November 24, 1998

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

November 24, 1998

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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 11:00 a.m.

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

Eugene W. Zeltmann	President and Chief Operating Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President - Project Operations
John F. English	Senior Vice President – Corporate Planning
James Knubel	Senior Vice President – Chief Nuclear Officer
Louise M. Morman	Senior Vice President – Marketing and Economic Development
Philip J. Pellegrino	Senior Vice President - Transmission
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Vincent C. Vesce	Senior Vice President - Human Resources
Russell Krauss	Chief Information Officer
Arnold M. Bellis	Vice President - Controller
Daniel Berical	Vice President – Policy and Governmental Affairs
Woodrow W. Crouch	Vice President – Project Management
H. Kenneth Haase	Vice President - Transmission
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President and Chief Engineer – Power Generation
Michael Petralia	Vice President – Public Affairs
Harry P. Salmon, Jr.	Vice President – Engineering and Project Control
Joseph J. Carline	Assistant General Counsel
Stephen P. Shoenholz	Deputy Vice President - Public Relations
Carmine J. Clemente	Deputy General Counsel
Richard E. Kuntz	Regional Manager – Southeast New York
Jordan Brandeis	Director – Performance Planning
Joseph J. Brennan	Director – Internal Audit
Thomas J. Concadoro	Director – Accounting
John B. Hamor	Director – Intergovernmental Relations
Douglas M. Kerr	Director – Marketing Planning
John L. Murphy	Director - Public Information
William Slade	Director – Environmental Programs
James H. Yates	Director – Business Marketing and Economic Development
George W. Collins	Treasurer
Charles Vacek	Manager – Federal Affairs
Alice T. Conway	Senior Compensation & Benefits Administrator
Anne Wagner-Findeisen	Deputy Secretary
Angela Graves	Assistant Secretary

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

1. Approval of the Minutes

The minutes of the Regular Meeting held on October 27, 1998 were approved.

2. Financial Report for the Ten Months Ended October 31, 1998

Trustee Ciminelli asked for the specific reasons underlying the current underspending of the budget by some $30 million and inquired as to how the Trustees could best contribute to the effort of ensuring that the 1999 budget strikes the proper balance between ensuring the availability of sufficient funds for necessary expenditures and inflating the amount of funds anticipated to be required.

Mr. Arnold Bellis explained that by year-end, the underspending disparity will ***substantially diminish*** *and that it is a temporary phenomenon attributable to* ***one-time non-operating*** *factors such as State Retirement System pension fund underruns, FERC fee underruns, and the delay in the commencement of the JAF refuel outage. Mr. Bellis further explained that the Trustees would be provided with a detailed briefing on the proposed 1999 budget within the next two weeks. Trustee Ciminelli stated that such a briefing will be helpful to the Trustees.*

3. Report from the President and Chief Operating Officer

Chairman Rappleyea, on behalf of the Trustees, thanked Mr. Philip Pellegrino for his splendid service to the Authority for more than 20 years and wished him success in his new position as President and CEO of the New England Power Pool/ISO. Mr. Pellegrino expressed thanks for the diverse responsibilities and professional development opportunities he had benefited from during his tenure at the Authority, and expressed his belief that Authority employees are highly dedicated and talented, and well-equipped to lead the electric utility industry during the ongoing restructuring. Trustee Miller added that Mr. Pellegrino has been a credit to the Authority as well as to his community and wished him the best in his new role.

President Zeltmann introduced Mr. Christian Lenci, Energy Manager – Tonawanda of Praxair, Inc., an Authority customer and the largest industrial gas supplier for the U.S. and Canada. Mr. Lenci gave a presentation on Praxair's "Partners in Quality Leadership" program, wherein Praxair evaluates all of the vendors from whom it purchases electricity according to selected criteria and annually ranks them. Mr. Lenci advised that not only had the Authority been rated among the top 5 vendors nationwide, i.e., 5/62, it had also demonstrated the greatest rate of improvement since 1994. Mr. Lenci underscored that Governor Pataki's and Chairman Rappleyea's efforts to improve the business climate in New York State have been successful and, on behalf of Praxair, congratulated the Authority on its excellent performance. Chairman Rappleyea commended the efforts of Ms. Louise Morman and Marketing and Economic Development staff in achieving that result and thanked Mr. Lenci for his informative presentation. Trustee Miller noted that the facts and statistics adduced by Praxair are good indicators of why the Authority should continue to expand activities such as the Power for Jobs Program in order to further improve the business climate.

President Zeltmann then introduced Mr. Douglas Kerr of the Marketing and Economic Development Department, who briefed the Trustees on the issues arising out of the potential requirement that electricity to be sold within New York City be generated in major part within the City itself. Mr. Kerr explained that staff is reviewing various options and would submit recommendations to the Trustees by year-end.

At President Zeltmann's request, Mr. Russell Krauss briefed the Trustees on the current status and developments in the ongoing Year 2000 Program effort. In particular, Mr. Krauss explained that he had retained a team of nuclear Y2K *experts to perform detailed "walkdowns" of the computer systems at IP3 and JAF. Mr. Krauss also reported that the NEI's guidelines now call for the completion of testing of all systems by June 1999 and that on a national basis, Telecommunications Reliability Councils are actively overseeing much of the Y2K compliance testing.*

Mr. Krauss then described the various components of the Quality Assurance system, in particular the "Peer Audits" program, which provides for an inter-utility exchange of pertinent Y2K information. Currently NYPA is exchanging such information with Con Edison, and is next scheduled to do so with Niagara Mohawk, and subsequently with GPU. Trustee Ciminelli inquired whether the Peer Audits will address and serve to resolve the utility inter-dependency issues. Mr. Krauss responded in the affirmative.

4. Power Allocations Under the Power for Jobs Program

The following report was submitted by the President.

SUMMARY

"The Trustees are requested to approve 17 allocations of available power under the Power for Jobs program to the businesses listed in Exhibit '4-A' which have been recommended for such allocations by the Economic Development Power Allocation Board ('EDPAB').

BACKGROUND

"In July 1997, Governor George E. 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. The Power for Jobs program originally made available 400 megawatts of power; 200 provided from the Authority's James A. FitzPatrick Nuclear Power Project and 200 purchased by the Authority through a competitive bid process. The program was to be phased in over three years, with approximately 133 megawatts being made available each year. In July 1998, as a result of the initial success of the program, Governor Pataki and the Legislature have made an additional 50 megawatts of power available and have accelerated the distribution of the power. 267 megawatts are now available in Year 1.

"Approved allocations will entitle the customer to receive the power from the Authority pursuant to a sale for resale agreement with the customer's local utility. A separate allocation contract between the customer and the Authority will contain job commitments enforceable by the Authority.

"The program is designed to assist New York State businesses that are at risk of reducing or closing their operations or moving out of State or are willing to expand job opportunities. Small businesses and not-for-profit corporations are also eligible. Businesses are required to create or maintain a specific number of jobs in order to qualify for an allocation. At their meeting of December 1997 and January, March, April, September and October 1998, the Trustees' approved allocations to 314 businesses under the Power for Jobs program.

DISCUSSION

"In an effort to receive quality applications and to announce the program, advertisements announcing the program were placed in major newspapers and business publications statewide; a direct-mail piece was distributed; regional meetings were hosted around the state; and the program was promoted through television ads within and without the state. To date, over 2,600 inquires have been received and over 1,200 applications have been sent to prospective customers.

"Completed applications were reviewed by EDPAB and recommendations were made based on a number of competitive factors including the number of jobs retained or created, the amount of capital investment in New York State and whether a business is at a competitive disadvantage in New York. Seventeen applications were deemed highly qualified and presented to the EDPAB for its review on November 24, 1998. All remaining applications are still under review and will be considered at a later date.

"As a result of its meeting, the EDPAB recommended that the Authority's Trustees approve the allocations to the eight businesses, five small businesses and four not-for-profit corporations listed in Exhibit '4-A'. Collectively, these organizations have agreed to create or retain over 7,200 jobs in New York State in exchange for allocations totaling 12.955 megawatts ('MW'). The allocation contracts will be for a period of three years. The power will be wheeled by the investor-owned utilities as indicated in Exhibit '4-A'. The bases for EDPAB's recommendations are also included in Exhibit '4-A'.

RECOMMENDATION

"The Director – Business Marketing and Economic Development and the Manager – Business Power Allocations and Compliance recommend that the Trustees approve the allocations of power under the Power for Jobs program to the companies listed in Exhibit '4-A'.

"The Senior Vice President – Marketing and Economic Development, the Executive Vice-President, Secretary and General Counsel, the Executive Vice-President – Project Operations, and I concur with the recommendation."

Chairman Rappleyea noted that the proposed set of allocations would exhaust the full 267 megawatts allotted for the program's first year, and that since the program's inception a year ago, staff has handled more than 2,600 inquiries; more than 1,200 applications have been sent to prospective applicants, and over 500 applications have been returned for staff's review.

With today's action, 331 applications have been approved since last December, resulting in use of the 267 megawatts to save and create 176,000 jobs. Chairman Rappleyea underscored that the resulting ratio of 660 jobs/MW is more than six times the original estimate.

The Chairman pointed out that although Power for Jobs was originally envisioned as a job retention program, it has also exceeded expectations by helping to create 7,100 new jobs in its first year. The Chairman thanked the NYPA staff and the ESDC and the PSC staff members whose efforts have resulted in the success of the program.

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

WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve an aggregate 12.955 MW of allocations of Power for Jobs power to the companies listed in Exhibit "4-A";

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves allocations of Power for Jobs power to the companies listed in Exhibit "4-A" (the "Customers"), as submitted to this meeting, and that the Authority finds that such allocations are in all respects reasonable, consistent with the requirements of the Power for Jobs program and in the public interest; and be it further

RESOLVED, That a total of 12.955 MW of power from the James A. FitzPatrick Plant and power purchased by the Authority in a competitive bid process be sold to the utilities that serve such Customers for resale to them for a period of up to three years under the terms of both the Authority's Power for Jobs sale for resale contracts with the utilities and separate allocation contracts between the Authority and such Customers; and be it further

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

New York Power Authority

Power for Jobs

Recommmendations for Allocations

Exhibit 'A'

November 24, 1998

Exhibit Number	Company	City	Utility Area	kW Recomnded	Jobs	Jobs/ MW	Previous Allocation	Jobs Committed	Organization Type
A-1	Acme Architectural	Brooklyn	Con Ed	1,000	665	665			Large Business
A-2	Bell Atlantic	New York City	Con Ed	5,000	2,061	412			Large Business
A-3	St. John's Riverside Hospital	Yonkers	Con Ed	350	1,113	3,180			Not for Profit
A-4	St. Mary's Hospital for Children	Bayside	Con Ed	150	531	3,540			Not for Profit
	Consolidated Edison	Sub-Total	4	6,500	4,370	672			
A-5	Floral Glass & Mirror	Hauppauge	Lipa	300	176	587			Large Business
A-6	Beech-Nut Nutrition Corp	Canajoharie	Nimo	1,500	406	271			Large Business
A-7	Charles Sitrin Health Care Center	New Hartford	Nimo	300	339	1,130			Not for Profit
A-8	Faster Form Corp	Frankfort	Nimo	100	198	1,980			Small Business
A-9	Oneida Healthcare Center	Oneida	Nimo	400	863	2,158			Not for Profit
A-10	Par Foam	Buffalo	Nimo	230	180	783			Small Business
A-11	Taylor Made Products	Gloversville	Nimo	325	135	415			Small Business
	Niagara Mohawk	Sub-Total	6	2,855	2,121	743			
A-12	Barry Steel Fabrication	Lockport	Nyseg	75	49	653			Small Business
A-13	Cameron Fabricating	Horseheads	Nyseg	325	142	437			Small Business
A-14	IBM	Endicott	Nyseg	1,500	*	1,116	3.500	5,580	Large Business
A-15	International Paper	Geneva	Nyseg	500	105	210			Large Business
A-16	Racemark International	Malta	Nyseg	250	261	1,044			Large Business
	New York State Electric & Gas	Sub-Total	5	2,650	557	3,460	3.500	5,580	
A-17	Flower City Printing	Rochester	Rg&e	650	*	232	0.500	267	Large Business

Summary Data	Number	kW	Jobs	Jobs/mW
Large Business	8	10,700	3,674	343
Not for Profit	4	1,200	2,846	2,372
Small Business	5	1,055	704	667
Total	17	12,955	7,224	558

November 24, 1998

5. Lease of Office Space, Centroplex Building
Danziger & Markhoff, LLP

The following report was submitted by the President.

SUMMARY

"The Trustees are requested to authorize the execution of a lease amendment to extend the term and to add approximately 885 square feet of office space to the existing leased premises on the 9th floor of the Centroplex Building, White Plains, New York ('Centroplex Building') by the Authority as landlord to the law firm of Danziger & Markhoff LLP, (hereinafter 'Danziger') as tenant. The proposed lease extension is for an additional five years, to commence April 1, 2002, at an average annual fixed rent of $26.20 per square foot plus electricity at $2.00 per square foot and adjustments to recover increases in taxes and operating expenses over a base year, as outlined in Exhibit '5-A' (Basic Lease Terms) to this memorandaum.

BACKGROUND

"The Authority acquired the Centroplex Building by deed dated July 10, 1991. This is a commercial office building with the majority of the existing space occupied by Authority personnel. Danziger, was a leasee with the Authority's predecessor in title, which lease the Authority acquired with the purchase of the Building. Danziger has been a tenant in the building continuously since November, 1981 and currently leases approximately 10,647 square feet of office space located on the 9th floor. The term of the existing lease runs through March 31, 2002.

DISCUSSION

"Danziger is an established law firm, with a primary focus on pension and estate planning issues. Danziger has requested that the Authority lease to it approximately 885 rentable square feet of additional space that is contiguous to its existing space. The fixed rent for the additional space would be the same as with Danziger's existing lease. Also, the law firm wishes to extend the term of the lease by five years from April 1, 2002 to March 31, 2007. Preliminary negotiations have resulted in Basic Lease Terms as set forth in Exhibit '5-A'. The Authority's broker has provided a summary of rent comparables for Westchester County and has concluded that local market conditions indicate that this transaction compares favorably to other transactions recently completed in downtown White Plains.

FISCAL INFORMATION

"Payment for tenant improvements and architectural and engineering fees as setforth in Exhibit '5-A' will be made from the Operating Fund.

RECOMMENDATION

"The Director - Corporate Support Services, the Director - Real Estate, and the Vice President - Procurement and Real Estate recommend that the Trustees approve entering into a lease amendment with Danziger & Markhoff LLP for additional office space and a five year extension in the Centroplex Building on terms substantially in accordance with the foregoing and with Exhibit '5-A' attached hereto.

“The Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations, and I concur in the recommendation.”

Chairman Rappleyea commended Mr. John Hoff and Real Estate staff on a job well done. In response to questions from Trustee Miller, Mr. Hoff explained that some 4% of the space remains available for leasing and that tenants are actively being sought by staff. Trustee McCullough abstained from voting on this matter.

“The attached resolution, as recommended by the President, was adopted with Trustees McCullough abstaining.”

RESOLVED, That the President and Chief Operating Officer, the Vice President - Controller, or the Vice President - Procurement and Real Estate be, and hereby is, authorized to enter into a lease amendment for office space in the Centroplex Building with Danziger & Markhoff, LLP, on substantially the terms set forth in the foregoing report of the President and subject to approval of the lease amendment by the Executive Vice President, Secretary and General Counsel or his designee; and be it further

RESOLVED, That the Vice President - Controller, the Vice President - Procurement and Real Estate, or the Director - Real Estate 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, subject to approval by the Executive Vice President, Secretary and General Counsel or his designee.

Exhibit '5-A'
November 24, 1998

BASIC LEASE TERMS

Authority to Danziger & Markhoff LLP

Premises: Approximately 11,532 square feet on the 9th floor of the Centroplex Building, inclusive of the additional premises of approximately 885 square feet of contiguous space.

Additional Premises: The commencement date for the additional premises will occur upon the Authority's consent to tenant's space plans and full execution of lease amendment documents. There will be a three month free rent period associated with the additional space only.

Extension Term: Five years, rent to commence on April 1, 2002 and end on March 31, 2007. There will be no free rent period associated with the extension term.

Fixed Rent: Fixed rent through March 31, 2002 will remain consistent with the existing lease, averaging approximately $25.00 per square foot. For years one through three of the extension term, rent will be $299,832.00 annually or $26.00 per square foot and for years four and five, $305,598.00 annually or $26.50 per square foot. Tenant will also pay $23,064.00 annually or $2.00 per square foot for electricity during the extension term.

Renewal Option: There will be no renewal option.

Operating Escalation: Pro-rata share of increases in operating expenses over a base year of 1998 will apply to the entire premises effective on the date the lease amendment becomes signed by both parties.

Real Estate Tax Escalation: Pro-rata share of increases in real estate taxes over a weighted average base year of 1998 will apply to the entire premises effective on the rent commencement date for the additional premises.

Parking: Parking will be consistent with the existing lease terms.

Tenant Improvement Allowance: There will be a tenant improvement allowance of $37,500.00 for the additional 885 square feet, inclusive of tenant's architectural and engineering fees. Any tenant improvement costs in excess of tenant's improvement allowance will be paid by tenant. At the commencement of the renewal term in 2002, costs of painting and repairing or replacing carpeting in the premises as needed will be assumed by the Authority.

Brokerage Commissions: There will be no brokerage commissions associated with this transaction.

6. Declaration of Official Intent - Reimbursement of Certain Expenditures with Proceeds of Tax-Exempt Debt

The following report was submitted by the President.

SUMMARY

"The Trustees are requested to issue a Declaration of Official Intent expressing the Authority's intent to reimburse with future tax-exempt bond or note proceeds expenditures which have been and may be made in connection with (1) the renovation of the Niagara Project; (2) relicensing costs associated with the relicensing of the Niagara Project; and (3) certain information technology expenditures.

DISCUSSION

"With the introduction of several proposed tax bills to limit public power's ability to issue tax-exempt debt, staff has begun investigating the possibility of financing with tax-exempt debt a portion of the Niagara Project Upgrade, the Niagara relicensing costs and certain information technology system upgrades to become Year 2000 ready. Expenditures for these projects are expected to total over $220 million over the next five years, and it is anticipated that up to 50% of these costs could be financed under current tax regulations with tax-exempt debt. This would allow internal funds currently earmarked for these purposes to be used to provide continuing liquidity for the Authority or to retire debt with higher interest rates associated with Authority generating facilities. It is estimated that the use of tax-exempt financing could save the Authority over $20 million over the life of the new debt. However, tax-exempt financing would not be used if it would in any way limit the Authority's ability to market the power from the Niagara Power Project.

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

RECOMMENDATION

"The Treasurer recommends that the Trustees express their intent to reimburse, to the maximum extent permitted by law, expenditures made in connection with (1) the renovation of the Niagara Project; (2) relicensing costs associated with the relicensing of the Niagara Project; and (3) certain information technology expenditures, by allocation of future tax-exempt bond or note proceeds.

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

Trustee McCullough sought assurance that no further or other action would be taken without approval and action of the Trustees. Mr. Wes Collins responded in the affirmative, stressing that the proposed resolution represents only a statement of future intention, and that any future action thereunder, no matter how small, would require approval of the Trustees.

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

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

> **The Authority intends to reimburse to the maximum extent permitted by law with the proceeds of tax exempt obligations to be issued by the Authority, all expenditures made and which may be made in connection with (1) the renovation of the Authority's Niagara Project, with the maximum principal amount of obligations to be issued for such renovation project expected to be $50 million, (2) the relicensing of the Authority's Niagara Project, with the maximum principal amount of obligations to be issued for such relicensing costs expected to be $50 million, and (3) the development, design, purchase, and implementation of programs, technology, equipment, and systems for the purpose of assuring the Authority's ability to be 'Year 2000' ready, with the maximum principal amount of obligations to be issued for such purpose expected to be $20 million; and be it further**

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

7. Amendment of the Deferred Compensation Plan for Employees of the Power Authority of the State of New York (Section 457 Deferred Compensation Plan)

The President submitted the following report.

SUMMARY

"An amended and restated version of the Section 457 Deferred Compensation Plan must be approved and adopted as well as approval of the establishment of a trust to hold assets of the Plan, all pursuant to applicable sections of the Internal Revenue Code of 1986, as amended (the 'Code') and the New York State Finance Law ('State Finance Law'). The Plan is being amended and restated in order to (1) implement the requirement that plan assets be held in trust, and (2) to conform the language of the Authority's Plan to the approved version of the model plan promulgated by the New York State Deferred Compensation Board and in accordance with its regulations ('State Regulations'). The Trustees are requested to (1) adopt and approve the attached amended and restated Plan to be effective January 1, 1999, subject to the receipt of an acknowledgment from the Deferred Compensation Board; and (2) authorize the Deferred Compensation Committee for the Plan to select and award a contract to the Trustees in accordance with competitive requirements of the State Regulations and Authority-promulgated procedures, and to enter into a trust agreement in a form acceptable to the Committee with the Trustee, subject to satisfaction of the requirements set forth in the State Regulations and requirements imposed under the Plan.

BACKGROUND

"The Plan has been maintained by the Authority since 1989. It was established primarily to provide those Authority employees covered by a collective bargaining agreement with a means of saving through a tax deferred compensation program, although the Plan is also available to salaried employees.

"The Authority has maintained the Plan as a model plan in accordance with the procedures of the New York State Deferred Compensation Board and pursuant to the State Regulations. As a result of changes to the Code by the Small Business Job Protection Act of 1996, the assets of governmental Section 457 plans must be held in trust for the exclusive benefit of participants and their beneficiaries. Prior to this time, plan assets were held by the Authority as a part of the Authority's general assets, and were subject to the claims of the creditors of the Authority.

DISCUSSION

"The Plan has been reviewed by staff members of both the Human Resources and Law Departments as well as the Deferred Compensation Committee for the Plan. They have found that the Plan, as amended and restated and as submitted for approval, complies with all of the rules and requirements imposed by the Code, the State Finance Law, the State Regulations and other applicable agreements.

"With respect to establishment of a trust agreement the Authority sought formal written proposals from contractors. One bidder, T. Rowe Price, currently the administrator and record keeper for the Plan, responded to the Authority's notice. Subject to approval by the Trustees which is hereby sought, on or after December 7, 1998, the Deferred Compensation Committee will award a one year contract to T. Rowe Price to act as Trustee of the Plan and will enter into a trust agreement that meets the requirements of the State Regulations and the requirements imposed under the Plan.

FISCAL INFORMATION

"Incremental costs resulting from this change are estimated to be $1,000, the compensation T. Rowe Price will receive to perform as the Trustee of the Plan. Funds are available for this purpose from the Operating Fund. Also, the Authority's financial statements will be modified to reflect the transfer of these assets from its general assets to the Trust.

RECOMMENDATION

"The Senior Vice President - Human Resources, the Executive Vice President, Secretary and General Counsel, and the Deferred Compensation Committee for the Plan recommend that the Trustees (1) adopt and approve the attached amended and restated Plan to be effective January 1, 1999, subject to the receipt of the acknowledgment specified in the State Regulations; and (2) to authorize the Deferred Compensation Committee for the Plan to select and award a contract to, and enter into a trust agreement in a form acceptable to the Committee with the Trustee, subject to satisfaction of the requirements set forth in the State Regulations and requirements imposed under the Plan.

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

In response to a question from Trustee Miller, Ms. Alice Conway of the Human Resources Department explained that one did not have to be salaried to participate in the plan. President Zeltmann commended Ms. Conway for her expert handling of this complex issue and her proficiency in the area of pension benefits.

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

RESOLVED, That the provisions of the Deferred Compensation Plan be amended and restated in order to conform with the text of the model plan, a copy of which is attached hereto as Exhibit "7-A", and that the Deferred Compensation Committee for the Plan is authorized to select the Plan Trustee and enter into a trust agreement with the Plan Trustee in a form that satisfies the requirements set forth in the State Regulations and imposed under the Plan.

8. James A. FitzPatrick Nuclear Power Plant - Emergency Core Cooling System Suction Strainer - Feedwater Heater Replacement Expenditure Authorization

The following report was submitted by the President.

SUMMARY

"The Trustees are requested to approve a capital expenditure of an additional $4.0 million to fund ongoing installation activities related to the replacement strainers to upgrade the Emergency Core Cooling System ('ECCS') at the James A. FitzPatrick Nuclear Power Plant. The new strainers are being installed to meet criteria imposed by the Nuclear Regulatory Commission to assure these strainers are sufficiently sized not to become plugged with debris during an accident condition. All nuclear power plants with a Boiling Water Reactor design are required to meet the NRC's criteria of being able to filter accident generated debris within the torus and still maintain a sufficient flow of cooling water to the reactor during these accident conditions. These criteria must be met before the plant can restart from the 1998 Refueling Outage.

"The Trustees are also requested to approve a capital expenditure of an additional $2.5 million to fund ongoing installation activities related to the replacement of four Feedwater Heaters at the James A. FitzPatrick Nuclear Power Plant. These Feedwater Heaters will replace units that were in a degraded condition and threaten the continuous, efficient operation of the plant.

BACKGROUND

ECCS Suction Strainer Replacement

"At their meeting of November 25, 1997, the Trustees approved $8.75 million for the replacement of the ECCS strainers. This authorization was for the initial scope which was for a 16 foot strainer to be installed underwater by divers. At their meeting of July 28, 1998, the Trustees approved an additional $4.25 million to expand the scope to include increasing the strainer size to 45 ft., adding High Pressure Injection Cooling ('HPIC') and Reactor Core Injection Cooling ('RCIC') strainers, provide for dewatering 400,000 gallons of torus water, provide for its temporary storage, and provide additional engineering support. Total authorizations to date are $13.0 million.

"The ECCS Strainers are being installed in the torus which is a large doughnut-shaped vessel 30 feet in diameter which normally stores 800,000 gallons of water. The strainers are made up of multiple sections, each 45 inches in diameter and ten feet long. Each section must be maneuvered down into this tank through a 48-in. diameter opening. All other material and personnel are brought in through an entrance hatch. Staff has been unable to achieve the planned productivity due to the confined working conditions, obstructions within the torus, and radiological health and safety concerns for personnel. The unique and intricate nature of this task precludes the development of an accurate cost estimate for the craft installation labor segment. The cost estimate was significantly underestimated. There was also a five day delay in the initial phase of installation due to problems related to dewatering and processing torus water.

Feedwater Heater Replacement

"Separately, the Trustees approved an expenditure of $4.8 million for the replacement of three Feedwater Heaters at their meeting of October 29, 1996. The President authorized an additional expenditure of $1.0 million in July 1997 to expand the scope of the task to include a fourth heater. All four heaters are being replaced in the

1998 JAF Refueling Outage. Additional funding is needed because the installation effort for this project is also proving to be a more time consuming and labor intensive than initially estimated.

DISCUSSION

ECCS Suction Strainer Replacement

"The final strainer design determined that the length of the ECCS strainers was to be 45 feet, made up of multiple sections bolted together. The installation costs associated with preparing the work area, moving the strainers into position and final assembly will require an additional $2.1 million. Along with additional labor, a simulated performance test of the strainers has been added to the scope for $350,000, additional engineering support for all activities will amount to $400,000, decontamination and radiological protection activities to control exposure levels: $200,000, water management: $275,000, construction support: $475,000 and overhead allocation: $200,000 (Exhibit '8-A').

Feedwater Heater Replacement

"The Feedwater Heaters are heat exchangers that re-heat the turbine condensate prior to being circulated through the reactor and back into the turbine. These heaters are an integral part of the steam generation process and must be in reliable condition to assure continued, efficient plant operations. The labor and rigging requirements to remove and reinstall the four new, 40 ton heaters have been substantially greater than initially estimated. These additional labor costs and engineering for ongoing activities amount to $1.5 million, decontamination and salvage of the old units: $500,000, engineering support for on going activities: $250,000; and additional rigging costs: $250,000 (Exhibit '8-B').

FISCAL INFORMATION

"Payment for expenses associated with these projects will be made from the Capital Fund.

RECOMMENDATION

"The Site Executive Officer – James A. FitzPatrick Nuclear Power Plant, and the Vice President – Nuclear Engineering recommend that the Trustees approve these additional capital expenditure in the amount of $4.0 million for the Emergency Core Cooling System Suction Strainer Replacement and $2.5 million for the Feedwater Heater Replacement Project.

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

Mr. Harry Salmon stated that although the requested funds include some $900,000 in contingency funds for the ECCS work, as well as a small contingency for the feedwater heater task, staff will endeavor to not expend the contingency funds.

Trustee McCullough asked whether the requested additional funds will complete the work in its entirety. Mr. Salmon responded in the affirmative, but explained that the engineering for the strainers is being performed, in a certain sense, at risk, since the NRC, upon inspecting the finished job, has the authority to require that further, additional tasks be performed. In response to further questions from Trustee McCullough, Mr. Salmon explained that staff anticipates that the NRC will approve the work as is, once it is performed.

Trustee McCullough underscored that although he does not question the need for these expenditures, his concern is with the budget overrun as well as the issue of whether the underlying budget and planning process properly *anticipates such expenditures. In response to questions from Trustee Ciminelli, Mr. Salmon explained that this work will be performed by union craft labor under Authority supervision and that the heater job was competitively bid. In response to a question from Trustee Ciminelli, Mr. Bellis further explained that for every capital job which is scheduled to be performed, the equivalent of 5% of the total anticipated cost is allocated as overhead for indirect payroll expenses, which do not include costs, if any, for additional personnel.*

Trustee McCullough stressed his expectation and understanding that Nuclear Generation would not be back to the Trustees for further funds for this work. Mr. James Knubel gave assurances that the overall 1998 nuclear budget will be on target.

Chairman Rappleyea recognized Messrs. Philip Varrichio, William Zizzo and David Moskowitz from Local 1-2 of the Utility Workers of America and thanked them for attending the meeting.

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

RESOLVED, That additional capital expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report to the President, in the amounts and for the purposes listed below:

Capital	**Expenditure Authorization**
James A. Fitzpatrick Nuclear Power Plant	
Emergency Core Cooling Systems Suction Strainer Replacement Project	
Previous Authorization	**$13,000,000**
Current Request	**4,000,000**
Total Amount Authorized	**$17,000,000**
Feedwater Heater Replacement Project	
Previous Authorization	**$ 5,800,000**
Current Request	**2,500,000**
Total Amount Authorized	**$ 8,300,000**

Exhibit '8-A'
November 24, 1998

ECCS Strainers

Activity	Net Change
Engineering	
Post Installation Test & Model	$350.0
Procurement	
Welding & Cutting services	$125.0
Other	$ 33.0
	$158.0
Installation	
Installation Labor	$1,750.0
Vender Installation Support	$132.0
Decontamination & Disposal	$125.0
Water Management	$230.0
Other	$157.0
	$2,394.0
Contingency	$907.0
Overhead Allocation	$191.0
Total	$4,000.0

Exhibit '8-B'
November 24, 1998

Feedwater Heaters

Activity	Net Change
Preliminary Engineering	$(90.0)
Engineering	
Vendor Engineering	$246.0
Procurement	
Material	$343.0
Installation	
Decontamination & Salvage	$500.0
Rigging Support	$210.0
Installation -Heater & Piping	$1,145.0
Other	$60.0
	$1,915.0
Contingency	($33.0)
Overhead Allocation	$119.0
Total	$2,500.0

9. Next Meeting

The Regular meeting of the Trustees will be held on **Tuesday, December 15, 1998**, **at the White Plains Office** at **11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

Upon motion made and seconded, the meeting was closed at 12:35 p.m.

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

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