

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

February 27, 1996

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the New York Office at 10:00 a.m.

Present: Clarence D. Rappleyea, Chairman
Thomas R. Frey, Vice Chairman
Hyman M. Miller, Trustee
Robert J. Waldbauer, Trustee

Trustee Louis P. Ciminelli was excused from attendance.

Robert G. Schoenberger	President and Chief Operating Officer
Charles M. Pratt	General Counsel
William J. Cahill	Chief Nuclear Officer
John F. English	Senior Vice President - Transmission
Robert A. Hiney	Senior Vice President - Power Generation
Louise M. Morman	Senior Vice President - Marketing and Economic Development
Philip J. Pellegrino	Senior Vice President - Energy Efficiency & Technology
Robert L. Tscherne	Senior Vice President - Business Services
Arnold M. Bellis	Vice President - Controller
Woodrow W. Crouch	Vice President - Project Management - Power Generation
Deborah Perry Estrin	Vice President - Human Resources
H. Kenneth Haase	Vice President - System Planning
John M. Hoff	Vice President - Procurement and Real Estate
Charles I. Lipsky	Vice President - Chief Engineer
Stephen P. Shoenholz	Vice President - Public Affairs
Ronald W. Ciamaga	Regional Manager - Northern New York
James Ford	Regional Manager - Western New York
Richard E. Kuntz	Regional Manager - Southeast New York
James J. McCarthy	Regional Manager - Central New York
Daniel P. Berical	Director - Intergovernmental Affairs
John W. Blake	Director - Environmental Programs
Joseph J. Brennan	Director - Internal Audit
Frederick E. Chase	Director - Community Relations
H. Lydia Maide	Director - Major Accounts - Governmental
Robert H. Meehan	Director - Compensation and Benefits
John L. Murphy	Director - Public Information
Gary N. Paslow	Director - Policy Development
James H. Yates	Director - Business Marketing and Economic Development
George W. Collins	Treasurer
Anne Wagner-Findeisen	Corporate Secretary
Laura M. Badamo	Assistant Corporate Secretary - Legal Affairs
Vernadine E. Quan-Soon	Assistant Corporate Secretary - Corporate Affairs

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

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1. **Approval of the Minutes**

The minutes of the Regular Meeting of January 30, 1996 were approved.

Opening Remarks of the Chairman

At Chairman Rappleyea's invitation, the Energy Efficiency staff presented a videotape on the status of the development of the hybrid electric bus. Mr. Pellegrino explained that the overall funding for the electric bus project is \$20 million, of which \$4.5 million is from the Authority's POCR funds, with the remainder to be paid by the New York State Consortium. In response to questions from Vice Chairman Frey, Mr. Chezar stated that the precise cost-per-mile of operating the hybrid bus is not yet known; however, General Electric has indicated that the cost will in due course be competitive with inexpensive diesel fuel.

2. Financial Report for the Twelve Months Ended December 31, 1995

Mr. Tscherne reported that for fiscal year 1995, the Authority experienced a net loss of \$48.5 million. The primary cause of the loss was the continuing IP3 outage, which resulted in gross losses totaling \$58 million for the SENY area alone, along with additional non-recurring expenses such as the \$15 million transition assessment payment made to the State of New York for IP3. In the absence of such non-recurring expenditures, there would have been net revenues of some \$1.4 million. In response to questions from Vice Chairman Frey, Mr. Tscherne explained that, as has been customary during the month of December, a number of accounting adjustments were made, for example for inventory, which impact the revenue picture for that month. In the future, however, staff plans on spreading out such adjustments over the entire twelve-month period.

**3. Diversity Power Contract with Hydro-Québec -
Price for Firm Energy Purchases for the 1996 Season**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve letter agreements concerning the proposed amounts and prices for the 1996 summer Diversity Energy to be purchased from Hydro-Québec and resold to Consolidated Edison Company of New York, Inc. ('Con Edison') and Rochester Gas & Electric Corporation ('RG&E').

BACKGROUND

"In 1974 the Authority entered into a contract with Hydro-Québec for the purchase of 800,000 kilowatts ('kW') of Firm Diversity Power and up to 3 billion kilowatt-hours ('kWh') per year of Diversity Energy. Service under the contract began in 1979 after the Authority's Massena-Marcy 765 kilovolt transmission line was placed in service and will end October 31, 1998. The power is sold to Con Edison (780,000 kW) and RG&E (20,000 kW) during the seven warm weather months (April through October) of the year when New York State experiences its annual peak load. The contract provides that the amount of and price for Diversity Energy each year will be subject to negotiation. If no agreement is reached on the amount and price, or if agreement is made to purchase less than the 3 billion kWh, the contract provides that the remaining energy may still be taken during the summer months but it must be returned the following winter.

DISCUSSION

"The Diversity contract provides that a proposed amount and price of energy be offered two years prior to the delivery. Accordingly, in March 1994, Hydro-Quebec offered the full contractual amount of 3 billion kWh of energy for the 1996 Diversity period at a base price of 35 mills per kWh with an index to monthly oil prices. This price formula was not acceptable to the Authority and the utilities since it was believed that less expensive energy would be available during that period.

"Subsequently, the parties completed negotiation of energy prices for a firm take-or-pay basic amount of 2.75 billion kWh of Diversity Energy for the 1996 period. This amount of energy will be resold to Con Edison since RG&E has informed the Authority that it will not buy any basic amount. As provided in the contract, the balance of 0.25 billion kWh (250 million kWh) may also be purchased subject to the requirement that any amount purchased from this balance must be returned in the winter months. As part of the negotiated price it was agreed that Hydro-Quebec will have the option of whether or not the 'take-and-return' energy taken by Con Edison only will be added to the basic amount of energy purchased by Con Edison, thus eliminating its obligation to return this amount. RG&E may purchase up to its full contractual entitlement of 75 million kWh of the balance of 250 million kWh of Diversity Energy and return it during the winter months.

"The price for the basic amount as well as any 'take-and-return' energy, exclusive of transmission charges is 19 mills per kWh during on-peak hours (Monday through Friday, 7 am to 11 pm) and 16 mills per kWh during off-peak hours. The Authority provides firm transmission service from April through October each year to Con Edison and RG&E under a related agreement approved previously by the Trustees. This transmission service produces annual revenues of approximately \$19 million for the Authority.

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"Attached for approval is a proposed letter agreement (Exhibit `3-A') between Hydro-Québec and the Authority for the basic amount of 2.75 billion kWh of summer Diversity Energy for 1996. Also attached are proposed letter agreements (Exhibits `3-B-1' and `3-B-2') with Con Edison and RG&E for the 1996 period. The agreement with Hydro-Québec will be contingent upon Con Edison's formal acceptance of the agreement.

"The agreement for the sale of the Diversity Energy is subject to the approval of the Hydro-Québec Board and the National Energy Board of Canada.

FISCAL INFORMATION

"All costs incurred by the Authority for the purchase of energy from Hydro-Quebec for Con Edison and RG&E are recovered from those utilities.

RECOMMENDATION

"The Senior Vice President - Transmission Business Unit recommends that the proposed letter agreements with Hydro-Québec, Consolidated Edison Company of New York, Inc. and Rochester Gas & Electric Corporation be approved substantially in the form attached hereto.

"The General Counsel, the Senior Vice President - Business Services, and I concur in the recommendation."

In response to questions from Trustee Miller, President Schoenberger confirmed that the Authority earns \$19 million annually in transmission revenues from Con Edison. In response to further questions from Trustee Miller, Mr. English explained that although RG&E has indicated that it does not wish to purchase any of the basic amount of diversity energy as defined in the contract, RG&E has the contractual right of opting to take portions of the remaining energy taken during the summer months on condition of returning such energy the following winter. In response to questions from Vice Chairman Frey, Mr. English stated that the transmission line will be fully amortized upon the expiration of this contract and that, commencing in 1998, the Authority can anticipate other opportunities for transmission revenues from the use of the line.

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

WHEREAS, the Authority entered into a 1974 contract with Hydro-Quebec for sale to the Authority of Diversity Power and Energy which provides that the amount and price of Diversity Energy for the years after 1981 will be subject to negotiation; and

WHEREAS, Hydro-Quebec and the Authority have agreed on the amounts and prices for Diversity Energy for 1996; and

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WHEREAS, Consolidated Edison Company of New York, Inc. and Rochester Gas & Electric Corporation have indicated acceptance of proposed amounts and prices of Diversity Energy and firm energy for the 1996 Diversity Period;

NOW THEREFORE BE IT RESOLVED, That the proposed amounts and prices of Diversity Energy be approved, and that the Senior Vice President - Transmission Business Unit be, and hereby is, authorized to execute a letter agreement, substantially in the form attached hereto, with Hydro-Quebec for the purchase of Diversity Energy as recommended in the foregoing report of the President, contingent upon formal approval of such agreement by Consolidated Edison Company of New York, Inc. for sale of Diversity Power and Energy.

Exhibit `3-B-1'
February 27, 1996

Mr. Richard Dudeck
Energy Operations
Rochester Gas and Electric Corp
89 East Avenue
Rochester, NY 14649-0001

Dear Mr. Dudeck:

This Letter Agreement confirms that in accordance with the provisions of our Contract for Diversity Power and Energy, under Service Tariff 4, as amended by Service Tariff 4A on September 28, 1993, the basic amount of Diversity energy available for Rochester Gas and Electric Corp. (RG&E) for the 1996 Diversity period is zero (0) GWH, as elected by RG&E in its March 31, 1995 letter.

The remaining amount of Diversity Energy which is available to RG&E, pursuant to Special Provision D of Service Tariff No. 4, is 75 GWH. The price RG&E shall pay the Authority for this Diversity energy shall be \$US 19.00 /MWH during on-peak hours and \$16.00/MWH during off-peak hours.

The attached letter agreement dated March 13, 1995 between the Authority and Hydro-Quebec from which the amounts, price and terms for the Diversity Energy are derived, is incorporated herein by reference and made part of this Letter Agreement.

In all respects not covered hereby, the contract for the sale of Diversity Power and Energy dated February 5, 1980, and amended September 28, 1993, between the Authority and RG&E shall govern the sale of Diversity Power and Energy from the Authority to RG&E.

If you concur with the foregoing, please sign in the area below indicating your acceptance.

Sincerely,

For Rochester Gas and Electric Corp.:

John F. English

Name:

Senior Vice President
Transmission Business Unit

Title:

Date: _____

Exhibit `3-B-2'
February 27, 1996

Mr. William Harkins
Vice President
Planning and Inter-Utility Affairs
Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, NY 10003

Dear Mr. Harkins:

This Letter Agreement confirms that in accordance with the provisions of our Contract for Diversity Power and Energy, under Service Tariff 4, as amended by Service Tariff 4A on September 28, 1993, the basic amount of Diversity energy available for Consolidated Edison Company of New York, Inc. (Con Edison) for the 1996 Diversity period is 2,750 GWH. The price Con Edison shall pay the Authority for this Diversity energy shall be \$US 19.00 /MWH during on-peak hours and \$16.00/MWH during off-peak hours.

For any of the remaining amount of Diversity Energy which Con Edison, pursuant to Special Provision D of Service Tariff No. 4, actually takes in excess of the basic amount, up to a maximum entitlement of 175 GWH, Con Edison agrees that the Authority, acting consistently with Hydro-Quebec and at their sole discretion, may declare such excess as additional basic amount of Diversity Energy.

The attached letter agreement dated March 13, 1995 between the Authority and Hydro-Quebec from which the amounts, price and terms for the Diversity Energy are derived, is incorporated herein by reference and made part of this Letter Agreement.

In all respects not covered hereby, the contract for the sale of Diversity Power and Energy dated November 8, 1978, and amended September 28, 1993, between the Authority and Con Edison shall govern the sale of Diversity Power and Energy from the Authority to Con Edison. If you concur with the foregoing, please sign in the area below indicating your acceptance.

Sincerely,

For Consolidated Edison of New York, Inc.:

John F. English

Name:

Senior Vice President
Transmission Business Unit

Title: _____

Date: _____

4. 1995 Annual Report on the Authority's Investments

The President submitted the following report:

SUMMARY

"The Trustees are requested to: (i) review and approve the attached 1995 Annual Report on Investment of Authority Funds (Exhibit `4-A'); and (ii) approve an amendment to the Guidelines for the Investment of Funds (the `Guidelines') to have the Senior Vice President - Business Services assume the responsibilities under the Guidelines of the Vice President - Corporate Finance, which position has been eliminated.

BACKGROUND

"Section 2925 of the Public Authorities Law requires the review and approval of an annual report on investments. Pursuant to the statute, the attached report includes investment guidelines that set standards for the management and control of the Authority's investments, a summary of the Guidelines, a detailed inventory report for each of the Authority's 11 portfolios at December 29, 1995, the total investment income earned in 1995, the results of an independent audit, a summary of purchases from dealers and banks, and a statement on fees paid for investment services. The approved annual report is filed with the State Division of Budgets with copies to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon reasonable request therefor.

DISCUSSION

"In 1995, the Authority's investment portfolio size averaged \$1.0 billion and earned \$63 million. This is \$17 million less than in 1994 due to a reduction in the portfolio's size. Income in 1995 from the Authority's non-yield-restricted portfolios had an average yield of 6.72%, exceeding the Authority's established performance measure by two basis points (2/100 of one percent). The performance benchmark is the yield on the Shearson Lehman index for one-to-three year government securities plus 25 basis points. This benchmark is used because it is comprised of government securities having a duration approximating the Authority's projected cash flow requirements.

"In the aggregate, the portfolio consisted of: 30% direct obligations of the U.S. Government; 64% Agencies of the U.S. Government; and 6% municipal securities. To comply with arbitrage rules contained in the tax code, approximately \$361 million of Authority investments are now yield restricted at interest rates averaging 5.87%.

"The Annual Report states that the Authority's Nuclear Decommissioning Trust (the `Trust') account paid \$843,046.03 to J.P. Morgan and RCM Capital for investment management services. The managers are paid a percentage of the funds under management, and in 1995, fees represented approximately 26 basis points. At their meeting of August 29, 1995, the Trustees replaced J.P. Morgan with Strong Capital, effective October 1, 1995, and negotiated lower fees with both RCM Capital and Strong Capital. The re-negotiated fees for 1996 will result in fees of 15 basis points and savings of \$451,000 based upon December 29, 1995 balances.

"At year-end, the Trust's market value was approximately \$415 million. The Nuclear Regulatory Commission mandates that minimum decommissioning reserves be segregated from the Authority's other assets and be beyond day-to-day administrative control to afford protection from the claims of creditors in the event of bankruptcy. To comply with this mandate, the Trustees approved a Master Decommissioning Trust at their meeting of June 26, 1990. The Trust allows for investments in a broad range of high quality government, corporate, and foreign securities and allows for the

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use of futures and options. Recognizing the greater flexibility for investment types and duration, the Trust's performance is measured against the Shearson Lehman Aggregate Bond Index. In 1995, the Trust achieved a 18.5% percent total return net of management and trustee fees, matching the benchmark return for the year. On a cost basis, the Trust achieved a 10.8% positive return and realized \$38.5 million in earnings. Since its inception in August 1990, the Trust's annualized total return has been 10.5% and has outperformed the Index by 50 basis points. The Trust is currently yielding approximately 6.9%.

"In connection with its examination of the Authority's financial statements, Coopers & Lybrand L.L.P. reviewed and tested the Authority's compliance with the Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Their report, a copy of which is attached as Exhibit `4-B', states that the results of their tests disclosed no instances where the Authority was not in compliance with these Guidelines.

"Staff is recommending that the Guidelines be updated to reflect the elimination of the position of Vice President - Corporate Finance, with the responsibilities previously granted under the Guidelines to that position be given to the Senior Vice President - Business Services. The Guidelines are set forth in Section I of the 1995 Annual Report on Investment of Authority Funds, attached hereto as Exhibit `4-A'. The attached Guidelines have been updated throughout to reflect this change.

"The Investment Guidelines and procedures have not been amended since last presented and approved by the Trustees at their meeting of February 28, 1995.

RECOMMENDATION

"The Treasurer recommends that the Trustees approve the attached 1995 Annual Report on Investment of Authority Funds and approve the amendment of the Guidelines to reflect the elimination of the position of Vice President - Corporate Finance, as discussed above.

"The General Counsel, the Senior Vice President - Business Services, and I concur in the recommendation."

In response to questions from Trustee Waldbauer, Mr. Tscherne explained that, pursuant to federal legal mandates, any interest earned on the Decommissioning Trust Fund must remain in the Fund, and staff monitors its growth, which is currently projected at a rate of about 7%. In response to questions from Vice Chairman Frey, Mr. Tscherne stated that the amount which must annually be deposited in the Fund varies according to annual calculations; for 1995, such amount was \$20 million. In response to questions from Trustee Miller, Mr. Tscherne stated that the Authority's Guidelines preclude the use of "reverse repos," but permit regular repos which are secured by collateral in the form of Treasury bills held by a custodian bank in the Authority's name.

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

RESOLVED, That the 1995 Annual Report of Investment of Authority Funds be, and hereby is, approved; and be it further

RESOLVED, That the Investment Guidelines be amended as follows:

- (1) **Paragraph II shall be amended to read as follows:**

II. Responsibility for Investments

The Treasurer and Deputy Treasurer have the responsibility for the investment of Authority funds under the general supervision of the Senior Vice President - Business Services. The Treasurer shall ensure that an operating manual is maintained that provides a detailed description of procedures for maintaining records of investment transactions and related information.

- (2) **Paragraph VI, Section C, Sentence One, shall be amended to read as follows:**

Each purchase or sale of Investment Securities or Authorized Certificates of Deposit shall be authorized by the Treasurer or Deputy Treasurer.

- (3) **Paragraph VII, Section B.4., shall be amended to read as follows:**

VII. Policies Concerning Certain Types of Investments Diversification Standards Required

B4. No more than \$50 million of Investment securities shall be purchased under a Repurchase Agreement with any one Dealer or Bank. This requirement may be waived by the Senior Vice President - Business Services on a single transaction basis only if warranted by special circumstances and documented in writing.

**1995 Annual Report on
Investment of Authority Funds
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Section I	Guidelines for the Investment of Funds
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Section V	Summary of Dealers and Banks From Whom Securities were Purchased

Section I

New York Power Authority Guidelines for the Investment of Funds

I. General

These Guidelines for the Investment of Funds (the "Guidelines") are intended to effectuate the applicable provisions of the General Purpose Bond Resolution adopted November 26, 1974, as amended and supplemented (the "Resolution"), the lien and pledge of which covers all accounts and funds of the Authority and which govern the Authority's existing policies and procedures concerning the investment of funds as contained in these Guidelines. In a conflict between the Guidelines and the Resolution, the latter shall prevail.

In addition, these Guidelines are intended to effectuate the provisions of Section 2925 of the New York State Public Authorities Law.

II. Responsibility for Investments

The Treasurer and Deputy Treasurer have the responsibility for the investment of Authority funds under the general supervision of the Senior Vice President-Business Services. The Treasurer shall ensure that an operating manual is maintained that provides a detailed description of procedures for maintaining records of investment transactions and related information.

III. Investment Goals

The Treasurer and Deputy Treasurer are responsible for maximizing the yield on investments consistent with requirements for safety, minimization of risk and liquidity. Monies will not be invested for terms in excess of the projected use of funds.

IV. Authorized Investments

- A. Monies in funds established pursuant to the Resolution shall be invested in Investment Securities or Authorized Certificates of Deposit, defined as follows:

"Investment Securities" as defined in the Resolution means and includes any of the following securities:

1. Direct obligations of or obligations guaranteed by the United States of America or the State of New York;
2. Bonds, debentures, or notes issued by any of the following: Banks for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; the Government National Mortgage Association if such bonds, debentures or notes are guaranteed by the Government National Mortgage Association; or Federal Financing Bank or any other agency or instrumentality of the Federal Government established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;

3. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America; or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
4. Direct and general obligations, the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (a) all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitations as to rate or amount, and (b) at the time of their purchase under the Resolution, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in the State of New York.

"Authorized Certificates of Deposit" as defined in the Resolution means negotiable or non-negotiable certificates of deposit issued by any bank, trust company or national banking association which is a member of the Federal Reserve System, including certificates of deposit issued by the Trustee and Paying Agent.

- B. The Authority, as an issuer of tax-exempt obligations, must not engage in any arbitrage practice prohibited by the arbitrage regulations promulgated under Section 103(c) of the Internal Revenue Code. In no event will funds of the Authority be invested in a manner that will violate the provisions of such Section 103(c).

V. **Provisions Relating to Qualifications of Dealers and Banks**

- A.1. The purchase and/or sale of Investment Securities shall be transacted only through banks, trust companies or national banking associations (herein collectively termed "Banks") which are members of the Federal Reserve System and government security dealers (herein termed "Dealers"), which are Banks and Dealers reporting to, trading with, and recognized as primary dealers by the Federal Reserve Bank of New York. Banks and Dealers shall have demonstrated an ability to:
 - a) offer superior rates or prices on the types and amounts of securities required;
 - b) provide a high degree of attention to the Authority's investment objectives; and
 - c) execute trades in a timely and accurate manner.
- A.2. Investment Securities may also be purchased or sold through minority and women owned firms authorized to transact business in the U.S. government and municipal securities markets. Such qualified firms shall demonstrate the qualities detailed in clauses (a), (b) and (c) of V.A.1.
- A.3. Municipal Securities qualifying as "Investment Securities" as defined in the Resolution may also be purchased or sold through any municipal bond dealer registered in the State of New York who demonstrates the qualities detailed in clauses (a), (b) and (c) of Paragraph V.A.1.
- B. Authorized Certificates of Deposit and time deposits shall be purchased directly from Banks which:
 - (1) are members of the Federal Reserve System transacting business in the State of New York;
 - (2) have capital and surplus aggregating at least \$50,000,000; and

- (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of V.A.1.
- C. Investment Securities purchased by the Authority or collateral securing its investments shall be deposited only with custodians designated by the Authority. Such custodians shall be Banks which are members of the Federal Reserve System transacting business in the State of New York.
- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business, and (3) delivery instructions for the safekeeping of investments.
- E. The Authority shall enter into a written contract with any (1) Dealer from whom Investment Securities are purchased subject to a repurchase agreement and (2) Bank from whom Authorized Certificates of Deposit are purchased.

VI. **General Policies Governing Investment Transactions**

- A. Competitive quotations or negotiated prices shall be obtained except in the purchase of government securities at their initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and or Banks, except as indicated above, and the most favorable quote accepted. The Treasurer or Deputy Treasurer may waive this requirement on a single transaction basis only if warranted by market conditions and documented in writing.
- B. Investment Securities purchased shall be either delivered to the Authority's designated custodian or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, recorded in the Authority's name or in the name of a nominee agent or custodian designated by the Authority on the books of the Federal Reserve Bank of New York or the Depository Trust Company. Payment shall be made to the Dealer or Bank only upon receipt by the Authority's custodian of (1) the securities or (2) in the case of securities held in a book-entry account, written advice or wire confirmation from the Federal Reserve Bank of New York or the Depository Trust Company that the necessary book-entry has been made.
- C. Each purchase or sale of Investment Securities or Authorized Certificates of Deposit shall be authorized by the Treasurer or Deputy Treasurer. Investment orders may be placed by Authority employees as designated by the Treasurer. The custodian shall have standing instructions to send a transaction advice to the Authority's Controller for purposes of comparison with internal records. The Controller shall advise the Treasurer of any variances and the Treasurer shall ensure appropriate corrections are provided.

VII. Policies Concerning Certain Types of Investments Diversification Standards Required

A. Authorized Certificates of Deposit and Time Deposits

1. Authorized Certificates of Deposit and Time Deposits shall be purchased directly from a Bank in the primary market.
2. Authorized Certificates of Deposit and Time Deposits shall be continuously secured by Investment Securities defined in subsection (1) or (2), having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such Certificates of Deposit or Time Deposits. Such Investment Securities shall be segregated in a separate custodian account on behalf of the Authority.
3. Investments in Authorized Certificates of Deposit or Time Deposits shall not exceed 25% of the Authority's invested funds. The par value of Authorized Certificates of Deposit purchased from any one Bank shall not exceed 5% of that Bank's total capital surplus.

B. Repurchase Agreements

The Authority may from time to time elect to enter into arrangements for the purchase and resale of Investment Securities (known as "Repurchase Agreements"). This type of investment transaction shall be used only when there is no other viable, short-term investment alternative.

1. A Repurchase Agreement shall be transacted only with a Dealer or Bank qualified to sell Investment Securities to the Authority which is recognized by the Federal Reserve Bank as a primary dealer.
2. Investment Securities purchased subject to a Repurchase Agreement shall be marked to market daily to ensure its value equals or exceeds the purchase price.
3. A Repurchase Agreement shall be limited to a maximum fixed term of five business days. Payment for the purchased securities shall be made against delivery to the Authority's designated custodian (which shall not be a party to the transaction as seller or seller's agent) or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, written advice that the securities are recorded in the Authority's name or in the name of a nominee, agent or custodian designated by the Authority on the books of the Federal Reserve Bank or the Depository Trust Company.
4. No more than \$50 million of Investment Securities shall be purchased under a Repurchase Agreement with any one Dealer or Bank. This requirement may be waived by the Senior Vice President - Business Services on a single transaction basis only if warranted by special circumstances and documented in writing.
5. The aggregate amount invested in Repurchase Agreements may not exceed the greater of 5% of the investment portfolio or \$100 million. The Senior Vice President-Business Services may waive this requirement on a single transaction basis only if warranted by cashflow requirements and documented in writing.

6. The Authority may not enter into arrangements (known as Reverse Repurchase Agreements) for the purpose of borrowing monies by pledging Investment Securities owned by the Authority.

VIII. Review

These Guidelines and any proposed amendments shall be submitted for Trustee review and approval at least once a year.

In addition to the Authority's periodic review, the Authority's independent auditors, in connection with their examination of the Authority, shall perform an annual audit of the investment portfolio, review investment procedures and prepare a report, the results of which will be made available to the Trustees.

XI. Reports

- A. The Treasurer shall submit an investment report to the Trustees, at least quarterly. Such report shall contain a (1) detailed description of each investment; 2) summary of the dealers and banks from which such securities were purchased; and (3) a list of fees, commissions or other charges, if any, paid to advisors or other entities rendering investment services.
- B. The Treasurer shall submit an annual report for approval by the Trustees. In addition to the information provided quarterly, the Annual Report shall include (i) a copy of the Guidelines; (ii) an explanation of the Guidelines and any amendments thereto since the last annual report; (iii) the results of an annual independent audit of investment inventory and procedures, and (iv) a record of income earned on invested funds. The approved report shall be submitted to the Division of the Budget with copies distributed to the Office of the State Comptroller, the Senate Finance Committee, and the Assembly Ways and Means Committee. Copies shall be made available to the public upon written reasonable request.
- C. Any waivers which occurred during the prior month shall be reported to the Senior Vice President-Business Services.

X. Miscellaneous

- A. These Guidelines are intended for guidance of officers and employees of the Authority only, and nothing contained herein is intended or shall be construed to confer upon any person, firm or corporation any right, remedy, claim or benefit under, or by reason, of any requirement or provision thereof.
- B. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.
- C. No provisions in these Guidelines shall be the basis of any claim against any Trustee, officer or employee of the Authority in his or her individual or official capacity or against the Authority itself.

Section II

EXPLANATION OF INVESTMENT GUIDELINES

Section II Responsibility for Investments

Establishes responsibility for the Investment of Authority Funds and limits the number of individuals authorized to place investment orders.

Section III Investment Goal

Establishes the policy that earning a reasonable return on investments must be consistent with standards set for minimization of risk and availability of funds when needed.

Section IV Authorized Investments

Details the types of investments which the Authority can undertake as prescribed in Section 101 of the General Purpose Bond Resolution.

This section also requires that investments made in each of the Funds established under the General Purpose Bond Resolution be invested for a term commensurate with cash flow expectations and that such investments will not violate Section 103(c) of the Internal Revenue Code.

Section V Provisions Relating to Qualifications of Dealers and Banks

Establishes criteria for the selection of banks and dealers from which the Authority may buy or sell investments. Business is transacted with firms who have demonstrated financial strength and a high degree of reliability with respect to servicing of the Authority's needs. This section also directs that custody of Authority investments shall be maintained by banks which are members of the Federal Reserve System transacting business in the State of New York.

This section also addresses the subject of contracts with banks and dealers for the purchase or sale of Investment Securities. The Authority has written Letters of Agreement with authorized dealers that specify the types of securities in which the Authority may invest and identify those Authority individuals authorized to give instructions related to the purchase and sale of securities. In addition, the Authority shall have a written form of agreement for use in repurchase transactions with any authorized dealer with whom the Authority may transact this type of investment.

Section VI General Policies Governing Investment Transactions

Requires that the Authority solicit no less than three bids for the purchase or sale of securities in order to ensure the most favorable rate except when securities are purchased at their initial auction, upon new issue or through negotiated prices.

Requires that the Authority or its custodian, prior to payment, take possession of such securities, or in the case of book entry securities, obtain written advice or wire confirmation that transfer or ownership has been recorded.

Establishes authorized employees to approve the purchase or sale of securities. Establishes control procedures whereby the Controller shall compare the custodian's confirmation to Authority records.

Section VII Policy Concerning Certain Types of Investment Diversification Standards Required

Establishes a policy concerning the purchase of Certificates of Deposit and Time Deposits intended to minimize the risk associated with such transactions. Certificates of Deposit or Time Deposits may be purchased directly from a bank which is a member of the Federal Reserve System transacting business in the State of New York. Such deposits shall be continuously secured by direct obligations of, or guaranteed by, the U.S. Government or the State of New York. This collateral shall be regularly priced to current market to assure the Authority's security interest is continuously protected. Aggregate holdings of Certificates of Deposit shall not exceed 25% of the Authority's total investment. Certificates of Deposit purchased from any one bank shall not exceed 5% of that bank's capital.

Establishes a policy intended to minimize the risk associated with arrangements for the purchase and resale of investment securities known as Repurchase Agreements ("Repos"). Repos purchased from any one qualified dealer or bank shall not exceed \$50 million and shall be limited to a maximum fixed term of five business days. Aggregate investments in Repos shall not exceed the greater of 5% of the Authority's total investments or \$100 million. All securities purchased under the terms of a Repo shall be held in safekeeping by a designated custodian for the Authority. Such securities shall be priced to market on a daily basis to assure the Authority's security interest. Reverse Repurchase Agreements are not authorized transactions.

Section VIII Review

Establishes policy requiring review of the Guidelines at least once a year. Requires an annual audit by the Authority's independent auditors of the Authority's investment portfolio and compliance with the guidelines established by the Authority and the State Comptroller.

Section IX Reports

Establishes policy requiring submission of reports to the Authority's Trustees concerning the management and performance of the Authority's portfolio.

This Section also requires that an annual report be submitted for approval by the Authority's Trustees. Copies of the approved report shall be sent to the Division of Budget, Office of the State Comptroller, the Senate Finance Committee, and Assembly Way and Means Committee.

Section III

A. Investment Income Record

During 1995 the Authority's average daily investment portfolio was approximately \$1.0 billion and earned \$63 million.

The earnings, by fund, were as follows (dollars in millions)

General Fund	\$32	
Construction Fund	12	
Operating Fund		<u>19</u>
Total	\$63	

The investment income is \$17 million less than the prior year due to the average size of the portfolio decreasing by \$300 million.

B. Fees Paid for Investment Associated Services

\$489,678.03	J.P. Morgan
\$353,368.00	RCM Capital

Investment management fees were paid by the Nuclear Decommissioning Trust Fund. By NRC mandate, the Trust is beyond the Authority's administrative control and is therefore not part of this Annual Report. As a point of information, the Trust balance was \$415 million at December 29, 1995. The Trust's investments are in high quality fixed income securities, and earned \$38.5 million in 1995. For the year, the Trust had a 18.5% total return after payment of the above management service fees.

C. Results of the Annual Independent Audit

In connection with their examination of the Authority, the Authority's independent auditors, Coopers & Lybrand L.L.P. reviewed and tested the Authority's compliance with the guidelines established by the Authority, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Their report, a copy of which is attached as Exhibit "B", states that the results of their tests disclosed no instances where the Authority was not in compliance with these Guidelines.

**5. Procurement (Services) Contract - Blenheim-Gilboa Power Project
Supervisory Control and Data Acquisition (SCADA) Computer System
Replacement - Expenditure Authorization - SYSECA, Inc. - Award**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve capital expenditures of \$3,970,000 for the design, development, installation and testing of a replacement Supervisory Control and Data Acquisition ('SCADA') Computer System for the Blenheim-Gilboa Power Project ('B-G'). They are also requested to approve a sole-source award of up to \$1,600,000 to SYSECA, Inc. for software licenses and services provided as part of this implementation effort. The award would be subject to negotiation of acceptable terms and conditions.

BACKGROUND

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

"Trustee approval is being requested because this capital task exceeds \$3,000,000 and will require a personal services contract in excess of one year.

"The existing SCADA system was purchased in 1977. It was delivered to the project in 1979 and made operational in 1980.

"The existing SCADA system, which includes redundant computer systems, operator consoles, and remotely located data transmission devices, permits the B-G control room operators to monitor and control the four pump-turbine generators at the plant, the 10 generators at the Ashokan, Crescent, and Vischer Ferry small hydro plants, and associated transmission substations, the Marcy-South West Transition Station, and the B-G lower reservoir water control gates and valves. The SCADA system is critical to the reliable and safe operation of these power plants and the Authority's transmission system. The water management functions provided via the SCADA System are required to meet the Authority's B-G Federal Energy Regulatory Commission ('FERC') License requirements.

DISCUSSION

Need for System Replacement

"The existing SCADA system was designed using state of the art computer technology of the mid 1970's. Its design included a high degree of hardware redundancy. Upon failure of any critical hardware device, backup equipment is automatically switched into service. As a result, the system has demonstrated, until recently, an operational availability of nearly 100%. However, the hardware has now begun to exhibit increased failure rates. Due to changes in computer technology, replacement parts and timely service for computer hardware of this vintage are becoming impossible to obtain. Also, while the original design included significant expansion capability, it is now essentially exhausted due to the numerous additions and changes since the 1970s.

SCADA Computer System Replacement Approach

"The replacement system will be developed utilizing SCADA software recently provided for the St. Lawrence/FDR Power Project ('St. Lawrence'), under license from the original supplier (SYSECA, Inc.) and reconfigured and modified for use at B-G. The St. Lawrence SCADA was competitively bid in 1992, and SYSECA submitted the lowest evaluated bid. This second software site license option was included, as a bid item, in the St. Lawrence SCADA contract, with the intent to utilize the new SCADA software at B-G at a later date. Staff estimates that this approach will realize savings of approximately \$500,000 as compared to a complete new system specification and competitive bid procurement. In addition, this approach yields personnel efficiencies in the support of the St. Lawrence and B-G SCADA Systems due to commonality of hardware and software. The original systems at B-G and St. Lawrence were procured under a single contract.

"This software modification and reconfiguration will be a joint effort by SYSECA Inc. and Authority in-house staff. SYSECA will be awarded a contract for its portion of the effort on a sole-source basis because only SYSECA is familiar enough with the St. Lawrence SCADA software to perform the software configuration and modifications in a timely manner. The computer hardware will be purchased separately by the Authority using competitively bid state contracts for the most part. Procuring (via competitive bid) a new SCADA from another vendor would increase costs for the new system and add 1-2 years to the implementation effort.

"The SCADA replacement effort will take 18 months from initial hardware purchase including a four month on-site installation and checkout period. The initial in-service date for the replacement system will be September 1997. Associated control room and computer room architectural modifications needed to increase space for the control room operators and for additional SCADA user interface hardware will be completed by April 1998.

FISCAL INFORMATION

"Of a total capital expenditure of \$3,970,000, a maximum of \$1,600,000 will be contracted with SYSECA Inc. for software licenses and development as a sole-source award. The remainder of the expenditure \$2,370,000 will involve either hardware and construction services purchased under normal Authority procedures and guidelines, or Authority labor and expense costs.

"Moneys are available in the Bond Reserve Account sufficient to fund the authorized cost of this SCADA computer system replacement at the B-G facility and will be transferred for such purpose to the Facilities Improvements Project Proceeds Account in the Construction Fund. Payment will be made from the Facilities Improvement Project Proceeds Account.

RECOMMENDATION

"The Regional Manager - Central New York, the Vice President - Project Management - Power Generation and the Vice President and Chief Engineer - Power Generation recommend that the Trustees authorize a capital expenditure of \$3,970,000 for the design, procurement, installation and testing of a Supervisory Control and Data Acquisition system for the Blenheim-Gilboa Power Project. As part of this effort, the Trustees are requested to authorize the sole-source award of up to \$1,600,000 to SYSECA, Inc.

"The Vice President - Controller, the General Counsel, the Senior Vice President - Business Services, the Senior Vice President - Power Generation, and I concur in the recommendation."

February 27, 1996

In response to questions from Trustee Waldbauer, Mr. Hiney explained that the funds requested include the costs of renovating the control room for more efficient operation.

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

RESOLVED, That expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report from the President, in the amount and for the purpose listed below; and be it further

RESOLVED, That pursuant to the Authority's Guidelines for Procurement Contracts, the sole-source award of the contract to SYSECA, Inc. be, and hereby is, approved as recommended in the foregoing report of the President, up to the amount and for the purpose listed below:

<u>Capital</u>	<u>Expenditure Approval</u>	<u>Contract Approval</u>	<u>Projected Closing Date</u>
Blenheim - Gilboa Power Project Design, procurement, installation and testing of a Supervisory Control and Data Acquisition Computer System	<u>\$3,970,000</u>		
Provide Software License for St. Lawrence SCADA Software to be used at B-G and for related software integration and modifications			
SYSECA Inc.		(Not to Exceed) <u>\$1,600,000</u>	04/30/98

AND BE IT FURTHER RESOLVED, That the tasks necessary for the design, development, procurement, installation and testing of the SCADA equipment at B-G are hereby authorized to be tasks comprising a portion of the Facilities Improvement Project, as defined in the Twenty-Seventh Supplemental General Purpose Bond Resolution, and any amounts expended for such purposes shall be deemed to be a Cost of Construction for such Project; and be it further

RESOLVED, That whereas there are amounts in the Bond Reserve Account in excess of the Bond Reserve Requirement, as such term is defined in the General Purpose Bond Resolution, as amended and supplemented and not immediately required to make good any deficiency referred to in paragraph 1 of Section 511 of the General Purpose Bond Resolution, as amended and supplemented, the transfer of amounts, not to exceed \$3,970,000 from the Bond Reserve Account into the Facilities Improvement Project Proceeds Account in the Construction Fund, is hereby authorized for paying the costs associated with the tasks described above.

6. Procurement (Services) Contracts - James A. FitzPatrick, Indian Point 3 Nuclear Power Plants; and Headquarters - Extensions and Approval of Additional Funding

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the continuation and funding of the procurement contracts listed in Exhibit `6-A' for the Indian Point 3 (`IP3') and James A. FitzPatrick (`JAF') Nuclear Power Plants, as well as for Headquarters. A detailed explanation of the nature of such services, the reasons for extension, and the projected expiration dates are listed below.

BACKGROUND

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

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

DISCUSSION

"While the Authority's policy is to use its own staff to perform necessary engineering and craft labor work, there are cases where it is necessary to utilize external contractors or consultants to supplement Authority staff during peak working periods in support of refueling and other outages, or if special expertise is required which is not available within the Authority.

"Although the firms identified in Exhibit `6-A' have provided effective services, the issues or projects requiring these services have not been resolved or completed and the need exists for continuing these contracts. Trustees' approval is required because the terms of these contracts exceed one year and/or because the cumulative change order limits will exceed the levels authorized by the Expenditure Authorization Procedures in forthcoming change orders. All of the subject contracts contain provisions allowing the Authority to terminate the services at will, without liability other than paying for acceptable services rendered to the effective date of termination.

"These contract extensions do not obligate the Authority to a specific level of personnel resources or expenditures. As the Authority performs more work in-house over the next several years, funding allocated for services performed pursuant to these contract extensions will be correspondingly reduced.

"Extension of each of the contracts identified in Exhibit `6-A' is requested for one or more of the following reasons: 1) additional time is required to complete the current contractual work scope or additional services related to the original work scope; 2) to accommodate an Authority or external regulatory agency schedule change, which has delayed, re-prioritized, or otherwise suspended required services; 3) the original consultant is uniquely qualified to perform services and/or continue its presence, and rebidding would not be practical; or 4) the contractor provides a proprietary technology or specialized equipment, at reasonable negotiated rates, which the Authority needs to continue until a permanent system is put in place.

Contracts in Support of the Nuclear Plants:

"The contract with **Amtek Corp. (C95-J0133)**, which was competitively bid, provides for microfilming and indexing services of various JAF source documents, including computer printouts and roll charts. This contract was issued on January 16, 1995 for a period of one year, with an option to extend for an additional two years, subject to the Trustees' approval. An interim extension was approved by the Chief Nuclear Officer, in order to continue the original work scope until the Trustees' approval to exercise the option is obtained. Approval for a two-year extension is therefore requested in order to exercise this option. JAF staff indicate that the larger formats of some source documents require specialized cameras, which Amtek purchases and customizes; also, although there is a microfilming operation at JAF, there are insufficient personnel, equipment, and other resources at the site to accommodate the increased workload in-house. The current contract amount is \$150,000; it is anticipated that no additional funding will be required for the extended term. The Trustees' approval is requested to extend this contract through December 31, 1997 at no anticipated additional cost.

"The contract with **ATC Environmental Inc. (C95-I6587)**, which was competitively bid, provides for area and personnel asbestos air monitoring services and sample laboratory analysis, on an 'as required' basis, at IP3. Also included in the scope is onsite training for asbestos awareness/handling and project notifications/variances. This contract, which commenced on June 7, 1995, was issued for a one year term, with an option to extend for one additional year, subject to the Trustees' approval. Approval for a one-year extension is therefore requested in order to exercise this option. Asbestos air/personnel monitoring and analysis must be performed by a New York State certified individual, firm, or laboratory, which the Authority does not have. The current contract amount is \$178,000; it is anticipated that an additional \$200,000 will be required for the extended term. The Trustees' approval is requested to extend this contract through June 6, 1997 and to approve the additional funding.

"The contract with **Carl J. Walters (S93-51653)** provided for assessments of American shad and striped bass populations in the Hudson River for the Authority, acting as agent for the Hudson River utilities. The assessments were used to evaluate the impact of fish mortality due to the operation of power plants on the Hudson River and were included in the Draft Environmental Impact Statement ('DEIS') jointly prepared by the Authority, Con Edison, Orange and Rockland, and Central Hudson utilities. The DEIS is a requirement for renewal of the State Pollutant Discharge Elimination System ('SPDES') permits for the Indian Point, Bowline, and Roseton power plants. This contract became effective on October 7, 1993 for an initial one-year term; an extension through December 31, 1995 was approved by the Trustees at their meeting of September 29, 1994. The New York State Department of Environmental Conservation determined that the utilities must revise the fish population assessments in the DEIS. The revision process is expected to continue into 1997. Dr. Walters's services are required in order to revise the work that he prepared for the DEIS. A two-year extension is therefore requested in order to continue the above-described revision services.

"While the Authority is the lead organization in this effort, all expenditures for this work are shared by the utilities according to the cost-sharing formula established by the Hudson River Cooling Tower Settlement Agreement. The Authority's share of the total is 22.89%. It should be noted that this program is part of a multi-party environmental arrangement which enabled the utilities operating power plants along the Hudson River to avoid building costly cooling towers. The current contract amount is \$75,000. It is estimated that an additional \$50,000 may be required for the extended term in order to continue services in support of the DEIS and SPDES effort during the extended period. These amounts represent the total expenditures by all utilities combined; the Authority's share of increased cost for the proposed extension will be approximately \$11,445. Trustees' approval is requested to extend the subject contract through December 31, 1997 and to approve the additional funding.

Contracts in Support of Headquarters:

"The contract with **Armrest Security Patrol, Inc. (S95-70186)**, which was competitively bid, provides for security officers and patrol services at the Authority's White Plains and New York corporate offices. This contract commenced on March 6, 1995 for a period of one year, with an option to extend for up to two additional years, subject to the Trustees' approval. Approval to exercise the option for a one-year extension is requested in order to provide continued security services through December 31, 1996; services will be rebid for 1997 and beyond. Armrest is a certified Minority Business Enterprise located in Brooklyn, New York. The current contract amount is \$197,400; it is anticipated that an additional \$210,000 will be required for the extended term. The Trustees' approval is requested to extend this contract through December 31, 1996 and to approve the additional funding.

"The contract with **Electronic Technologies Co. (S95-68604)**, which was competitively bid, provides for maintenance services for the CardKey Security Management System and related equipment in the Authority's White Plains and New York corporate offices. This contract commenced on January 1, 1995 for a one year term, with an option to extend for one additional year, subject to the Trustees' approval. Approval is requested to exercise the option to extend services for one additional year for continued maintenance services. The current contract amount is \$75,000, which provides funding for maintenance for the two-year term. It is anticipated that an additional \$6,000 will be required for security upgrades during the extended term. The Trustees' approval is requested to extend this contract through December 31, 1996 and to approve the additional funding.

Contracts in support of Crescent and Vischer Ferry Hydroelectric Projects:

"The contract with **Northrop Devine & Tarbell, Inc. (S95-71010)** provides for professional engineering services in support of the second FERC Part 12 independent consultant's dam safety inspection and report for the Crescent and Vischer Ferry hydroelectric projects. This contract, which was competitively bid, became effective on April 3, 1995 for a term of up to one year. Diving inspections, recently completed by Boswell Engineering at the Crescent and Vischer Ferry Projects, have uncovered deterioration in sections of the dams. As a result of these discoveries, additional stability analyses are required, in compliance with FERC regulatory requirements. A one-year extension is therefore requested to perform the additional stability analyses in order to determine if the results satisfy the FERC requirements and guidelines governing dam safety and stability. The current contract amount is \$9,000. It is anticipated that an additional \$13,500 will be required for services during the extended term. Trustees' approval is requested to extend this contract through April 2, 1997 and to approve the additional funding.

FISCAL INFORMATION

"Funds required to support contract services for various non-nuclear Headquarters Departments/Business Units, JAF, and IP3 have been included in the 1996 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Director - Security, the Director - Corporate Support Services, the Site Executive Officer - James A. FitzPatrick Nuclear Power Plant, the Site Executive Officer - Indian Point 3 Nuclear Power Plant, the Vice President - Procurement and Real Estate, and the Treasurer, recommend the Trustees' approval of the extension and additional funding of the procurement contracts listed in Exhibit '6-A', as set forth above.

February 27, 1996

"The Vice President - Appraisal and Compliance Services, the General Counsel, the Senior Vice President - Business Services, the Chief Nuclear Officer, and I concur in the recommendation."

In response to questions from Trustee Waldbauer, Mr. Hoff stated that the estimated contract amount for Armrest Security is based upon estimated overtime which will be required in connection with space realignment at the White Plains Office. In response to further questions from Trustee Waldbauer, Mr. Hoff explained that additional estimated expenditures under the contract with Northrop Devine & Tarbell are necessary since voids have been found in sections of the dams which may require significant rework.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit "6-A" is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed below, as recommended in the foregoing report of the President.

**7. Procurement (Services) Contracts - St. Lawrence -
F. D. Roosevelt Power Project - Relicensing -
Extensions and Approval of Additional Funding**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the continuation and funding of the procurement contracts listed in Exhibit `7-A' in support of the St. Lawrence - F. D. Roosevelt Power Project (`St Lawrence/FDR') relicensing effort. A detailed explanation of the nature of such services, the reasons for extension, and the projected expiration dates are listed below.

BACKGROUND

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

"The Authority's existing Federal Energy Regulatory Commission (`FERC') license for the St. Lawrence/FDR Project expires in October 2003. In accordance with FERC regulations, the Authority's application for a new license must be filed by October 2001. Before filing this application, the Authority must consult with the public and regulatory agencies concerning issues to be addressed in the license application and associated studies conducted in advance of the application.

DISCUSSION

"While the Authority's policy is to use its own staff to perform necessary engineering and craft labor work, there are cases where it is necessary to utilize external contractors or consultants to supplement Authority staff during peak working periods, or if special expertise is required which is not available within the Authority.

"Although the firms identified in Exhibit `7-A' have provided effective services, the issues requiring these services have not been resolved and the need exists for continuing these contracts. Trustees' approval is required because the terms of these contracts exceed one year. All of the subject contracts contain provisions allowing the Authority to terminate the services at will, without liability other than paying for acceptable services rendered to the effective date of termination. These contract extensions do not obligate the Authority to a specific level of personnel resources or expenditures.

"In November 1995, management approved the implementaion of the `cooperative approach' as a means of possibly accelerating agreement among the various agencies, public groups, and the Authority regarding relicensing issues. Using this approach, the agencies and public will be invited to identify their concerns and participate in consensus-building meetings during 1996 and early 1997. The hoped-for result of this collaboration is agreement on the issues to be resolved and the studies to be performed, in order to gather data to satisfy the groups' concerns. Issues to be discussed with the collaborative group will include: fisheries, recreation, fish entrainment, wildlife, and water quality.

"The cooperative approach will be pursued concurrently with the `traditional' FERC process, which includes the Authority's completion and issuance of the Initial Consultation Package (`ICP') in April 1996 and the public meetings to identify issues (`scoping sessions'), which FERC is expected to schedule later this year.

February 27, 1996

"If agreement on issues and studies can be reached via the cooperative method by late 1996, field studies can be performed in 1997, yielding answers to concerns that would otherwise be raised later in the process, impacting the Authority's draft license application in 2001.

"The consultants employed under the contracts described below have gained extensive background and expertise with the St. Lawrence/FDR Project and are familiar with the relicensing effort to date. They have provided reports on environmental conditions, which form the basis for the 1996 discussions of potential issues with the cooperative parties. Numerous questions involving these environmental reports are expected to arise during the aforementioned cooperative discussions. The consultants' ability to respond promptly to these questions as well as questions pertaining to the areas of concern to the invited agencies and public will be an invaluable resource. Each task that may arise will be directed to the appropriate consultant with a precise scope of work and associated cost estimate. Tasks will be funded on a case-by-case basis, using the 1996 Approved Capital Budget for environmental support for the Licensing Division. If no support is required from a consultant, no funds will be expended.

"The Trustees' approval is requested to extend these contracts through June 30, 1997 and to approve the additional funding as indicated below.

"The contract with **Kleinschmidt Associates (C95-Z0025)** provides for the preparation of a use assessment of recreational facilities within the St. Lawrence/FDR Project boundary. The purpose is to assess the capacity of existing facilities over the four seasons, in order to determine the need, if any, for additional facilities. This contract commenced on April 21, 1995 for a one year term; it was competitively bid and Kleinschmidt was evaluated as the most qualified and experienced of 11 bidders. The current contract amount is \$73,200; it is anticipated that an additional \$35,000 will be required for the extended term.

"The contract with **Northrop, Devine & Tarbell (C95-Z0022)** provides for the preparation of a summary of historical water quality data from past studies in the vicinity of the St. Lawrence - FDR Power Project. This contract commenced on April 17, 1995 for a one year term. The work was competitively bid and Northrop was determined to be the most qualified and experienced lowest priced firm of 15 bidders. The current contract amount is \$26,500. Based upon recent questions concerning water quality in the St. Lawrence River, it is anticipated that an additional \$20,000 will be required for the extended term.

"**Northrop, Devine & Tarbell (C95-Z0035)** was also awarded a contract to perform a four-season water quality survey, including water sampling and analysis, of the river at selected locations up- and downstream of the St. Lawrence - FDR Power Project. This contract commenced on May 25, 1995 for a one year term. The work was competitively bid and Northrop was determined to be the lowest priced, experienced company of 5 bidders. The current contract amount is \$160,713; it is anticipated that an additional \$50,000 will be required for the extended term.

"A contract for the development of prototype environmental Geographic Information System ('GIS') data was also awarded to **Northrop, Devine & Tarbell (C95-Z0048)** on July 14, 1995 for a one year term. The objective of this work was to acquire environmental information at selected locations and to assist the Authority in integrating these data into sophisticated analyses using the Authority's existing GIS database. The prototype has been successful. The work was competitively bid and Northrop was selected as the lowest priced, qualified firm of 3 bidders. The current contract amount is \$51,900; it is anticipated that an additional \$30,000 will be required for the extended term.

February 27, 1996

"The contract with **RMC Environmental Services, recently acquired by Normandeau Associates, (C95-Z0029)** provides for a study of recreational and commercial fisheries. This contract commenced on April 27, 1995 for a one year term. The major components of this work are a determination of the historical and current commercial fishery on the St. Lawrence River and a four-season survey of recreational fishing on the river, within the Project boundary. The work was competitively bid and RMC was judged to be the most qualified and experienced lowest priced company of nine bidders. The current contract amount is \$207,883; it is anticipated that an additional \$50,000 will be required for the extended term.

"Another contract was awarded to **RMC Environmental Services, recently acquired by Normandeau Associates, (S94-64072)** on September 19, 1994 for a one-year term. It provides for fish entrainment and abundance sampling. RMC conducted a literature review of entrainment abundance and survival sampling methodologies applicable to the St. Lawrence -FDR Power Project; RMC then performed a detailed analysis of these methodologies and identified the most promising methodologies to estimate entrainment abundance and survival. The work was competitively bid and RMC was evaluated to be the most qualified lowest priced firm of 6 bidders. Interim approval to extend services beyond one year was obtained, subject to Trustees' ratification and approval. The current contract amount is \$75,547; it is anticipated that an additional \$40,000 will be required for the extended term.

"The contract with **Woodlot Alternatives (C95-Z0021)** provides for a comprehensive assessment of wildlife resources within the St. Lawrence - FDR Power Project boundary. This contract commenced on April 17, 1995 for a one year term. The four-season review of wildlife resources provides baseline data for this segment of the environment. The work was competitively bid and Woodlot was evaluated to be the most qualified, lowest priced firm of ten bidders. The current contract amount is \$48,740; it is anticipated that an additional \$25,000 will be required for the extended term.

FISCAL INFORMATION

"Funds required to support contract services in support of the St. Lawrence/FDR relicensing project have been included in the 1996 Approved Capital Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Director - Licensing, the Vice President - Procurement and Real Estate, and the Senior Vice President - Power Generation, recommend the Trustees' approval of the extension and additional funding of the procurement contracts listed in Exhibit `7-A', as set forth above.

"The General Counsel, the Senior Vice President - Business Services, and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit "7-A" is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed below, as recommended in the foregoing report of the President.

**8. Procurement (Services) Contract - White Plains Office
Relocation Management Services - Prudential Relocation - Award**

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the award of a contract to Prudential Relocation ('Prudential') for relocation management services including the purchase of homes of key new and transferred employees, for a three year period, in the estimated amount of \$200,000.

BACKGROUND

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

"For the last few years, in order to attract and retain key employees, the Authority has had to purchase their home as part of the relocation benefits offered to them. The purchase of homes is accomplished on a selective basis, through the use of a third party realty company. The purpose of the home purchase program is to lessen the financial and emotional burden caused by selling a home. The purchase of an employee's home is an exception to the Authority's Relocation Policy and is done only in extenuating circumstances, which are determined on a case-by-case basis.

"In the past, the Authority contracted with PHH Homequity to provide the home purchase services. The Authority's contract with PHH Homequity expired on June 30, 1995. There are currently no homes in inventory for this purpose.

DISCUSSION

"In November 1995, through the formal bidding process including notice in the New York State Contract Reporter, the Authority requested proposals from 14 vendors to provide home buying and relocation consulting services. In today's real estate market, there are not many companies willing or able to provide these home buying services on a national basis. Therefore, only two proposals were received: PHH Homequity and Prudential.

"A review of the bids found the services offered to be comparable. The cost comparison below outlines the breakdown of estimated charges based on the following criteria: a home appraised at \$225,000 taken into inventory for \$250,000 for a nine month period and the other for the home appraised and inventoried at \$250,000 for a two month period.

COST COMPARISON		
Home in Inventory	PHH Homequity	Prudential Relocation
2 Months	\$18,518	\$17,875
9 Months	\$88,971	\$78,000

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"These costs include fees for initial, direct carrying and selling expenses, interest on equity and service fees. The Authority's experience within the last few years is that homes which were purchased remained in inventory for at least six months because of poor market conditions. Based on these factors, Prudential was selected as the lowest qualified bidder.

"Prudential is recommended for contract award for a period of three years in the estimated amount of \$200,000. It should be noted that Prudential will only be paid if and when a home is designated for such purchase; no retainer fees are charged.

FISCAL INFORMATION

"Funds required for services covered by this contract will be made from the 1996 Approved O&M Budget. Funds required for subsequent years will be included in the budget submittals for those years.

RECOMMENDATION

"The Vice President - Human Resources and the Vice President - Procurement and Real Estate recommend that the Trustees approve the award of a contract to Prudential Relocation for a period of three years commencing March 1, 1996 in the estimated amount of \$200,000.

"The General Counsel, the Senior Vice President - Business Services, and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract for relocation management services to Prudential Relocation, is hereby approved for a three-year period to commence March 1, 1996, as recommended in the foregoing report of the President, in the amount and for purpose listed below:

<u>O & M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
Relocation Management Services		
Prudential Relocation	02/28/99	<u>\$200,000</u>

**9. Procurement (Services) Contract - Law Department -
Howrey & Simon - Extension**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the extension of a contract with the law firm of Howrey & Simon until February 15, 1998.

BACKGROUND

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

DISCUSSION

"Howrey & Simon provides general antitrust law advice to the Authority. Recently, the firm prepared a memorandum on pertinent antitrust law issues which has been distributed to Authority managers. It is appropriate that the contract with Howrey & Simon be extended as there is a continuing need for advice in this area. The contract was awarded in accordance with the Authority's Expenditure Authorization Procedures. The status of the contract is set forth in Exhibit '9-A'.

"The Howrey & Simon firm is well regarded in the field of antitrust law and it is knowledgeable in the specialized, combined area of antitrust and electric utilities transmission. The attorneys are familiar with the Authority's legal and business situation and are prepared to advise on antitrust issues as necessary. Industry restructuring issues and, in particular, the possible takeover by the Authority of other utility assets (e.g., transmission), will require antitrust analysis. Moreover, the firm has an extensive federal contract procurement practice and has been assisting the Authority in selling power to the Federal Government.

FISCAL INFORMATION

"Payment for services covered by this contract rendered in 1996 will be made from the 1996 Approved O&M Budget. Funds required for subsequent years will be included in the budget submittals for those years.

RECOMMENDATION

"The General Counsel recommends that the Trustees approve the extension of the consultant services contract with the Howrey & Simon law firm until February 15, 1998.

"I concur in the recommendation."

In response to questions from Trustee Waldbauer, Mr. Pratt stated that this firm's specialized expertise has not been available locally.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the contract listed with Howrey & Simon is hereby approved and extended in the amount and for the purpose indicated below:

<u>O & M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
Legal Services		
Howrey & Simon	02/15/98	To be made by staff pursuant to Expenditure Authorization Procedures

**Exhibit `9-A`
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PROCUREMENT (SERVICES) CONTRACT

Provider: Howrey & Simon
Contract No.: 02-11287-90
Dept./Division: Law Department\Power and Transmission
Contract Description: Antitrust Matters
Basis of Award: Bid _____
Competitive Search x
Sole Source _____

<u>Effective Date of Original Contract or Change Order</u>	<u>Date of Trustee Approval</u>	<u>Projected Closing Date</u>	<u>Amount Authorized or Committed</u>
O.C. 02/15/90		02/14/91	\$ 25,000
C.O. #1: 06/25/90			25,000
C.O. #2: 11/29/90			10,000
C.O. #3: 12/21/90	01/29/91	02/15/93	100,000
C.O. #4: 02/23/93	02/23/93	02/15/96	150,000

Total Amount Authorized or Committed: \$310,000

Total Amount Expended to Date: \$165,047

Projected additional commitments through 02/15/98 to be made by staff pursuant to Expenditure Authorization Procedures from authorized Capital and O&M Budgets \$ 0

10. Disbursement of General Reserve Account Monies - Westchester County Governmental Customer Long-Term Agreements

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the disbursement of up to \$1,321,481 from the General Reserve Account of the General Fund for payment to the Authority's governmental customers in Westchester County in fulfillment of the Authority's obligations under long-term agreements relating to power supply entered into and to be entered into by the Authority with such customers.

DISCUSSION

"Pursuant to authorization by the Trustees at their meeting on February 28, 1995, the Authority has entered into long term agreements with Westchester County and 83 other governmental customers in Westchester County relating to power supply. Pursuant to such agreements, the Authority agreed to provide to such customers signing rebates aggregating \$1,071,481 to date. Furthermore, discussions are continuing with the remaining Westchester County governmental customers. It is expected that up to an additional \$250,000 may be provided to these customers as signing rebates.

"To comply with these existing and anticipated contractual requirements, authorization for the disbursement of the requisite funds from the Authority's General Reserve Account is necessary.

RECOMMENDATION

"The Senior Vice President - Business Services recommends that the Trustees authorize the disbursement of up to \$1,321,481 from the General Reserve Account of the General Fund for the foregoing purpose.

"The General Counsel, the Senior Vice President - Marketing and Economic Development, and I concur in the recommendation."

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

RESOLVED, That it is hereby authorized that up to \$1,321,481 of General Reserve Account monies be withdrawn from such account for payment of signing rebates and, in accordance with the provisions of existing long-term agreements, and long-term agreements to be entered into, relating to power supply between Westchester County and other Westchester County governmental customers and the Authority, and that such amount to be withdrawn from the General Reserve Account is not required for any of the purposes specified in Paragraphs (1)-(4) of Section 512 of the General Purpose Bond Resolution adopted on November 26, 1974, as amended and supplemented.

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11. Next Meeting

The next regular meeting of the Trustees will be held on **Tuesday, March 26, 1996, at the New York City Office at 10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

12. Motion to Conduct Executive Session

"Mr. Chairman, I move that the Authority conduct an executive session in connection with matters leading to the appointment of particular persons and the proposed sale of securities." Upon motion made and seconded, an executive session was held.

(After Executive Session)

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

13. Iroquois Partnership Interest

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the sale of the Authority's 2.1% limited partnership interest in Iroquois Gas Transmission System, L.P. ('Iroquois') to certain other Iroquois partners at a price based on the book value of the Authority's partnership interest.

BACKGROUND

"Because of strategic concerns relating to the Flynn Plant and other gas-related issues, the Authority purchased a 2% limited partnership interest in Iroquois in 1989, and increased its interest to 2.1% in 1990. The Authority's total investment in Iroquois is \$3,154,982.

DISCUSSION

"The sale of the Authority's interest in the Iroquois gas pipeline was included in the recommendations of the 1994 Restructuring Study. Because of changes in the direction of the Authority's activities since 1990 and the potential liability posed by investigations by the United States Attorney for the Northern District of New York and other agencies, into the construction activities of the Iroquois operating company, the staff has been negotiating the sale of its Iroquois interest to other Iroquois partners. Recently, three Iroquois general partners, ENI Transmission Company (a subsidiary of Connecticut Natural Gas Corporation), North East Transmission Co., Inc. (a subsidiary of Brooklyn Union Gas Company), and JMC-Iroquois, Inc., offered to purchase the Authority's interest (with each partner taking a designated percentage of the Authority's interest) at a price based on the book value of the interest at the day of transfer, as shown on the financial accounts of Iroquois, without any reduction for potential charges associated with the investigations identified above. The offer was contingent upon an acceptable overall settlement of charges resulting from the investigations being reached. The estimated book value of the Authority's interest, as of December 31, 1995, was \$4,333,000, without any reduction for any potential charges associated with the investigations identified above. Staff believes that a sale based on such book value would produce a fair price for this asset.

FISCAL INFORMATION

"The proceeds from the sale of the Authority's interest will be deposited into the Authority's Revenue Fund.

RECOMMENDATION

"The General Counsel and the Senior Vice President - Business Services recommend that the Trustees authorize the sale of the Authority's 2.1% limited partnership interest in Iroquois to North East Transmission Co., Inc., JMC-Iroquois, Inc., and ENI Transmission Company at a price based on the book value of the Authority's partnership interest on the day of transfer, without any reduction for any potential charges associated with the investigation.

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"I concur in the recommendation."

In response to questions from Chairman Rappleyea and Trustees Miller and Waldbauer, Mr. Pratt explained that the proposed sale would not be effectuated until the Department of Justice inquiry has been settled. Mr. Pratt further indicated that the settlement is expected within the next six to eight weeks.

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

RESOLVED, That the Chairman, President, and Senior Vice President - Business Services are, and each hereby is, authorized to execute, on behalf of the Authority, an agreement with North East Transmission Co., Inc., ENI Transmission Company, and JMC-Iroquois, Inc., to effectuate the sale of the Authority's 2.1% limited partnership interest in Iroquois Gas Transmission System, L.P., at a sales price to be negotiated by such officer based on the book value of the Authority's interest on the day of transfer as shown on the financial accounts of the partnership, without any reduction for any potential charges associated with the investigation, and with such other terms and conditions as may be deemed necessary or desirable by the officer executing such agreement, such approval to be evidenced conclusively by such execution, provided, however, that such negotiated sales price shall not be less than \$4 million; and be it further

RESOLVED, That the Chairman, President, Senior Vice President - Business Services, and the Treasurer are, and each hereby is, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, demands, directions, consents, approvals, orders, applications, agreements, certificates, supplements, and further assurances or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effectuate the intent of the foregoing resolution.

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**14. Personnel - Position of Vice President -
Nuclear Operations - Harry P. Salmon, Jr.**

The President submitted the following report:

SUMMARY

"I recommend the appointment of Harry P. Salmon, Jr. from his present position of Site Executive Officer - James A. FitzPatrick Nuclear Power Plant ('JAF') to the position of Vice President - Nuclear Operations.

BACKGROUND

"Mr. Salmon joined the Authority in August 1991 as Resident Manager-In-Training, after 28 years of service in the U.S. Navy. In March 1992, Mr. Salmon was appointed Resident Manager of JAF. In July 1995, his title was changed to Site Executive Officer. While in the U.S. Navy, his primary duties involved the maintenance, operation, and supervision of nuclear submarine activities.

"Mr. Salmon was graduated from the U.S. Naval Academy with a Bachelor of Science Degree in Mechanical Engineering. He was awarded a Master of Science Degree in Personnel Administration from George Washington University. He holds a Senior Reactor Operator's Certification from the General Physics Corporation.

DISCUSSION

"Under Mr. Salmon's leadership JAF successfully restarted after a prolonged outage. It was subsequently removed from the U.S. Nuclear Regulatory Commission's 'watch list' of troubled plants. It is now rated as a solid performing nuclear power plant. For the past several years the Indian Point 3 Nuclear Power Plant ('IP3') has been a troubled plant with very limited operation. It is in the Authority's interest to take advantage of Mr. Salmon's leadership to redefine operating excellence at IP3. However, it is also in the Authority's interest to continue to take advantage of Mr. Salmon's stewardship of JAF.

"An approach that is used by other utilities with nuclear power plants is to put the nuclear plants under one senior operating executive reporting to the Chief Nuclear Officer. At the Authority the Vice President - Nuclear Operations would serve that function. The Site Executives of both plants would report to the Vice President - Nuclear Operations. This approach will afford the Authority the opportunity to unify the operating management of both plants thereby maximizing successful experience and practices, and to utilize Mr. Salmon's leadership at both plants.

RECOMMENDATION

"I recommend, with the concurrence of William J. Cahill, Jr. - Chief Nuclear Officer, that Harry P. Salmon, Jr. be appointed to the position of Vice President - Nuclear Operations at a competitive base salary plus a performance based incentive. The incentive would be based on specifically defined performance objectives and measures and, if earned, would be paid annually in the first quarter of the year."

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

RESOLVED, that the Authority approves the appointment of Harry P. Salmon, Jr. to the position of Vice President - Nuclear Operations, effective March 7, 1996, and that he be offered a competitive base salary and a performance based incentive.

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Closing

Upon motion made and seconded, the meeting was closed at 11:55 a.m.

Anne Wagner-Findeisen
Corporate Secretary