

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

August 30, 1994

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the Richard M. Flynn Power Plant at 11:00 a.m.

Present: Thomas G. Young, Chairman
Thomas R. Frey, Vice Chairman
Linda P. Duch, Trustee
Hyman M. Miller, Trustee
Robert T. Waldbauer, Trustee

S. David Freeman	President and Chief Executive Officer
Robert G. Schoenberger	First Executive President and Chief Operating Officer
John F. English	Executive Vice President - System Operations
Robert A. Hiney	Executive Vice President - Marketing and Development
William A. Josiger	Acting Executive Vice President - Nuclear Generation
Robert L. Tscherne	Executive Vice President - Finance and Administration
Charles M. Pratt	Senior Vice President and General Counsel
Alvin I. Becker	Vice President and Chief Accounting Officer
Woodrow W. Crouch	Vice President - Project Management - System Operations
Deborah P. Estrin	Vice President - Human Resources
John M. Hoff	Vice President - Procurement and Real Estate
Sally L. Irving	Vice President - Corporate Finance
John L. Lenney	Vice President - Public Affairs
Charles I. Lipsky	Vice President and Chief Engineer - System Operations
Angel J. Martin	Vice President - New Generation
Philip J. Pellegrino	Vice President - Power Sales and Rates
Michael F. Woods	Vice President - Industrial Economic Development
John F. Duffy	First Assistant General Counsel
William Ernsthaft	Principal Attorney
James L. Ford	Resident Manager - Niagara Power Project
Leslie M. Hill, Jr.	Resident Manager - Indian Point 3 Nuclear Power Plant
Richard E. Kuntz	Resident Manager - Charles Poletti Power Project
James J. McCarthy	Resident Manager - Blenheim-Gilboa Pumped Storage Power Project
John W. Blake	Director - Environmental Programs
Joseph J. Brennan	Director - Internal Audits
Thomas R. Mahoney	Director - Real Estate
Michael Medvec	Director - Operations - Richard M. Flynn Power Plant
Stephen P. Shoenholz	Director - Public Relations
John J. Suloway	Director - Licensing
Laura M. Badamo	Assistant Secretary - Legal Affairs
Anne Wagner-Findeisen	Corporate Secretary
Vernadine E. Quan-Soon	Assistant Secretary - Corporate Affairs

Also Present:

William J. Cahill

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

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1. Approval of the Minutes

The minutes of the Regular Meeting of July 26, 1994 were approved as amended.

Opening Remarks of Chairman Young

Chairman Young introduced Messrs. Richard Kuntz, the Resident Manager, and Michael Medvec, the Director - Operations of the Flynn Plant, and expressed the Trustees' pleasure with holding their first meeting at the newest addition to the Authority's operating facilities.

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2. Report from the President and Chief Executive Officer

The President submitted the following report:

President Freeman reported that the Authority had been fined in the amount of \$2,500 by the U.S. Coast Guard as a result of a chlorine spill at IP3 in July.

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3. Financial Reports for the Seven Months Ended July 31, 1994

In response to questions from Trustee Waldbauer, President Freeman explained that the extraordinary charge of \$5.6 million for the Lewiston Upgrade represents a previously deferred write-off for bookkeeping purposes. At Trustee Duch's request, Mr. Tscherne stated that he would provide the Trustees with additional details concerning the eliminations and adjustments to operating facilities as reported on page 4 of the Financial Report.

4. Proposed Agreements With Replacement Power Customers

The President submitted the following report:

SUMMARY

"The Trustees are requested to adopt as a final action proposed Replacement Power rates previously adopted on an emergency basis.

BACKGROUND

"At their meeting of May 24, 1994, the Trustees adopted on an emergency basis new rates for Replacement Power service under Niagara Contract NS-1 with Niagara Mohawk Power Corporation ('Niagara Mohawk'). The rates were negotiated as part of a settlement resolving all outstanding litigation between the Replacement Power class and the Authority. Such resolution is embodied in an agreement (the 'Agreement') between the individual Replacement Power Customers and the Authority.

"The Agreement contains a schedule of rates (with inflation related escalators) applicable for the period May 1, 1993 through December 31, 2006. The Agreement also provides for the individual Replacement Power customers to commit to specific employment and power utilization levels pertaining to Replacement Power allocations for which such commitments had not previously been made. In addition to advancing energy efficiency, the Agreement requires the Authority, to the extent consistent with securing a license renewal for the Niagara Project, to offer the customer an extended contract for the period January 1, 2006 (the termination date of Niagara Contract NS-1) through January 1, 2013.

DISCUSSION

"As authorized by the Trustees, the Secretary filed notice of permanent adoption of the proposed rates on an emergency basis. Such notice was published in the June 22, 1994 issue of the State Register and no negative comments concerning the action have been received by the Secretary. A statement was submitted by an attorney on behalf of Bethlehem Steel Corporation; General Mills, Inc.; Praxair, Inc.; and UCAR Carbon Company, Inc. observing that the Agreement will make a meaningful contribution to the recovery from the current economic decline in Western New York and, consequently, recommending that the Agreement be approved. A representative of Praxair, Inc. also submitted a statement urging approval of the Agreement. In accordance with Trustee direction, and as required by the provisions of Niagara Contract NS-1, the Senior Vice President - Power Contracts issued written notice to Niagara Mohawk advising of the new Replacement Power rates to be incorporated in that contract.

"Billing under the new rates will commence after the Authority has executed the Agreements. Credits associated with overpayment for the period May 1, 1993 through the effective date of billings under the new rates will be provided to individual customers in two installments. To date, 32 Replacement Power Customers have executed the Agreement. It is expected that all such customers will have executed the Agreement prior to the transmittal of bills under the new rates.

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RECOMMENDATION

"The Executive Vice President - Marketing and Development recommends that, in accordance with the Authority's Administrative Procedures, the emergency action taken at the May 24, 1994, meeting with respect to Replacement Power rates, be adopted by the Trustees as a final action and that the Secretary be authorized to file notice in the State Register that the Trustees have taken such final action.

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustees Waldbauer and Duch, Mr. Hiney explained that funds are currently being accrued for the purpose of paying out the rate refunds to replacement power customers in the future.

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

RESOLVED, That the emergency action taken by the Authority at the May 24, 1994 meeting with respect to Replacement Power rates has been adopted as a final action; and be it further

RESOLVED, That the Secretary 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 may be required by statute or regulation.

5. Proposed Contract for the Sale of Firm Power to United Nations Development Corporation - Transmittal to Governor

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the transmittal to the Governor for approval of a proposed contract (Exhibit `5-A') for the sale of firm power to United Nations Development Corporation (`UNDC').

BACKGROUND

"At their meeting of June 28, 1994, the Trustees authorized the holding of a public hearing pursuant to Section 1009 of the Public Authorities Law on a proposed contract for the sale of firm power to UNDC. As a public corporation in the Metropolitan Area of the City of New York, UNDC is eligible for Authority service.

"Under the proposed contract the Authority would meet the existing and future full electricity requirements of UNDC's facilities including: Nos. 1, 2 and 3 United Nations Plaza and 763 and 765 First Avenue. Projected annual savings associated with Authority service are currently estimated to be in the order of \$600,000.

DISCUSSION

"Copies of the proposed contract were transmitted to the Governor; the Speaker of the Assembly; the Minority Leader of the Assembly; the Chairman of the Assembly Committee on Ways and Means; the Temporary President of the Senate; the Minority Leader of the Senate and the Chairman of the Senate Finance Committee. Copies of the proposed contract were also made available for public inspection and notice of public hearing was given as required by Section 1009.

"The public hearing was held on August 17, 1994, in the Authority's New York Office. The President of the UNDC made a statement in support of the proposed contract. In response to questions from Mr. Freeman concerning UNDC's impact on the local economy, the UNDC's President advised that there are almost 4,000 employees working in UNDC facilities. A professional engineer, who regularly appears at Authority public hearings, made a statement concerning energy efficiency audits in connection with the proposed contract. As an Authority customer, the UNDC will be entitled to participate in the various energy conservation and demand side management programs available to our public customers in the New York City area.

RECOMMENDATION

"The Executive Vice President - Marketing and Development recommends that the Trustees approve transmittal of the proposed contract with UNDC to the Governor with their recommendation that it be approved.

"The Senior Vice President and General Counsel, the First Vice President and Chief Operating Officer, and I concur in the recommendation."

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Trustee Waldbauer commended President Freeman for his efforts in expanding the Authority's public customer base.

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

RESOLVED, That the Authority hereby authorizes the transmittal to the Governor of the proposed contract with United Nations Development Corporation substantially in the form as set forth in Exhibit "5-A" with the recommendation that such contract be approved.

6. City of Salamanca - Proposed Interruptible Service Credit Program - Final Action

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve, as a final action, an Interruptible Service Credit Program, the provisions of which will be included as a rider to the City of Salamanca's ('City') existing Service Classification ('S.C.') No. 3 tariff. The program is designed to offer a rebate/credit to qualifying industrial customers in proportion to the municipal's realized incremental power cost savings associated with lower system peak demands.

BACKGROUND

"To promote load management (i.e., reduction in its system peak demand and more efficient energy use), the City has requested approval of an Interruptible Service Credit Program. The proposed program will be available to qualifying demand-billed industrial customers of the City currently served under S.C. No. 3. It is recommended that the provisions of the program be included as a rider to the existing S.C. No. 3 tariff.

"The proposed program is designed to offer a rebate/credit to qualifying industrial customers in proportion to the municipal's realized incremental power cost savings associated with lower system peak demands.

"The program would be in effect over the four winter months of December through March. The option to join this program would be voluntary. However, a program participant must give a minimum commitment for interruptible/curtailable load of 50 kW in each month between December through March. Customers opting for this program will be required to participate for a minimum period of one year.

"It is recommended that the credit be set at \$9.25 per interrupted kW per month and \$9.40 per interrupted kW per month for primary metered customers and secondary metered customers, respectively. Further, a program participation fee of \$460 per month is charged. All credits and charges would be applicable in the four winter months of December through March.

"The credit rate for the program participants is based on 75 percent of avoided cost of incremental demand (as a result of load curtailment). The remaining 25 percent savings would benefit all City customers (via a reduced purchased power adjustment charge). The program participation fee reflects the recovery of program implementation costs (capital and maintenance costs of load monitoring system, communication systems, other hardware/software, etc.).

"Based on City of Salamanca estimates, about 25 percent (a dozen customers) of the eligible customers presently served under the S.C. No. 3 tariff would opt for the program. Interrupted load is expected to be around 2000 kW per month, which would realize annual savings of approximately \$100,000.

"The request to interrupt load will be made by the City's Electric Department whenever, in its judgement, a need for peak reduction is required. Credit will only be given for load curtailed/interrupted consistently (every time the electric department requests a customer to shed load during a billing period) that results in an actual peak demand reduction for the system on what would have been the highest demand usage day during that billing period. Failure

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of a customer to interrupt load when requested on that peak day will be cause to deny any credit to that customer for that billing period (even though the customer may have participated on non-peak days during that period); in addition, the customer would still be responsible for the participation charge for that billing period.

"In a particular billing period, if the actual peak demand reduction is lower than the total interruptible load commitment, then the credit due to each program participant will be proportionately reduced. In such a case, if the credit due to a customer is less than the program participation charge, then the program participation charge would be waived to the extent that neither a credit is due nor a charge is made to the customer.

"The City will have the responsibility of determining the realized savings brought about by the load interruptions and the credit due to the program participants. It will also be responsible for verifying the accuracy of the individual participant's interruptible load commitment amounts. Customers opting for this program will be required to enter into a contract agreement with the City of Salamanca.

DISCUSSION

"Pursuant to the approved procedures, the Senior Vice President - Power Contracts authorized the Secretary to file notice for publication in the State Register of the proposed program. Such notice was published on July 13, 1994, and no comments concerning the proposed action have been received by the Secretary. A public hearing was held by the City of Salamanca on June 13, 1994, and no objections were raised to the proposed program.

"A summary of the proposed rider to the existing S.C. No. 3. tariff is attached as Exhibit `6-A'.

RECOMMENDATION

"The Manager - Municipal Rates and Services recommends that the proposed Interruptible Service Credit Program for the City of Salamanca be approved and its provisions be included as a rider to the existing S.C. No. 3 tariff.

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

"The Senior Vice President and General Counsel, the Executive Vice President - Marketing and Development, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustees Waldbauer and Duch, Mr. Hiney explained that Indian tribal claims to land in the area would not impact the Authority.

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

RESOLVED, That the proposed Interruptible Service Credit Program for the City of Salamanca be approved, and its provisions be included as a rider to the existing S.C. No. 3 tariff, as recommended in the foregoing report of the President; and be it further

RESOLVED, That the Secretary 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 may be required by statute or regulation.

CITY OF SALAMANCA - INTERRUPTIBLE SERVICE CREDIT PROGRAM

Summary of Proposed Rider to Existing Tariff

Available to Industrial - S.C. No. 3 Customers

Minimum interruptible load commitment: 50 kW

Minimum participation time: 1 year

Proposed Credits and Charges^{1, 2}

Primary Metered Customers: Credit = \$9.25/kW/month

Secondary Metered Customers: Credit = \$9.40/kW/month

Program Participation Charge: \$460/month

¹ Credit will only be given for load curtailed/interrupted consistently (every time the electric department requests a customer to shed load during a billing period) that results in an actual peak demand reduction for the system on what would have been the highest demand usage day during that billing period. Failure of a customer to interrupt load when requested on that peak day will be cause to deny any credit to that customer for that billing period (even though the customer may have participated on non-peak days during that period); in addition, the customer would still be responsible for the participation charge for that billing period.

² In a particular billing period, if the actual peak demand reduction is lower than the total interruptible load commitment, then the credit due to each program participant will be proportionately reduced. In such a case, if the credit due to a customer is less than the program participation charge, then the program participation charge would be waived to the extent that neither a credit is due nor a charge is made to the customer.

All credits and charges are applicable in December through March; the credit is per interrupted kW

7. Municipal and Rural Cooperative Economic Development Program - Allocation to Village of Rouses Point

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve an allocation of power under the Municipal and Rural Cooperative Economic Development Program to the Village of Rouses Point ('Rouses Point').

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 August 1, 1994, 10,400 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 MW. The guidelines provide that for businesses that are new to a system, the jobs per MW ratio is considered on a case-by-case basis. For projects involving existing businesses in a system, the suggested jobs per MW ratio is determined by the level of employment prior to the expansion. Specifically, for companies employing 100 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 200 jobs per MW.

"An application for power under the program has been submitted by Rouses Point for consideration by the Trustees.

DISCUSSION

"Wyeth-Ayerst Laboratories ('Ayerst') is a pharmaceutical company which is a major employer in Rouses Point. The company is planning to build an 80,000 square foot addition which will be used to manufacture products that are currently produced at an out-of-state facility as well as meet expected market demand for one of its major product lines, conjugated estrogens. Total project costs, including machinery and equipment, are anticipated to exceed \$30 million. The project also involves the renovation of approximately 24,000 square feet of existing space to accommodate 12 transferred packaging lines. Employment is projected to increase by 320 over the company's existing level of 1,249. Ayerst has a computerized energy management control system which optimizes all energy consumption. Also, high efficiency motors and lighting will be used for this expansion as appropriate. It is recommended that up to 1,600 kW be approved for allocation. In May 1993, Rouses Point received a 250 kW allocation under this program for a previous expansion at Ayerst.

"The Municipal Electric Utilities Association Executive Committee supports the recommended allocation.

"The allocations recommended under the program comprise half hydropower and half incremental power. In accordance with the Authority's new marketing arrangement with the full requirements municipal and cooperative

customers, the hydropower will be added to the recipient system's contract demand at the time a project becomes

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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 Vice President - Industrial Economic Development recommends that the Trustees approve up to 1,600 kW for allocation under the Municipal and Rural Cooperative Economic Development Program to the Village of Rouses Point in accordance with the attached memorandum of the President.

"The Senior Vice President and General Counsel, the Executive Vice President - Marketing and Development, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustee Duch, Mr. Woods outlined the cooperative marketing efforts which Authority staff is engaging in with the representatives of the municipal customers. Mr. Hiney explained that, as new entities are allocated hydropower, pre-existing allottees receive a proportional increase of incremental power to the "mix" of hydro and incremental power. Thus, although the allottees' percentage of hydro power is reduced across the board, the quantity of each allocation remains constant.

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

RESOLVED, That up to 1,600 kW be approved for allocation to the Village of Rouses Point under the municipal and rural cooperative economic development program is hereby approved in accordance with the foregoing report of the President; and be it further

RESOLVED, That the Executive Vice President - Marketing and Development, or his designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the aforesaid allocation.

8. Pilot Energy Efficiency and Coal-Fired Boiler Conversion Program for the New York City Board of Education

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the investment of \$5,000,000 to fund the implementation of a pilot coal-fired boiler conversion and energy efficiency program for the New York City Board of Education ('BOE'), one of the Authority's largest retail electricity customers in the southeastern New York area. The proposed pilot program would sponsor the conversion at up to ten City schools of existing coal-fired boiler plants to clean, modern, dual fuel fossil plants along with other energy efficiency measures involving domestic hot water and lighting end uses.

"The pilot program would be implemented to determine the actual costs, type of equipment, and materials, construction techniques, vendor and installer contractual requirements, unanticipated environmental or other problems that a more comprehensive program may entail. If the program indicates that the costs and results of the conversions meet current expectations, it is anticipated, as part of the Authority's vigorous efforts to enhance and expand existing service relations with its long-term customers, that the Trustees will be requested to approve a more comprehensive program for the BOE pursuant to contractual arrangements satisfactory to the Trustees and providing for customer repayment of the Authority's costs over a period not to exceed ten years.

BACKGROUND

"The City of New York spent approximately \$13 million to purchase 102,000 tons of coal in fiscal year 1993. This coal is used almost exclusively by the BOE to heat and provide domestic hot water for 343 public schools. The BOE is currently in the process of converting these schools to gas and oil fired heating systems. This conversion process has been historically limited by available funding. Boiler replacement involves significant capital investment, with limited operating and energy savings. Typical project paybacks are on the order of 15 to 20 years. However, conversion of these plants is highly desirable due to the anticipated energy conservation, environmental benefits and maintenance savings that could be achieved. Exhibit '8-A' provides a tabulation of the emissions reductions by category from converting all the remaining coal schools as estimated by the New York City Department of Environmental Protection. This table fails to reveal the damaging impact on the children and surrounding residents of small particulate pollution from burning coal.

"Currently, the number of plant conversions completed each year depends largely on the size of budget appropriations approved by the City of New York. In the original five year budget plan for 1995, BOE sought a \$7.5 billion budget. Within that budget, funds were designated to convert 100 schools over five years. The City Council has recently approved a five year budget of \$3.379 billion, which will proportionally reduce the number of conversions possible over the next five years. The New York City School Construction Authority ('SCA') is tasked with implementing the BOE plan, and predicts that perhaps 45 schools will be converted over the period. At this rate, it will take more than 30 years to complete the conversions in all affected schools, or more likely the BOE will experience catastrophic failure of heating plant to the detriment of the continued use of the school buildings. The City Council President has asked the Authority to determine whether it could play a major role in the school boiler conversion program. Staff recommends, as part of the Authority's developing program to enhance and extend the services it provides to its long-term customers, that a pilot program be initiated to ascertain the feasibility of such an

effort.

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"In April, staff commenced a case study at P.S. 141 in Queens for the conversion of an existing coal fired boiler plant to a clean, modern, dual fuel fossil plant. Staff commissioned HEC Services, Inc., one of the Authority's HELP contractors, to undertake the study. Staff also requested that HEC use the opportunity to review the potential for a comprehensive energy efficiency program including, in addition to the boiler plant conversion, premium efficiency motors, heat pump hot water heaters, high efficiency lighting and window replacements.

DISCUSSION

"HEC's case study findings indicate that the cost of the recommended boiler plant conversion at P.S. 141 would be about \$1 million. This includes about \$200,000 for asbestos abatement and relining of hot water piping. HEC optimized the boiler plant design to the thermal requirements of the school and removed some unnecessary costs associated with relining of flue pipes and for instrumentation and controls that are typically included in the SCA's standard design. The optimized design would reduce the cost of implementation by about \$400,000 without impairing performance or safety requirements. Other efficiency measures were considered on the basis that they would serve to reduce overall project payback. Consequently, high efficiency lighting and heat pump hot water heater measures were also recommended. The study indicated that the total cost of implementation of the boiler conversion and efficiency measures would be about \$1.3 million.

"Staff proposes that the Authority establish a pilot energy efficiency and coal fired boiler conversion program that would provide a turn-key approach to identifying, procuring, and implementing boiler plant conversions for BOE using optimized dual-fuel technology, including implementation of high efficiency lighting and domestic hot water measures. The Authority and the State Energy Office would share the funding for this pilot program, with each entity contributing \$5,000,000. The combined \$10,000,000 total would permit boiler conversion at up to ten schools. Concurrently the program will study environmental impact.

"It would be staff's objective to establish a financial framework for recovering the Authority's capital contribution within a ten year period without any negative cash flow to the City. Given the payback period for the typical school, this is clearly not possible unless building aid available from the State of New York is taken into account. Beginning in 1993, the State Legislature established an Energy Aid program which is administered by the State Energy Office ('SEO'). As noted above, the Energy Office has committed to make \$5,000,000 of energy aid funds available for the pilot program. These funds would be paid in advance of the start of construction.

"The pilot program would be directly administered by the Authority. A Cost Recovery Agreement ('CRA') would be executed with the City of New York and BOE and would define the terms and conditions under which the coal conversion projects would be undertaken by the Authority. The CRA would obligate BOE to return Energy Aid directly to the Authority upon receipt. All remaining funds provided for project construction would be recovered through monthly billings to the City over a ten year repayment period.

"The Authority would give final approval on conversion for the selected pilot schools and act as the general contractor to expedite the procurement and installation of equipment. As the program's general contractor, the Authority would contract for installation of dual-fuel boiler plants, high efficiency lighting, and domestic hot water measures in the schools through the use of implementation contractors. All work would be competitively bid. The concept of using implementation contractors for program deployment was developed in the context of the existing High Efficiency Lighting Programs and has proven to be very effective. These contractors would in turn subcontract installation services for the facilities. Staff is planning on issuing a Request For Proposals ('RFP') in September 1994, to bid the implementation contract work if this program is approved by the Trustees. Contract awards would be submitted to the Trustees for approval following the competitive solicitation. The RFP would indicate that the

contract would be extended, assuming favorable performance by the vendors, if the program is expanded to a full scale effort.

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"The proposed pilot coal conversion program was developed by staff with input from a task force formed for this purpose. The task force was chaired by a representative of the New York Public Service Commission and included representatives from the various New York City agencies, the SEO, and both Consolidated Edison Company of New York, Inc. ('Con Edison') and Brooklyn Union Gas Company. The City representatives from BOE and the Department of General Services have endorsed the Authority's participation in the program. The gas companies would supply natural gas to the new boiler plants and have agreed to absorb any connection costs involved and Con Edison has agreed to discount standard gas tariff rates in the interest of improving the overall project savings potential.

"If the pilot program proves successful, staff anticipates returning to the Trustees for authorization to expand this activity into a more comprehensive BOE boiler conversion and energy efficiency program. As previously noted, the Authority is developing an enhanced customer relations and services program for its long-term customers. This boiler conversion undertaking would be a principal component of that program for an important customer whose good will it is essential to retain. The scope and details of any large-scale program would, of course, be brought to the Trustees for approval, and would be recommended only after appropriate contractual and financial assurances are obtained from the City.

FISCAL INFORMATION

"Pilot coal conversion program expenditures will be provided from the General Reserve Account in an amount not to exceed \$5,000,000. These costs will be recovered within ten years after completing each individual pilot school project, together with the cost of advancing funds. Upon authorization of a full-scale program, it is anticipated that the amounts expended by the Authority from the General Reserve Fund would be reimbursed from the proceeds of the commercial paper program or other tax-exempt obligations issued by the Authority. To accomplish this reimbursement, it is advisable, in view of Internal Revenue Service regulations, for the Trustees to express their intent to reimburse, to the maximum extent permitted by law, such expenditures with future issuances of tax exempt obligations.

RECOMMENDATION

"The Vice President - Power Sales and Rates recommends that the Trustees authorize the implementation and associated funding for the pilot coal boiler conversion and energy efficiency program consistent with the foregoing and attached resolution. It is further recommended that the Vice President - Power Sales and Rates, or his designee, be authorized to execute any agreements or other documents between the Authority, the City of New York and BOE as may be necessary or desirable to implement the program.

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the Executive Vice President - Marketing and Development, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustee Waldbauer, Mr. Pellegrino explained that selection of the schools to be serviced is based on the results of preliminary screenings conducted by those IOUs which provide gas to the school buildings and which screenings had identified some 80 schools at which no gas connection costs would be

incurred.

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Mr. Pellegrino further explained that conversion work would commence, assuming that the necessary implementation contracts are approved by the Trustees within the next several months, early in the summer of 1995; during the winter months, a school building can be temporarily heated by a package boiler while the conversion work continues.

In response to questions from Vice Chairman Frey, Mr. Tscherne clarified that the proposed resolution, if adopted by the Trustees, would provide \$5 million for direct conversion costs, but would also allow for the Authority to issue notes, in an amount up to \$6 million for the purpose of financing such costs. This means that amounts exceeding \$5 million would reflect the Authority's costs of advancing funds, with appropriate allowance for the time value of money, interest costs, and similar cost elements. In response to questions from Trustee Duch, Mr. Duffy explained that unless the Trustees now explicitly articulate the Authority's intent to issue notes at a future date, as reflected in the proposed resolution, applicable tax law would prohibit any such future issuance by the Authority.

In response to questions from Trustee Duch, Messrs. Freeman and Pellegrino outlined the cofunding commitment of the State Energy Office in the amount of \$5 million, and stressed that the Authority's action in undertaking this conversion program could be a vital component of sustaining its long term business relationship with New York City.

Trustee Miller stated that although he recognizes the needs of New York City school children, the school system's problems are so extensive that the type of proposed assistance on the part of the Authority will do very little toward solving the overall problem. Trustee Miller expressed concern about establishing a precedent for Authority involvement in matters which he believes are the City's and the State's responsibility, and that the proposed statement of intent to issue bonds could jeopardize the Authority's ability to issue tax-exempt bonds in the future. Trustee Miller stated that, notwithstanding his awareness of the importance of the Authority's long-term relationship with the City, he is unable to support the proposed resolution.

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Vice Chairman Frey stated that school systems statewide are riddled with problems and that it is consistent with the Authority's mission to provide assistance of the type being proposed. The Vice Chairman noted that in view of the changing nature of the electric business, the Authority will be setting a number of precedents in its drive to be competitive.

Chairman Young noted that City officials had conveyed to him that the proposed program is an important component of the City's view of good "customer relations" with the Authority and stressed that the Authority will fully recoup its funds as well as interest thereon.

Trustee Miller expressed his further concern that the moneys would not be repaid and that additional school systems may seek similar benefits from the Authority. Trustee Duch inquired as to what, if any, other manifestations of good customer relations with the City the Trustees will be asked to approve in the foreseeable future. President Freeman responded that the issue of leveraging funds for the purpose of purchasing electric cars and buses is also currently being discussed by City and Authority representatives as part of the negotiations on a long term contract.

The following resolution, as recommended by the President, was adopted by a majority vote of three in favor (Chairman Young, Vice Chairman Frey and Trustee Waldbauer) and Trustee Duch and Trustee Miller in opposition:

RESOLVED, That the Vice President - Power Sales and Rates or his designee be, and hereby is, authorized to execute a cost recovery agreement and any other documents between or among the Authority, the City of New York, the New York City Board of Education, the State Energy Office and any other agency or public corporation of the State or City of New York which will cover capital requirements, repayment terms and program responsibilities necessary or desirable for the implementation of the pilot energy efficiency and coal-fired boiler conversion program described in the foregoing report; and be it further

RESOLVED, That the Trustees of the Authority hereby: (1) authorize the payment to the Authority of funds available in the General Reserve Account for the lawful corporate purpose of providing funds for a pilot program for the conversion of coal-fueled boilers to dual fueled gas/oil boilers and the installation of domestic hot water and lighting energy efficiency measures at public schools operated by the Board of Education of the City of New York which is one of the largest retail electrical customers of the Authority, and (2) determine that there is available from the General Reserve Account, and not needed for the purposes specified in paragraphs 1 through 4 of Section 512 of the General Purpose Bond Resolution, monies in an amount not to exceed

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\$5,000,000 shall be paid over to the Authority for such lawful corporate purpose; and be it further

RESOLVED, That expenditures are hereby authorized as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

General Reserve <u>Account</u>	<u>Expenditure Approval</u>
Pilot Energy Efficiency and Coal-Fired Boiler Conversion Program	<u>\$5,000,000</u>

AND BE IT FURTHER RESOLVED, That the Authority in accordance with Internal Revenue Service Reg. § 1.150-2, issues its declaration of official intent to finance as follows:

- (a) **The Authority has initiated a pilot program for the conversion of boilers from coal to dual fueled gas/oil boilers and for the installation of domestic hot water and lighting energy efficiency measures in public schools in New York City to which the Authority provides electric service. If the pilot program proves successful and the necessary contractual and financial assurances are received from the City of New York, the Authority may authorize sponsorship of a comprehensive boiler conversion and energy efficiency program for New York City schools.**

- (b) **If the Authority authorizes sponsorship of such a comprehensive boiler conversion and energy efficiency program for New York City public schools, the Authority intends to reimburse, to the maximum extent permitted by law, with the proceeds of tax-exempt obligations, in an amount not to exceed \$6,000,000 the expenditures made to implement a pilot program for the conversion of coal-fueled boilers to dual gas/oil-fueled boilers and the installation of other energy efficiency measures in schools in the City of New York, State of New York, including the capitalizable costs of the procurement and installation of boilers, heat pump hot water heaters and high efficiency lighting and including the Authority's legal, administrative, engineering, consulting and technical services, environmental analysis and remediation, and any other costs properly attributable to such program.**

**9. Procurement (Services) Contracts - Southeast New York
("SENY") Electrotechnologies Program - Awards**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of three year procurement contracts to four firms: Black & Veatch; Harris Energy Systems; HEC Energy Services and Joseph Technologies Corporation for implementation of the previously approved Electrotechnologies Program ('EP') for the Authority's SENY public customers. The estimated cost of these implementation services is \$8.5 million.

BACKGROUND

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

"At their meeting of March 29, 1994, the Trustees approved EP for the Authority's SENY Customers. EP is a turn-key approach to identifying, procuring and implementing energy efficient electrical technologies that promote economic efficiency for SENY public customers and benefit the environment, often by displacing alternative fueled energy technologies. The program would offer project financing, financial incentives and installation services. The Authority will provide up-front program funding, presently authorized at a total of \$10 million.

"As the General Contractor for EP, the Authority contracts for the installation of energy projects through the use of Implementation Contractors ('ICs'). The services provided by an IC will complement headquarters office administrative staff resources in implementation of EP. The typical IC contract scope-of-work will consist of the following:

- preliminary survey - initial site visits for the purpose of defining the project;
- feasibility study - detailed studies for building energy systems or energy efficiency measures;
- preparation of a customer installation commitment;
- competitive solicitation of equipment and installation labor;
- construction management; and
- quality assurance and warranty services.

"The IC is required to work directly with the customer from the preliminary site survey to the final acceptance of equipment installation. The installation of the recommended EP measures will be competitively bid by the ICs to installation subcontractors. The ICs guarantee the quality of all work performed by their installers.

"The program will be directly administered by the Authority. A Cost Sharing Agreement ('CSA') will be executed by the SENY public customers participating in the program and the Authority, covering repayment terms and program responsibilities.

DISCUSSION

"In late April, the Authority requested bids relative to implementation of EP from 18 consulting firms recognized for their work in Demand Side Management program activities. Six additional bidders were added to the list as a result of the Authority's announcement in the Contract Reporter.

"A bidders' conference was held on May 12, 1994, to explain the proposed scope of work and provide an opportunity for potential bidders to ask questions and seek clarification. The conference was attended by 14 vendors.

"On June 3, 1994, six bids were received. The firms responding included Black & Veatch ('B&V'), Harris Energy Systems ('Harris'), HEC Energy Services ('HEC'), Joseph Technologies Corporation ('Joseph'), Parsons Brinckerhoff, and a joint proposal from Triad/Atkinson, Koven & Feinberg.

"Four firms were invited to make oral presentations to a bid evaluation team consisting of staff from energy efficiency, contract administration and project management disciplines, based on responsiveness to the Authority's RFP. The bids were evaluated on the basis of a number of technical criteria, including relevant experience of the firm, project organization and qualifications of support personnel and compensation. The firms selected for interview and subsequent consideration were B&V, Harris, HEC and Joseph.

"Contract awards to multiple ICs would be desirable on the basis that the work involved is very sizable. Initially, larger projects (greater than \$3 million) will be directed to B&V and Harris because of their substantial engineering and construction installation resources. Medium to large projects will be assigned to HEC and smaller projects (less than \$1 million) to Joseph because of its favorable compensation schedules and, particularly in the case of Joseph, until it demonstrates an ability to take on larger assignments. A table of the proposed contractors' fees is attached as Exhibit '9-A'. Subsequently, performance will be evaluated periodically, and assignments of new work will favor the ICs that demonstrate the highest quality installations at minimal cost, consistent with customer satisfaction.

"It should be noted that the Authority's RFP requested competitive bids with contractor compensation based on a fixed percentage of project total installed cost and not on a time and materials basis. Staff's experience over the last five years with the High Efficiency Lighting Programs ('HELP') indicates that given the magnitude and complexity of these projects, this is the most cost effective approach to fairly compensating vendors providing engineering, design, and construction management services. Hence, as indicated in Exhibit '9-A', compensation for each vendor will be a function of the magnitude of each EP project's total installed cost. Projects will be assigned to achieve the greatest economy consistent with vendor capability and proposed fees.

"Based on the oral presentations and review of the firms' qualifications, B&V, Harris, HEC and Joseph are recommended as EP ICs. The following is a brief synopsis of the qualifications of the recommended firms.

B&V

"B&V is a large engineering and construction firm with a broad range of experience in the analysis and installation of the technologies promoted under EP, including water treatment. This project would be managed from its Fishkill, NY regional office. If needed, B&V can draw on substantial professional engineering and construction management resources from other B&V regional offices. This, along with its proposed compensation schedule, makes B&V very suitable for larger EP projects. In addition, it has proposed a very capable project team.

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"B&V has an extensive record of experience including projects at Brooklyn College, Butte-Silver Bow Metro Sewage treatment plant, Washington National Airport, University of Arizona, United States Postal Service Facilities, and St. Joseph Hospital in Kansas City, Missouri. B&V also performed the detailed design of 6 MW additions to each of the Authority's Crescent and Vischer Ferry powerhouses.

Harris Energy Systems

"Harris is a division of Frederic R. Harris, Inc., established as specialty division of the parent firm to focus its energy engineering expertise within one division. Like B&V, Harris can draw on significant manpower resources consisting of energy engineering and construction professionals who specialize in mechanical, HVAC, process, and electrical disciplines. Harris has had broad experience in working with SENY customer facility types, including hospitals, colleges, municipal water treatment facilities, public housing, office buildings, schools, warehouses and other large area service facilities. Harris also offers the Authority a strong local presence with a full-service regional office of 250 people in New York City and five project offices in Southeastern New York. Harris' staff resources and proposed compensation schedule makes it quite suitable for larger EP projects.

"Harris has provided services for Massachusetts Municipal Wholesale Electric Company, Bridgewater State College, Broward County Courthouse, Boston Public Housing, and Venture tape manufacturing. Harris engineers served as program managers responsible for preliminary evaluations, energy surveys and feasibility studies, design and construction management.

HEC

"HEC is a subsidiary of Northeast Utilities. It is a full service energy management company. HEC has been performing energy services for the past 12 years. Over this period HEC has completed over 1,000 audits and analyses of various facilities in all sectors: institutional, industrial, commercial, governmental and multi-family residential. HEC has also worked extensively with a number of utilities to provide more direct engineering, evaluation, commissioning, customer service and load retention services.

"HEC has been an exemplary contractor to the Authority for the past three years in connection with the Authority's HELP programs. It has completed conservation projects for Long Island Lighting Company, Connecticut Light & Power, and Boston Edison. In addition, HEC has broad experience in energy projects including chiller replacement projects at Charleston Area Medical Center, Teradyne Inc, Harvard University's John F. Kennedy School of Government, Massachusetts Institute of Technology and the \$4 million refrigeration plant recently approved by the Trustees for the Hunts Point Cooperative Market as a part of the Authority's energy efficiency initiatives.

Joseph Technologies Corporation

"Joseph is an independent consulting engineering firm engaged in feasibility studies, engineering, design, construction supervision and related supporting services in the energy field. Joseph has retained a team of engineering specialists with experience in system design and conceptual development, planning/design/engineering, and construction management services. The firm's strong point is its experience in design, and installation of large central chilling and boiler plants. In addition, Joseph is familiar with the SENY customer base having performed an assessment of the DSM potential for the larger SENY customer facilities including the World Trade Center and a few City University of New York campuses. Its proposal and oral presentation were first rate and its proposed compensation schedule was very competitive, especially for smaller EP projects.

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"Joseph has provided service to New York State Electric and Gas, Pennsylvania Power and Light, Niagara Mohawk, Jamestown Board of Public Utilities, and Ontario Hydro. The actual work included various customers such as colleges, hospitals, schools, corrections institutions, public housing, office buildings and waste water treatment facilities.

"The timing of the recommended contract awards is propitious. There was a widespread and enthusiastic response on the part of the SENY customers to the Authority's recent EP program announcement. More than 100 customer representatives attended a workshop to introduce the program held in New York City in June. Projects are anticipated at multiple customer facilities. Staff's efforts to date have identified Bellevue, Woodhull and Bronx Municipal Hospitals, the Adam Clayton Powell State Office building, Lehman, Queens and New York City Technical Colleges and Queens Correctional facility as viable project candidates, which would more than fully utilize the initial funding authorized by the Trustees. As an example, the proposed project at Bellevue Hospital involves replacement of two 30-year old 2000-ton steam powered chillers with energy efficient electric units. This will save the Hospital nearly \$900,000 in annual energy costs and is most desirable to Bellevue because it involves the substitution of an environmentally benign refrigerant, thus reducing the Hospital's dependence on ozone depleting freon. The proposed project has an estimated cost of nearly \$5.0 million.

"The Authority's contracts with the recommended ICs will include the Authority's Minority and Women-Owned Business Enterprise ('M/WBE') provisions which state the following M/WBE goals:

Minority-Owned Business Enterprise Subcontracting Goal - 15%
Women-Owned Business Enterprise Subcontracting Goal - 10%

FISCAL INFORMATION

"As previously authorized by the Trustees, expenditures for IC services will be paid from the Energy Conservation Effectuation and Construction Fund. The recovery period for project financing will not exceed ten years. Provision will be made to recover the cost of advancing funds as well as Authority overhead charges. Full recovery of all program costs is anticipated either directly from participating customers or from net revenues anticipated to result from increased electricity sales.

RECOMMENDATION

"The Vice President - Power Sales and Rates recommends that the Trustees approve the award of EP procurement contracts to four primary vendors including Black & Veatch, Harris Energy Systems, HEC Energy Services, and Joseph Technologies Corporation in the total amount of \$8.5 million for a period of three years commencing September 1, 1994.

"The Vice President - Procurement and Real Estate, the Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the Executive Vice President - Marketing and Development, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award contracts for a period of three years, commencing September 1, 1994, to Black & Veatch; Harris Energy Systems; HEC Energy Services; and Joseph Technologies Corporation to provide implementation services in connection with the SENY Electrotechnologies Program, as recommended in the foregoing report of the President, in the amounts and for the purposes listed below:

<u>Energy Conservation Effectuation and Construction Fund</u>	<u>Contract Approval</u>	<u>Projected Closing Date</u>
Electrotechnologies Program Implementation Services		
Black & Veatch	\$2.5 Million	08/31/97
Harris Energy System	\$2.5 Million	08/31/97
HEC Energy Services	\$2.5 Million	08/31/97
Joseph Technologies	\$1.0 Million	08/31/97

COMPENSATION SCHEDULE

CONTRACTOR	PROJECT TOTAL INSTALLED COST			
	Less Than \$500,000	\$500,000 to 1,000,000	\$1,000,001 to \$3,000,000	Greater Than \$3,000,000
Harris Energy Systems	18.5%	18.0%	16.5%	14.5%
Black & Veatch	18.5%	17.0%	15.5%	14.0%
Joseph Technology Corporation	15.0%	13.0%	12.0%	10.0%
HEC Energy Services	15.0%	15.0%	13.0%	12.5%

Highlighted

to indicate range within which projects will be initially assigned to the particular contractor.

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10. Procurement (Services) Contract - Niagara Power Project Upgrade - Technical Services and Field Testing - Power Engineering, Inc. - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement contract to Power Engineering, Inc. ('PE') in the amount of \$750,000, for technical services and field testing in conjunction with the upgrade of the next two units at the Robert Moses Niagara Power Plant ('RMNPP').

BACKGROUND

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

DISCUSSION

"At their meeting of August 31, 1993, the Trustees authorized funds to upgrade two additional RMNPP units, one (Unit No. 13) in 1994, and the other (Unit No. 2) in 1995.

"Prior to the start of the prototype unit upgrade, it was recognized that disassembly, machining, and reassembly of the turbine and generator components represented some unique challenges for Authority personnel. The Robert Moses Powerhouse has been distorted by squeeze from the surrounding rock and also by expansion of concrete aggregate in the structure. The result is that the machines have been forced into an oval shape in the horizontal plane and tipped in the vertical axis. While the distortion is not significant from a dam safety standpoint, it is critical when close tolerances between rotating and stationary components are considered.

"During and after each upgrade, a number of measurements and tests have to be performed. The most important tasks are to ensure that all machining activity is very precise so that components will fit back together properly, that the relative alignment and balancing is as accurate as possible to minimize machine stresses and losses, and to optimize operating efficiency. Because of the complexity and importance of the work, and because the work is beyond the Authority's present capability, it is necessary that these tasks be provided by technical consultants who specialize in alignment and machine qualification techniques. A testing contractor with the necessary instrumentation equipment is also needed to assist the Authority's personnel in determining performance of the upgrade units.

"In April 1994, the Authority requested proposals for technical services and field testing in conjunction with the upgrade of the second and third units at the RMNPP. Bids were requested for fixed hourly rates for specific personnel classifications and fixed hourly rates for use of instruments and equipment at the site. Of 11 companies that obtained the bidding documents, proposals were received from the following three companies:

Power Engineering, Inc. ('PE') - El Toro, California
General Power Engineering Associates Inc., ('GPEA') - Sarasota, Florida
Siemens Power Corporation ('Siemens') - West Allis, Wisconsin

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"Of the three firms that submitted proposals, GPEA and PE responded as required to the compensation schedule of the bidding document. Siemens offered a lump sum price of \$2.3 million. Siemens was asked to provide a breakdown of its lump sum price in accordance with the requirements of the bidding documents. The breakdown was not submitted and Siemens' proposal could not be properly evaluated and, therefore, was considered non-responsive.

"The proposals received from GPEA and PE were evaluated by the Authority's staff. Both firms were requested to provide additional information during the bid evaluation period to clarify the contents of their proposals. The proposals were compared on the basis of billing rates for personnel and equipment and their experience.

"PE will utilize its own optical equipment to perform machine alignment measurements using one or two of its personnel. GPEA, on the other hand, proposes to subcontract all measurement work using four subcontractors and one of its own personnel. The equipment rates proposed by GPEA are higher than those proposed by PE and the hourly rates proposed by PE are higher than those proposed by GPEA. Since GPEA proposes to use more personnel than PE to perform the work, PE's total evaluated labor costs are lower than GPEA's.

"Turbine and generator alignment measurements constitute a large and most critical part of the scope of work to be performed by the testing contractor. PE has expertise in the area of precision optical alignment of large hydroelectric generators. It employs optical alignment and balancing tools which are greatly superior to traditional methods used in the hydroelectric industry. PE has provided similar services to the Niagara Project in the past. Its machine alignment technique, field testing, and other technical support services were used on the RMNPP prototype unit, wherein in the final configuration, the upgraded unit exceeded the Authority's original targets and expectations.

"PE personnel are experienced in the use of optical tooling methods for the measurements of large rotating equipment alignment, field testing, vibration and thermal characteristics analyses. GPEA, while experienced in generator design analysis, has minimal experience in machine alignment. GPEA proposes to subcontract the optical measurements work to a third party which has primarily surveying experience.

"Based on the lowest evaluated labor price and equipment rates, excellent understanding of machine dynamics, and satisfactory record of measurements and testing of the RMNPP prototype Unit No. 4, it is recommended that the technical services and field testing contract be awarded to PE.

"The estimated cost of technical services and field testing for the upgrade of the next two units at the RMNPP is \$750,000. This amount is part of the funds previously authorized for the upgrade of two additional units at the RMNPP.

FISCAL INFORMATION

"Payment will be made from the General Reserve Account.

RECOMMENDATION

"The Resident Manager - Niagara Power Project, the Vice President and Chief Engineer - System Operations, the Vice President - Production - System Operations, and the Vice President - Project Management - System Operations recommend that the Trustees approve the award of a contract to Power Engineering Inc., for technical services and field testing for the upgrade of the Robert Moses Niagara Power Plant in the amount of \$750,000.

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"The Vice President - Procurement and Real Estate, the Senior Vice President and General Counsel, the Executive Vice President - System Operations, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

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

RESOLVED, That the Trustees of the Authority hereby: (1) authorize the payment to the Authority of funds available in the General Reserve Account for the lawful corporate purpose of contracting for technical services and testing for two generating units as part of the upgrade of Robert Moses Niagara Power Project; and (2) determine that there is available from the General Reserve Account, and not needed for the purposes specified in paragraphs 1 through 4 of Section 512 of the General Purpose Bond Resolution, monies in an amount not to exceed \$750,000 which shall be paid over to the Authority for such lawful corporate purpose; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract to Power Engineering, Inc. is hereby approved for the technical services and testing for two generating units at the Robert Moses Niagara Power Plant in the amount and for the purpose listed below:

<u>Capital</u>	<u>Projected Closing Date</u>	<u>Expenditure Approval</u>	<u>Contract Approval</u>
Technical Services and Field Testing			
Power Engineering, Inc.	06/30/96	<u>\$750,000</u>	<u>\$750,000</u>

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11. Procurement (Services) Contract - St. Lawrence/FDR Power Project Relicensing - Endangered Species Inventory - New York Natural Heritage Program - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a two year procurement contract to New York Natural Heritage Program ('NYNHP') in an amount not to exceed \$120,000. The contract is for an endangered species/critical habitat inventory of the St. Lawrence/F.D.R. Power Project, and a report suitable for use in preparing the Federal Energy Regulatory Committee ('FERC') submittals for Relicensing.

BACKGROUND

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

DISCUSSION

"FERC requires that each of its licensing/relicensing proceedings evaluate the effects of the subject hydro power project on threatened and endangered species and that the project comply with the Endangered Species Act. Authority staff has determined that the most reliable and economical way to gather and verify such information is through the resources available from the NYNHP.

"The NYNHP is a clearinghouse for information previously scattered among state and federal agencies, private conservation groups, academic institutions, private citizens and published and unpublished reports. Such programs now operate in all 50 states working independently and collectively to form a network of information on the nation's natural resources. The NYNHP is a non-profit group jointly operated by the New York State Department of Environmental Conservation and the Nature Conservancy. Due to these qualifications, and its status as the lead group for such survey/data storage activities for New York State (and each of the other 49 states), the Natural Heritage Program was selected for this work. It is the only group capable of performing these services efficiently, and any other contractor would need to rely on Natural Heritage for key parts of this effort. Staff comparison of costs for comparable services indicate that those of private contractors are significantly higher.

"The inventory would include collection and processing of existing information, the field inventory and verification, and the preparation of maps and a final report.

FISCAL INFORMATION

"Funds required for the 1994 portion of this inventory are available in the 1994 approved St. Lawrence Relicensing budget. Funds required for 1995 and any required portion of 1996 will be included in the budget submittals for those years. Payment will be made from the General Reserve Fund.

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RECOMMENDATION

"The Director - Environmental Division, the Director - Licensing, and the Vice President - Procurement and Real Estate recommend that the Trustees approve the award of a procurement contract to the New York Natural Heritage Program as set forth above.

"The Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract for an endangered species/critical habitat inventory to New York Natural Heritage Program is hereby approved, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>Capital</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
St. Lawrence/FDR Power Project Relicensing		
New York Natural Heritage Program	09/15/96	<u>\$120,000</u>

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12. Procurement (Services) Contracts - Indian Point 3 Nuclear Power Plant - Raytheon Engineers and Constructors, Inc. / UE&C Nuclear Division - Extensions and Increases in Compensation Ceiling

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the continuation of the procurement contracts and increases in the compensation ceiling for four contract tasks listed in Exhibit `12-A' with Raytheon Engineers and Constructors / UE&C Nuclear Division (`UE&C'). The present authorized compensation unit of the four contract tasks is \$3,300,000 and the approval of this request will increase the compensation limit by \$1,500,000 to a total value of \$4,800,000.

BACKGROUND

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

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

DISCUSSION

"The tasks performed under the Technical Services Agreement between the Authority and UE&C are being used to provide technical support for the restart of Indian Point 3 Nuclear Power Plant (`IP3'). The four tasks for General Consultation, Seconded Services for Engineering, Mod Closeout and Supervisor, as listed in Exhibit `12-A' and as described below, provide a level of effort that is essential in the resolution of technical issues. UE&C is the original architectural engineer for IP3.

"Throughout the term of these contract tasks, the staffing levels have fluctuated with the workload and staff have been returned to the UE&C Corporate office as the tasks are completed. This will continue for the remainder of the contract to provide the most cost effective staffing levels to complete the remaining work and return Indian Point 3 to service.

"The following describes the tasks to be completed, as well as additional funding requirements:

WAH-67 - This contract task provides for home office general consultation on an annual basis, which provides engineering services, information, analysis, calculation and other data which requires rapid turnaround. Due to the emergent modification work required for plant restart, the number of tasks and related support under this task has significantly expanded. The following are ongoing examples of work that UE&C engineers are performing at their offices in Philadelphia. It is necessary to sustain the continuity of this task and increase the compensation limitation by \$250,000 through February 28, 1995.

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IE Bulletin 79-02
79-02 Supports Evaluation
Seismic Load and Stress Analysis (Plan Locker)
PAB/VC Exhaust Fan/Supply Interlock and Exhaust Fan Inlet
Guide Vanes
Replacement of Valves 784 and 786
Temperature - Time Profile Design Basis, Temperature - Time Profile
Containment
Spray Pump
Area and SIS Pump Room
Service Water Valves SWN-71 and 51
Seismic Analysis of Instrument Air Pipe Supports
Generic Instrument Air (I.A.) Seismic Adequacy
Seal Water Concerns Associated with Valves MOV-250A ,B, C, and D
Exhaust Fan #33
Channel II Cable Route
Mod 93-3-429-480 V
Conceptual Design of SWS Valves SWN-51 and 71 for Accessibility
CVCS Recirculation Pump
Seismic Analysis of RTD Configuration
Review of Pipe Wall Thickness in AFWS Recirculation Lines No.

WAH-244 - Seconded Services for Engineering Support to IP3. This task is an ongoing task originally authorized in October 1993 to provide seconded UE&C personnel to work at IP3 under the direction and control of the Authority. The original intent of this task is for UE&C engineers to support 168 modifications. As a result of the emergent outage support and additional re-start issues, an additional 117 modifications are required to be supported. It is therefore necessary to sustain the continuity of this task and increase the compensation limitation by \$744,000 through February 28, 1995. There are approximately 14 UE&C engineers working at the site performing the following work:

Preparation of plant modification packages, including Type 1 Design Changes, Design Equivalent Mods, Minor Mods and Major Mods. This work requires field walkdown, interfacing with other plant departments and resolution of comments resulting from Mod Package Reviews.

Providing support during the Mod work planning, installation and testing phases.

Providing assistance to the Site Engineering Department Supervisory Engineers on an 'as required basis' to address emerging problems.

Providing support to the Site Engineering Department Field Engineering Group in preparation and execution of tests for Mods installed during this outage.

Providing site support for preparation of responses to NRC restart issues.

Providing assistance to reduce the backlog of outstanding Document Change Requests to be within procedural requirements.

WAH-250 - This contract provides the Seconded Services at IP3 of Mr. Michael McKenna who is functioning as the Manager responsible for all UE&C personnel at IP3.

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Mr. McKenna also continues to be responsible for developing methods and implementing the Authority's procedures, as required, monitoring the performance of all participants and developing corrective action programs, when necessary, to assure that all NYPA quality, schedule and cost objectives are satisfied. It is therefore necessary to sustain continuity of this task and increase the compensation limitation by \$88,600 through February 28, 1995.

WAH-254 - Restart Effort - Modification Closeout. This task is also an ongoing task originally authorized in November 1993 for UE&C to complete modification closeout documentation for the IP3 restart effort. This closeout process is being performed for modifications completed prior to this outage as well as for modifications being completed during this outage. As the volume of outage and restart related Mods has expanded, this task has grown proportionately to close out the additional Mods. There are approximately 300 Mods to be closed out of which 200 Mods remain to be closed out during the present outage. It is therefore necessary to sustain continuity of this task and increase compensation limitations by \$416,000 through February 28, 1995. There are approximately 11 UE&C engineers at IP3 performing the following work:

Provide planning and scheduling services to the Site Engineering Department.

Complete the closeout process for Mods being installed during this outage as well as the Mods that have remained open from prior outages. This requires the following activities:

1. Research plant documentation to determine status of partly installed Mods.
2. Research the background in the plant records.
3. Gather and review appropriate data, e.g. hard copy of work requests and test results.
4. Identify incomplete portions of Mod Operability Readiness Checklists and complete as necessary.
5. Complete Mod Closeout Checklist.
6. Complete Mod follow-up List to determine follow up on actions by other organizations.

Funding for the four above-listed tasks is required to support IP3's extended outage and restart effort. UE&C engineers have a thorough understanding of the issues involved in performing these tasks and it would be cost effective to maintain the current personnel.

FISCAL INFORMATION

"Funding for IP3 expenditures are included in the 1994 Approved O&M Budget. Funds for subsequent years will be included in the budget submittal for each year. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Resident Manager - Indian Point 3 Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, and the Executive Vice President - Nuclear Generation recommend the

Trustees' approval of the extension of procurement contract tasks and increases in the compensation ceiling of tasks as described above.

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"The Vice President - Procurement and Real Estate, the Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contract tasks described above is hereby approved and extended for the period of time indicated; and be it further

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, increases in the compensation ceiling of the contract tasks with Raytheon Engineers and Constructors, Inc. / UE&C Nuclear Division be, and hereby are, approved as recommended in the foregoing report of the President, in the amounts and for the purposes listed below:

<u>O&M</u>	<u>Contract Approval (Increase in Compensation Ceiling)</u>	<u>Projected Closing Date</u>
Raytheon Engineers and Constructors/ UE&C Nuclear Division		
o Provide General Consultation Services WAH-67	\$ 250,000	12/31/94
Previously Approved Compensation Ceiling	<u>850,000</u>	
TOTAL REVISED COMPENSATION CEILING	<u>\$1,100,000</u>	
o Provide Seconded Services for Engineering Support at IP3, WAH-244	\$ 744,000	02/28/95
Previously Approved Compensation Ceiling	<u>949,500</u>	
TOTAL REVISED COMPENSATION CEILING	<u>\$1,693,500</u>	
o Provide Seconded Services for UE&C Supervision at IP3, WAH-250	\$ 88,600	02/28/95
Previously Approved Compensation Ceiling	<u>156,400</u>	
TOTAL REVISED COMPENSATION CEILING	<u>\$ 245,000</u>	
o Provide Seconded Services for Modification Closeout at IP3, WAH-254	\$ 416,000	02/28/95
Previously Approved Compensation Ceiling	<u>1,317,000</u>	

TOTAL REVISED COMPENSATION CEILING \$1,733,000

13. Procurement (Services) Contract - James A. FitzPatrick Nuclear Power Plant - General Maintenance Support Services - Williams Power Corporation - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a one-year procurement contract to Williams Power Corporation ('Williams') for general maintenance support services at the James A. FitzPatrick Nuclear Power Plant ('JAF'), with the option to extend for up to two additional years with the approval of the Chairman and the President. It is estimated that \$200,000 will be expended for direct contractor administrative costs over a one-year duration of this contract; direct pass-through of craft labor payroll costs for the contract period are estimated to be approximately \$8,800,000.

BACKGROUND

"The Authority employs a general maintenance contractor during normal operations, and to meet increased demand for craft labor during refueling and maintenance outages, when major maintenance repair activities are performed. The contractor supplies craft labor and handles contract negotiations with local trade unions, all under close direction of the JAF staff.

DISCUSSION

"The Authority publicly advertised for proposals for a new contract. Ten proposals were received in response to the 27 solicited. The proposals were reviewed and evaluated by an Authority evaluation committee consisting of staff from JAF and Contract Administration. Labor costs, technical competence and the experience of each firm were considered in the bid evaluation. The low bidder, Williams, was invited for interview. Although Williams has agreed to hold rates firm for three years, only a one-year contract is sought in order to be consistent with the Authority's restructuring plan, especially the reduction of temporary workers. Williams' insurance rates for workers' compensation and general liability were also significantly lower than those of all other bidders. Williams also provided satisfactory responses to questions pertaining to labor relations, resolution of disputes, conduct of business (accounting), safety, and background experience. On an evaluated basis, Williams was also the low bidder.

"The estimated total expenditure for general maintenance support services at JAF, to be performed over one-year, is \$9,000,000. It should be noted that only \$200,000 of the total amount is for direct contractor administrative costs. The remainder, an estimated \$8,800,000 is for pass-through costs for craft labor, i.e., reimbursement to the maintenance support contractor for actual craft labor payroll costs. Funding for craft payroll will be approved through the internal funding authorization process.

"Based on the technical and commercial evaluation, it is recommended that a contract be awarded to Williams Power for a period of one-year. The duration of the contract allows for the contractor to provide services for one refuel outage.

FISCAL INFORMATION

"Funding for these expenditures has been included in the 1994 Approved O&M Budget. Funding for

subsequent years will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

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"Funds required to support contract services for capital projects have been and will be included as part of the approved capital expenditures for those projects. Payment will be made from the appropriate Nuclear Improvement Fund.

RECOMMENDATION

"The Resident Manager - James A. FitzPatrick Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, and the Acting Executive Vice President - Nuclear Generation recommend the Trustees' approval of the award of the multi-year procurement contracts to Williams Power Corporation for a period of one year, with the option to extend for up to two additional years with the approval of the President, to provide general maintenance support services at the James A. FitzPatrick Nuclear Power Plant in the total estimated amount of \$9,000,000.

"The Vice President - Procurement and Real Estate, the Senior Vice President and General Counsel, the Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a one-year procurement contract to Williams Power Corporation, with the option to extend for up to two additional years with the approval of the President, for general maintenance support services at the James A. FitzPatrick Nuclear Power Plant is hereby approved through August 30, 1995, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>O & M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
General Maintenance Support Services James A. FitzPatrick Nuclear Power Plant		
Williams Power Corporation	08/30/95	<u>\$ 9,000,000</u> (est. \$200,000 for administrative costs) (est. \$8,800,000 for craft labor payroll costs) (With Option - 08/30/97)
		Additional funding to be approved in accordance with NYPA Expenditure Authorization

Procedure (EAP)

14. Procurement (Services) Contracts - Selection of Counsel to Provide Bond and Ongoing Legal Advice - Hawkins, Delafield & Wood - Extension - Mudge Rose Guthrie Alexander & Ferdon - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to: (1) approve the extension of a procurement contract with the law firm Hawkins, Delafield & Wood ('Hawkins') for ongoing legal advice for a term ending December 31, 1995, with the Authority having the option to extend such contract on an annual basis for two additional years; (2) indicate an intent to retain the Mudge Rose Guthrie Alexander & Ferdon ('Mudge Rose') law firm in connection with the next anticipated issuance of bonds; (3) authorize the Chairman and the General Counsel to enter into a procurement contract with Mudge Rose for ongoing advice relating to bond-related issues; and (4) approve two minority-owned firms as qualified to participate in bond counsel-related work for the Authority.

DISCUSSION

"The Authority's staff has recently completed an analysis of proposals solicited from law firms by letter and public advertisement for the provision of bond counsel and related services to the Authority. Historically, bond counsel has been appointed by the Trustees in connection with each Authority bond issue. In its solicitation, the Authority indicated that it was also seeking proposals for the provision of ongoing legal services related to the past or future issuance of Authority securities, which encompass advice on a wide range of issues, including the impact of Internal Revenue Code ('IRC') provisions and related Internal Revenue Service regulations restricting the marketing of the use or output of Authority facilities to private entities, state law authorization for proposed new Authority initiatives, IRC arbitrage and rebate issues, and conformity of Authority programs and activities with requirements of its bond and other financing resolutions. This advice has become especially important because of the radical changes occurring in the utility industry and the need to find or maintain markets for Authority generating and transmission facilities.

"The solicitation process for bond counsel and for counsel for ongoing legal advice on finance and bond-related matters ('finance counsel') produced replies from some nineteen firms and interviews with 13 of them. The competition was intense, with a number of firms demonstrating high degrees of talent and experience. In evaluating the various law firms' proposals for bond and finance counsel, weighted scoring systems were used to emphasize the salient skills and experience needed for each function. Hawkins ranked first in the evaluation of firms as finance counsel, based on both its competitive hourly rate billing proposal and its expertise and broad experience. The rankings with respect to finance counsel are as follows:

<u>Ranking</u>	<u>Firm</u>
1	Hawkins, Delafield & Wood
2	Mudge Rose Guthrie Alexander & Ferdon
3	Orrick, Herrington, & Sutcliffe ('Orrick')

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5	Brown & Wood
6	Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel Fischbein Badillo Wagner Itzler
7	Wood, Williams, Rafalsky & Harris ('Wood, Williams')
8	Willkie, Farr & Gallagher
9	Barnes, McGhee, Neal, Poston & Segue ('Barnes, McGhee')
10	Robinson, St. John & Curtin ('Robinson St. John')

"The ranking of firms with respect to bond counsel services is divided, essentially, into two 'tiers': the first consisting of the Mudge Rose, Hawkins and Orrick law firms, and the second consisting of the other seven ranked firms. Mudge Rose placed first in this competition. The ranking of firms with respect to bond counsel services is as follows:

<u>Ranking</u>	<u>Firm</u>
1	Mudge Rose Guthrie Alexander & Ferdon
2	Hawkins, Delafield & Wood
3	Orrick, Herrington, & Sutcliffe
4	Willkie, Farr & Gallagher
5	Brown & Wood
6	Whitman, Breed, Abbott & Morgan
7	Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel Fischbein Badillo Wagner Itzler
8	Wood, Williams, Rafalsky & Harris
9	Barnes, McGhee, Neal, Poston & Segue
10	Robinson, St. John & Curtin

In the bond counsel selection competition, each firm's willingness to accept a maximum dollar limit on bond counsel fees was given equal weight with the firm's hourly rate proposal. Hawkins' rate 'cap' proposal was the highest of all

the applicants which offset its relatively competitive hourly rate proposal.

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"At this time, the award of a contract to finance counsel is requested. As noted above the Hawkins firm scored first in the rankings for finance counsel. Hawkins has been bond counsel for each issue of Authority bonds since their first issuance in the 1950s for the St. Lawrence and Niagara hydroelectric projects. The firm also has provided extensive ongoing advice throughout this period on tax and finance issues. Staff also anticipates seeking Hawkins' retention as special tax counsel for the next bond issue to preserve continuity and consistency of approach and advice for important tax-related matters.

"Because of the outstanding quality of its written responses and oral presentation to the Authority, it is recommended that the contract with the Hawkins firm be extended from January 1, 1994 through December 31, 1995, with the Authority having the option with the approval of the President to extend the contract on an annual basis for two additional years.

"In addition, staff anticipates recommending the Mudge Rose firm as bond counsel for the next bond issue. In anticipation of such appointment, it is appropriate that Mudge Rose be available to consult with the Authority from time to time prior to the commencement of that bond issue about finance and bond-related legal issues. Thus, staff also requests that General Counsel be authorized to enter into a procurement contract with Mudge Rose for such purpose.

"Staff also requests that two other firms, Barnes, McGhee and Wood, Williams, be named as approved minority-owned law firms that are qualified to provide bond counsel related services to the Authority.

FISCAL INFORMATION

"Except to the extent that fees for the services of Hawkins and Mudge Rose may be payable from other sources (e.g., the General Reserve Account in the case of Hawkins' services relating to the commercial paper program), the law firms will be paid from the Operating Fund. Hawkins has agreed to bill the Authority at the single rate for all partners and associates at \$195 an hour for the term of the initial extension. Mudge Rose's composite hourly rates are \$225 per hour.

RECOMMENDATION

"The Senior Vice President and General Counsel recommends that the Trustees authorize the extension of the contract with Hawkins, Delafield and Wood and the conclusion of a contract with Mudge Rose Guthrie Alexander & Ferdon for the provision of ongoing advice to the Authority as recommended above. The General Counsel further recommends that the Authority state its present intent to appoint the Mudge Rose firm as bond counsel to the Authority for its next bond issue assuming agreement on appropriate terms and conditions, and that the Authority designate the Wood Williams and Barnes McGhee firms as approved minority-owned law firms qualified to provide bond counsel related services to the Authority.

"The Executive Vice President - Finance and Administration, the First Executive Vice President and Chief Operating Officer, and I concur in the recommendation."

Vice Chairman Frey questioned the need for retaining additional law firms. The General Counsel explained that the intent is not to retain additional legal services, but rather to allocate the provision of such services to additional firms, including minority-owned firms. The Vice Chairman further stated that there should be a cap on

the fees payable by the Authority because the Authority should not be paying higher fees than heretofore for bond

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counsel services. The General Counsel gave assurances that Mudge Rose would abide by and not exceed the agreed upon hourly rate. The Vice Chairman suggested, and it was agreed, that the minutes reflect the Trustees' intent that fee caps be included in the Trustees' approval of the proposed resolution.

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

RESOLVED, That it is the present intent of the Authority that the firm of Mudge Rose Guthrie Alexander & Ferdon be appointed bond counsel for the next issuance of long-term bonds by the Authority upon its agreement to such terms and conditions as shall be satisfactory to the Authority; and be it further

RESOLVED, That pursuant to the Guideline for Procurement Contracts the Authority authorizes the extension of the contract with Hawkins, Delafield and Wood for legal services for a term ending December 31, 1995, with the Authority having the option, with the approval of the President, to extend such contract on an annual basis for two additional years; and be it further

RESOLVED, That the Senior Vice President and General Counsel and the Vice President - Procurement and Real Estate be, and hereby are, authorized to enter into a procurement contract with Mudge Rose Guthrie Alexander & Ferdon upon such terms and conditions as shall be satisfactory to them; and be it further

RESOLVED, That the firm of Wood, Williams, Rafalsky and Harris and the firm of Barnes, McGhee, Neal, Poston & Segue are designated as approved minority-owned firms qualified to provide bond counsel related services to the Authority.

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15. Informational Item - Addition to the 1994 Nuclear Generation O&M Expenses - Indian Point 3 Nuclear Power Plant

The President submitted the following report:

SUMMARY

"The purpose of this memorandum is to inform the Trustees of an increase in the rate of expenditure and a projected overrun in the Indian Point 3 Nuclear Power Plant ('IP3') year-end O&M budget. Efforts are underway to finalize the amount required. The forecast is between \$10 to \$20 million above the current Approved O&M Budget of \$121.7 million. We expect to submit a formal request for a budget adjustment within the next two months.

BACKGROUND

"In January, the Nuclear Generation Department outlined an improvement program. A result of the improvement efforts thus far is a clearer understanding of the requirements for restart of IP3 and an amended return to service date in the first quarter of 1995.

"During the first half of 1994, we intentionally reduced the rate of work to allow for a review of work practices and adherence to plant procedures. In this period of increased work control and line management oversight, the Restart Management Team performed a root cause analysis for the decline of IP3. Six root cause and six contributing cause issues were identified, and action items were developed to address these performance issues.

"In March 1994, new senior plant management was assigned, and an aggressive effort was begun to identify all of the restart issues and all the work required including retraining and mentoring of key employees. A startup schedule with a realistic return to service date was developed. Work items on the startup schedule have been budgeted. All of this effort did not come together until late in July.

"Productivity has been increasing and is planned to continue at an increasing rate. Physical outage work is expected to be complete in November, and a lower rate of expenditure will follow. Our plans for cost-reduction are valid, but we have found that the effort is greater than anticipated in January.

"The additional funding is required to cover five major categories: outage support, including the daily costs associated with an outage; organizational development, including improvements vital to management effectiveness; technical/regulatory issues, including several outstanding commitments to regulatory agencies; preventive/corrective maintenance, including additional physical work associated with plant deficiencies; and restart/continuous improvement programs, including elements necessary to restart and improve performance at IP3.

"Every effort will be made to contain cost. Several non-essential work packages approved in the original budget have been postponed. We have also reviewed and cancelled non-essential work. These efforts will continue throughout the year.

"Our commitment to cost savings is steadfast as we carefully examine the funding request under development. It is important to note the projected budget overrun is a non-recurring expense. Some of the extraordinary funding will no doubt need to be continued in 1995 (similar to the expense incurred by JAF following their restart) but we will

implement the cost saving measures put forth by the '90-day review committee'. Indian Point will become cost-effective in 1996 - as projected in our 90-day review or we will be recommending energy alternatives to the Trustees.

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"We will continue to keep the Trustees informed of our progress on a monthly basis.

In response to questions from Trustee Miller, President Freeman stated that unless IP3 becomes profitable, it may be more cost effective for the Authority to sell the plant, or even shut it down if it turns out that purchasing power is less expensive than operating IP3.

With regard to the proposed budget increase, Trustee Waldbauer stated that in view of the monies and effort which have been expended to date, there is little choice but to approve the additional expenditures if they are needed. Trustee Duch expressed her concurrence, as well as her concern that the ultimate cost would be on the high end of staff's estimate of between \$10 and \$20 million. Mr. Josiger assured her that staff believes that the final amount will be lesser. Mr. Tscherne added that because other areas of the budget will probably be underspent, the overall impact on the budget may be moderate. President Freeman added that certain expenditures may be more appropriately capitalized, as opposed to expensed, and could also have a positive impact on the final numbers. Chairman Young stated that he is impressed with Messrs. Cahill, Josiger and Hill's efforts to restart the plant, and expressed the Trustees' support of staff's further efforts.

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16. Next Meeting

The next Regular meeting of the Trustees will be held on **Thursday, September 29, 1994, at the James A. FitzPatrick Nuclear Power Plant at 10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

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Closing

Upon motion made and seconded, the meeting was closed at 12:00 noon.

Anne Wagner-Findeisen
Corporate Secretary

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