

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

July 26, 1994

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

Present: Thomas G. Young, Chairman*
Thomas R. Frey, Vice Chairman
Linda P. Duch, Trustee
Hyman M. Miller, 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
Woodrow W. Crouch	Vice President - Project Management - System Operations
Deborah P. Estrin	Vice President - Human Resources
Sally L. Irving	Vice President - Corporate Finance
John L. Lenney	Vice President - Public Affairs
Charles I. Lipsky	Vice President and Chief Engineer - System Operations
Michael F. Woods	Vice President - Industrial Economic Development
John F. Duffy	First Assistant General Counsel
James L. Ford	Resident Manager - Niagara Power Project
James J. McCarthy	Resident Manager - Blenheim-Gilboa Pumped Storage Power Project
Stephen P. Shoenholz	Director - Public Relations
John W. Blake	Director - Environmental Programs
Joseph J. Brennan	Director - Internal Audits
Vernadine E. Quan-Soon	Assistant Secretary - Corporate Affairs
Anne Wagner-Findeisen	Corporate Secretary

* Vice Chairman Frey presided during consideration of items Nos. 1 through 9 and Chairman Young presided during consideration of items Nos. 11 through 12. Secretary Wagner-Findeisen kept the Minutes.

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1. Approval of the Minutes

The minutes of a Special Meeting of June 22, 1994 and the Regular Meeting of June 28, 1994 were approved, as amended.

The Vice Chairman introduced Trustee Thomas G. Young and noted that in a subsequent portion of the meeting, the Trustees would consider the selection of a Chairman of the Authority.

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2. Report from the President and Chief Executive Officer

The President submitted the following report:

At the President's request, the Vice President - Human Resources outlined the restructuring of the Human Resources Department as a result of the 90-day review which had been carried out at the direction of the President. Ms. Estrin explained that priority is being given to ensuring diversity in the workforce, greater integration of the benefits and compensation functions, and integration of labor relations and employee relations to enhance the Department's ability to provide consultation to senior management. Ms. Estrin added that additional areas now being explored and studied by the Human Resources staff include succession planning, incentive compensation, flexible scheduling, and a "cafeteria plan" of benefits which could replace the uniform coverage now available to salaried employees.

Trustee Duch stressed the importance of developing managerial skills and succession planning at the Authority's nuclear power plants and requested a copy of the revised Human Resources organization chart.

President Freeman noted that the initiatives described by Ms. Estrin are consistent with current utility practices nationwide and that he and staff plan to develop more precise guidelines for the delegation of responsibilities to middle and lower management.

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3. Financial Reports for the Six Months Ended June 30, 1994

Ms. Irving explained that although current O&M expenditures have been running lower than forecast, the gap would soon be overcome by increasing expenses in connection with Indian Point 3. President Freeman added that, as a result of the Authority's determination to freeze SENY rates, the Authority would be absorbing additional IP3 costs.

4. Industrial Job Commitments

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the continued allocation of power to 17 companies which have not complied fully with their job commitments and to adjust job commitments/power and/or allocations to four companies.

BACKGROUND

"Over 150 companies receiving allocations of industrial power from the Authority have made commitments to create/retain jobs. These companies must maintain 90 percent of their job commitment (80 percent in the case of 'vintage' Expansion Power users), and they must report annually after an initial start-up period of three years.

DISCUSSION

"For the calendar year 1993, 24 companies did not meet their commitment. Such companies are listed in Exhibit '4-A'.

"Four companies (Dussault (250 kW); Motorola (4,600 kW); Pyron (1,500 kW); and Tulip (300 kW)) were slightly under the 90 percent average requirement for 1993, but by December, their employment exceeded this level. A fifth company (Buffalo Specialty (900 kW)) reached 94 percent of its commitment early this year. It is recommended that no action be taken on these companies.

"Advanced Refractory Technologies (1,200 kW) manufactures ceramic materials for armored vehicles and also fabricates ceramic parts for chemical processing plants, appliance manufacturers, automotive manufacturers, the defense industry, etc. The company committed to employ 107 people in return for an allocation of 1,200 kW. It currently employs 69 people but has only taken half of the allocation. This company is on the cutting edge of ceramic technology and, as such, is undergoing growing pains which have been exacerbated by the recent recession. It is recommended that the company be given more time to develop its products and meet its job commitment.

"Brenner Paper (700 kW) and New York Envelope (2,100 kW) are two New York City manufacturers of paper products. They both fell two percentage points below their 90 percent commitment level, and it is recommended that the Authority take no action at this time.

"F. N. Burt (300 kW) receives this allocation for a 270-job commitment. The company showed growth until the middle of 1990, when the economic recession started to impact on the sale of its decorative packaging for consumer products. Salaried and hourly workers accepted a reduction in benefits and wages as well as changes in work rules. Despite these setbacks, the company has recently won awards for excellence in an industry packaging competition and since the beginning of this year, F. N. Burt has been recalling laid-off workers. The company has now returned to profitability. Since F.N. Burt's short-fall in job commitments appears to be temporary, it is recommended that its allocation not be reduced at this time.

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"Carleton Technologies (700 kW) - In 1993, the Trustees approved a reduction in job commitments for companies which were heavily impacted by defense cutbacks. Carleton Technologies had not yet suffered the loss of military contracts and it was not until 1993 that it felt this loss, with a reduction of over \$5 million in current business as well as a depletion in backlog commitments. While this company continues to experience the impact of these losses, it feels that it has stabilized at 140 people. This producer of specialty parts for B-2 bombers, small ICBMs, F-14s, space stations, etc. has a highly trained and well paid work force and staff recommends that its job commitment be reduced to the 140 level, which is a ratio of 200 jobs per megawatt.

"Computer Associates International (12,000 kW) is one of the fastest growing companies in its category and at the end of 1993 employed 1,337 people on Long Island. Of the 12,000 kW allocation, it is only using 7,000 kW while it continues to grow into the full allocation. This usage results in a ratio of 191 jobs per megawatt and it is recommended that the Trustees continue to encourage the growth of this company by not taking action at this time. Computer Associates has agreed to a temporary re-allocation of 3,000 kW of its power to other customers.

"General Motors ('GM') (10,000 kW) - The GM assembly plant in Tarrytown receives an allocation of 10,000 kW of FitzPatrick Power and has an average employment of 2,150 people. While this is only half of GM's commitment, it still amounts to over 200 jobs per megawatt and, as the company has announced the closing of the plant in 1996 (a one-year delay in the previously announced date), it is recommended that this allocation remain. General Motors is one of the five largest industrial employers in New York State.

"Lyons Falls Pulp & Paper (2,000 kW) received 2,000 kW for a commitment of 294 jobs. Its product, which is specialty paper, has been seriously affected by the recent recession and as the company is only 5 percent below its 90 percent commitment, it is recommended that it continue to receive the full allocation.

"Pohlman Foundry (800 kW) has also been greatly affected by the loss of heavy industry in the northeast. It employs 100 persons out of a commitment of 128 and it is recommended that Pohlman's allocation continue while it recovers from the economic downturn.

"PEMCO (800 kW) is a start-up company manufacturing precision electro minerals and from the outset in 1989, has had major problems first with financing and then suffering substantial losses as a result of fire. However, it is still surviving and employs 20 people out of the original commitment of 30. It is recommended that PEMCO be given more time to meet its job commitments and to overcome its prior problems.

"Sivaco (590 kW) - This allocation is in return for an 85-job commitment. Although it has been negatively affected by the slow economy and off-shore competition, it has increased its employment commitment from 77 percent in 1992, to 85 percent in 1993. It is recommended that no reduction in allocation be ordered at this time, as Sivaco employment picture continues to improve.

"Special Metals (1,000 kW) - As a producer of super alloys, the company has been greatly affected by the downturn in the aerospace business. Special Metals alloys, which are used mainly in the high temperature sections of jet engines, have started to show a slight recovery during the early part of this year, and the company feels that within two years it will be able to meet its employment commitment. It is, therefore, recommended that no action be taken at this time.

"Buffalo Tungsten (2,000 kW) - In 1986, the Wah Chang Smelting and Refining Company applied for 3,000 kW of power in return for creating 167 jobs. Shortly after this, Wah Chang was not able to commit to the project and a 2,000 kW allocation was assigned to Buffalo Tungsten, a newly incorporated company in New York State. Under Wah Chang, two Tungsten Carbide furnaces and a reduction furnace would have been manned by 76 people.

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However, by the time the new company completed its plans, computer-controlled furnaces were developed which needed only 25 - 30 people to operate them. A second operation of the company was to convert Tungsten ore concentrate to Ammonium Paratungstate ('APT') and to employ 91 of the 167 people. In March 1991, the U.S. International Trade Commission determined that Tungsten ore concentrates from the People's Republic of China were being 'dumped' on the U.S. market, and instituted a penalty duty of 151 percent. As China controls about 70 percent of the known Tungsten ore supply, the ruling made the chemical plant economically unviable. This operation would have used a very small amount of the power allocation. The company has relinquished 750 kW of its 2,000 kW allocation and the 750 kW were reallocated under the Replacement Power Settlement Agreement. Since this is a start-up company, it is recommended that no action be taken at this time and staff will work with the company over the next year in an attempt to improve their employment picture.

"Grumman Corporation (2,000 kW) - This electronics facility in Great River committed to 1,050 jobs in return for 2,000 kW of power. This allocation from the Suffolk County MDA permits the County to withdraw 1,000 kW of that power for reallocation to others. The allocation has now been reduced to 1,600 kW, and will be reduced further as Suffolk County recommends new recipients. It is, therefore, recommended that no action be taken by this Board.

"Hazeltine Corporation (3,300 kW) develops and produces communications systems at its Greenlawn plant. In 1990, the company received a 3,300 kW FitzPatrick allocation and other State assistance for a commitment to retain at least 1,200 jobs on Long Island. Because the majority of its sales are in the defense sector, employment had declined to 811 by the end of 1993. In recognition of the sharp reduction in defense budgets, the State Urban Development Corporation ('UDC') is providing assistance to Hazeltine to diversify into commercial sales. Additionally, UDC earlier this year reduced Hazeltine's job commitment associated with a UDC loan to 800 from 1,200 positions. Hazeltine estimates peak power requirements will not exceed 2,900 kW. It is recommended that the Authority revise Hazeltine's job commitment to 800 positions and withdraw 400 kilowatts of FitzPatrick Power. The revised allocation would result in a ratio of 275 jobs per megawatt.

"Monitor Aerospace (2,300 kW) produces structural components and does sub-assembly for the aerospace industry. This company has been impacted by the fall-off in demand for commercial aircraft while repositioning itself from being a major supplier to the defense industry. The company has agreed to a reduction of 300 kW from its original allocation of 2,300 kW, with a proportional reduction in its commitment to 322 jobs from 371. It is recommended that no other action be taken at this time, giving the company room to continue its transition from a defense supplier to commercial aircraft work.

"MRC Technologies (300 kW) had committed to 54 jobs in 1989, when it was involved in Navy nuclear work as well as fabricating machinery for heavy industry. Because of the demise of its Navy contracts, as well as the erosion of heavy industry in the northeast, the company's employment in 1993 averaged six people. It has now leased a large part of its facility to another company which is utilizing the major portion of MRC's allocation. It is, therefore, recommended that MRC's allocation be withdrawn.

"Trico (600 kW) - This manufacturer of windshield wipers has had a large job reduction at its Buffalo facility over the last two years as it relocated some of its work to sister plants in Mexico and Texas. It is recommended that its allocation and job commitment be reduced by half, i.e., 300 kW in return for 400 jobs.

"The Ullman Company (850 kW) - This Long Island company has fallen to 73 percent of its commitment. Since this contract terminates in December of this year, it is recommended that no other action be taken.

"Companies which have not complied fully with their job commitments will be asked to submit interim reports as of July 1, 1994, and staff will update the Trustees on these reports.

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RECOMMENDATION

"The Vice President - Industrial Economic Development recommends that the Trustees approve reductions for the four companies as outlined in this item and defer action with regard to the other companies, and to authorize the Vice President - Industrial Economic Development to provide written notice to those companies whose allocations are being reduced.

"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 Young, Mr. Woods explained that those companies whose allocations would be reduced are fully aware of the staff's recommendations. President Freeman commended Mr. Woods for his efforts in monitoring the allottees' use of EDP.

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

RESOLVED, That the Authority hereby approve the reduction of power allocations to four companies as outlined in the foregoing report of the President, and defer actions with respect to the other companies; and be it further

RESOLVED, That the Vice President - Industrial Economic Development be and hereby is authorized to provide written notice to those companies whose allocations are being reduced.

Exhibit `4-A'
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` ALLOCATIONS TO BE CONTINUED'

Company	Date of Allocation	Type of Power	Total Allocation	Employment Commitment	Average Jobs 1993	Average Annual % Achieved
Advanced Refractory	8-1-86	RP	1,200	107	63	59%
Brenner Paper	11-1-90	JAF	700	165	145	88%
Buffalo Specialty	8-29-89	EP	900	90	76	84%
Burt, F. N.	7-1-86	RP	300	270	220	81%
Carleton Technologies	8-29-89	EP	700	250	207	83%
Computer Associates	1-10-90	JAF	12,000	2,100	1,237	59%
Dussault Foundry	9-25-90	EP	250	28	25	89%
General Motors	6-26-85	JAF	10,000	4,000	2,150	54%
Lyons Falls Pulp & Paper	7-1-91	JAF	2,000	294	250	85%
Motorola	8-29-89	EP	4,600	600	535	89%
New York Envelope	4-30-90	JAF	2,100	650	572	88%
Pohlman Foundry	8-27-91	EP	800	128	100	78%
PEMCO	1-31-89	RP	800	30	19	63%
Pyron Corporation	1-31-89	RP	1,500	100	88	88%
Sivaco New York	1-31-89	RP	590	85	72	85%
Special Metals	5-29-91	EP	1,000	81	57	70%
Tulip Corporation	10-30-90	EP	300	150	116	77% (93%-12/93)
TOTALS			<u>39,740</u>	<u>9,128</u>	<u>5,932</u>	

` ALLOCATIONS TO BE REDUCED'

Buffalo Tungsten	8-1-86	RP	2,000	167	26	16%
Grumman Corporation	12-1-92	JAF	2,000	1,050	695	66%
Hazeltine Corporation	12-5-90	JAF	3,300	1,200	857	71%
Monitor Aerospace	9-16-92	JAF	2,300	371	276	74%
MRC	4-24-90	EP	300	54	6	11%
Trico Products	8-27-91	EP	600	800	422	53%
Ulman Company	9-7-90	JAF	850	179	131	73%

TOTALS			<u>11,350</u>	<u>3,821</u>	<u>2,413</u>	
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5. Southeast New York ("SENY") Public Customer Production Rates - Emergency Action

The President submitted the following report:

SUMMARY

"The Trustees are requested to take emergency action to approve certain changes in the SENY rate freeze adopted at the October 26, 1993 Board Meeting.

BACKGROUND

"At their meeting of October 26, 1993, the Trustees adopted a resolution freezing SENY public customer rates through the end of 1996. The purpose of the rate freeze was to respond to competitive threats in the marketplace and to insulate the SENY public customers against the increased cost associated with the Indian Point 3 Nuclear Power Plant ('IP3') outage. The Authority has absorbed the cost of the ongoing IP3 outage by using SENY customer prepayment funds. These funds are projected to run out this month. Since IP3 is not scheduled to return to service until early 1995, the Authority will need to absorb the additional operating and maintenance and purchase power costs associated with the IP3 outage to maintain the SENY rate freeze. Once the plant returns to service, the Authority will be able to meet SENY public customer revenue requirements through revenues collected from these customers as IP3 returns to normal operation.

"The SENY public customers are currently required to prepay electricity charges each month at the end of the consumption period (the 'prepayment'). Typical utility practice is for customers to pay for electricity consumption approximately 30 days after the consumption period ends. As part of the rate freeze, the Trustees approved the use of the prepayment to offset ECA charge deferrals. It was anticipated that the public customers' ECA charge deferrals would increase to the level of their prepayment some time after 1996. When this occurred, the prepayment would be eliminated and the public customers would be billed using the more conventional utility billing practice. At the same time that the prepayment was eliminated, the ECA mechanism was to revert to a direct pass-through of the actual cost of energy on a monthly basis.

"These actions were all predicated upon an IP3 return to service by April, 1994. It was anticipated that the accumulation of ECA deferrals would equal about two-thirds of the public customers' prepayments at this point. It was assumed that, following IP3's return to service, ECA credits - associated with the lower cost of energy from IP3 - would serve to offset a portion of the prior ECA charge deferrals. This interplay between deferred ECA charges and credits was expected to continue through the end of 1996, allowing the ECA to remain at zero for the duration of the rate freeze. However, IP3 did not return to service in April and is presently not expected to restart before the end of the year.

DISCUSSION

"With the continuation of the current outage at IP3, a number of the Authority's public customers will have accumulated ECA deferrals equal to their prepayments by the August billing period. All the remaining customers are projected to reach this point by the end of 1994, long before the end of the current base rate freeze. When this happens, the bill stabilization benefits of the ECA deferral mechanism will be eliminated and these customers will be subjected to higher ECA charges. In aggregate, the SENY public customers' bills will increase from \$3 to \$9 million

per month until IP3 returns to service, depending on the cost of replacement power. The City of New York and the Metropolitan Transportation Authority ('MTA') would each pay approximately \$1 to \$3 million more per month.

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"There are a number of electric utilities which have adopted a stabilized fuel clause adjustment. This approach provides at least two benefits. First, the customers' monthly power cost is far more certain. The only source of variation is monthly consumption. Second, it allows customers to plan their annual budgets with much greater certainty, as the charge is known in advance of the budget year. The New York City Transit Authority ('TA') has sought a mechanism to stabilize their monthly and annual power bills. A Stabilized ECA would provide the TA with that certainty and allow it to eliminate the energy cost contingency portion of its power budget.

"Turning to another matter, the Authority is now incurring two relatively new categories of costs on behalf of the SENY public customers: demand-side management ('DSM') program costs and U.S. Department of Energy ('DOE') decontamination and decommissioning ('D&D') charges. The DSM program costs result from the Authority's extensive demand-side investments on behalf of the SENY public customers. These costs were previously included in the deferred ECA. The D&D charges were enacted by Congress as part of the Energy Policy Act of 1992 ('the Act'). Under the Act, DOE seeks to recover from nuclear utilities a portion of the future cost of closing and dismantling its uranium enrichment facilities. The Authority's liability to DOE for D&D charges associated with prior enrichment of uranium for IP3 is about \$23 million plus accrued interest, paid-out at the rate of \$1.5 million per year plus interest for 15 years.

"It is recommended that the energy cost billed to the SENY public customers be recovered through the application of a Stabilized ECA. The Stabilized ECA should be established periodically, taking into consideration projected energy costs and the cumulative recovery of such costs through the energy rates. It is proposed that the initial Stabilized ECA be set equal to 1.19 mills per kWh, consisting of a charge of 0.830 mills/kWh for DSM program costs, plus 0.360 mills/kWh for the D&D charges. The Stabilized ECA is designed to fully recover the projected amortized cost of the DSM programs and the cumulative D&D charges incurred.¹ The Stabilized ECA will be reviewed annually and may be amended from time to time.

"It is recommended that, effective with the August 1994, billing period, the SENY public customers begin to be placed on actual billing, with payment due after the close of the consumption period. While the majority of customers, including the MTA and the Housing Authorities, will have fully offset their prepayment with ECA deferrals, some customers, including the City of New York, will have a remaining prepayment balance in August. It is recommended that the billing for these customers continue to incorporate the ECA deferral until their prepayment fully offsets the deferral, at which point these customers would also be placed on actual billing. In the month a customer is placed on actual billing the Stabilized ECA would be applicable.

"Notice of proposed action by the Authority is normally published in the State Register at least 45 days prior to adoption by the Trustees. The publication and comment process takes a minimum of 60 days and may be extended to 75 days. However, under the Authority's administrative procedures, 'emergency adoption' is possible when immediate adoption is necessary for the 'general welfare' and compliance with the normal rule making procedures alone would be contrary to the public's interest. The recommended modifications to the SENY public customer production rates require emergency adoption in order to provide maximum benefit to the SENY public customers and to promote the general welfare. The objective is to continue stabilizing the SENY public customers' bills and to ensure the Authority's competitive position in the SENY market. If this proposal is not implemented immediately, the SENY public customers will experience an immediate increase in their power bills and undue pressure on their budgets. Therefore, it is necessary to implement this program on an emergency basis. The Trustees will be requested to reconsider this proposal on a permanent basis as soon as publication requirements are met, but not more than 90

¹ Any over or under recovery of these costs will flow to the energy revenue reconciliation account which tracks the cumulative over or under recovery of energy costs.

days after emergency adoption.

FISCAL INFORMATION

"Continuing to stabilize the SENY public customers' power bills by using the Stabilized ECA will produce monthly cash flow impacts resulting from the difference between the actual fuel and purchased power costs incurred and the Stabilized ECA revenues received by the Authority. Through the end of 1994 the cumulative under-recovery of energy related costs is projected to be approximately \$32 million. By the end of 1995, the under-recovery is projected to be eliminated, assuming IP3 is restarted by the end of 1994 and operates normally thereafter. Through the end of 1995, about \$15 million will be recovered from the SENY public customers through the Stabilized ECA.

RECOMMENDATION

"The Vice President - Power Sales and Rates recommends the implementation of the proposed Stabilized ECA with an initial rate of 1.19 mills per kWh. It is further recommended that the Vice President - Power Sales and Rates be authorized to issue written notice to the SENY public customers, including revised tariff leaves conforming to the recommended rate modifications. Exhibit `5-A' provides the necessary tariff modifications.

"It is also recommended that, consistent with the Authority's Administrative Procedures, the Secretary be authorized to file notice for publication in the New York State Register of emergency adoption of the proposed tariff changes and of proposed Authority action to adopt permanently the provisions of the measure, and to file such other notice as is required by statute or regulation.

"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 Trustees Miller and Duch, President Freeman asserted that the availability of programs such as DSM serve to attract and hold Authority customers and that he foresees continued staff efforts to provide across-the-board services to Authority customers.

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

RESOLVED, That the proposed rate modifications applicable to the sale of firm power and energy to the SENY public customers be approved, and take effect beginning with the August, 1994 billing period; and be it further

RESOLVED, That action to adopt a Stabilized Energy Charge Adjustment including a charge for demand-side management costs and Department of Energy decontamination and decommissioning charges, as outlined in the foregoing report of the President must in the judgment of the Authority be taken immediately to discharge its responsibilities and for the preservation of the general welfare because benefits associated with the program will be lost if immediate action is not taken and compliance with the normal rule making procedures alone would be contrary to the public's interest; and be it further

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RESOLVED, That the Secretary be, and hereby is, authorized to file notice of emergency adoption and notice of proposed action to adopt permanently the proposed changes to the rates and tariffs in the State Register and to file such other notice as is required by statute or regulation; and be it further

RESOLVED, That the Vice President - Power Sales and Rates be, and hereby is, authorized to issue written notice to the affected customers including conforming tariff modifications shown in Exhibit "5-A"; and be it further

RESOLVED, That within 90 days from such filing, the Authority reconsider the action for permanent adoption and republication in the State Register.

Proposed Tariff Revisions²

New Matter is Redlined, Matter to be Deleted is Crossed Out.

A) Production Service Tariffs

11 Through 18

F. Energy Charge Adjustment:

The charge for electric service hereunder will be subject each month to an addition or a deduction when the "average cost of energy" for the previous two months as stated herein increases or decreases from the specified base cost.

The base cost of energy expressed in cents per kilowatt hour billed is 1.8643 cents. Such base cost may be amended from time to time.

The "average cost of energy" shall be equal to the sum of (i) the fuel and fuel related charges associated with the operation of the Power Authority's thermal generating units normally furnishing energy under this tariff and the value of energy as determined by Authority from other Authority Projects in generation of energy for its Customers supplied under this tariff and (ii) the amount paid by the Authority for power and energy purchased from other suppliers, including transmission charges and additional capacity charges, if any, associated with such deliveries, less credits from sales of non-firm energy; all divided by the total 60 cycle scheduled firm sales to such Customers for such previous two months. The "average cost of energy" as determined hereinabove will be adjusted from time to time as determined by the Authority to permit reconciliation of revenues derived from Energy Charge Adjustments billed to Customer in prior billing periods with energy-related costs applicable to such billing periods. Effective January 1, 1994, such energy-related costs shall include revenue requirements as determined by the

² Summarizes only those sections of the indicated tariffs for which revisions are proposed. All other sections would remain unchanged.

Authority associated with expenses incurred in connection with energy conservation programs which benefit Customers supplied under this tariff, where such expenses are not recovered directly from Customers participating in such programs.

The difference between the "average cost of energy", including adjustments, and the base cost of energy shall be added to or subtracted from the charges per kilowatthour for energy specified in this Service Tariff, provided, however, that effective with the September 1993 billing period amounts normally charged or credited each month to Customers on account of such difference will be deferred and any resulting net accumulated deferred charges will be offset against Customer's estimated bill payments as provided in Special Provision "L". If the net accumulated deferred charges have been fully offset against Customer's estimated bill payments, thereafter ~~the difference between the "average cost of energy",~~ a stabilized energy charge adjustment per kilowatthour ("Stabilized ECA") will apply, which is inclusive of i) and the base cost of energy shall be added to or subtracted from the charges per kilowatthour for energy specified in this Service Tariff, beginning with the next full billing period: costs of Authority energy conservation programs for the benefit of customers served under this tariff, and ii) the cost of the U.S. Department of Energy uranium enrichment plant decontamination and decommissioning charges associated with the Indian Point 3 Nuclear Power Plant. The Stabilized ECA will be adjusted from time to time as determined by the Authority to permit reconciliation of revenues billed to the Customers in prior billing periods with energy-related costs applicable to such billing periods.

L. Payment of Estimated Bill:

Approximately twenty (20) days after initial service, Authority will render to Customer an estimated bill for service during the first monthly billing period. This bill will be due and payable within ten (10) days in accordance with the payment provision of this Service Tariff. Thereafter, Authority will render to Customer a final bill approximately twenty (20) days after the conclusion of each billing period. Authority will also render to Customer, at the same time, a new estimated bill for the current billing period. Any overpayment or underpayment by Customer for a previous estimated bill, as determined by the final bill for such billing period, will be treated as a credit or charge towards the new estimated bill. The new estimated bill, reflecting any such credit or charge, will be due and payable

within ten (10) days of submission in accordance with the payment provision of this Service Tariff.

The foregoing paragraph concerning payment of estimated bills shall not apply to entities that become Customers after July 1, 1994 or to Customers whose estimated bill payments are fully offset pursuant to Special Provision F. For such customers approximately twenty (20) days after the end of the preceding monthly billing period the Authority will render to Customer a final bill for service provided during such billing period. Such final bill will be due and payable in accordance with the payment provisions of the Authority's Rules and Regulations for power service.

6. James A. FitzPatrick Nuclear Power Plant - Condenser Tube Replacement - Expenditure Authorization - Procurement (Services) Contract - NAB Construction Corporation - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve a capital expenditure of \$14 million for engineering, design, material procurement, and installation of new condenser tubes including decontamination and disposal of the existing condenser tubes at the James A. FitzPatrick Nuclear Power Plant ('JAF'). The Trustees are also requested to approve the award of a contract to Nab Construction Corp. in the amount of \$5,400,000 for the installation of the new condenser tubes.

"The tubes need to be replaced now because they have reached the end of their life. Nearly half of the wall thickness of the tubes at their outlet ends have been eroded away by the flow of lake water through them. The possibility now exists that lake water may leak into the plant steam cycle through the weakened tube to tubesheet joints. The plant cannot be operated if this leakage becomes excessive.

"The replacement of the condenser tubes at FitzPatrick is considered normal for plants with brass type tubes. Typically these tubes have a 15 to 20 year service life. The FitzPatrick tubes have been in operation for 19 years. FitzPatrick's 19 years of successful condenser operation is considered good service life for a brass tube condenser. The Authority has replaced condenser tubes at both Indian Point 3 and Poletti.

BACKGROUND

"The FitzPatrick Main Condenser has operated successfully from original plant construction to date. The only tube replacements that have occurred were shortly after startup in 1976, when 1,802 tubes that were damaged during construction were replaced. Additionally, in 1984, all 4,584 stainless steel tubes that had been installed originally were replaced with tubes made of a different material, titanium. The stainless steel tubes began leaking due to pitting.

"Today the condenser contains 32,276 Admiralty brass tubes and 4,584 titanium tubes. Lake water is pumped through the tubes. Steam from the Main Turbine exhaust is condensed on the outside of the tubes.

"When the stainless steel tubes were replaced in 1984, very few of the brass tubes were plugged due to leakage. A sample number of tubes are examined on a regular basis as part of the plant's equipment surveillance program. These nondestructive examinations have revealed a gradual degradation of the brass tubes over time. In November 1993, a large scale examination of condenser tubes was performed to determine the extent of the wear indicated by the previous tests. This examination revealed that the condenser tubes were deteriorating at an accelerated rate. In December 1993, a condenser task force was formed to evaluate tube replacement and other repair options. The Condenser tubing was re-examined during the past spring maintenance outage and a continuation of the current tube degradation was verified.

"The Nuclear Engineering and the plant staff have extensively examined the results of the latest test data and found that the only reasonable course of action for the proper repair of the Main Condenser is to replace all of the Admiralty brass tubes with identical tubes.

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"In order to replace all of the brass tubes, a number of titanium tubes will also require replacement. These titanium tubes have performed successfully since their installation in 1984, and are being replaced because they surround and prohibit access to the brass tubes. The condenser design is such that the tougher titanium tubes surround and protect the softer brass tubes in the core of the condenser. Accordingly, a number of titanium tubes will be removed to gain access to the brass tubes and reinstalled after the new brass tubes are inserted.

"An expenditure authorization of \$2 million was approved by the First Executive Vice President and Chief Operating Officer on June 2, 1994, to award the contracts by mid June for the purchase of the Admiralty brass tubes and the Titanium tubes to support the 1994 Refueling Outage schedule.

DISCUSSION

"The plant may not operate reliably after the upcoming refueling outage in the fall of 1994 unless the condenser is retubed. There is the very real possibility that the condenser may leak to the extent that continued reliable operation is jeopardized. If large leaks occur, the plant would be forced to shut down before replacement tubes are obtained, before labor contracts are in place, and without the time needed to plan an efficient repair.

"Presently 6 1/2 percent of the tubes are plugged because of lake water in-leakage. The number of tubes plugged is increasing exponentially toward the limit of 10 percent. The 10 percent limit is based on reaching a cooling water velocity in the tubes that would cause even higher tube erosion rates. This limit may be reached in 1996. At that time the plant output would have to be reduced by 20 percent to 25 percent because the cooling water flow rate would have to be reduced by turning off one cooling water pump.

"Retubing of the condenser at this time would eliminate the need to lower the plant output and reduce the operating revenues due to failures in the condenser. Additional operating benefits of a retubed condenser are the increased operating revenues attainable through increased condenser performance because of the removal of the current 6 1/2 percent failed tubes. The removal of these failed tubes will decrease the extent of the downpower outages during the summer peak lake water temperature period by improving overall condenser performance.

"A brief summary of the significant technical details considered during the formulation of this recommendation is as follows:

1. The Nuclear Engineering Department has determined that the condenser tubes are worn due to erosion/corrosion. This damage mechanism is normal for condensers of this type and design. Similar condensers on the Great Lakes have experienced the same deterioration, at approximately the same rate, as FitzPatrick's.
2. The FitzPatrick condenser is relatively small when compared to other plants of the same electrical output. Because of its small size, the cooling water temperature rise across the condenser is 32 degrees Fahrenheit at full load. The more typical condenser design results in a temperature rise of only 16 degrees. Additionally, the cooling water velocity at FitzPatrick has been increased due to the number of tubes that are currently plugged. The combined effect of the high temperature rise and the high water velocity exacerbates the erosion/corrosion process. This accelerates the thinning of the tubes.
3. The tube thinning is not the result of poor design or improper operation. The condenser tubes have simply reached their end of life. This was expected to occur at about this time by the original plant designer. Nine Mile Unit 1 experienced similar condenser tube thinning and was retubed in 1985. The Ginna plant near Rochester plans to retube its condenser next year after 24 years of operation.

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"In an attempt to delay retubing as long as possible, the alternatives to a complete retubing were carefully evaluated. No adequate alternatives exist. Both sleeving of the existing tubes and coating the insides were investigated by the Nuclear Engineering Department. Both options are unsuitable or untenable. Due to the significant amount of tube wall thinning, the tubes are not strong enough to withstand the insertion and expansion of a sleeve into the existing tubes. For the same reason, coating of the condenser tubes is not possible in that the internal coating process requires tube surface preparations that may damage the existing thin tubes.

"The extent of the tube wall thinning is as much as 50 percent wall loss in a large number of tubes at their outlet end. The tubes are expanded into the tubesheets and rely on the stiffness of the tube to tubesheet joints to prevent leaking. As the tube wall thins, the thinner tube loses some of the strength needed to maintain a leak tight joint. When enough tube wall material is lost from the inside of the tube, the joint will loosen and leak. The accepted threshold for the onset of this type of leakage is at 50 percent tube wall thinning. 40 percent of the brass tubes in the condenser are at or above the 50 percent wall thinning threshold.

"Subsequent to the approval of expenditures of \$2 million on June 2, 1994, purchase orders have been issued to procure Admiralty brass tubes and Titanium tubes.

"This expenditure request of \$14 million is intended to complete all the tasks associated with the condenser tube replacement project. These tasks will cover the costs associated with the following items:

- Engineering, design and technical evaluations;
- Procurement of Admiralty tubes, Titanium tubes, anti-rotational tube stakes, inlet circulating water expansion joints, etc.;
- Mobilization and demobilization, scaffoldings, platforms, core boring and concrete wall access, training of labor, etc.;
- Removal of tubes and associated equipment;
- Tubes decontamination and salvage;
- Tubes installation and testing.

"In June 1994, public bids were solicited for a fixed cost installation contract to install the new condenser tubes. Four proposals were received out of a total of 18 companies that received the bid documents. Following is a listing of the companies that submitted proposals and the fixed cost proposal and evaluated cost of each bid. The evaluated cost includes an estimate for time and material expenses not specifically identified in the fixed cost scope of work.

These proposals are:

<u>COMPANY</u>	<u>FIXED COST PROPOSAL</u>	<u>EVALUATED COST</u>
Nab Construction Corp. College Point, New York	\$3,741,436	\$4,482,248
Ratheon E&C Philadelphia, Pa.	\$4,278,789	\$4,692,896
Senior Engineering King of Prussia, Pa.	\$4,095,623	\$4,757,689

The Atlantic Group
Norfolk, Va.

\$4,734,000

\$5,444,088

"All bids were evaluated against commercial and technical requirements in the following areas: functional and technical adequacy, proposal completeness, qualification of bidder, schedule adequacy, previous experience, and proposed subcontractors. The evaluations included meetings with low cost bidders to fully review their bids.

"Nab is the lowest bidder and technically qualified to perform this installation work. Nab's proposal and evaluated cost is lower than the other three companies evaluated. The evaluated cost amount shown includes the Authority's estimated work for time and material expenses at the companies rates for items such as internal condenser repairs, condenser modifications, and miscellaneous repair work. An additional contingency of 20 percent must be added to the contract award amount to account for any unidentified work items to be performed by Nab under this contract.

"The breakdown of the total Nab contract cost is as follows:

Fixed Cost:	\$3,741,436
Estimated time and material for internal repairs and misc.:	740,812
Contingency 20%:	<u>917,752</u>
TOTAL CONTRACT AMOUNT:	<u>\$5,400,000</u>

FISCAL INFORMATION

"The James A. FitzPatrick Improvement Projects Proceeds Account has a current balance of \$70 million of which \$39 million is available to fund this request and additional tasks, not yet authorized, identified in the capital plan. Based upon current cash flow projections, funds are available through the year 1997. Payment will be made from the appropriate Construction Fund - James A. FitzPatrick Improvement Project Proceeds Account.

RECOMMENDATION

"The Resident Manager - James A. FitzPatrick Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, and the Executive Vice President - Nuclear Generation recommend that the Trustees approve capital expenditures in the amount of \$14 million for the Condenser Tube Replacement Project at the James A. FitzPatrick Nuclear Power Plant, and award of a contract to Nab Construction Corp. in the amount of \$5,400,000 for condenser tube installation.

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

In response to questions from Trustee Duch, Mr. Josiger explained that the November refueling outage is scheduled for some 64 days' duration and that the plant would commence decreasing power by 2 percent per week until the outage commences.

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

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

<u>Capital</u>	<u>Expenditure Approval</u>	<u>Contract Approval</u>
Condenser Tubes Replacement Project		
James A. FitzPatrick Nuclear Power Plant	<u>\$14,000,000</u>	
JAF Condenser Tube Installation NAB Construction Corporation		<u>\$5,400,000</u>

7. **Indian Point 3 Nuclear Power Plant - Simulator Upgrade - Expenditure Authorization**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve capital expenditures of \$2,000,000 to upgrade the plant reference simulator located at the Indian Point 3 Nuclear Power Plant ('IP3').

BACKGROUND

"Pursuant to Federal Regulations (10 CFR §55.45 (1992)) the Authority is required to examine its licensed operators on a certified, full scope, plant referenced simulator which meets all the requirements of ANSI/ANS 3.5 - 1985, as endorsed by NRC Regulatory Guide 1.149.

"The Authority must certify by March 1995, that the IP3 simulator is in compliance with ANSI/ANS - 1985 and Reg. Guide 1.149 which includes a requirement to keep the simulator current with changes that occur in plant configuration as a result of modifications. Additionally, the simulation shall be such that the operator takes the same action on the simulator as on the reference plant and shall not observe a difference between the response of the simulator control room instrumentation and the reference plant.

"Failure to comply with these regulations can result in the Nuclear Regulatory Commission's refusal to examine the Authority's operators and to grant or renew operator licenses that are required for IP3 plant operation.

"In order to ensure high quality training, it is necessary that the Authority provide a simulator that accurately replicates plant operation. Correct operator response, reinforced through effective simulator training, significantly contributes to safe, reliable, and efficient operation of the plant.

"A total of \$30,746,900 has been previously approved for the construction of the Training Center South which included the IP3 Training Simulator. Included in this amount was \$2,720,000 for simulator upgrades. These previous upgrades were required to keep the simulator current with planned modifications made during the construction of the simulator.

DISCUSSION

"In order for the Authority to provide effective training to the plant operators, the plant referenced simulator must be upgraded to replicate the plant control room and response. Therefore, the following upgrade/modifications to the simulator must be performed.

"IP3 initiated an upgrade of its radiation monitoring system in 1987, to comply with the requirements of Nuclear Regulatory Commission Regulatory Guide 1.197. Twenty five radiation monitors have been installed in a new micro-processor based radiation monitoring cabinet in the IP3 control room. This system has not been duplicated in the IP3 simulator. Replication of the radiation monitoring system is required to provide operators with the correct instrumentation and its response during training evolutions.

"The existing reactor coolant system simulator model does not respond realistically during training scenarios

designed to replicate emergency operating conditions. An upgraded reactor coolant system model is required to provide the operators with accurate system response during all transient conditions.

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"Incorporation of other required plant modifications and the correction of identified modeling discrepancies has increased the simulator computer's duty cycle from 45 percent to 72 percent since delivery. Incorporation of required simulator modifications will cause the simulator computer's duty cycle to exceed 90 percent. This in turn will delay the response of the simulator so that the simulator will not replicate the response of plant equipment. The simulator computer must be upgraded to allow the simulator to run in real time and allow quality training. A similar upgrade was performed at JAF in 1992.

"The scope and capability of the plant's process computer to provide information on critical parameters has significantly increased since the simulator design freeze in 1986. Limitations of the simulated system prevent incorporation of all the plant's process computer changes on the simulator. An upgraded plant process computer system simulation is required to incorporate all changes and present an accurate simulation to the operators during training.

FISCAL INFORMATION

"The Indian Point 3 Improvement Projects Proceeds Account has a current balance of \$115.0 million of which \$101.0 million is available to fund this request and additional tasks, not yet authorized, identified in the Capital Plan. Based upon current cash flow projection, funds are available through the year 2001. Payment will be made from the appropriate Construction Fund - Indian Point 3 Improvement Project Proceeds Accounts.

RECOMMENDATION

"The Resident Manager - Indian Point 3 Nuclear Power Plant, the Vice President - Nuclear Engineering, and the Executive Vice President - Nuclear Generation recommend the Trustees' approval of an expenditure of \$2,000,000 for the procurement of simulator upgrades at the Indian Point 3 Nuclear Power Plant.

"The Vice President - Facilities Comptroller, 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 Trustee Duch, Mr. Josiger described the current status of the restart effort, and indicated that subject to a successful NRC inspection, the plant could resume operations in early 1995.

Vice Chairman Frey and Trustee Duch requested that the Trustees be briefed by the Nuclear Advisory Committee at the earliest possible opportunity.

Trustee Young noted that during his initial visit to IP3, he had been impressed by the high level of professional dedication evidenced by plant staff.

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

RESOLVED, That expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President,

in the amounts and for the purposes listed below:

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<u>Capital</u>	<u>Expenditure Approval</u>	<u>Total Authorized</u>
Training/Simulator Facility		
Indian Point 3 Nuclear Power Plant		
<u>Previous Amounts Authorized</u>		
<u>July 1985</u> - Trustees' approval - Expenditure to Design & Furnish the IP3 Training Control Room Simulator	\$ 9,768,400	
<u>August 1985</u> - President's approval - Authorization for Preliminary Design of the IP3 Training Center	200,000	\$ 9,968,400
<u>July 1986</u> - Trustees' approval - Expenditure Authorization for Design and Construction of the IP3 Training Center	14,908,800	24,877,200
<u>June 1988</u> - President's approval - Expenditure Approval for the Public Information Exhibits to be installed in the IP3 Training Center	315,000	25,192,200
<u>December 1988</u> - Trustees' approval - Expenditure Authorization for settlement of construction claims for the Theodore Hill (IP3) Training Building	2,700,000	27,892,200
<u>February 1989</u> - President's approval - Expenditure Authorization for Direct and Indirect Charges	135,000	28,027,200
<u>August 1989</u> - Trustees' approval - Expenditure Authorization - Simulator Upgrades	2,719,700	30,746,900
Current Request	<u>\$ 2,000,000</u>	
TOTAL AMOUNT AUTHORIZED	<u>\$32,746,900</u>	

8. Procurement (Services) Contract - Audit of Payment of Hospital Claims by Empire Blue Cross and Blue Shield - Med Review, Inc. - Extension

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve extension of the existing procurement contract with Med Review, Inc. ('Med Review') for a period of two years commencing August 1, 1994. Med Review performs an audit of hospital claims payments by Empire Blue Cross and Blue Shield ('Empire'). Under the extended contract, the scope of services would be extended to include audits of the International Brotherhood of Electrical Workers ('IBEW') Local Union 2032 and 2104 and the International Brotherhood of Teamster, Chauffeurs, Warehousemen and Helpers of America ('Teamster') Local 887 AFL-CIO plans.

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.

"Empire has been the hospitalization insurance carrier for the salaried health program since February 1987, and for the Utility Workers Union of America Local 1-2 ('UWUA') since July 1987. POMCO has been the hospitalization third party administrator for the IBEW since April 1992, and the Teamster since July 1990.

"In 1988, New York State hospitalization reimbursement changed from a per diem arrangement to payment by Diagnostic Related Group ('DRG') -- a preset reimbursement for each type of inpatient treatment, regardless of the hospital's actual cost or patient's length of stay.

"The DRG system is intended to create incentives for hospitals to operate in a more efficient manner. Hospitals keep payment amounts in excess of their costs but are required to absorb any costs in excess of the reimbursement under DRG rates.

"Med Review was selected as the most qualified low bidder to audit hospital claim payments due to its experience auditing Empire, and its contingent fee arrangement of 25 percent of any costs that are recovered. This contract was awarded for one year effective August 1, 1993, with the Authority reserving the right to extend the contract an additional two years.

"The status of the contract with Med Review is set forth in Exhibit '8-A'.

DISCUSSION

"Prudent business practice requires an audit of hospital claims to ensure that payments are accurate.

"Since implementation of the DRG audit, the Authority has recovered \$93,260 with respect to the salaried and UWUA hospitalization plans. Future savings should increase with the scope of services being extended to include DRG audits of the IBEW and Teamster hospital plans.

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"The Authority does not pay a flat fee for the audit. Instead, Med Review's compensation is 25 percent of the savings (refunds) realized by the Authority after the audit, based on actual reimbursement or credit from the hospitalization carrier or third party administrator.

FISCAL INFORMATION

"If no reimbursement or credits occur, no compensation will be paid to Med Review. Therefore, there would be no fiscal impact on the Operation & Maintenance Budget. Any monies due to the Authority as a result of such audit will be deposited in the Operating Fund.

RECOMMENDATION

"The Vice President - Procurement and Real Estate and the Vice President - Human Resources recommend that the Trustees approve renewal of the current contract for two years.

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

In response to questions from Trustee Duch, Ms. Estrin explained that contracting for the provision of these services is more cost effective than performing the work in-house.

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

RESOLVED, That pursuant to Guidelines for Procurement Contracts adopted by the Authority, the contract with Med Review, Inc. to perform an audit of Diagnostic Related Group payments of hospital claims by Empire Blue Cross and Blue Shield and the Third Party Administrator of the IBEW and Teamster plans for 1994, 1995, and 1996, is hereby approved and extended through August 1, 1996, 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>
To perform an audit of Diagnostic Related Group payments of hospital claims	
Med Review, Inc.	08/01/96

PROCUREMENT (SERVICES) CONTRACT

Provider Med Review, Inc.

Contract No. S9348773

Dept./Division: Human Resources/Benefits Planning

Contract Description: Diagnostic Related Group (DRG) audit of payment of claims by Blue Cross and Blue Shield and Third Party Administrator (POMCO) for 1994, 1995 and 1996.

Basis of Award	Bid	<u> X </u>
	Competitive Search	<u> </u>
	Sole Source	<u> </u>

<u>Effective Date of Original Contract or Change Order</u>	<u>Date of Trustee Approval</u>	<u>Projected Closing Date</u>	<u>Amount Authorized or Committed</u>
O.C. 08/01/93		08/01/96	25% of refunds/credits

Total Amount Authorized or Committed: 25% of refunds/credits

9. Annual Salary of Chairman

The Acting Chairman submitted the following report:

"Section 1003 of the Power Authority Act authorizes the Trustees of the Authority to set an annual salary for the Chairman in an amount not to exceed the salary prescribed for positions listed in Section 169(1)(f) of the Executive Law. Chapter 60 of the Laws of 1993, which was signed on April 15, 1993, amended the pertinent provisions of the Executive Law so as to provide, for the fiscal year commencing April 1, 1993, that the prescribed salary for such positions shall be increased by an amount or percentage equal to the amount or percentage of increase received by officers and employees designated as managerial or confidential pursuant to Article 14 of the Civil Service Law. Chapter 497 of the Laws of 1992, established a 4 percent increase for such officers and employees, effective April 1, 1993. Accordingly, the salary prescribed for the positions listed in Section 169 (1)(f) of the Executive Law is \$68,330. The Trustees are therefore authorized to set a salary for the Chairman in an amount not to exceed \$68,330."

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

RESOLVED, That the annual salary of the Chairman of the Authority is hereby set at \$68,330, effective immediately.

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10. Selection of the Chairman of the Authority - Thomas G. Young

"The Acting Chairman submitted the following report:

SUMMARY

"In accordance with Section 1004 of the Public Authorities Law (the `Power Authority Act'), the Trustees are requested to choose Thomas G. Young as Chairman of the Authority, effective immediately.

BACKGROUND

"The Senate has recently confirmed Thomas G. Young's nomination as Trustee by Governor Cuomo, effective July 1, 1994.

DISCUSSION

"I would like to nominate Thomas G. Young to fill the vacancy of Chairman created by Richard M. Flynn's resignation.

RECOMMENDATION

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

RESOLVED, That Thomas G. Young of Syracuse, New York is hereby chosen as Chairman of the Power Authority of the State of New York, effective immediately.

11. Allocations of FitzPatrick Economic Development Power

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the scheduling of a public hearing or hearings on contracts for the allocation of 39.3 MW of FitzPatrick Economic Development Power ('EDP') to three companies, and approve the allocation of 6.65 MW of EDP to ten companies as listed in Exhibit '11-A'.

BACKGROUND

"At its meeting of June 8, 1994, the Economic Development Power Allocation Board ('EDPAB') approved applications for EDP submitted on behalf of the 13 companies listed in Exhibit '11-A' and recommended these allocations to the Authority with certain terms and conditions. In addition to the quantity of EDP, number of jobs to be committed, and term of contract, EDPAB normally recommends that the Authority's EDP contracts include provisions regarding affirmative action and reductions of power (if jobs or power usage are below committed levels). EDPAB also now recommends that, beginning with the proposed EDP allocations, the Authority include specific energy conservation provisions in each EDP contract to help assure that energy will be efficiently utilized.

DISCUSSION

Business Expansion Projects

"EDPAB recommended seven allocations of EDP for business expansion projects that entail new electrical demand at facilities at which new jobs are to be created. Burton Industries, Inc. ('Burton') is a privately owned firm in Wyandanch that provides metal heat treating services to the aerospace industry. At their meeting of February 23, 1993, the Trustees approved a job retention allocation of 600 kW to Burton to retain 31 jobs and help the company diversify from a defense oriented business. Burton is purchasing 2 new ovens that will improve its ability to compete for civilian work and increase its load by an estimated 300 kW. When the ovens are fully operational, Burton will add 20 people to its workforce and then maintain 51 jobs. Burton has installed high-efficiency lighting in its plant and is purchasing energy efficient ovens. The company will save about \$125,000 annually over Long Island Lighting Company's ('LILCO') standard rates with the 900 kW total allocation.

"International Business Machines Corporation ('IBM') and Cirrus Logic, Inc. ('Cirrus'), a California-based company that provides both software and integrated circuits for applications such as communications, graphics, mass storage and multimedia, will form a joint manufacturing company ('Cirrus Project'). The new joint venture will own and operate what is currently IBM's East Fishkill semiconductor fabrication facility. Each company will take 50 percent of the facility's output of logic and memory chips. The existing semiconductor fabrication and associated jobs at East Fishkill could be relocated to IBM's Burlington, Vermont, facility if negotiations for the joint venture are not successful. The Cirrus Project would employ at least 300 people currently working for IBM and within 3 years create an additional 400 jobs. Peak demand for the entire project is estimated to be up to 15,300 kW. Facility improvements will include lighting upgrades with energy efficient units and automated management of the air handling system to reduce loads. The New York Urban Development Corporation ('UDC') and Job Development Authority

('JDA') will provide \$40 million of financial assistance to the project. The proposed ten year allocation would save approximately \$845,000 annually over Central Hudson's rates at an assumed transmission and distribution delivery rate. The proposed contract containing this allocation would be the subject of a public hearing pursuant to Section 1009 of the Power Authority Act.

"The Drescher Corporation ('Drescher') in Liverpool is a master distributor of frozen foods for institutional and restaurant use. Drescher developed master distribution (i.e., distribution to local distribution companies) as a way to reduce inventory costs. Customers throughout the entire Eastern U.S., and west to the Mississippi River, are serviced from the Syracuse area facility. Drescher's most recent expansion in Liverpool is a 35,000 square foot refrigerated addition. Demand is projected to grow by 300 kW in the next several years. Electricity is 14 percent of total warehouse expenses. Drescher will add 40 new jobs and then maintain 142 jobs with the proposed 15 year allocation, which is estimated to save Drescher about \$68,000 annually over Niagara Mohawk Power Corporation's ('Niagara Mohawk') standard rates. Drescher is installing an energy management system and high-efficiency lighting and is evaluating a hot gas recovery system.

"Fiber Conversion, Inc. ('Fiber Conversion') is a privately held company located in Broadalbin that recycles textile wastes into fibers used in automotive, bedding and other manufacturing. Fiber Conversion has developed a two-phase expansion that will enable it to supply fiber to paper manufacturers and which will substantially increase its energy use. Up to 1,000 kW for new load has been requested by Fiber Conversion, which expects to add 19 jobs to its existing workforce of 28. Fiber Conversion has installed 'Load Expert' software supplied by Niagara Mohawk and has extensively retrofitted lighting fixtures and motors with more energy efficient units. With utilization of the full 1,000 kW allocation, Fiber Conversion would save about \$95,000 annually over Niagara Mohawk's standard rates.

"Native Textiles ('Native') plans to construct a 116,000 square foot building and install more than 100 knitting machines to manufacture tricot fabric in the Town of Queensbury. Native is a division of Carisbrook Industries, Inc., which is owned by Hanson PLC, a British company. With the proposed allocation of 1,900 kW for the new plant, Native would commit to create 100 jobs. Native employs nearly 400 more people at a fabric dyeing facility in Glens Falls that will be supplied by the new mill. Although jobs at the dyeing plant will not be committed, the security of those jobs will be enhanced by the knitting mill project. Financing assistance will be provided by UDC and the local industrial development agency. Native will specify energy efficient heating, ventilation, and air conditioning ('HVAC') equipment in its new plant. The proposed 15 year allocation would save Native about \$210,000 annually over Niagara Mohawk's standard rates.

"Schilling Forge Inc. ('Schilling') in Syracuse is a privately held company producing steel forgings for hand tools and medical instruments. Schilling is planning an expansion, including installation of forging hammers, ovens and related equipment, that will increase its electrical load by 450 kW. The project will add 15 jobs to Schilling's existing employment level of 44. Schilling has utilized Niagara Mohawk's rebate programs for high-efficiency lighting and cycles equipment operation to reduce peak demand. The proposed 15 year allocation would save Schilling approximately \$35,000 annually over Niagara Mohawk's standard rates.

"Ferro Corporation, a publicly traded company, operates the Transelco Division ('Transelco') in Dresden which produces ceramic powders used for polishing optical elements and in the manufacture of electronic components. Transelco is installing equipment that will increase production capacity and add up to 700 kW of load. The existing workforce of 104 would be increased by 19, and 123 total jobs would be committed with the 10 year allocation of EDP. Transelco would save an estimated \$62,000 annually over New York State Electric & Gas Company's ('NYSEG') standard rates at proposed settlement wheeling rates. Transelco has participated in NYSEG's lighting rebate program and is replacing air compressors and kilns with more energy efficient equipment. A competitor located in Niagara Falls, TAM Ceramics, purchases 8,000 kW of Replacement Power and 3,000 kW of Expansion

Power from Authority.

Job Retention Project

"One recommended allocation is for job retention purposes which requires that, among other things, the applicant demonstrate plans to relocate out of state and make a commitment to new investments in real property. Ciba-Geigy Corporation ('Ciba'), a publicly traded, Swiss-based pharmaceutical and chemical company, applied for EDP under job retention criteria. Ciba has evaluated three Connecticut sites as well as New York properties for relocation of its U.S. headquarters and research laboratory now in Ardsley. The Town of Greenburgh and Westchester County have worked closely with Ciba and are offering other assistance to retain the company at a site in Tarrytown, within the Town of Greenburgh, where the company will reconstruct two existing office buildings and construct a 150,000 square foot research facility. Ciba will commit to retain 800 jobs and invest more than \$55 million in real property as part of this project. Energy efficient equipment will be specified for the new construction. The proposed 15-year allocation of 4,000 kW would save approximately \$400,000 annually over Consolidated Edison Company of New York, Inc.'s ('Con Edison') standard rates. The proposed contract containing this allocation would be the subject of a public hearing pursuant to Section 1009 of the Power Authority Act.

Business Revitalization Projects

"EDPAB recommended five allocations of EDP for business revitalization purposes where the businesses have demonstrated serious, long-term distress. Severe budget reductions have been imposed on the T.J. Watson Research Center ('Watson Center') of IBM in Westchester County. IBM conducts basic research and develops technology products at the main research facility in Yorktown that IBM owns and at two leased sites in Hawthorne. At the Watson Center, 600 jobs were eliminated over the last three years. Budgets for research and development are fixed. High operating costs reduce funds available for research projects. Electric power is 17 percent of facility operating costs at the Watson Center and is significantly more costly than at other IBM research facilities in Texas and California. The proposed allocation of 16,000 kW to the Watson Center would save IBM an estimated \$2,900,000 annually over Con Edison's standard rates. IBM would retain 2,265 jobs with the allocation which would terminate December 31, 1997. To conserve energy, IBM has retrofitted high efficiency motors and lighting and upgraded its HVAC systems. The proposed contract containing this allocation would be the subject to a public hearing pursuant to Section 1009 of the Power Authority Act following a determination by EDPAB, acting through its Chairman, that all applicable requirements have been met.

"Mele Manufacturing Co., Inc. ('Mele') is a privately held company in Utica that manufactures and imports jewelry cases, custom packaging, and desk accessories. Intense competition from off-shore manufacturers has resulted in financial losses for the manufacturing operation and job reductions. Despite efforts Mele has taken to reduce its power bills, including lighting upgrades and shifting production to off-peak periods, electricity has increased sharply as a percentage of total production costs. The proposed allocation of 1,000 kW would help the company stabilize operating costs and maintain 344 jobs at the Utica plant over the five year term. Mele would save a projected \$140,000 annually over Niagara Mohawk's standard rates.

"Spargo Wire Company, Inc. ('Spargo') is a fabricator of bare copper wire in Rome. Over the last three years, the cost of electricity per pound of wire produced has increased about 60 percent. Electricity is a high percentage of the cost of production. Spargo has installed energy efficient lighting and purchased its transformer to reduce its power bills. Evaluation of a motor replacement program is underway. Owl Wire and Oswego Wire, both in the Central New York region and competitors of Spargo, currently have allocations of EDP. Spargo would maintain 112 jobs with the proposed five-year allocation of 1,000 kW, which would save Spargo about \$190,000 annually over Niagara Mohawk's standard rates.

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"Syracuse China Company ('Syracuse China'), which is owned by the Pfaltzgraff Co. of Pennsylvania, manufactures china for the hotel and restaurant industry. After several difficult years, Syracuse China is undertaking a broad revitalization program to restore its competitiveness, including cost reductions, new capital investments, and development of new product lines. The proposed allocation of 2,000 kW would assist Syracuse China in stabilizing energy costs and in achieving its revitalization program. Syracuse China has begun a program to install high efficiency lighting, variable speed drive motors and occupancy sensors to reduce energy consumption. A major competitor, Buffalo China, receives an allocation of Replacement Power. Syracuse China would maintain 500 existing jobs throughout the term of the five year allocation, and would save an estimated \$300,000 annually over Niagara Mohawk's standard rates.

"Syroco, Inc. ('Syroco'), which is owned by the Boston-based Syratech Corporation, produces plastic injection molded wall decor and outdoor furniture. The Baldwinsville plant competes with other Syratech plants in Arkansas and California for capital funds but is at a disadvantage because of its sharply higher power and warehousing costs. Power in Arkansas is about one-half the cost at the Baldwinsville facility. Syroco has over one million square feet of heated warehouse space in New York while the other Syratech plants and the majority of the firm's competitors in warmer climates store product outdoors. The proposed five-year allocation of 2,000 kW would save Syroco about \$440,000 annually over Niagara Mohawk's standard rates. Syroco would maintain 500 jobs with this allocation. An energy audit was performed recently for the Baldwinsville site and Syroco is planning to implement the recommended measures.

"The proposed allocations have been reviewed in accordance with Part 460 of the Authority's Rules and Regulations (Procedures for Allocation of Industrial Power and Enforcement of Contracts (21 NYCRR 460 (1988)). The Authority's standard EDP allocation agreement with each of the companies provides for reductions in an allocation in the event that employment or power usage levels are not maintained at specified levels. Reports regarding employment and affirmative action commitments must be submitted to the Authority as required by Section 460.4 of the Authority's Rules and Regulations. Additionally, each contract will include specific energy audit and implementation requirements modelled on similar provisions in the recent Replacement Power agreements.

"EDP will be delivered to Drescher, Fiber Conversion, Native, Schilling, Mele, Spargo, Syracuse China, and Syroco under existing arrangements between the Authority and Niagara Mohawk. The Authority and NYSEG have signed a short-term agreement for the delivery of EDP to companies in NYSEG's service area while a long-term delivery service contract is developed for companies such as Transelco. Service to Burton will commence under existing service arrangements with LILCO when Burton installs its new equipment. Delivery service to IBM's Watson Center and to Ciba will be provided under an existing wheeling agreement between Con Edison and the Authority. Central Hudson Gas and Electric ('CHGE') and the Authority currently are discussing an agreement for the delivery of EDP to companies in CHGE's service area, such as the Cirrus Project.

RECOMMENDATION

"The Vice President - Industrial Economic Development recommends that the Trustees authorize the President & CEO to schedule a public hearing or hearings on proposed contracts for the allocation of 39.3 MW of EDP to three companies and approve the allocation of 6.65 MW of FitzPatrick Economic Development Power to ten companies in the amounts listed in Exhibit '11-A' and as described herein.

"The Senior Vice President - Power Contracts, 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."

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In response to questions from Trustee Duch, Messrs. Pratt and Duffy explained that the allocation to IBM would be incorporated into a proposed contract which would be the subject of a public hearing. Following the hearing, the Board would again consider the allocation and determine whether to recommend approval of the contract to the Governor.

Trustee Duch stated for the record, with regard to the proposed allocation of FitzPatrick power, that she serves on the board of the Western New York Economic Development Corporation.

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

WHEREAS, the Economic Development Power Allocation Board has recommended allocations of Economic Development Power to the companies listed in Exhibit "11-A" of the foregoing report of the President in the quantities listed in such exhibit;

NOW THEREFORE BE IT RESOLVED, That the Authority hereby approves the allocation of 45.95 MW of FitzPatrick Economic Development Power to the companies listed in Exhibit "11-A" of the foregoing report of the President, substantially in accordance with the terms described in such memorandum; and be it further

RESOLVED, That the Vice President - Industrial Economic Development or his designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the above allocations.

Allocation of EDP

<u>Company</u>	<u>County</u>	<u>Utility</u>	<u>EDP (kW)</u>	<u>Jobs Commit.</u>	<u>Job/ MW</u>	<u>Term</u>
EXPANSION PROJECTS						
Burton Industries, Inc. ³	Suffolk	LILCO	300	20	66	5/31/03
Cirrus Logic/IBM Joint Venture ⁴	Dutchess	CHGE	15,300	700	45	10 Yrs
The Drescher Corporation	Onondaga	NMPC	300	142	473	15 Yrs.
Fiber Conversion, Inc.	Fulton	NMPC	1,000	47	47	10 Yrs.
Native Textiles Division of Carisbrook Industries, Inc.	Warren	NMPC	1,900	100	52	15 Yrs.
Schilling Forge Inc.	Onondaga	NMPC	450	59	131	15 Yrs.
Ferro Corporation/ Transelco Division	Yates	NYSEG	700	123	175	10 Yrs.
RETENTION PROJECT						
Ciba-Geigy Corporation ²	Westchester	Con Ed	4,000	800	200	15 Yrs.
REVITALIZATION PROJECTS						
IBM Corporation/T.J. Watson Research Center ²	Westchester	Con Ed	16,000	2,265	141	12/31/97
Mele Manufacturing Co., Inc.	Oneida	NMPC	1,000	344	344	5 Yrs.
Spargo Wire Company, Inc.	Oneida	NMPC	1,000	112	112	5 Yrs.
Syracuse China Company	Onondaga	NMPC	2,000	500	250	5 Yrs.

³ 600 kW associated with 31 jobs previously allocated for job retention. Total of 51 jobs committed for 900 kW allocation.

⁴ Proposed contract subject to public hearing.

Syroco, Inc.

Onondaga

NMPC

2,000

500

250 5 Yrs.

TOTALS

45,950

5,712

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12. Next Meeting

"The next Regular meeting of the Trustees will be held on **Tuesday, August 30, 1994, at the Richard M. Flynn Power Plant at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

Motion to Conduct Executive Session

"Mr. Chairman, I move that the Authority conduct an executive session in connection with discussions regarding pending litigation involving the U. S. Department of Justice." Upon motion made and seconded, an executive session was held.

Motion to Resume Meeting in Open Session

"Mr. Chairman, I move that the Authority resume the meeting in open session." Upon motion made and seconded, the meeting was resumed in open session.

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13. **Defense and Indemnification Policy - Resolution**

The following resolution as recommended by the General Counsel was unanimously adopted:

RESOLVED, That in accordance with the Authority's Defense and Indemnification Policy, the retention of outside counsel on behalf of M. F. Peckham is hereby approved as presented by the General Counsel.

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Closing

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

Anne Wagner-Findeisen

Corporate Secretary

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