

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

October 28, 1997

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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: Thomas R. Frey, Vice Chairman
Hyman M. Miller, Trustee
Louis P. Ciminelli, Trustee
Frank S. McCullough, Jr., Trustee

Eugene W. Zeltmann	President and Chief Operating Officer
David E. Blabey	Secretary and General Counsel
Peter W. Delaney	Executive Vice President and Chief Financial Officer
Robert A. Hiney	Executive Vice President - Project Operations
John F. English	Senior Vice President - Corporate Planning
Philip J. Pellegrino	Senior Vice President - Transmission
Russell J. Krauss	Chief Information Officer
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President and Chief Engineer
Harry P. Salmon, Jr.	Vice President – Engineering
Stephen P. Shoenholz	Vice President - Public Relations
Vincent Vesce	Vice President - Human Resources
Richard E. Kuntz	Regional Manager – Southeast New York
James J. McCarthy	Regional Manager - Central New York
Daniel P. Berical	Director - Intergovernmental Affairs
Jordan Brandeis	Director - Performance Planning
Joseph J. Brennan	Director – Internal Audit
Carmine J. Clemente	Deputy Counsel
Joseph J. Carline	Assistant General Counsel
Gerald C. Goldstein	Assistant General Counsel
Chris DeGraffenried	Director - Pricing and Forecast
John L. Murphy	Director - Public Information
Mark O'Connor	Director – Real Estate
Gary Paslow	Director – Policy Development
William Slade	Director - Environmental
James H. Yates	Director - Business Marketing & Economic Development
George W. Collins	Treasurer
Anne Wagner-Findeisen	Deputy Secretary
Vernadine Quan-Soon	Assistant Secretary – Corporate Affairs

Vice Chairman Frey presided over the meeting. Secretary Blabey kept the Minutes.

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1. Approval of the Minutes

The minutes of the Regular Meeting held on September 30, 1997 were approved.

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2. Financial Report for the Eight Months Ended September 30, 1997

**3. Steuben Rural Electric Cooperative, Inc. –
Proposed Decrease in Small Commercial
Rates – Notice of Adoption**

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve a decrease in the base retail Small Commercial rates for Steuben Rural Electric Cooperative, Inc., New York (‘Cooperative’). This will result in a reduction to Small Commercial annual revenues of \$ 37,000 or 20.0%.

BACKGROUND

“The proposed Small Commercial rate decrease is required to reflect changes in maintenance programs which reduce operational costs directly associated with the Small Commercial service class. The meter reading system originally in place will be replaced by a more cost-effective system. Furthermore, the Small Commercial service class will be included in the Cooperative’s load management program. Current rates have been in effect since April 30, 1996, when the Trustees approved a total system 3.0% revenue increase.

“The proposed rate revisions are based upon a cost-of-service study prepared by the Cooperative and reviewed by Authority staff.

DISCUSSION

“Pursuant to the Authority’s Administrative Procedures, the Senior Vice President - Marketing and Economic Development authorized the Secretary to file notice for publication in the State Register of the proposed reduction in Small Commercial retail rates. Such notice was published on August 27, 1997. Public hearings were held by the Cooperative’s Board of Directors on February 11, 1997 and February 12, 1997. No objections were raised to the proposed rate reduction.

“The present and proposed Small Commercial rates are below those now in effect by the utility serving the contiguous area.

“Comparisons of present and proposed total Small Commercial annual revenues and their corresponding rates are attached as Exhibits ‘3-A’ and ‘3-B’, respectively.

RECOMMENDATION

“The Manager - Municipal and Cooperative Marketing & Regulation recommends that the attached schedule of rates for Steuben Rural Electric Cooperative, Inc., be approved to take effect beginning with the first full billing period following this date.

“It is also recommended that the Trustees authorize the Secretary and General Counsel to file notice of adoption with the Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation.

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“The Senior Vice President - Marketing and Economic Development, the Secretary and General Counsel, the Executive Vice President – Project Operations, the Executive Vice President and Chief Financial Officer, and I concur in the recommendation.”

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

RESOLVED, That the proposed Small Commercial rates for electric service for Steuben Rural Electric Cooperative, Inc., New York be, and hereby are, approved, to take effect with the first full billing period following this date, as recommended in the foregoing report of the President; and be it further

RESOLVED, That the Secretary and General Counsel of the Authority be, and hereby is, authorized to file notice of adoption with the Secretary of State for publication in the State Register and to file such other notice as is required by statute or regulation.

4. Municipal and Rural Cooperative Economic Development Program – Allocations to Villages of Westfield and Penn Yan

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve allocations of power under the Municipal and Rural Cooperative Economic Development Program (‘Program’) to the Village of Westfield (‘Westfield’) and the Village of Penn Yan (‘Penn Yan’).

BACKGROUND

“The 1991 amendment to the power sales agreement between the Authority and the Municipal and Rural Cooperative Systems reserved 108,000 kW of power for economic development in the systems. As of October 27, 1997, 17,750 kW have been allocated.

“Power from this block can be allocated to individual systems to meet the increased electric load resulting from eligible new or expanding businesses in their service area. Under the guidelines established for the Program, an allocation to a system should meet a target number of new jobs per megawatt. The guidelines provide that for businesses new to a system, the jobs per megawatt ratio is considered on a case-by-case basis. For projects involving existing businesses, the target jobs per megawatt ratio is determined by the level of employment prior to the expansion. Specifically, for companies employing 100 persons or less, the target ratio is 25 jobs per MW; for companies employing between 101 and 250, the ratio is 50; for companies employing between 251 and 500, the ratio is 75; and for companies employing over 500, the ratio is 100 jobs per megawatt.

“Applications for power under the program have been submitted by Westfield and Penn Yan for consideration by the Trustees.

DISCUSSION

Village of Westfield

“Better Baked Foods, Inc., (‘Better Baked’) is a producer of high quality pizza and bread products. The company’s product line consists of private label French bread pizza, school food service frozen pizza, French bread spread with garlic butter and special bread crust. Better Baked is expanding its existing facility. The expansion will consist of adding an additional 18,000 square feet to the existing facility to meet current production needs and future growth. Total project cost, including construction machinery and equipment, is estimated at \$10 million. Employment is projected to increase to 127 by the end of 1999 from the existing level of 95. It is recommended that up to 1,100 kW be approved for allocation.

Village of Penn Yan

“Clearpass Containers, Inc. (‘Clearpass’) is a manufacturer of a variety of blow molded plastic products used in the food, pharmaceutical, cosmetic, chemical, hobby, toy, and medical industries. Its proposed expansion consists of two phases to provide additional production capacity to meet current and projected customer demand for Clearpass products. Phase One consists of purchasing and installing five new blow molding machines in its existing Penn Yan plant at a cost of \$ 3.8 million. Phase Two consists of expanding the existing facility by 55,000 square feet. Employment is expected to increase to 139 persons by the end of 2000 from the

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existing level of 72. It is recommended that up to 2,500 kW be approved for allocation. This application is for Clearpass' second allocation under the Program. The 1992 allocation for 1,500 kW was approved by the Trustees and has been fully allocated to Penn Yan.

"The Municipal Electric Utilities Association Executive Committee supports the recommended allocations to the Villages of Westfield and Penn Yan.

"The recommended allocations under the Program comprise half hydropower and half incremental power. In accordance with the Authority's marketing arrangement with the municipal and cooperative customers, the hydropower will be added to the recipient system's contract demand at the time a project becomes operational, and the incremental power will be sold on an as-used basis. The hydropower earmarked for this program is presently sold to the municipal and cooperative customers on a withdrawable basis.

RECOMMENDATION

"The Senior Vice President – Marketing and Economic Development recommends that the Trustees approve the allocations of power under the Municipal and Rural Cooperative Economic Development Program to the Villages of Westfield and Penn Yan as set forth above.

"The Secretary and General Counsel, the Executive Vice President – Project Operations, the Executive Vice President and Chief Financial Officer, and I concur in the recommendation."

In response to questions from Vice Chairman Frey, Mr. Banner explained that of the original 108 MW earmarked for this program, about 90 MW will be left following the proposed allocation. The Vice Chairman noted that, in view of the overall scarcity of inexpensive power such as this, it would be desirable that eligible entities make greater use of this program. Mr. Banner explained that Authority staff has been meeting with the munis and coops as a part of a publicizing effort and is issuing written information on the program.

In response to questions from Trustee Miller, Mr. Banner stated that long-term sales agreements have been signed with 13 municipal/cooperative entities, most recently with the Village of Solvay. Mr. Banner further explained that although Solvay does not currently purchase a large amount of incremental power, the Village is undertaking an expansion which could lead to substantial industrial load growth. Mr. Banner reported that nearly half of the potential municipal and cooperative load is currently under long-term agreements at least through 2007.

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Vice Chairman Frey inquired whether the Authority is still supplying incremental power as backup to the hydro power it is providing to the munis. Mr. Banner responded in the affirmative and explained that of the 51 municipal and cooperative systems, five systems have been partial requirements customers for a number of years. Mr. Banner added that the Authority currently supplies incremental load to 46 systems pursuant to agreements. As of mid-1998, a number of systems will have to obtain additional power from other suppliers.

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

RESOLVED, That allocations of power to the Villages of Westfield and Penn Yan, under the Municipal and Rural Cooperative Economic Development Program be, and hereby are, approved as set forth in the foregoing report of the President; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development, or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the aforesaid allocations.

5. **Ancillary Service Charges Furnished Under the
FERC Open Access Transmission Tariff -
Notice of Proposed Action to Adopt Rates and Tariffs**

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve publication of proposed additional ancillary service rates for services to be provided under the Authority's open access transmission tariff ('OATT'). These additional rates will be incorporated into revised schedules within the Authority's OATT. The OATT was adopted by the Trustees at their meeting of December 17, 1996 and has been submitted to the Federal Energy Regulatory Commission ('FERC'). Adoption is necessary so that these services may be made available from the Authority to customers who are now, or soon will be, receiving transmission under the OATTs of the Authority and/or the investor-owned utilities ('IOUs'). The Trustees are requested to authorize the Secretary and General Counsel to file notice for publication in the State Register of the proposed adoption of additional ancillary service rates.

BACKGROUND

“At their meeting of December 17, 1996, the Trustees adopted a resolution approving the Authority's current OATT. Ancillary services are generation-derived products that are necessary to effectuate firm power transmission under the evolving competitive environment and are required by FERC to be supplied under all OATTs. On the topic of ancillary services, the December 17th memorandum from the President provides as follows:

“With respect to ancillary services, [FERC] Order 888 outlined two such services which are required to be included in an open access tariff. The Authority's open access tariff will include charges of \$0.15 per kW-month for Scheduling, System Control and Dispatch Service and a charge of \$0.21 per kW-month for Reactive Supply and Voltage Control from Generation Sources Service provided by the Authority. ***The Authority does not intend at this time to separately charge Authority production customers for ancillary services which the Authority currently provides as part of its production services.*** (Emphasis added.)

“The intent was to defer ‘unbundling’ rates applicable to Authority firm power moving on Authority transmission lines under the Authority OATT. Since the adoption of that resolution, the role and use of ancillary services has expanded dramatically. First, the Authority has entered into an agreement with Niagara Mohawk Power Corporation ('Niagara Mohawk') for the delivery of power to the high load factor customers located in the Niagara Mohawk service territory using the Niagara Mohawk OATT. This agreement obligates the Authority to provide some of the required ancillary services on behalf of these high load factor customers. Further, since adoption of the Authority OATT, the Power for Jobs program has been enacted. Under this program, the Authority will be selling and transmitting both FitzPatrick and competitively bid power to business and non-profit entities throughout the State under the respective IOU OATTs. Because of these changes, the Authority will be obligated to provide additional ancillary services to its direct customers and allottees under the Power for Jobs Program. However, the Authority still does not intend to separately charge customers taking Authority production service for ancillary services that the Authority has in the past provided as part of that production service.

“Any ancillary services which are mandated by FERC and the IOU OATTs, but which the Authority does not provide, must be purchased for or by the customers from the IOU transmission provider. These ancillary services are available from the IOUs, but purchasing them from the IOUs could result in additional expense to the customer. It is, therefore, anticipated that the Authority will find it both necessary and more economic to supply ancillary services on behalf of its customers, when utilizing Authority and IOU transmission service.

DISCUSSION

“FERC Order 888 identified six ancillary services and instructed all jurisdictional transmission providers to file OATTs establishing charges for these services. The services established by Order 888 are as follows:

1. Scheduling, System Control and Dispatch
2. Reactive Supply and Voltage Control from Generation Sources
3. Regulation and Frequency Response
4. Energy Imbalance
5. Operating Reserves - Spinning Reserve
6. Operating Reserves - Supplemental Reserve

“The Authority currently provides all of these ancillary services as part of production service on a bundled basis. In the past the Authority has participated, with other members of the New York Power Pool (‘NYPP’), in the provision of services 2 through 6 on a system-level basis in the various IOU franchise/control areas throughout the State. It is anticipated that the Authority will now ‘unbundle’ these services and make them available on request to individual customers. FERC has stated that the provision and purchase of the first two services is mandatory for all transmission providers and customers, and they were adopted as part of the Authority’s OATT at the December 17, 1996 Trustee Meeting. According to FERC, the transmission provider must also offer to provide the remaining ancillary services to customers in its control area on an unbundled basis. This would include customers directly connected to the Authority’s transmission facilities (i.e., Plattsburgh, Massena, Alcoa, Reynolds and General Motors). However, the Authority proposes to continue to bundle these ancillary services with production service for most of its customers to limit potential bill impacts. The ancillary services would therefore only apply to a few customers, such as Plattsburgh, which has requested unbundled service.

“The ancillary services and the unbundled rates that are being proposed follow:

- Regulation and Frequency Response \$ 0.065-kW-month
- Operating Reserves -Spinning Reserve \$ 0.065-kW-month (with Regulation)
- Operating Reserves -Supplemental Reserve \$ 0.13-kW-month
- Energy Imbalance -inside 1.5% deviation band: to be eliminated within 30 days
-outside 1.5% deviation band: overdeliveries (i.e., underscheduling by customer) assessed at the greater of 110% of incremental cost or 100 mills/kWh and underdeliveries (i.e., overscheduling by customer) compensated at 90% of decremental cost.

“These charges are small when compared with the \$2.23 per kW-month system transmission rate they accompany. They are based in part on NYPP rules concerning the level of regulation and reserves that must be maintained on the system. The cost for these services is based on supplying them from the Poletti Project. The schedules for these services are attached hereto as Exhibit ‘5-A.’ The schedules for services 1 and 2 have been revised to supplement monthly service with yearly, weekly, daily and hourly service. The remaining schedules have been revised to incorporate the proposed rates on the same bases.

“According to FERC, unbundled Energy Imbalance service (service 4) may only be provided by the control area operator. Therefore, the Authority will only provide this service to customers that are directly connected to its transmission system. The Authority will be providing services 2, 3, 5 and 6 throughout the State, and in conjunction with transmission service on various Authority and IOU transmission facilities.

“FERC rules allow ancillary service providers to discount off their filed rates. A situation could exist where a third party, including the utility providing the transmission service, offers one or more of these ancillary services at a rate lower than the Authority’s proposed rate. In that case, the lowest cost supply of ancillary services for the customer could be a mixture of services with some being provided by the Authority and some being provided

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by a third party supplier, or several suppliers. This arrangement could become cumbersome to administer and confusing to the customers. The Authority could also suffer a modest revenue diminution. To mitigate this situation, it is recommended that the Senior Vice President - Transmission, or his designee, be authorized, but not required, to offer discounts on any or all posted Authority ancillary service rates, as appropriate to the circumstances.

“Thus, it is necessary and appropriate that the Authority offer the complete set of FERC specified ancillary services to or on behalf of its customers on an unbundled basis.

“Following the 45-day public comment period, the Trustees will be requested to take final action to adopt the proposed rates.

FISCAL INFORMATION

“Implementation of the proposed ancillary service rates is not expected to result in an increase in revenues.

RECOMMENDATION

“The Senior Vice President - Marketing and Economic Development recommends that the Trustees authorize the Secretary and General Counsel to file notice with the Secretary of State for publication in the State Register of the Authority’s intention to adopt such additional ancillary service rates.

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

In response to questions from Trustee Miller, Mr. Yates explained that most of the existing Authority customers would not be impacted; for new users, there will be minimal impacts. Overall, the service charges will result in only several hundred thousand dollars of additional revenues to the Authority on an annual basis.

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

RESOLVED, That the Secretary and General Counsel of the Authority be, and hereby is, authorized to file notice with the Secretary of State for publication in the State Register of the Authority's proposed action to adopt additional ancillary service rates as set forth in the foregoing report to the President.

**6. New York City Public Utility Service –
Allocation of FitzPatrick Industrial Power**

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve the allocation of 1,400 kW of FitzPatrick power to the New York City Public Utility Service (‘NYCPUS’) for resale to Quality House of Graphics, Inc. (‘Quality House’).

BACKGROUND

“The Authority has reserved a total of 73,160 kW of FitzPatrick industrial power for sale to downstate municipal distribution agencies (‘MDA’s’), including NYCPUS, under Service Tariff 35. Of this amount 50,000 kW is reserved for NYCPUS. This power is resold to industrial consumers designated by the MDA’s and approved by the Authority. NYCPUS has proposed the allocation of 1,400 kW to Quality House from this block of power.

DISCUSSION

“Quality House located in Long Island City is currently one of the top 20 prepress facilities in the nation. The company provides a full range of graphic arts services. The company has recently spent approximately \$1.5 million to renovate its facility to accommodate its 190 employees. Quality House has been gradually expanding and is presently considering the purchase of another printing press. However, the high costs of operating in New York have compelled the company to seek relocation alternatives. A reduction in energy costs would assist in allowing Quality House to continue to expand in Long Island City. The proposed 13-year allocation of 1,400 kW would save the company approximately \$200,000 annually over Con Edison’s standard rates. Quality House in turn commits to retain 190 jobs.

“The proposed allocation has been reviewed in accordance with Part 460 of the Authority’s Rules and Regulations (Procedures for Allocation of Industrial Power and Enforcement of Contracts (21 NYCRR 460 (1988))). The standard power service contract between a business and NYCPUS provides for reductions in the allocation in the event that employment or power usage levels are not maintained at specified levels. Reports regarding employment and affirmative action commitments will be submitted to the Authority by NYCPUS as provided by Part 460.4 of the Authority’s Rules and Regulations and pursuant to the contract between the Authority and NYCPUS.

RECOMMENDATION

“The Director - Business Marketing and Economic Development recommends that the Trustees approve the allocation of FitzPatrick power to the New York City Public Utility Service for resale to Quality House of Graphics, Inc. in the quantity specified herein.

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

In response to questions from Vice Chairman Frey, Mr. Yates explained that the proposed allocation involves jobs retained as a result of such allocation rather than the creation of new positions.

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

RESOLVED, That the Authority hereby approves the allocation of 1,400 kW of FitzPatrick power to the New York City Public Utility Service for resale to Quality House of Graphics, Inc., as is described in the foregoing report of the President and substantially in accordance with the terms described in such memorandum; and be it further

RESOLVED, That the contract for the resale of FitzPatrick industrial power between the New York City Public Utility Service and Quality House of Graphics, Inc. is subject to approval by the Senior Vice President - Marketing and Economic Development; and be it further

RESOLVED, That the Senior Vice President - Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the above allocation.

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7. **Budget Information Pursuant to
Section 2801 of the Public Authorities Law**

The attached budget information (Exhibit "8-A") will be filed pursuant to Section 2801 of the Public Authorities Law, which provides as follows:

Each authority or commission heretofore or hereafter continued or created by this chapter shall submit to the governor, chairman and ranking minority member of the senate finance committee and the chairman and ranking minority member of the assembly ways and means committee, for their information annually not less than sixty days before the commencement of its fiscal year, in the form submitted to its members or trustees, budget information on operations and capital construction setting forth the estimated receipts and expenditure for the next fiscal year and the current fiscal year, and the actual receipts and expenditures for the last completed fiscal year.

As requested by Executive Order No. 173, this information will also be submitted to the Division of the Budget.

The proposed budget information set forth above was duly noted by the Trustees.

8. Niagara Power Project - Conveyance of Reversionary Rights Map No. 316C, Parcel No. 3255

The President submitted the following report:

SUMMARY

“The Trustees are requested to authorize the release of reversionary rights to approximately 1.9 acres which interest was retained by the Authority over a 139 acre property which was earlier transferred to the City of Niagara Falls (‘City’) and located in the City of Niagara Falls.

BACKGROUND

“At the time of the construction of the Niagara Power Project, the Authority was authorized, pursuant to Subdivision 2 of Section 1012-a of the Public Authorities Law to spend \$1,500,000 for local improvements within the City. In accordance with a 1960 agreement, the Authority added recreational improvements to the City's Hyde Park Golf Course. Pursuant to Trustee authorization of June 18, 1962, and in support of recreational enhancements and golfing facilities in this area, the Authority conveyed approximately 139 acres to the City.

“The indenture by which the Authority conveyed this property to the City provides that

in the event that the City abandons the use of any said parcels or any part of parcels for such public golf course or other public recreational or public park purposes, the title to such parcel, or such part thereof, shall revert to and be the property of...The People of the State of New York [or with respect to this parcel] Power Authority of the State of New York....

“By letter dated September 9, 1997, the City requested that the Authority expand the rights the City owns relating to the Hyde Park property to allow new educational and additional recreational facilities.

DISCUSSION

“The property in question is located approximately 700 feet south of Porter Road in the City of Niagara Falls at the edge of a parking lot and golf driving range for the City’s Hyde Park Golf Course. The parcel abuts an easement owned by the Authority for its 46 ft. x 66 ft. conduits which transport water from the Niagara River to the Niagara Power Project.

“The City and the Niagara Falls City School District (‘School District’) have drafted a lease with a term of 99 years under which the School District will utilize City property that includes the subject parcel in order to construct a high school. The lease agreement has been approved by the School District Board and the City Council. A provision in the lease stipulates that such lease is subject to ‘any approval required by the Power Authority Board Trustees.’ The lease also recognizes that the property is park land and that the City will have to obtain state legislative approval to alienate park land to accommodate the school.

“The subject parcel is situated outside the Federal Energy Regulatory Commission (‘FERC’) Niagara Project Boundary and therefore no notification and or approval by FERC is required.

FISCAL INFORMATION

“There is no fiscal impact.

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RECOMMENDATION

“The Director – Real Estate, the Regional Manager - Western New York , and the Vice President - Procurement and Real Estate, recommend that the President approve the release of reversionary rights to the 1.9± acre property shown and described on Niagara Power Project Map No. 316C, Parcel No. 3255.

“The Director - Environmental Programs, the Secretary and General Counsel, the Senior Vice President - Business Services, the Executive Vice President - Project Operations, the Executive Vice President and Chief Financial Officer, and I concur in the recommendation.”

In response to questions from Trustee Miller, Mr. Hoff confirmed that the applicable insurance provisions include a hold harmless clause.

Trustee Ciminelli stated, for the record, that he would abstain from voting on the proposed resolution in view of ongoing business negotiations with Niagara Mohawk to which his company is a party.

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

RESOLVED, That the Authority hereby approves without compensation the release of the reversionary rights to that property described on Map No. 316C, Parcel No. 3255 containing approximately 1.9 acres. The 1.9± acres being released is a portion of the land encumbered by the reversionary interest retained by the Authority in its June 29, 1962 indenture from the Authority to the City of Niagara Falls as recorded in the Office of the County Clerk, Niagara County, Liber 1414, Page 574. This property is situated in the City of Niagara Falls, Niagara County, New York. It was acquired by the Authority in its own name as a portion of Power Authority of the State of New York Niagara Power Project and was subsequently conveyed to the City of Niagara Falls as a portion of Map 64-C, Parcel 2619. The Authority hereby determines that such release by the Authority under conditions substantially as specified above is on terms beneficial to the Authority and will not result in significant adverse environmental impacts; and be it further

RESOLVED, That the President is authorized to execute and deliver to the City of Niagara Falls on behalf of the Authority, in such form as approved by the Secretary and General Counsel of the Authority, a quitclaim deed or other suitable instrument releasing the Authority’s reversionary interest in and to the 1.9± acre property as shown and described on Power Authority of the State of New York, Niagara Power Project, Map No. 316C, Parcel No. 3255 on terms substantially as set forth above and in the foregoing report of the President; and be it further

RESOLVED, That the Director - Real Estate of the Authority be, and hereby is, authorized on behalf of the Authority, to execute any and all other agreements, papers or instruments which may be deemed necessary or desirable to carry out the foregoing.

9. New York City Watershed Standards

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve the attached resolution which provides that certain activities carried on by the Authority within the watershed from which the City of New York obtains its water supply be carried out in a manner consistent with the standards set forth in Title 15, Chapter 18 of the Rules of the City of New York for the ‘Protection From Contamination of the New York City Water Supply and Its Sources’ in effect on the date of this resolution.

BACKGROUND

“On January 21, 1997, Governor George E. Pataki signed the New York City Watershed Memorandum of Agreement providing for the revision of the rules and regulations governing activities in the New York City Watershed. Revised Watershed regulations became effective on May 1, 1997. By Executive Order No. 51, issued May 20, 1997, Governor Pataki directed state entities which carry on certain listed activities in the New York City Watershed (‘Watershed’) to comply with the substantive requirements of those regulations.

DISCUSSION

“The Authority owns land in the New York City Watershed and owns and operates transmission facilities which pass through the Watershed. By letter dated October 6, 1997, Governor Pataki requested support for the revised Watershed regulations. In particular, Governor Pataki requested that the Authority consider a resolution adopting operating protocols which comply with the substantive requirements of the Watershed regulations for activities undertaken by the Authority in the Watershed.

FISCAL INFORMATION

“Staff has reviewed the New York City Watershed regulations and concludes that the regulations, as written, are consistent with the manner in which the Authority currently carries on activities in the Watershed and should, therefore, not affect current procedures or the cost of operating its facilities.

RECOMMENDATION

“The Vice President & Chief Engineer Power Generation, the Secretary and General Counsel, and the Executive Vice President - Power Operations recommend that the Trustees approve the resolution with respect to compliance with the substantive aspects of the New York City Watershed regulations and notice of activities.

“The Executive Vice President and Chief Financial Officer and I concur in the recommendation.”

Trustee McCullough stated that although he supports the proposed resolution concerning voluntary substantive compliance with the Regulations, it is important to note that the Authority does not thereby become subject to the DEP’s permitting jurisdiction. Mr. Goldstein reaffirmed that the intent of the Resolution is for substantive compliance only and not to subject the Authority to any NYC DEP regulatory, procedural or other process jurisdiction.

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In response to questions from Trustee Miller, Mr. Goldstein explained that there should be no impact on any of the Authority's facilities. The Blenheim-Gilboa Project is situated outside of the Watershed, and staff does not believe that the Regulations would conflict with the Authority's Marcy-South Transmission Line, or the Ashokan or Kensico operations.

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

WHEREAS, the New York Power Authority supports the enhancement of the quality of the environment;

WHEREAS, the New York Power Authority operates transmission and hydroelectric generation facilities within the region known as the New York City Watershed; and

WHEREAS, Governor George E. Pataki signed the historic New York City Watershed Memorandum of Agreement on January 21, 1997; and

WHEREAS, one of the major elements of the Watershed Agreement is the revision of the rules and regulations that govern activities undertaken in the Watershed; and

WHEREAS, the New York City Watershed Agreement and the regulations are designed to ensure the continued, long-term protection of the drinking water for nine million New Yorkers; and

WHEREAS, it is within the mission of the New York Power Authority to generate and transmit electric power in a safe, economic and environmentally sound manner; and

WHEREAS, Governor George E. Pataki issued Executive Order No. 51 on May 20, 1997 directing certain state entities that undertake activities in the New York City Watershed to comply with the substantive requirements of the Watershed regulations; and

WHEREAS, the New York Power Authority wishes to conduct its activities consistent with such Executive Orders:

NOW BE IT THEREFORE RESOLVED, That the activities conducted by the New York Power Authority within the watershed region from which New York City obtains its drinking water supply, shall be carried out in substantial compliance with the substantive requirements of Title 15, Chapter 18 of the Rules of the City of New York for the 'Protection From Contamination of the New York City Water Supply and Its Sources' as such requirements exist as of the date of this resolution.

10. Proposed Schedule of Trustees' Meetings in 1998

The President submitted the following report:

“The following schedule of regular meetings for the Authority for 1998 is recommended:

<u>Date</u>	<u>Location</u>	<u>Time</u>
January 27, 1998 (Tuesday)	NYO	11:00 a.m..
February 24, 1998 (Tuesday)	NYO	11:00 a.m..
March 31, 1998 (Tuesday)	NYO	11:00 a.m.
April 28, 1998 (Tuesday)(Annual)	NYO	10:00 a.m.
May 26, 1998 (Tuesday)	POLETTI	10:00 a.m.
June 30, 1998 (Tuesday)	B-G	10:00 a.m.
July 28, 1998 (Tuesday)	St. LAWRENCE	10:00 a.m.
August 25, 1998 (Tuesday)	NIAGARA	10:00 a.m.
September 28, 1998 (Monday)	IP3	10:00 a.m.
October 27, 1998 (Tuesday)	NYO	10:00 a.m.
November 24, 1998 (Tuesday)	NYO	10:00 a.m.
December 15, 1998 (Tuesday)	NYO	10:00 a.m.”

At the Trustees' request, the proposed schedule was modified as set forth above.

**11. Overrun of Nuclear Generation 1997
Operations and Maintenance Budget**

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve an overrun of \$24 million to the Nuclear Generation Operations and Maintenance budget for 1997. These additional resources were needed to fund the extension and expanded scope of the Indian Point 3 Nuclear Power Plant (‘IP3’) refueling outage offset by less than expected spending at James A. FitzPatrick Nuclear Power Plant (‘JAF’).

BACKGROUND

“At their meeting of December 17, 1996 the Trustees approved a 1997 Operations and Maintenance budget of \$260 million for Nuclear Generation pending completion of a detailed evaluation of the refueling outage scope. On May 20, 1997 the Trustees approved spending an additional \$35 million at IP3 to fund an expanded refueling outage scope, the forced outage in January, and engineering work associated with ongoing NRC initiatives. At that time, it was expected that IP3 would complete the refueling outage and return to service in mid-July.

“Due to emergent work and delays in critical path work, the outage was not completed until September 12, 1997. As a result, IP3 required an additional \$28 million to fund refueling outage related costs. At the same time, JAF has continued to run extremely well and is expected to complete the year \$4 million under its Operations and Maintenance budget.

“The Trustees and senior Authority management have been kept informed of the status of the outage and the problems encountered. The Nuclear Generation Department’s primary goal for the refueling outage has remained focused on ensuring that the refueling and corrective and preventive maintenance work activities were performed safely, and properly, that restart was conducted safely and that the plant be in condition to run continuously until the next refuel in mid-1999.

DISCUSSION

“The IP3 refueling outage was scheduled to last 60 days until mid-July. The outage ended on September 12, 1997 after 120 days. A rigorous ‘lessons learned’ review of outage performance will be conducted to identify problems and initiate actions to improve schedule adherence and work performance. Delays in completing critical path activities and greatly expanded corrective and preventive maintenance work scope due to emergent issues were major factors contributing to the outage extension and additional cost.

“Early in the outage, critical path modifications to the Fuel Transfer System took longer than planned. Contractor performance contributed to the delays which had a major impact on staffing costs for delayed work and related support which could not start as scheduled. Backcharges and claims are being pursued.

“Emergent work caused a greater than 30% increase in outage work packages from 4,900 planned to 6,500 actually worked. As a result, spending for craft support, skilled technical contractor support and materials exceeded original estimates. Major emergent projects included repairs to transformers, core thermo-couple replacement, breakers, service water valves and fan cooler units flange replacement.

FISCAL INFORMATION

“Payment will be made from the Operating Fund.

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RECOMMENDATION

“The Site Executive Officer - Indian Point 3 and the Senior Vice President and Chief Nuclear Officer recommend the Trustees’ approval of the overrun of \$24 million to the Nuclear Generation Operations and Maintenance budget.

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

At the President’s request, Mr. Salmon reported on current nuclear operations, and indicated that planning is already underway to ensure that the next IP3 refuel outage will be significantly shorter than the just-completed outage. Trustees Ciminelli and McCullough questioned the nuclear staff as to its assurances in requesting an additional \$35 million from the Trustees last summer that such request would be the last for this calendar year. Mr. Salmon explained that the extent of the emergent work and its associated costs had been unknown to staff at the time the assurances were made.

Vice Chairman Frey underscored the importance of achieving the economical operation of both nuclear plants. Mr. Delaney added that currently under consideration is the refunding of existing bonds and subsequent paying off of outstanding debt so that economical operations can be achieved; however, to be competitive, he stated that IP3’s cost of generation must decrease. President Zeltmann expressed his concurrence, stressing the overriding goal of achieving First Quartile performance in the nuclear area so as to enable the Authority’s nuclear plants to become and remain competitive. President Zeltmann pointed to the necessity of identifying the true costs of operating both plants, and stated that the additional expenditure authorization sought represents an extraordinary cost overrun.

Trustee Ciminelli requested that the Trustees be briefed on the “lessons learned” from the current results of Nuclear Generation’s performance for this year, and expressed his desire to see better contingency planning. Trustee Ciminelli stressed that the Trustees would like to further their understanding of how such developments arise. The Vice Chairman expressed agreement, noting that the Trustees wish to more closely monitor nuclear expenditures. Mr. Delaney added that the Nuclear Department’s total cost overrun of \$47 million is unacceptable, especially when other Business Units are coming in under budget. President Zeltmann reiterated his desire to bring some integrity to the nuclear budgeting process and stated that the Trustees would

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be briefed on nuclear operations on a continuing monthly basis. Vice Chairman Frey and Trustee Ciminelli indicated that would be helpful to the Trustees.

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

RESOLVED, That pursuant to the Authority’s Expenditure Authorization Procedures, authorization for the overrun in the Nuclear Generation 1997 Operations and Maintenance Budget as recommended in the foregoing report of the President, in the amount and for the purpose listed below is hereby granted:

Nuclear Generation Operations and Maintenance

1997 Original Operations and Maintenance Expenses (approved December 17, 1996)	\$259,599,000
Additional Expenses (approved May 20, 1997)	35,000,000
<u>Budget Overrun</u>	<u>24,000,000</u>
Revised Approved 1997 Operations and Maintenance Expenditures	<u>\$318,599,000</u>

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12. Next Meeting

“The Regular meeting of the Trustees will be held on **Tuesday, November 25, 1997, at the New York Office at 10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.”

13. **INFORMATIONAL ITEM - New York State Economic Development / "Power for Jobs" Promotion: Joint Effort with Empire State Development Corporation**

The President submitted the following report:

SUMMARY

“The New York Power Authority will join with the Empire State Development Corporation (‘ESDC’) to implement a state-wide communications effort designed to promote economic development in the state by showcasing the advantages of New York State’s array of excellent business incentives, including the *“Power for Jobs”* program. The Power Authority’s financial participation will be \$2 million for a television advertising campaign to be conducted in November and December 1997.

BACKGROUND

“In July 1997, Governor Pataki and the New York State Legislature approved a program to provide low-cost power to businesses that agree to retain or create jobs in New York State. That program is known as *‘Power for Jobs.’*”

“*‘Power for Jobs’* will make available 400 megawatts of power provided from the Power Authority and from power purchased by the Power Authority through a competitive bid process. Phased in over three years, the program will make 133.3 megawatts available in its first year. The New York State Economic Development Power Allocation Board is responsible for reviewing applications and recommending allocations for approval by the Power Authority’s Trustees.

“*‘Power for Jobs,’* along with other new business incentives and policy changes, provides a positive presentation of New York State’s commitment to attracting and retaining jobs.

DISCUSSION

“*‘Power for Jobs’* has been open for business since September 11, 1997 when the formal legal advertisements were placed in 34 newspapers and business publications around the state to announce the program. In addition, the Power Authority distributed a direct mail piece to over 5,000 businesses throughout New York State. A *‘Power for Jobs’* hotline (1-888-JOBS-NYPA) has been established for businesses to inquire about the program and to request an application. In late September and early October the Power Authority hosted 15 regional *‘Power for Jobs’* informational meetings around the state with more than 700 people in attendance. *‘Power for Jobs’* was the theme of the Power Authority exhibitor booth at the Annual Meeting of the New York State Business Council in late September and the Crain’s Small Business Workshop in mid-October.

“To date, the *‘Power for Jobs’* promotional program has been conducted entirely by NYPA. The proposed initiative will integrate *‘Power for Jobs’* promotion with the efforts of the Empire State Development Corporation to attract and retain private sector jobs for New York State. Specifically, ESDC and NYPA will undertake a television advertising campaign in November and December, 1997 aimed at promoting *‘Power for Jobs’* and the array of new economic development incentives and policy changes that have improved New York State’s business climate.

FISCAL INFORMATION

“The program will be funded from underruns in the approved 1997 headquarters O&M budget. No budget increases are required. Payment will be made from the Operating Fund.

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CONCLUSION

“*Power for Jobs*’ and such other initiatives as state tax reductions, regulatory relief and reform of workers compensation offer an array of incentives that can bring about an economic renaissance for the Empire State. I am convinced that a coordinated promotional effort by the New York Power Authority and the Empire State Development Corporation is essential to marketing the economic development potential of New York State.”

In response to questions from Trustee Miller, the Secretary and General Counsel explained that the Authority’s financial commitment will serve to promote New York’s power for jobs program nationally which will lead to the creation of jobs and economic development statewide, to the ultimate benefit of the people of the State. Trustee Frey expressed his support for the program and his desire that upstate markets not be neglected. Staff responded that under arrangements with ESDC, we have the ability to approve the media buys and would keep in mind his concern. President Zeltmann added that the proposed effort is illustrative of how the Authority, as a governmental entity, can actively contribute to the utility industry’s transition to competition. In response to a question from Trustee Miller as to whether the Trustees had to authorize additional money, Mr. Bellis explained that the funding for the program was available from cost underruns in the current budget.

14. Briefing by Nuclear Advisory Committee
Chairman James Asselstine

President Zeltmann welcomed Mr. James Asselstine, noting that the latter's recent presentation to utility commissioners on the subject of competitive costs had been outstanding, and that Mr. Asselstine will be invited to make this presentation to key Authority employees.

On behalf on the Nuclear Advisory Committee, Committee Chairman Asselstine reported that the Committee had met four times at various Authority locations during the past year. The Committee's principal findings and recommendations are as follows.

The nuclear "management team" at the Authority is good, has solid experience, and good executives and site executive officers.

The JAF plant has achieved good and reliable operating performance with a 92 to 95% capacity factor, and its operating measures have been in sync with its targets. JAF did well on various NRC inspections; however, its SALP score of "2", although acceptable, is below the goals which have been set. The Site Executive Officer, Mr. Colomb, has articulated sound ideas for future improvement of human performance weaknesses.

JAF's major challenge is to accelerate the pace of performance improvement and attain the top quartile. The Committee feels that the key is the pace of improvement performance over the next few years. Further, regulatory performance must be closely watched. In July, the Committee observed that the material condition of JAF is good and shows consistency.

The Indian Point 3 plant has generally performed well this year and has shown steady improvement in physical condition. The removal of IP3 from the NRC's Watch List in July was a major milestone and demonstrates the NRC's level of confidence. One major weakness was the length of the refueling outage which

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prompted the NRC to express concern over the schedule before the outage. The Committee identified several causes for the lengthy outage: limited planning time available to staff due to a maintenance outage which took place in January; amount of emergent work was too high at 33% of all work; there was weak contractor performance and weak NYPA management of those contractors. Mr. Asselstine opined that the JAF plant experienced similar problems with its first outage after leaving the Watch List and stated that how the Authority handles the next IP3 outage will be critical.

Relations with NRC regulatory personnel are generally good at both plants. However, there is currently a cautious environment within the NRC itself, and the Committee members feel that IP3 will be watched closely by the NRC for steady improvement. The Committee members stress the need for close and constructive dialogue with the NRC and aggressive self-identification of areas needing improvement.

To be competitive within the industry in the long term, NYPA must attain the top quartile; however, this cannot be achieved overnight and there must be a rational plan. The Committee believes that NYPA's senior management is committed to results and must get this message down to the troops.

In response to questions from the Vice Chairman, Mr. Asselstine indicated that NYPA's plants are currently in the bottom half of the range, and that greater challenges are faced by the single-unit plants than multi-unit operations which can achieve certain greater efficiencies; however, a single unit can reach the top quartile.

JAF is clearly further along in the process for improvement than IP3.

In response to questions from Trustee Miller, Mr. Asselstine reported that the Committee sees some improvement in NYPA's communications with the NRC concerning the engineering function; however, staff needs to continue to talk to the NRC staff at all levels, and ask them outright for feedback and to maintain a dialogue. Mr. Asselstine further reported that maximizing on-line maintenance is a step toward decreasing the length of refueling outages and attaining the top quartile; top plants routinely have refuel outages of 45 days or

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less. Mr. Salmon explained that staff is actively transitioning toward more on-line maintenance, but is trying to be careful to not overshoot and have the plant returned to the Watch List.

In response to further questions from Trustee Miller, Mr. Asselstine stated that outside contractors are needed during an outage, but must be better managed. He noted that Mr. Knubel has articulated a plan to ensure better management in the future.

In response to a request from the Vice Chairman, President Zeltmann stated that the Trustees will be regularly briefed on NYNOC developments and that Mr. Asselstine will brief them again within the next few months.

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Closing

“Upon motion made and seconded, the meeting was closed at 11:40 a.m.”

David E. Blabey
Secretary and General Counsel

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