kW-annually, based on current ISO prices. Additional indirect cost savings also result from rest of state’s lower capacity requirements, including reserves.

“Effective May 1, 2002, the start of this summers capability period, total installed capacity cost savings accrue on a lagged basis with our summer 2001 load reduction lowering our ‘in-City’ installed capacity requirement. The PLM summer 2001 load reduction will result in installed capacity cost savings of \$4.1 million. Since inception of the PLM program, incentive payments totaled \$2.1 million, resulting in a net savings of \$2.0 million. As a result, the PLM program complies with the Trustees’ original intent when the program was first approved at their meeting of March 30, 1999.

“For the summer 2002 season, the fourth year of the program, incentive payments are expected to total approximately \$4.0 million. Accordingly, next years’ installed capacity cost savings are estimated to be \$8.6 million, resulting in a net savings of \$4.6 million.

“For planning purposes, we are assuming a 100 MW PLM program for the entire season. If the PLM program exceeds these limits, we will report back to the Trustees and request additional funding for this program.

RECOMMENDATION

“The Senior Vice President – Marketing, Economic Development and Supply Planning and the Vice President - Major Account Marketing and Economic Development recommend that the Trustees authorize expansion

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of the Peak Load Management program to 100 MW through April 30, 2005. It is further recommended that new expenditures of \$50,000 for ultra low sulfur diesel fuel mitigation and additional expenditures of \$250,000 for backup emergency generator testing, tuning, and permitting be authorized.

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

Mr. Yates presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Trustees Carey and Seymour, Mr. Yates described those portions of the Peak Load Management program that would be directed at New York City and Long Island.

The following resolution, as recommended by the President and Chief Executive Officer was unanimously adopted.

RESOLVED, That expenditures up to \$4,000,000 per year be, and hereby are, approved expanding the Peak Load Management program to 100 MW as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Peak Load Management program term be extended to April 30, 2005; and be it further

RESOLVED, That \$50,000 in new expenditures for low sulfur diesel fuel mitigation and that \$250,000 in additional expenditures for testing, tuning and permitting of generators be approved; and be it further

RESOLVED, That the Senior Vice President – Marketing, Economic Development and Supply Planning and the Vice President – Major Account Marketing and Economic Development be, and hereby are, authorized to take such further actions and to execute such documents as are deemed necessary to effectuate the forgoing, provided that the form of any such documents shall be subject to the approval of the Executive Vice President - Secretary and General Counsel.

Peak Load Management

Description

Peak Load Management was designed to help the Authority manage the aggregate electrical demand of its customers in New York City at the time of summer peak demands for electricity. Under the program, the Authority contracts with participating customers located within the City of New York to reduce their load at the Authority's request. Load reductions are temporary in nature. They are implemented either by reducing discretionary loads such as fans, pumps, motors, chillers, lights, and elevators or activating on-site generation. The current contract term is through April 30, 2003.

Key Elements

- Available to Governmental, Business, and Power for Jobs customers in the City of New York "load pocket".
- Customers contract to temporarily reduce load, or utilize on-site generation.
- On-site generation must conform to New York State Department of Environmental Conservation regulations.
- Financial Incentive is \$40 for each kW reduced for the PLM season.
- The PLM season is June 1 - September 30, weekdays only, with a maximum of 15 events.
- PLM events are limited to 2-6 hours in duration between 11 AM and 7 PM.
- Customers are given one business day-ahead alert and a 2-hour event day confirmation notice.

Program Achievements

During the summer of 2001, the PLM program had a contracted total load reduction of approximately 43 MW at 38 customer locations, resulting in an over performance totaling 50 MWs. The continued success of any load curtailment program, including the PLM program, is highly dependent upon increased participation of existing customers; the evaluation of potential new locations; an effective notification and implementation system to reduce load; performance feedback to customers; and above all, firm customer commitments. Last year, the PLM program demonstrated success in those areas, for a successful program.

Incentive Payments

PLM Incentive payments to customers were \$40,000 for the first year of the program (summer 1999 season; one location), \$632,000 for the second year of the program (summer 2000 season; 20 locations), and \$1,430,000 for the third year of the program (summer 2001 season; 38 locations).

Program Expansion

Customer commitment to the PLM program has increased as a result of Marketing's sales strategy. We have continued to work with our customers since last summer's unprecedented heat wave, have recently met with customers at a February 26, 2002 PLM orientation meeting and have made numerous individual customer sales contacts. Our close relationships with customers have rallied them to the PLM program.

7. Informational Item - Quarterly Review of Power For Jobs Employment Commitments

The President and Chief Executive Officer submitted the following report:

SUMMARY

“All of the Power for Jobs (‘PFJ’) contracts contain a customer commitment to retain or add a specific number of jobs. If the actual job level falls below 90% of that commitment, the Authority may reduce that customer’s power allocation proportionately.

“In order to ensure compliance with agreed-upon job commitments, Authority staff initiates a review of all PFJ power allocations that have an ‘anniversary date’ within the quarter being reported. This quarterly review covers companies that began receiving power during the 3rd Quarter of 1998, 1999, and 2000. The Authority had 41 customers with 43 contracts first receiving power in the 3rd Quarter of 1998, 169 customers with 175 contracts first receiving power in the 3rd Quarter of 1999, and 11 customers with 12 contracts first receiving power in the 3rd Quarter of 2000.

“Thus, staff reviewed a total of 221 customers with 230 contracts. This initial review resulted in a detailed examination of 31 contracts with 31 customers that were below the 90% job commitment threshold. Of these 31 customers, it is recommended that the Trustees approve the continuation of current power allocations to 31 companies that were below their jobs commitment levels.

BACKGROUND

“The 230 contracts reviewed represent overall power allocations of 134.312 MW and total employment commitments of 77,817 jobs. In the aggregate, these customers reported actual employment of 81,079.12 positions, which represents some 104.19% of the total job commitments for PFJ customers reporting on their anniversary dates. Notwithstanding, there are 31 customers whose actual job levels are below the minimum threshold.

DISCUSSION

“At their meeting of March 26, 2002, the Trustees approved a one year moratorium against taking enforcement action against customers when their actual employment levels fall short of their agreed upon employment commitments. As a result, the following discussion of PFJ customers is for informational purposes only. A summary of all contracts discussed in this memorandum is provided as Exhibit ‘7-A’.”

A + O Provision Co., Inc., Brooklyn, Kings County

Allocation: 125 kW of Power for Jobs Power

Jobs Commitment: 22 jobs

Background: A + O Provision Co., Inc. was established in 1975 and produces smoked pork products for sale to distributors and retail chains. The company is less than one job short of its commitment. For the past year, A + O Provision Co., Inc. averaged 19.33 jobs, i.e., 87.88% of its contractual commitment.

Alex Meat Corp., Brooklyn, Kings County

Allocation: 40 kW of Power for Jobs Power

Jobs Commitment: 7 jobs

Background: Alex Meat Corp., a family business, stores, cuts, smokes, packages and distributes beef, pork, poultry and produce. The company is less than one job short of its commitment. For the past year, Alex Meat Corp. averaged 5.42 jobs, i.e., 77.38% of its contractual commitment.

Antech Diagnostics, Farmingdale, Suffolk County

Allocation: 200 kW of Power for Jobs Power

Jobs Commitment: 410 jobs; **Phase 4 jobs - 410 jobs**

Background: Antech Diagnostics, in business for 23 years, is a national veterinary diagnostic laboratory that provides results for various veterinary practices, mainly on the East Coast. The company has grown by more than 35 jobs during the past year and is still growing. The last quarter reported shows the company at almost 88% of their commitment. Antech expects to meet the contractual commitment this year. For the past year, Antech Diagnostics averaged 339.82 jobs, i.e., 82.88% of its contractual commitment.

Bedford Stuyvesant Restoration Corporation, Brooklyn, Kings County

Allocation: 150 kW of Power for Jobs Power

Jobs Commitment: 70 jobs

Background: The Bedford Stuyvesant Restoration Corporation ('BSRC'), a not-for-profit organization, has been operating for over 32 years. Its purpose is to serve as a catalyst to improve the quality of life in Bedford Stuyvesant. The BSRC's facilities include a 200 seat theater, a 150 seat outdoor amphitheater, and an arts exhibition space. The BSRC provides youth education programs including computer training, a computing center for the community, as well as, loan and technical assistance for small businesses. For the past year, the BSRC averaged 55.00 jobs, i.e., 78.57% of its contractual commitment.

Borg Warner Automotive Inc., Buffalo, Erie County

Allocation: 400 kW of Power for Jobs Power

Jobs Commitment: 146 jobs; **Phase 4 jobs - 146 jobs**

Background: Borg Warner Automotive Inc., founded in 1939, is the industry's largest truck fuel tank manufacturer and has over 60% of the Class A truck market in North America. The trucking industry has been hit hard by the recession. Two of its largest customers are Freightliner and International Truck. Both of those customers had their business decline, resulting in business decline for Borg, but Freightliner additionally pulled half of their business from Borg. The company has not lost any other of its customers' business but demand for their tanks is down. Borg does not see growth in 2002 but possibly in 2003. For the past year, Borg Warner Automotive Inc. averaged 89.17 jobs, i.e., 61.08% of its contractual commitment.

Buffalo Paperboard Corp., Lockport, Niagara County

Allocation: 750 kW of Power for Jobs Power

Jobs Commitment: 95 base jobs and 3 created jobs by end of year three

Background: Buffalo Paperboard Corp. purchased the mill from Domtar Corp. in 1992 and manufactures paper for gypsum dry wall from recycled fibers. The loss of its major customer, Georgia-Pacific, in September 2000 is still affecting the mill. Buffalo Paperboard has added alternative paper products to expand its flexibility and has actively attempted to gain new customers. Currently, the company is functioning at what it considers its minimum level of staffing and expects to add some employees this year as orders increase. For the past year, Buffalo Paperboard Corp. averaged 71.25 jobs, i.e., 72.70% of its contractual commitment.

CVC, Inc., Rochester, Monroe County

Allocation: 500 kW of Power for Jobs Power

Jobs Commitment: 196 jobs

Background: CVC, Inc., is a privately held company that manufactures deposition equipment for the fabrication of thin film recording heads for the data storage industry and semiconductor devices for the semiconductor industry. The next three months of data show CVC meeting its employment commitment, however in January 2002 the

company laid people off due to the slump in the semiconductor industry. Yet, CVC forecasts that it will be back up to its commitment level in 2002. For the past year, CVC, Inc. averaged 146.67 jobs, i.e., 74.83% of its contractual commitment.

Dance Theater of Harlem, New York, New York County

Allocation: 90 kW of Power for Jobs Power

Jobs Commitment: 68 jobs

Background: The Dance Theater of Harlem is a not-for-profit entity that promotes interest in and instructs young people and adults in the art of classical ballet, modern dance, tap dance, and ethnic dance, as well as, maintains and operates a professional center and dance company for presentations of dance, musical and theatrical productions. It is a social setting for promotion of friendly relations between people of different races. The commitment represents the number of employees when there is dance but not when there is downtime. For the past year, Dance Theater of Harlem averaged 51.50 jobs, i.e., 75.74% of its contractual commitment.

Diversified Controls & Systems, Inc., East Aurora, Erie County

Allocation: 50 kW of Power for Jobs Power

Jobs Commitment: 23 jobs

Background: Diversified Controls & Systems, Inc. ('Diversified'), founded in 1977, specializes in customized electrical and pneumatic process controls, power supplies, electrical enclosures and custom metal fabrication. The company didn't anticipate the downturn in the industry. However, they do anticipate growth -- the company has added a job since the report and expects to be at 20 employees soon. For the past year, Diversified averaged 15.42 jobs, i.e., 67.03% of its contractual commitment.

Frontier Corporation, Rochester, Monroe County

Allocation: 4000 kW of Power for Jobs Power

Jobs Commitment: 3271 jobs

Background: At the time of application Frontier was the overall 12th largest phone company in the US and the 6th largest long distance provider. The company is also a major leader in internet data transmission and web hosting. Frontier hosts some of the world's largest web sites including, Yahoo and Netscape and handles 60% of all internet searches. In 1999 Frontier merged with Global Crossing LTD. This past year Global Crossing filed for Chapter 11 protection. Though now separate from Global, Frontier's current situation is due to Global's problems. For the past year, Frontier Corporation averaged 2294.92 jobs, i.e., 70.16% of its contractual commitment.

Harmac Medical Products, Inc., Buffalo, Erie County

Allocation: 650 kW of Power for Jobs Power

Jobs Commitment: 420 jobs

Background: Harmac Medical Products, Inc., in business since 1981, designs and manufactures medical products, molded components and cardiovascular catheters - specifically to the requirements of its worldwide customers. In spring 2000, the company lost a major customer, and has been aggressively trying to replace the lost sales. Harmac continues to aggressively pursue new business and return to their prior employment level, which met the commitment. For the past year, Harmac Medical Products, Inc. averaged 313.00 jobs, i.e., 74.51% of its contractual commitment.

Home for Contemporary Theater & Art, New York, New York County

Allocation: 30 kW of Power for Jobs Power

Jobs Commitment: 18 jobs

Background: Home for Contemporary Theater & Art ('HCTA'), supports artists' independence within an interdependent community, providing access and management. They have a café, three theaters and two art galleries. HCTA has live theater, music and dance performances, film and video exhibitions, art exhibitions, and workshops that include discussion groups, as well as outreach. HCTA is less than one job short of its commitment. For the past year, HCTA averaged 16.00 jobs, i.e., 88.89% of its contractual commitment.

IEC Electronics Corp., Newark, Wayne County

Allocation: 1000 kW of Power for Jobs Power
Jobs Commitment: 1000 jobs, **Phase 4 jobs --700 jobs**

Background: IEC Electronics Corp. ('IEC'), in business for 35 years, manufactures electronic printed circuit boards, serving computer and telecommunications companies. For the past year, averaged 780 jobs, i.e., 78% of its contractual commitment. However, IEC is at 98.76% of its Phase 4 jobs commitment.

Kilian Manufacturing Corp., Syracuse, Onondaga County

Allocation: 400 kW of Power for Jobs Power
Jobs Commitment: 330 base jobs and 15 created jobs by the end of third year; **Phase 4 jobs - 345 jobs**

Background: Kilian Manufacturing Corporation, founded in 1920, manufactures precision machined bearings for the furniture and automotive industries. The company is still working to replace a major contract lost to China in 2000. Employment has stabilized and the company expects to meet its contractual commitment this year. For the past year, Kilian Manufacturing Corporation averaged 296.08 jobs, i.e., 85.82% of its contractual commitment.

Lion Brand Inc., Hudson, Columbia County

Allocation: 500 kW of Power for Jobs Power
Jobs Commitment: 237 jobs; **Phase 4 jobs - 237 jobs**

Background: Lion Brand Inc., founded in 1946, manufactures restaurant seating, bar stools, counter and restaurant equipment and supplies. The company entered Chapter 11 in January 2001. They are currently in the process of obtaining financing and possibly a new owner. Lion Brand expects to be out of Chapter 11 during the first quarter of 2002. Once financing is in place the company plans to bring employment back up to commitment level. For the past year, Lion Brand Inc. averaged 195.08 jobs, i.e., 82.31% of its contractual commitment.

Meidi-Ya, Inc., Brooklyn, Kings County

Allocation: 25 kW of Power for Jobs Power
Jobs Commitment: 3 jobs

Background: Meidi-Ya, Inc., founded in Japan in 1885, opened a New York office in 1987. The company stores, cuts, smokes, packages and ships beef, pork, poultry and produce back to Japan. For the past year, Meidi-Ya, Inc. averaged 2.00 jobs, i.e., 66.67% of its contractual commitment - the equivalent of less than one job short of its commitment.

Meloon Foundries, Inc., Syracuse, Onondaga County

Allocation: 350 kW of Power for Jobs Power
Jobs Commitment: 57 jobs

Background: Meloon Foundries, Inc., founded in 1939, is a non-ferrous sand casting foundry. Meloon casts aluminum, brass and bronze parts for over 100 customers, which are mostly located in NYS. The economic slowdown has forced a slight reduction in employees but Meloon expects to be meeting its commitment this year. For the past year, Meloon Foundries, Inc. averaged 50.83 jobs, i.e., 89.18% of its contractual commitment.

Mill Services, Inc., Cobleskill, Schoharie County

Allocation: 300 kW of Power for Jobs Power

Jobs Commitment: 20 base jobs and 33 created jobs by the end of third year; **Phase 4 jobs - 53 jobs**

Background: Mill Services, Inc. formed in 1997 is a full service mill shop; manufacturing fingerjointed boards, mouldings, casings and jambs. The company is dependent on the housing construction industry, which is slow in winter and strong in the summer. The low interest rates have resulted in strong housing starts, which has in turn increased demand for Mill Services' products. Mill Services currently has 49 employees, which meets the commitment and expect that to grow to 55 by this summer. For the past year Mill Services, Inc. averaged 42.58 jobs, 80.35% of its commitment.

Nassau Tool Works, Inc., West Babylon, Suffolk County

Allocation: 350 kW of Power for Jobs Power

Jobs Commitment: 69 jobs

Background: Nassau Tool Works, Inc. ('Nassau Tool'), founded in 1956, is involved in specialized machining of heat treated materials for the commercial and defense aerospace industry. Nassau Tool has had an upward employment trend during the course of the year. The last quarter reported is at 88% of the contractual commitment. The company expects to meet its commitment this year. For the past year, Nassau Tool averaged 58.50 jobs, i.e., 84.78% of its contractual commitment.

Orbit International Corporation, Hauppauge, Suffolk County

Allocation: 292 kW of Power for Jobs Power

Jobs Commitment: 130 jobs; **Phase 4 jobs -- 107 jobs**

Background: Orbit International Corporation was established in 1957, and produces AC and DC power supplies, UPS, keyboards, trackballs and displays. Orbit's major customer the Defense Department cancelled orders in 2000, which resulted in lower employment but the company has been slowly growing back to its commitment level. The company is four jobs short of its Phase 4 commitment. For the past year, Orbit International Corporation averaged 92.00 jobs, i.e., 70.77% of its contractual commitment.

Orion Bus Industries, Oriskany, Oneida County

Allocation: 300 kW of Power for Jobs Power

Jobs Commitment: 644 jobs; **Phase 4 jobs -- 644 jobs**

Background: Orion Bus Industries, founded in 1982, manufactures state-of-the-art transit buses. Their customers include NYC Transit, Washington Metropolitan Area Transit Association and The Capital District Transit Association in Albany. During 2001, the company launched a new product which had delays in it, that resulted in lay-offs. However, the new line is fully underway and employment is ramping up and should meet the contractual commitment this year. For the past year, Orion Bus Industries averaged 542.50 jobs, i.e., 84.24% of its contractual commitment.

Pork Packers Inc., Brooklyn, Kings County

Allocation: 75 kW of Power for Jobs Power

Jobs Commitment: 8 jobs

Background: Pork Packers Inc., is a wholesale distribution meat company specializing in fresh cut pork. The company also stores, cuts, smokes and packages beef, poultry and produce. The company is less than one job off its commitment. For the past year, Pork Packers Inc. averaged 7.00 jobs, i.e., 87.50% of its contractual commitment.

Purolator Products Co., Elmira, Chemung County

Allocation: 1000 kW of Power for Jobs Power

Jobs Commitment: 285 jobs

Background: Purolator Products Co., founded in 1895, manufactures starter drive parts or assemblies for the automotive industry and electric fuel pumps. The company has been affected by the slowdown in the medium and heavy duty truck sector but Purolator has been purchased by new owners and they are aggressively trying to grow the business. For the past year, Purolator Products Co. averaged 244.33 jobs, i.e., 85.73% of its contractual commitment.

Sentry Metal Blast, Inc., Niagara Falls, Niagara County

Allocation: 250 kW of Power for Jobs Power

Jobs Commitment: 32 jobs

Background: Sentry Metal Blast, Inc. ('Sentry'), was founded in 1971. Sentry's primary business is metal blasting and industrial coating but is also involved in tank and vessel fabrication. The company broadened its customer base and has increased sales despite a decline in output by Sentry's main suppliers. Though the overall growth over this reporting period was an additional three jobs, the trend is towards further growth -- the last month reported meets the contractual commitment. For the past year, Sentry averaged 24.25 jobs, i.e., 75.78% of its contractual commitment.

Sierra Technologies, Inc., Buffalo, Erie County

Allocation: 600 kW of Power for Jobs Power

Jobs Commitment: 332 jobs

Background: Sierra Technologies, Inc. ('Sierra'), was founded in 1957, and has had several parent companies. Sierra is a defense contractor that designs and develops high quality products which integrate leading edge electronics systems. Though the aerospace and defense industry is very competitive, the company has maintained its employment level. In November, Sierra was awarded a large new US Navy contract that will result in a growth of 10 to 15 percent of its workforce this year. For the past year, Sierra averaged 269.42 jobs, i.e., 81.15% of its contractual commitment.

Sisters of Charity - Bayley Seton Hospital, Staten Island, Richmond County

Allocation: 800 kW of Power for Jobs Power

Jobs Commitment: 990 jobs; **Phase 4 jobs - 990 jobs**

Background: Sisters of Charity - Bayley Seton Hospital is a not-for-profit, 198 bed, community hospital providing acute care with an emergency room, operating room, rehab center, AIDS program, dialysis center, and geriatric care center. For the past year, Sisters of Charity - Bayley Seton Hospital averaged 675.90 jobs, i.e., 68.27% of its contractual commitment.

Syroco, Inc., Baldwinsville, Onondaga County

Allocation: 550 kW of Power for Jobs Power

Jobs Commitment: 427 jobs; **Phase 4 jobs - 427 jobs**

Background: Syroco, Inc., in business since 1890, manufactures plastic lawn furniture, accessories and home décor. The company has divisions in California and Arkansas. Syroco had a difficult year as the electricity crisis in California forced them to curtail operations 21 times, which affected the operations in New York. Furthermore, the purchase of Syroco by the Finnish company, Fiskars in 1999, resulted in the closing of the home decorating division in 2000. The company is slowly working its way back, as demand dictates. Syroco predicts growth in 2002. For the past year Syroco, Inc. averaged 347.50 jobs, i.e., 81.38% of its contractual commitment.

TCI - New York, Hauppauge, Suffolk County

Allocation: 325 kW of Power for Jobs Power

Jobs Commitment: 125 jobs

Background: TCI - New York, in business over 20 years, manufactures hi-tech optics such as, prisms, wedges, windows and assemblies for commercial and military applications. TCI is growing, and during the last quarter, reported they met their contractual commitment. The company expects to continue to meet its commitment this year. For the past year, TCI - New York averaged 111.00 jobs, i.e., 88.80% of its contractual commitment.

The Lawrence Ripak Company Inc., West Babylon, Suffolk County

Allocation: 500 kW of Power for Jobs Power

Jobs Commitment: 98 jobs

Background: The Lawrence Ripak Company Inc., founded in 1952, provides services to the aircraft industry including magnetic particle inspection, X-ray inspection, non-destructive testing, ultrasonic inspection and several metal finishing operations. The company grew during the last year and met its commitment in the last quarter reported. The company expects to continue to meet its commitment this year. For the past year, The Lawrence Ripak Company Inc. averaged 87.58 jobs, i.e., 89.37% of its contractual commitment.

The Penn Traffic Company, Syracuse, Onondaga County

Allocation: 1000 kW of Power for Jobs Power

Jobs Commitment: 585 jobs

Background: The Penn Traffic Company ('Penn Traffic') is a leading food retailer in the eastern United States, operating supermarkets and a wholesale food distribution business. The Syracuse location is corporate headquarters and a distribution center for perishable frozen food, dairy, produce and meat products. In March 1999, the company filed for Chapter 11 proceedings and in June 1999, it emerged from bankruptcy. Fifty supermarkets were sold as part of the reorganization, which resulted in decreased sales and a decreased employment base. Business has stabilized, and currently Penn Traffic is working aggressively at rebuilding its business. Sales have increased and the company expects to meet its commitment this year. For the past year, Penn Traffic averaged 505.50 jobs, i.e., 86.58% of its contractual commitment.

Ultra Tool & Plastics, Inc., Amherst, Erie County

Allocation: 150 kW of Power for Jobs Power

Jobs Commitment: 405 jobs

Background: Ultra Tool & Plastics, Inc. ('Ultra'), founded in 1964, is a custom injection molding and tolling manufacturer. The company designs and produces products for the automotive, electronics, medical supplies, sports equipment and marine equipment industries. Ultra recently filed for Chapter 11 protection. The company is up for sale but is currently looking to hire 20 more machine operators, as work is coming in from its sister plant in Rochester. For the past year, Ultra averaged 304.25 jobs, i.e., 75.12% of its contractual commitment.

Mr. Yates presented the highlights of staff's information report to the Trustees. Responding to questions from Chairman Ciminelli, Mr. Yates explained that no vote on this report was necessary.

Responding to questions from Vice Chairman McCullough, Mr. Yates explained that the one-year moratorium against taking enforcement actions against customers is for the 2002 calendar year.

Exhibit "7-A"
May 28, 2002

I. ALLOCATIONS TO CONTINUE WITH NO CHANGE

Company	Date of Trustee Approval	Type of Power	Allocation kW	Employment Commitment	Average '00-'01 Jobs	Average Annual % Achieved
A+O Provision Co., Inc.	4/27/99	PFJ	125	22	19.33	87.88
Alex Meat Corp.	6/29/99	PFJ	40	7	5.42	77.38
Antech Diagnostics	3/31/98	PFJ	200	410	339.82	82.88
Bedford Stuyvesant Restoration Corp.	4/27/99	PFJ	150	70	55.00	78.57
Borg Warner Automotive	4/28/98	PFJ	400	146	89.17	61.08
Buffalo Paperboard Corp.	5/20/99	PFJ	750	98	71.25	72.70
CVC, Inc.	3/30/99	PFJ	500	196	146.67	74.83
Dance Theater of Harlem	6/29/99	PFJ	90	68	51.50	75.74
Diversified Controls & Systems, Inc	6/29/99	PFJ	50	23	15.42	67.03
Frontier Corporation	5/25/99	PFJ	4000	3271	2294.92	70.16
Harmac Medical Products, Inc.	3/30/99	PFJ	650	420	313.00	74.51
Home for Contemporary Theater & Art	5/25/99	PFJ	30	18	16.00	88.89
IEC Electronics Corp.	4/28/98	PFJ	1000	1000	780.00	78.00
Kilian Manufacturing Corporation	4/28/98	PFJ	400	345	296.08	85.82
Lion Brand Incorporated	4/28/98	PFJ	500	237	195.08	82.31
Meidi-Ya, Inc.	6/29/99	PFJ	25	3	2.00	66.67
Meloon Foundries, Inc.	3/30/99	PFJ	350	57	50.83	89.18
Mill Services, Inc.	4/28/98	PFJ	300	53	42.58	80.35
Nassau Tool Works, Inc.	4/27/99	PFJ	350	69	58.50	84.78
Orbit International Corporation	3/31/98	PFJ	292	130	92.00	70.77
Orion Bus Industries	9/28/98	PFJ	300	644	542.50	84.24
Pork Packers	4/27/99	PFJ	75	8	7.00	87.50
Purolator Products Co.	3/30/99	PFJ	1000	285	244.33	85.73
Sentry Metal Blast, Inc.	5/25/99	PFJ	250	32	24.25	75.78
Sierra Technologies	2/24/99	PFJ	600	332	269.42	81.15
Sisters of Charity - Bayley Seton Hosp.	4/28/98	PFJ	800	990	675.90	68.27
Syroco, Inc.	4/28/98	PFJ	550	427	347.50	81.38
TCI - New York	4/27/99	PFJ	325	125	111.00	88.80
The Lawrence Ripak Company, Inc.	6/29/99	PFJ	500	98	87.58	89.37
The Penn Traffic Company	4/27/99	PFJ	1000	585	505.50	86.41
Ultra Tool & Plastics , Inc.	4/27/99	PFJ	150	405	304.25	75.12

8. Informational Item - Participation of the Power Authority in the Establishment of a Regional Transmission Organization for the New York – New England Region

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Power Authority, along with other transmission owners and market participants, is participating in the development of a possible Northeast Regional Transmission Organization (‘NERTO’) to be accomplished through the merger of the New York and New England Independent System Operators (‘ISOs’). This activity was initiated by the ISOs in response to the Federal Energy Regulatory Commission’s (‘FERC’ or ‘Commission’) desire for the creation of broader markets. What the new Regional Transmission Organization (‘RTO’) will look like will be determined after a filing planned by the ISOs in June 2002 and after further guidance is received from the FERC. This memorandum summarizes the current status of the NERTO design efforts.

BACKGROUND

“On January 28, 1997, the Trustees approved the Authority’s participation in the establishment of a New York Independent System Operator (‘NYISO’) which would have the dual responsibilities of providing the infrastructure and rules for a state-wide electricity market as well as maintaining the operational reliability of the electric transmission system. The NYISO began operation on November 18, 1999 and since that time has successfully met these goals.

“In the fall of 2000, the FERC issued a new rulemaking, Order 2000, which called for the voluntary formation of RTOs. Order 2000 expanded upon FERC’s earlier Orders 888 & 889 that had required the provision of non-discriminatory open access by individual public (i.e., investor-owned) utility transmission systems to other market participants, such as power marketers and merchant generators. While Orders 888 & 889 had achieved some degree of success in affording market participants access to public utility transmission systems, the provision of open access had not been uniformly applied and required constant regulatory vigilance and intervention. The formation of RTOs, which would operate the regional transmission system by integrating the individual utility systems, would enable the provision of open access on a more even-handed basis and on a larger scale. In Order 2000, the Commission posited that for the economic benefits of competition to be more fully realized open access must be provided on a regional basis under the auspices of a RTO.

“Order 2000 required public utilities and existing ISOs to file, by January 2001, a plan describing how they would participate in the formation of RTOs or, in the case of the ISOs, whether or not they already met the requirements of being an RTO. FERC’s test of RTO adequacy was based, primarily, on meeting four characteristics:

- 1) The RTO must be independent of any market participant; and
- 2) The RTO must serve an appropriate region; and
- 3) The RTO must have operational authority for all transmission under its control; and
- 4) The RTO must have exclusive authority for maintaining the short-term reliability of the grid that it operates.

“The Pennsylvania-New Jersey-Maryland (‘PJM’) ISO, the New England ISO and New York ISO through individual filings claimed that their respective configurations, with identified modifications, would comply with the requirements of Order 2000. In July 2001, FERC ruled that the respective New York and New England proposed RTOs were inadequate in scope and that only the proposed PJM RTO met all four characteristics for being an RTO. Further, the Commission ordered that PJM, New York and New England ISO representatives and market entities participate in a mediation process, to be overseen by a FERC Administrative Law Judge, to develop a blueprint to create an RTO with great enough scope to cover the entire Northeast. This NERTO was to incorporate a market design largely based upon the PJM model with the additional inclusion of market ‘best practices’ found in the New York and New England markets. The July 2001 FERC Order was one in a series of rulings where the Commission promulgated the concept that the continental United States electricity market would be best facilitated via the

creation of five super RTOs: a Northeast RTO, a Southeast RTO, a Midwest RTO, a West RTO and ERCOT, which services Texas. To jumpstart the process, RTO negotiation sessions and hearings were held by FERC throughout the country during the summer and fall of 2001.

“However, the FERC’s paradigm of super-sized RTOs quickly came under attack by state regulators and regional interests who preferred the status quo or some other market design — in part due to the unfavorable experience of electricity deregulation in California. Later, the financial collapse of the Enron Corporation had a chilling effect on FERC’s restructuring efforts. Also as a result of the RTO mediation process, FERC became more acutely aware that the domestic electricity markets were in different stages of development. While the push for super RTOs might eradicate many of the differences in open access and competition within regions, it could have the adverse effect of permanently Balkanizing the individual super regions. This was especially true if each RTO chose to implement market rules that were incompatible with their neighbors, thus eliminating significant economies that could be gained through a common market.

“Consequently, since early 2002, FERC has toned down its advocacy of the super RTO concept and redirected its focus on developing a Standard Market Design (‘SMD’) as well as forging closer ties with state regulators. A recent SMD Working Paper issued by FERC staff espouses many of the market design features already incorporated by the NYISO. Additionally, a cost-benefit study produced for the FERC by ICF Consulting found value in FERC’s new approach on concentrating on SMD rather than the quick formation of super RTOs. However, while not as vocal in pushing for super-sized RTOs, FERC still strongly supports the RTO concept and has made clear to market participants that they want them instituted.

DISCUSSION

“Following the August 2001 mediation efforts, the PJM, New York and New England ISOs made good faith efforts to form a Northeast RTO but were unable to reach a common vision. On January 29, 2002, the New York and New England ISOs announced an agreement to develop a common market and a NERTO. This NERTO would initially encompass New York and New England but ultimately be opened to include IMO Ontario, Hydro-Quebec, New Brunswick and Nova Scotia should these entities elect to participate.

“The proposed NERTO filing has been subject to a stakeholders input process. In conjunction with representatives from the New York and New England ISOs, market participants have been an integral part of working groups covering topics dealing with market design, market monitoring & mitigation, planning & system expansion, operations, transmission tariff rules, economic & reliability evaluation, and governance. Authority staff has been represented on all these subject area working groups.

“Straw proposals were issued for each subject area and meetings held on the proposals to acquire stakeholder feedback. From the straw proposals and working group meetings draft positions were created for the subject areas and then presented at plenary sessions to representatives of the NYISO Management Committee and New England Participants Committee. The plenary sessions, the last of which is scheduled for May 29, 2002, have been offering further opportunity for stakeholders to provide feedback into the process.

“On May 14, 2002, the ISOs released a draft report on Northeast RTO costs and benefits. The report suggests that New York State will benefit from the creation of a NERTO. The proposed merger of the ISOs and the establishment of a NERTO is projected to produce annual savings in wholesale power costs of \$282 million for New York (‘NY’) electricity consumers by 2005. These savings represent approximately 6% of total NY wholesale power costs. Study results also show that an expanded NERTO that includes the PJM ISO would result in benefits to NY of \$367 million in 2005. In 2010 projected benefits for the proposed NERTO decline to \$147 and to \$186 million in a PJM expanded NERTO. Benefits result from the creation of standardized markets, the elimination of export fees, the creation of a single dispatch system and savings in administrative efficiency. While the studies suggest NY will see benefits from the formation of the NERTO, it also projects that New England and PJM will see increased wholesale power costs from a merger.

“The New York and New England ISOs plan to make an RTO filing to FERC on June 28, 2002. A full tariff filing is not envisioned. It will be a filing designed to obtain a declaratory order from FERC on RTO status. The filing will include a market implementation plan, an explanation of how the proposed RTO meets the functions

and characteristics defined in FERC's Order 2000 and a description of how the proposed RTO solves the shortcomings identified by the Commission in its previous disapprovals of the respective ISOs RTO applications. The market implementation plan will be a general blueprint. After receiving further guidance from FERC, a collaborative process between stakeholders and NERTO will be undertaken to flesh out the details of the new market. If the plan is approved by FERC in the form currently envisioned, Day 1 of NERTO would essentially be the continued operation of the separate New York and New England ISO markets with certain barrier to trade issues, such as pancaking of transmission rates, remedied. Market modifications will be implemented on an ongoing basis with a single end-state electricity market start-up anticipated in 2005. The end-state market will most likely reflect FERC's finalized Standard Market Design, possibly adjusted for regional needs.

"The ISOs will be looking for stakeholder support for the filing at FERC through votes at the NYISO Management Committee on June 13th and at the NE Participants Committee on June 14th. The Authority will be voting on this issue at the NYISO's Management Committee meeting, however, this vote will not bind the Authority to join NERTO if FERC agrees that the proposed merger satisfies the requirements of a RTO.

"Subsequent to the June 28th filing, Authority staff will participate in the expected working group activities to prepare the detailed tariff and agreement filings that will be necessary if the NERTO is to be formed. The foremost part of our effort will be to ensure that the rights that the Authority has under NYISO operation are protected and preserved. Specifically, the proposed NERTO must safeguard essential features of the Authority's existing contracts with our customers; allow the Authority to meet its transmission revenue requirement; preserve our tax exempt bond status; and not disproportionately impact the Authority's customers.

"Furthermore, the proposed filing to form the proposed NERTO must demonstrate that it is in the public interest; will lead to a more efficient electricity market; lower costs for consumers; reduce or eliminate the occurrences of market power; and improve the identification and selection of new transmission reinforcements in order to maintain reliability and reduce congestion. Lastly, the proposed NERTO must address and satisfactorily resolve outstanding billing issues and subject the billing software and procedures for the single end-state market to rigorous trials prior to the start-up of that market. There must be a clear demonstration that there will not be a recurrence of the billing and settlement problems associated with the start-up of the NYISO.

"Dependent upon FERC's approval of the plan and after detailed agreements and tariff language have been drafted and the Authority's threshold requirements met, staff will report back to the Trustees. At that time staff will request authorization from the Trustees to sign documents related to the transfer of operational control of the Authority's transmission assets and our participation in a NERTO."

Mr. Hiney presented the highlights of staff's informational report to the Trustees.

Mr. Hiney then gave a detailed report on the Authority's ongoing participation in talks concerning the possible establishment of a Northeast Regional Transmission Organization ("NERTO").

Responding to questions from Chairman Ciminelli, Mr. Hiney explained that the NERTO was expected to result in savings by opening up broad markets for the Authority's services. Describing those various market possibilities, Mr. Hiney stressed that the most important priority is creating markets that work efficiently and that, by comparison, the size and scope of those markets is really a secondary concern. He also stated that a principal concern of the New York Transmission Owners was to assure the continuation of the special local reliability rules applicable to New York City going forward.

In response to questions from Trustee Seymour, Mr. Hiney explained that the New England ISO was working to implement Locational Based Marginal Pricing ("LBMP"), that the expectation was that the N.Y.

market design would be used by the NERTO and that the Pennsylvania-New Jersey Maryland market design was similar to that used in N.Y. He also explained, in response to questions from Chairman Ciminelli, that benefits would result from integrating Ontario and New Brunswick with New York and New England and that there could be additional benefits from a linkage with PJM. However, with PJM looking to hook up with the Midwest ISO, the focus should be on working to eliminate the “seams issues” with PJM so a single market that works could be developed.

Responding to questions from Trustee DiMarco, Messrs. Hiney and Haase discussed the impact of this process on the NYISO’s request for increased construction and generation capacity. Staff opined that if plants are not built in New York, a larger market would be desirable. However, staff cautioned against heavy reliance on out-of-state generation, citing the California situation. Finally, staff advised that the ISO believes that 6000 to 7000 MW of new power plants are needed in New York in order to meet reliability requirements and to create a competitive generation market.

Mr. Hiney emphasized that this is an ongoing process and that, while no final decisions have been reached, he felt it was important to report to the Trustees on the status of these talks due to the significance of the issues being discussed. Vice Chairman McCullough thanked Mr. Hiney for a very informative and helpful report.

9. **Motion to Conduct Executive Session**

Mr. Chairman, I move that the Authority conduct an executive session to discuss matters affecting the public safety and matters relating to effective law enforcement, and matters relating to the appointment, award and retention of services of particular persons and corporations.

On motion duly made and seconded, an Executive Session was held at approximately 11:30 a.m. in connection with matters affecting the public safety and matters relating to effective law enforcement, and matters relating to the appointment, award and retention of services of particular persons and corporations.

10. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session.

On motion duly made and seconded, the meeting resumed in open session at approximately 1:45 p.m.

11. Next Meeting

The next Regular Meeting of the Trustees will be held on **Tuesday, June 25, 2002** at the **White Plains Office at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

12. Closing

Upon motion made and seconded, the meeting was closed at 1:45 P.M.

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

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