

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

April 25, 1995

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

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

S. David Freeman	President & CEO
Robert G. Schoenberger	Chief Operating Officer
William J. Cahill	Chief Nuclear Officer
Charles M. Pratt	General Counsel
John F. English	Senior Vice President - Transmission
Robert A. Hiney	Senior Vice President - Power Generation
Louise M. Morman	Senior Vice President - Marketing and Economic Development
Robert L. Tscherne	Senior Vice President - Business Services
Woodrow W. Crouch	Vice President - Project Management - Power Generation
Deborah Perry Estrin	Vice President - Human Resources
H. Kenneth Haase	Vice President - System Planning
John M. Hoff	Vice President - Procurement and Real Estate
Sally L. Irving	Vice President - Corporate Finance
Charles I. Lipsky	Vice President and Chief Engineer - System Operations
Philip J. Pellegrino	Vice President - Power Sales and Rates
Stephen P. Shoenholz	Acting Department Head - Public Affairs
Ronald W. Ciamaga	Regional Manager - Northern New York
James Ford	Regional Manager - Western New York
James J. McCarthy	Regional Manager - Central New York
John W. Blake	Director - Environmental Programs
Thomas J. Concadoro	Director - Accounting
Jack Murphy	Acting Director - Public Relations
John Suloway	Director - Environmental and Licensing
William Ernsthaf	Principal Attorney
Laura M. Badamo	Assistant Secretary - Legal Affairs
Anne Wagner-Findeisen	Corporate Secretary
Vernadine E. Quan-Soon	Assistant Secretary - Corporate Affairs
Alice T. O'Rourke	Executive Assistant

Vice Chairman Frey 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 March 28, 1995 were approved as amended.

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2. Report from the President and Chief Executive Officer

At President Freeman's request, Mr. Cahill reported on the progress of Indian Point 3 towards restart. He also reported on the NRC's scheduling of a public meeting that evening at which the Commission's Readiness Assessment Team would communicate its findings concerning the plant's readiness for restart. In response to questions from Trustee Duch, President Freeman explained that although the capital expenditures in connection with the JAF condenser had been budgeted for fiscal year 1994, the funds were not expended until the current fiscal year, thus creating what appears to be a cost overrun but which actually reflects a timing differential. He stressed that some 400 contractor jobs have already been eliminated at the nuclear plants. Mr. Cahill added that the condenser had reached the end of its anticipated useful life and its replacement was anticipated; however, significant cost savings can be achieved by further cutting back those services which are not required for plant safety and by sharing certain costs with the neighboring Niagara Mohawk and Con Edison plants, an avenue which staff is currently exploring.

At the President's request, Mr. Suloway, the Director of Licensing, reported on the status of the relicensing effort for the Niagara and St. Lawrence/FDR plants. Acting Chairman Frey requested that the Trustees be provided with periodic synopses on the progress of such relicensing, suggesting that the reports initially be submitted every 6 months.

3. Financial Reports for the Three Months Ended March 31, 1995

In response to questions from Trustee Duch, Mr. Schoenberger explained that the Performance Measures are industry-based and apply benchmarking standards based both on national and international industry results. He indicated that the Authority's first quarter results would be submitted to the Trustees within the next several days. Mr. Hiney described the ongoing benchmarking activities in power generation, a process of identifying industry practices and external measures of performance in the hydroelectric and transmission areas. President Freeman stated that he was engaged in negotiating greater productivity and related work rules with the IBEW union.

In response to further questions from Trustee Duch, Mr. Hiney explained the fact that the firm gas contract for the Flynn Plant is not competitive in today's market, and in order to make optimum use of this plant, the most efficient on Long Island, the energy price to LILCO is based on the market price for gas and electricity on Long Island. Because both the spot price for gas and wholesale electricity market prices are lower than our forecast, the revenue for the sale of power to LILCO is lower than expected, 3.9 cents per kWh vs a forecast price of 4.6 cents per kWh. President Freeman stated that projections show that the Flynn Plant will become more cost effective to operate over time.

4. **Village of Bath - Proposed Increase in Retail Rates - Final Action**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve, as a final action, revisions in the base retail rates of each customer service classification for the Village of Bath ('Village'), New York. This will result in additional total annual revenues of \$281,000, or 11.8% to be phased in over two steps. The first step consisting of an annual increase of \$187,000, or 7.8% would be effective the first full billing cycle after the Trustees' approval, and the second step, consisting of the additional \$94,000, or 4.0% would be effective one year later.

BACKGROUND

"The proposed rate increase is required to provide adequate revenues to meet the Village electric department's additional debt service obligations, increase its depreciation fund, allow for sufficient working capital funds and enable it to meet forecasted increases in operating and maintenance expenses through fiscal year 1997. Current rates have been in effect since the first full billing period following the September 30, 1992 meeting, when the Trustees approved a 'revenue neutral' redistribution of revenues. Retail rates were last increased by 9.1% in June, 1990.

"The electric department has planned capital additions and replacements of about \$583,000 through fiscal year 1997. These expenditures include building an additional substation, purchase of a bucket truck and replacement of

the computer system. The Village plans to debt finance about \$ 477,000 and fund the remainder of the capital program through the rate increase.

"The recommended `two-step' rate increase is only for the large commercial and industrial customer classes. These customers face the largest percent revenue increase and a two-step phase-in is suggested to help mitigate sudden `rate shock' and large bill impacts. All other service classes would have their rates revised upwards in a single step.

"Upon further review, the Authority found that since the 1992 cost of service study, there have been no material changes and the Village customer base has remained the same. An updated cost study is not necessary and the 1992 study is considered sufficient to be a reasonable distribution of the system revenue increase among the customer classes.

DISCUSSION

"Pursuant to the approved procedures, the Senior Vice President - Marketing and Economic Development authorized the Secretary to file notice for publication in the State Register of the proposed revisions in retail rates. Such notice was published on February 8, 1995, and no comments concerning the proposed action have been received by the Secretary. A public hearing was held by the Village on January 16, 1995, and no objections were raised to the proposed rates.

"The Village had initially proposed getting the entire rate increase in one step and this had been approved at the Village's public hearing on January 16, 1995. The result of such an action was a large revenue increase from the large commercial and industrial customer classes (27.4% and 30.4% respectively). Upon further Authority review, it was felt appropriate to phase-in the revenue increase from these two customer classes in two steps. The first step,

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starting with the first full billing period after the Trustees' approval, phases in the rates at one-half the level approved at the Village's public hearing and the second step, to be effective one year later, would permit the Village to bill these two customer classes at the full rate.

"The proposed rates are below those now in effect by the utility serving the contiguous area.

"Comparisons of present and proposed total revenues and base rates to be produced by each service classification are attached as Exhibits `4-A' and `4-B'.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development recommends that the attached schedule of rates for the Village of Bath, New York, be approved to take effect with the first full billing period following this date.

"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 other notice as may be required by statute or regulation.

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

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

RESOLVED, That the proposed rates for electric service for the Village of Bath, New York, be approved to take effect with the first full billing period following this date, as recommended in the foregoing report of the President; and be it further

RESOLVED, That the Secretary 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.

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**5. Transfer of Replacement Power from the
Carborundum Company to Saint-Gobain SA**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the transfer of a portion (900 kW) of The Carborundum Company's ('Carborundum') 2,900 kW Replacement Power allocation for its Cory Road, Sanborn facility and 4,000 kW allocated to its Buffalo Avenue, Niagara Falls complex to a new wholly-owned subsidiary, whose stock will ultimately be sold to Saint-Gobain SA.

BACKGROUND

"Carborundum was founded in Niagara Falls more than a century ago and remained independent until 1977, when it was purchased by the Kennecott division of the Standard Oil Electro Minerals Company. Thereafter Carborundum was resold to British Petroleum Company P.L.C. ('BPC') in the 1980's. The parent companies sold off major portions of Carborundum's basic product lines and diversified its business activities from its abrasives and refractories origins into high-tech ceramic and engineered materials businesses.

"Carborundum today receives 12,400 kW of Replacement Power at five facilities in the Niagara Falls region according to contracts dated March 1, 1982; January 1, 1983; November 1, 1987; April 20, 1988; and January 24,

1995 (effective January 1, 1987). The company has committed to maintain 272 jobs at these facilities in accordance with these contracts.

"The Authority's staff has been working with Carborundum for years during the company's diversification process to help it start new businesses, transfer power allocations to businesses that were sold to others who kept them operating, and identify unused power or inefficient uses of power in facilities which Carborundum agreed to relinquish so it could be reallocated to other companies for expansion projects. Carborundum relinquished over 8 MW of Replacement Power in 1994, which have already been reallocated to other companies for expansion projects and the creation of new jobs. Companies that have been sold off and are still operating today as Authority customers include Carborundum Abrasives; Cesiwid; and Washington Mills Electro Minerals. These companies have committed to maintain over 600 jobs at their facilities.

"In early 1994, Carborundum's parent company, BPC, announced that in an effort to boost profits by focusing on its core businesses in oil and petrochemicals, it was reviewing its ceramics manufacturing subsidiary based in Niagara Falls (Carborundum), and would possibly sell or close portions of its facilities.

"As a result of its parent's review, Carborundum is currently in the process of negotiating the sale of its ceramic business's assets to Saint-Gobain. Saint-Gobain is also the parent company of the Norton Company which owns Carborundum Abrasives, an Authority customer located in Niagara Falls which receives 3,400 kW of Replacement Power. Carborundum Abrasives was once part of The Carborundum Company and manufactures sandpaper, grinding wheels, saw blades, etc. It has committed to maintain 314 direct manufacturing jobs at its facility in Niagara Falls. Its French parent manufactures building products, glass, and abrasives and has been investing heavily in the Niagara Falls facility.

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"In anticipation of the sale of its ceramics facilities to Saint-Gobain, Carborundum is transferring its ceramics business's assets to a new wholly-owned subsidiary, whose stock will ultimately be sold to Saint-Gobain SA.

According to Paragraph 21 of the Replacement Power Service Agreement between Carborundum, Niagara Mohawk Power Corporation ('Niagara Mohawk') and the Authority, no voluntary transfer of a portion of Replacement Power in conjunction with a sale or transfer of a substantial portion of the assets devoted to the utilization of Replacement Power may be made without the written approval of the Authority and the concurrence of Niagara Mohawk.

Therefore, Carborundum is requesting permission of the Trustees to transfer 900 kW of Carborundum's 2,900 kW Replacement Power allocation for its Cory Road, Sanborn facility and 4,000 kW allocated to its Buffalo Avenue, Niagara Falls complex to the new subsidiary. Niagara Mohawk has advised Carborundum that it supports the proposed transfer.

DISCUSSION

"Carborundum manufactures fibers and ceramic substrates at two separate buildings at its 2050 Cory Road complex in Sanborn. It receives 2,900 kW of Replacement Power for these facilities. Saint-Gobain would like to purchase the substrates business. As part of the sale, Carborundum would split the existing electric service and provide separate metering for the facilities. Carborundum is requesting the Trustees approve the transfer of the 900 kW associated with its substrates business to a new wholly-owned Carborundum subsidiary whose stock will ultimately be sold to Saint-Gobain. Saint-Gobain would commit to maintain the 35 jobs existing at the substrates facility and Carborundum would commit to continue to maintain the six jobs at the fibers facility under the same terms as required by Carborundum's existing Replacement Power contract.

"Saint-Gobain is also interested in purchasing the ceramics manufacturing facility (Bldg. 89) located at the 1801 Buffalo Ave. complex in Niagara Falls (4,000 kW). The complex includes Bldg. 89 - Structural Ceramics manufacturing; Bldg. 100 - the Technology Center; and Bldg. 91 - the current Headquarters facility fronting Buffalo Avenue. In addition to purchasing Bldg. 89, Saint-Gobain would lease buildings 100 and 91 under a long-term agreement with an option to buy. Upon termination of those leases, if Saint-Gobain decides not to purchase the buildings, Carborundum requests that the Trustees permit that the 4,000 kW Replacement Power allocation be entirely transferred to Bldg. 89, the manufacturing facility. In return, Saint-Gobain would commit to maintain the entire 125 jobs now existing at the 1801 Buffalo Ave. complex as committed under the existing Replacement Power contracts.

"Other Carborundum assets associated with Replacement Power allocations which will be transferred to the new subsidiary will include Carborundum's Boron Nitride facility at 168 Creekside Drive, North Tonawanda (2,500 kW). Saint-Gobain would commit to maintain the 29 jobs at 168 Creekside Drive as committed under the existing Replacement Power contracts. The company is not required to request the Trustees' approval of the transfer of the Replacement Power associated with these assets as the service agreement does not require such approval when 100% of the assets are transferred to a new entity.

"The existing Carborundum Company will continue to own the fibers facilities at 324 Creekside Drive, North Tonawanda (allocated 400 kW of Replacement Power); 360 Firetower Drive, North Tonawanda (2,600 kW of Replacement Power); and 2050 Cory Road, Sanborn (2,000 kW of Replacement Power). Eighty-three jobs are committed to these facilities.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development recommends that the Trustees approve the transfer of 900 kW associated with Carborundum's substrate operations at 2050 Cory Road, Sanborn and 4,000

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kW allocated to its Buffalo Avenue, Niagara Falls complex to a new wholly-owned Carborundum subsidiary whose stock will ultimately be sold to Saint-Gobain SA as described above.

"The General Counsel, the Chief Operating Officer, and I concur in the recommendation."

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

RESOLVED, That the transfer of 900 kW of The Carborundum Company's 2,900 kW Replacement Power allocation to its facility at 2050 Cory Road, Sanborn, N. Y. and 4,000 kW allocated to its Buffalo Avenue, Niagara Falls complex be transferred to a new wholly-owned Carborundum subsidiary whose stock will ultimately be sold to Saint-Gobain SA, as described in the foregoing report of the President, be approved; and be it further

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

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**6. Proposed Contract for the Sale of Firm Power to New
Jersey Transit Corporation - Transmittal to Governor**

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the transmittal to the Governor for approval a proposed contract (Exhibit `6-A') for the sale of firm power to New Jersey Transit Corporation (`NJT').

BACKGROUND

"At their meeting of January 31, 1995, 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 and energy to NJT. As a public corporation in the metropolitan area of the City of New York, NJT is eligible for Authority service.

"Under the proposed contract the Authority would meet the existing and future full electricity requirements of NJT's New York operations. Service is expected to commence after the proposed contract is approved by the Governor and expansion of the Sunnyside Railyard in Queens is completed. For 1996, the total load and annual production revenues are estimated to be up to 18 MW and \$7.6 million respectively. Projected annual savings to NJT associated with Authority service are currently estimated to be in the order of \$4.2 million.

"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.

DISCUSSION

"The public hearing was held on April 4, 1995, in the Authority's New York Office. Prior to the hearing, NJT submitted a statement in favor of the proposed contract.

"A representative of Consolidated Edison Company of New York, Inc. ('Con Edison') spoke in opposition to the proposed contract. He claimed that NJT was not a New York public corporation eligible for Authority electric service pursuant to the N.Y. Public Authorities Law. In addition, Con Edison claimed that the proposed sale would impermissibly benefit the State of New Jersey as well as AMTRAK.

"The Public Authorities Law authorizes the Authority to provide electricity for 'public corporations' operating within the metropolitan area of the City of New York within the State of New York. The statute does not restrict service to 'public corporations' created by Act of the New York Legislature. NJT is a public corporation of the State of New Jersey performing mass transit functions within New York City and is therefore eligible to receive Authority electric service.

"The power to be provided to NJT is intended for the benefit of NJT, not AMTRAK. Con Edison's suggestions that it is impermissible to benefit New Jersey and its mass transit riders with economic Authority electricity ignore the major economic benefits from the presence in New York of out-of-state commuters. The

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Authority's contribution to reducing NJT's cost of operation benefits New York in the same way that Authority service to Connecticut riders on Metro North benefits New York. These commuters pay New York State and City income taxes and spend money in the State.

"Supplying power to NJT will enhance the Authority's role as a provider of clean, environmentally sound mass transportation. Furthermore, NJT's planned construction activities will promote the economic development of the Sunnyside, Queens area.

RECOMMENDATION

"The Manager - Customer Relations recommends that the Trustees approve transmittal of the proposed contract with New Jersey Transit to the Governor with their recommendation that it be approved.

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

In response to questions from Trustee Waldbauer, Ms. Morman confirmed that the power to be allocated under the proposed contract will be utilized within New York State and that the commuters who travel via New Jersey Transit trains pay taxes to New York taxing jurisdictions as well as contribute to the State's economy.

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 New Jersey Transit Corporation substantially in the form as set forth in Exhibit `6-A' hereto with the recommendation that such contract be approved.

POWER AUTHORITY OF THE STATE OF NEW YORK
1633 BROADWAY, NEW YORK, NY 10019

APPLICATION FOR ELECTRIC SERVICE

New Jersey Transit Corporation (hereinafter called "Customer") hereby applies to POWER AUTHORITY OF THE STATE OF NEW YORK (hereinafter called "Authority") for firm power service under the Authority's applicable Service Tariff.

Customer understands:

(1) If this Application is accepted by Authority, firm power and energy will be supplied to Customer under the applicable Service Tariff(s) to the extent that Authority determines that it has capacity available to provide such power and energy. Customers who receive power and energy pursuant to such tariff shall not be entitled to receive such power and energy from any particular plants. The Authority shall have the right to furnish the power and energy from any source available to it.

(2) Delivery of power and energy to Customer will be made over the facilities of the utility company in whose franchise territory Customer's facilities are located pursuant to contractual arrangements entered into by such company and the Authority.

Customer further understands and agrees that this Application and the furnishing of electric services hereunder are subject in all respects to the provisions of Authority's Rules and Regulations for Power Service and to the applicable Tariff, both as they may be later amended from time to time.

Notwithstanding the terms of General Provision K (Continuance and Termination of Service) of Service Tariff No. 14 which is appended hereto, Customer may terminate service at anytime after one year's

service on written notice to the Authority at least twelve months in advance.

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Upon acceptance by Authority and approval of the Governor pursuant to Section 1009 of the Power Authority Act this Application together with the applicable Service Tariff shall constitute a contract between the parties for electric service hereunder.

Customer: _____

By: _____

Title: _____

Date: _____

(Attest)

Date: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: _____

Acting Chairman

Date: _____

(Attest)

By: _____

Secretary

ACKNOWLEDGEMENTS

State of New York)ss:

County of New York)

On this ____ day of _____, 199_ before me personally came _____ and Anne Wagner-Findeisen, to me known, who each being by me duly sworn, did severally depose and say that they reside in _____, New York and in Cranford, New Jersey, respectively, and that they are Acting Chairman and Secretary of Power Authority of the State of New York. That executed the above instrument; that they know the seal of Power Authority of the State of New York aforesaid; that one of the seals affixed to said instrument is such seal; that it was so affixed by order of the Trustees of Power Authority of the State of New York, and that they signed their names thereto by like order.

Notary Public in the State of New York
Residing in the County of _____
My Commission expires _____

(Notarial Seal)

State of New York)ss:

County of _____)

On this ____ day of _____, 199_ before me personally came _____ and _____ to be known, who being duly sworn, did depose and say that reside in _____ and _____, respectively, and that they are _____ and _____ of _____ that executed the foregoing instrument; that they know the seal of said entity that one of the seals affixed to said instrument is such entity's seal; that it was so affixed by order of the _____ of said entity and that they signed their names thereto by like order.

Notary Public in the State of New York
Residing in the County _____
My Commission expires _____

(Notarial Seal)

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7. **New York City Housing Authority Long-Term Agreement**

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the execution of an agreement concerning the electricity supply and issues related to the New York City Housing Authority (Exhibit `7-A').

BACKGROUND

"The New York City Housing Authority (`NYCHA') has been an important Authority customer since its transfer from the Consolidated Edison Company of New York, Inc. (`Con Edison') in 1976 as part of the purchase agreement of the Indian Point 3 (`IP3') Nuclear and Charles Poletti (`Poletti') Power Plants. The NYCHA is the third largest SENY customer.

"The NYCHA uses Authority electricity as an indispensable part of its operation of the largest public housing program in the United States. The NYCHA operates 180,000 apartments in 3000 residential buildings, totalling almost 9% of New York City's rental housing.

"In 1994, annual revenues from the NYCHA were almost \$80 million; \$50 million was for Authority production of electricity and \$30 million for Con Edison delivery charges.

DISCUSSION

"Consistent with the Authority's goal to ensure sales and revenue stability and staff's commitment to retain customers in a highly competitive market, as well as the NYCHA's desire to control its future electric costs, the parties entered into discussions seeking a mutually satisfactory agreement on these common objectives. The attached form of agreement meets these goals. The Housing Authority is expected to consider the agreement at their May 1995 Board meeting.

"The agreement is similar to the contract recently entered into with New York City. However this agreement is customized to meet the particular needs of the NYCHA and replaces the City's receipt of electric vehicles and economic development assistance with an energy efficiency program designed for housing authorities.

The agreement's main provisions are as follows:

- The NYCHA will purchase its electricity requirements from the Authority at least through December 31, 2004; however, beginning January 1, 2002, the NYCHA could seek other electricity suppliers to serve a portion of its load - up to a total of 20% of its electric load (to be determined as of October 30, 2000) in annual transfers not to exceed one-third of that 20%. For example, if the NYCHA's load is 161 MW, 20% of that amount is 32 MW. Beginning in the year 2002, the NYCHA will be able to move one-third of 32 MW, which is 10.7 MW.
- The Authority will have the right of first refusal to supply all or part of such load as to which notice of

termination has been given, both in the case of termination at the end of the term (2004) and/or if the NYCHA exercises its right to `test the market' beginning in 2002.

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- The Authority will agree to freeze electric rates through the year 2001. After January 1, 2002, rate increases will be based on the Authority's demonstration that the then-current cost-of-service exceeds rate levels in effect. If the cumulative rate increase based on cost-of-service for the years 2002 and 2003 exceeds 7%, the NYCHA may then exercise its right to transfer any remaining load not already transferred under the market test option (the 20% referenced above) to a non-Authority supplier on six months' written notice.
- Beginning in 1998, the NYCHA will have the opportunity to benefit from the Authority's operating efficiencies that reduce costs below revenues. If the SENY public customer cost-of-service is less than the SENY revenues from public customers, based on a 2 year average, the NYCHA's pro rata share of such difference will be refunded to them in the form of a rate rebate.
- The Authority would undertake an energy efficiency program which will replace older, less efficient refrigerators with new, energy efficient one. The program will also include air conditioner replacement. The expenditures made by the Authority will be repaid by the NYCHA from energy savings realized from the installation of the efficient appliances.

"In the current competitive environment, it is essential that the Authority strengthen its relationships with its customers. This agreement serves as a vehicle to cement a long-term partnership and commitment between the Authority and this customer.

RECOMMENDATION

"The Manager - Customer Relations recommends that the Trustees authorize the execution of an agreement with the New York City Housing Authority substantially in the form attached hereto as Exhibit `7-A'.

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

Vice Chairman Frey requested that the Trustees be provided with written notification of the results of the Housing Authority's Board meeting. In response to questions from Trustee Waldbauer, Mr. Pellegrino explained that energy savings from refrigeration and air conditioning, respectively, will be quantifiable under protocols which are being prepared by staff and which are required by the federal HUD. In response to questions from Trustee Miller, Mr. Pellegrino stated that the availability of the energy savings measures to the Housing Authority is conditional upon entering into the long-term agreement upon its Board's approval.

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

WHEREAS, the New York City Housing Authority is one the Authority's largest SENY customers and a valued and long-term customer of the Power Authority; and

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WHEREAS, the New York City Housing Authority desires rate predictability and stability and the Power Authority desires sales and revenue stability;

NOW THEREFORE BE IT RESOLVED, That the Chairman, the President and Chief Executive Officer, the Chief Operating Officer, and the Senior Vice President - Marketing and Economic Development are, and each of them hereby is, authorized to execute an agreement (the 'Agreement') between the New York City Housing Authority and the Power Authority in substantially the form attached hereto as Exhibit '7-A'.

8. Proposed Contract for the Sale of Firm Power to New York State Urban Development Corporation - Notice of Public Hearing

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the holding of a public hearing on a proposed contract for the sale of firm power to New York State Urban Development Corporation ('UDC').

BACKGROUND

"In accordance with the provisions of Section 1005 of the Public Authorities Law, the Authority provides firm power service to 110 public corporations in the metropolitan area of the City of New York. These customers include, among others, the Metropolitan Transportation Authority, the Port Authority of New York and New Jersey, the City of New York, and the State of New York.

"Since the initial contracts with Southeast New York ('SENY') governmental customers were completed in the 1970s, two additional contracts for service to public corporations in the metropolitan area (the Jacob K. Javits Convention Center Operating Authority and Roosevelt Island Operating Authority) were completed in 1986; one additional contract (the United Nations Development Corporation) was completed in 1994; and seven additional contracts are currently pending approval by the Governor.

"The UDC is eligible for power service because it is a public corporation authorized to receive Authority service under Section 1005 of the Public Authorities Law. The UDC undertakes important projects that are not financially or organizationally feasible for the private sector alone. The UDC's efforts are centered in two basic areas, which include financing major civic projects and providing financial assistance to industries and business for the purpose for retaining and creating jobs.

DISCUSSION

"The first accounts to be served under the UDC contract will be two low-income residential apartment houses located in Brooklyn. The houses are operated by two wholly owned subsidiaries of the UDC created under the Private Housing Finance Law, which took over operation of the houses upon default of the UDC-backed mortgages which financed their construction.

"In the future, other UDC subsidiary and affiliate loads may be served through this contract, including, for example, a consolidated headquarters office.

"Based on current rates, staff estimates that the applicant would realize electric cost savings on these initial loads of about \$195,000 or 20% compared with payments to Consolidated Edison Company of New York, Inc. ('Con Edison'), its current supplier.

"Submitted herewith as Exhibit '8-A' is the proposed contract with the applicant. The UDC has agreed to the terms of the proposed contract, which is similar to other contracts with existing governmental customers in the SENY area. The applicant will be served under Service Tariff No. 55 and will pay the same rates as other governmental

customers in the same service class.

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"The initial load and annual production revenue of this new customer is approximately 1,500 kW and \$345,000, respectively. Pursuant to the Authority's March 10, 1989 Planning and Supply Agreement with Con Edison, the Authority will assume responsibility for meeting the load growth of this applicant. The Authority has sufficient capacity available from the resources dedicated to the SENY governmental customers to meet its current and projected power requirements.

RECOMMENDATION

"The Manager - Customer Relations recommends that the Trustees authorize the President and Chief Executive Officer to direct the advertisement of a public hearing on the proposed contract. It is further recommended that, pursuant to Section 1009 of the Public Authorities Law, the Secretary be authorized to transmit copies of the proposed contract to the Governor and the Legislative leaders.

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

In response to questions from Trustee Miller, Ms. Morman stated that the applicable rates are pursuant to one of the Authority's standard tariffs, and Mr. Pratt explained that pursuant to applicable legislation, which pertains only to the SENY customers, the terms and conditions of the proposed contract with the Housing Authority are not available for upstate housing.

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

RESOLVED, That the Authority hereby authorizes the President and Chief Executive Officer to direct the advertisement of a public hearing on the terms of the proposed contract with New York State Urban Development Corporation; and be it further

RESOLVED, That the Secretary be, and hereby is, then authorized to transmit copies of such proposed contract 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 pursuant to Section 1009 of the Public Authorities Law; and be it further

RESOLVED, That subsequent to such public hearing the Authority shall reconsider the terms of the proposed contract and negotiate such changes as it deems necessary or advisable.

**POWER AUTHORITY OF THE STATE OF NEW YORK
1633 BROADWAY, NEW YORK, N.Y. 10019**

APPLICATION FOR ELECTRIC SERVICE

THE NEW YORK STATE URBAN DEVELOPMENT CORPORATION, and its successor (hereinafter called "Customer") hereby applies to POWER AUTHORITY OF THE STATE OF NEW YORK (hereinafter called "Authority") for firm power service under the Authority's applicable Service Tariff.

Customer understands:

(1) If this Application is accepted by Authority, firm power and energy will be supplied to Customer under the applicable Service Tariff(s) to the extent that Authority determines that it has capacity available to provide such power and energy. Customers who receive power and energy pursuant to such tariff shall not be entitled to receive such power and energy from any particular plants.

The Authority shall have the right to furnish the power and energy from any source available to it.

(2) Delivery of power and energy to Customer will be made over the facilities of the utility company in whose franchise territory Customer's facilities are located pursuant to contractual arrangements entered into by such company and the Authority.

Customer further understands and agrees that this Application and the furnishing of electric services hereunder are subject in all respects to the provisions of Authority's Rules and Regulations for Power Service and to the applicable Tariff, both as they may be later amended from time to time.

Notwithstanding the notice requirement set forth in the second paragraph of General Provision J (Continuance and Termination of Service) of Service Tariff No. 55 which is appended hereto, Customer may terminate service at any time after one year's service on written notice to the Authority at least twelve months in advance.

Upon acceptance by Authority and approval of the Governor pursuant to Section 1009 of the Power Authority Act, this Application together with the applicable Service Tariff shall constitute a contract between the parties for electric service hereunder.

Customer: _____

By: _____

Title: _____

Date: _____

(Attest)

Date: _____

Accepted:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: _____

Acting Chairman

Date: _____

(Attest)

By: _____

Secretary

ACKNOWLEDGEMENTS

State of New York)ss:
County of New York)

On this _____ day of _____, 199_ before me personally came _____ and Anne Wagner-Findeisen, to me known, who each being by me duly sworn, did severally depose and say that they reside in _____, New York and in Cranford, New Jersey, respectively, and that they are Acting Chairman and Secretary of Power Authority of the State of New York. That executed the above instrument; that they know the seal of Power Authority of the State of New York aforesaid; that one of the seals affixed to said instrument is such seal; that it was so affixed by order of the Trustees of Power Authority of the State of New York, and that they signed their names thereto by like order.

Notary Public in the State of New York
Residing in the County of _____
My Commission expires _____

(Notarial Seal)

State of New York)ss:
County of _____)

On this _____ day of _____, 199_ before me personally came _____ and _____ to be known, who being duly sworn, did depose and say that reside in _____ and _____, respectively, and that they are _____ and _____ of _____ that executed the foregoing instrument; that they know the seal of said entity that one of the seals affixed to said instrument is such entity's seal; that it was so affixed by order of the _____ of said entity and that they signed their names thereto by like order.

Notary Public in the State of New York
Residing in the County _____
My Commission expires _____

(Notarial Seal)

Exhibit `9-A-1' Under Separate Cover

9. 1994 Annual Report of Procurement Contracts and Annual Review of Open Procurement Contracts

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the 1994 Annual Report of Procurement Contracts (Exhibit `9-A-1'), and the amended Guidelines for Procurement Contracts (Exhibit `9-A-2'), and to review open service contracts exceeding a year as detailed in such Report (Exhibit `9-A-3').

BACKGROUND

"Section 2879 of the Public Authorities Law, governing the administration and award of procurement contracts equal to or greater than \$5,000, requires the Authority to annually prepare and approve a report on such contracts. The annual report must include a copy of the Authority's current procurement Guidelines, details concerning any changes to the Guidelines during the year and particular information concerning procurement contracts. The following additional information for each procurement contract included in the report must be identified: a description of duties performed by the contractor; the date of the contract and its duration; the total amount of the contract; the amount spent on the contract during the reporting period and for the term of the contract to date; the method of awarding the contract (e.g., competitive bidding, competitive search, or sole source); the location, either New York State or `foreign' (non - New York State), where the service was substantially performed or where the goods were substantially manufactured, produced or assembled; the status of the contract; and reasons why any such contract was not noticed in the Contract Reporter.

"Section 2879 also requires public authorities to adopt comprehensive guidelines detailing their operative policy and instructions concerning the use, awarding, monitoring and reporting of procurement contracts. This section further requires public authorities to review and approve such guidelines annually.

"The Authority's current Guidelines were approved by the Trustees at their meeting of October 31, 1989, were implemented as of January 1, 1990, and have been amended by the Trustees each year since their initial adoption.

"Finally, Section 2879 requires an annual review by the Trustees of open service contracts exceeding one year. Those long term service contracts exceeding a year and awarded after January 1, 1990, are included in the Annual Report. Open service contracts awarded prior to January 1, 1990, are listed in Exhibit `9-A-3'.

DISCUSSION

"The 1994 Annual Report of Procurement Contracts is attached for review and approval by the Trustees (Exhibit `9-A-1'). This report reflects activity for all procurement contracts equal to or greater than \$5,000, as identified by the Authority's PARIS computer system, that were open, closed, or awarded in 1994, including contracts awarded in 1990 through 1993 that were completed in 1994, or were extended into 1995. All additional information required by the statute is also included.

"The Trustees are requested to approve the attached Report pursuant to Section 2879 prior to submittal thereof to the Division of the Budget; the Department of Audit and Control; the Department of Economic Development; the

Senate Finance Committee; and the Assembly Ways and Means Committee.

April 25, 1995

"A copy of the revised Guidelines for Procurement Contracts, effective May 1, 1995 (Exhibit `9-A-2'), is attached to the Report. The revised Guidelines reflect Trustee-approved changes in economic incentives for New York State Small Businesses and New York State providers of goods and personal services, as well as minor editorial changes and revisions in references to specific statutes. Specific changes to the Guidelines are noted in the attached `red-lined' version of the Guidelines.

RECOMMENDATION

"The Vice President - Procurement and Real Estate recommends that the Trustees approve the 1994 Annual Report of Procurement Contracts, the revised Guidelines for Procurement Contracts, and review of open service contracts.

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

In response to questions from Trustee Duch, Mr. Hoff explained that the M/WBE goals are expressed in the form of a percentage of total contracts awarded; the actual dollar amount of 1994 M/WBE contracts decreased from the time period in 1993 when the Flynn Plant was being constructed which had provided significant contracting opportunities for M/WBE firms. In response to further questions from Trustee Duch, Mr. Hoff explained that the Authority does benefit from State-negotiated contract rates when advantageous; however, Authority staff always seeks to obtain lower rates whenever possible.

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

RESOLVED, That pursuant to Section 2879 of the Public Authorities law and the Authority's Procurement Guidelines, the Annual Report of Procurement Contracts, as listed in Exhibit `9-A-1', and the revised Guidelines for the use, awarding, monitoring and reporting of Procurement Contracts (Exhibit `9-A-2') be, and hereby are, approved; and be it further

RESOLVED, That the open service contracts exceeding a year as set forth in such Annual Report be, and hereby are, reviewed.

**NEW YORK POWER AUTHORITY
ANNUAL REPORT OF PROCUREMENT CONTRACTS**

EXECUTIVE SUMMARY

The New York Power Authority ("Authority") is a diversified energy corporation committed to meeting the electrical needs and challenges of New York State by providing lower cost electricity as well as being a leader in conservation, energy efficiency, electro-technologies and small scale renewables. A nonprofit, public-benefit energy corporation, the Authority does not use tax revenues or state funds or credit. It finances construction of its projects through bond sales to private investors and repays the bondholders with proceeds from operations.

In 1994, the Authority provided 25 percent of all electricity used in New York State. The Authority supplied a total of almost 38.5 billion kWh of electricity from its eleven generating facilities and from Canadian imports. Nine percent of this energy was produced from oil and natural gas.

The Authority has also undertaken a major effort to install new efficient lighting fixtures and ballasts in state and city facilities, public schools throughout the State, and municipal and local governments in N.Y. State. This program, called HELP (High Efficiency Lighting Program) is expected to exceed \$300,000,000.

Other Energy Efficiency efforts include an Electrotechnologies Program for public customers in Southeastern New York to use alternative fueled energy technologies; a Coal Conversion Program for New York City Schools to replace obsolete coal boilers with modern boilers using optimized dual-fuel (gas or oil) technology; a program for supplying super-efficient refrigerators and air conditioners for certain Authority Public Housing customers; and an Electric Vehicle Program promoting the use of electric vehicles (cars, pick-ups and buses) throughout N.Y. State.

In the course of constructing and operating its facilities, the Authority requires the services of outside firms for accounting, engineering, legal, public relations, surveying, and other work of a consulting, professional or technical nature to supplement its own staff, as well as to furnish varied goods and services, and perform construction work. Many of these contracts are associated with the construction, maintenance and operation of the Authority's electric generating facilities and transmission lines, and support of the Energy Efficiency Projects noted above.

PROCUREMENT GUIDELINES

In compliance with the applicable provisions of Section 2879 of the Public Authorities Law, as amended by the laws of 1988, the Authority has established comprehensive guidelines detailing its operative policy and instructions concerning the use, awarding, monitoring, and reporting of procurement contracts.

A copy of the Authority's current Guidelines for Procurement contracts governing solicitations and evaluation of proposals for Procurement Contracts is attached hereto. These Guidelines, approved by the Authority's Trustees, were implemented as of January 1, 1990, and have been amended annually. The Guidelines describe the Authority's process for soliciting proposals and awarding contracts. Topics detailed in the Guidelines include solicitation requirements, evaluation criteria, contract award process, contract provisions, change orders, M/WBE requirements, Small Business provisions, employment of former officers and reporting requirements. The Guidelines have been designed to be self-explanatory.

ACCOMPLISHMENTS

Major procurement efforts in 1994 included purchase of goods, services and construction work in support of the Indian Point 3 Outage and Re-start effort, the completion of the R. M. Flynn Plant in Holtsville Long Island and decommissioning of the Shoreham Nuclear facility, and support of the Authority's operating projects (including the 1994 Refueling Outage at the James A. FitzPatrick Nuclear Plant) and the High Efficiency Lighting Program ("HELP").

Efforts which commenced in 1993 to streamline the Procurement Process continued in 1994. These efforts included:

(1) Expansion of the Authority's Credit Card Procurement System (CCPS)

At the end of 1994, there were approximately 190 cardholders at Headquarters and our operating facilities. Credit Card use averaged 1000 transactions, valued at \$500,000, monthly. The total number of transactions, as noted in Attachment I, grew to over 10,000 in 1994, from almost 4,000 in 1993. At the same time, the number of formal purchase orders decreased from almost 21,000 in 1993 to approximately 18,000 in 1994, with a corresponding reduction in paperwork associated with purchase order issuance, invoice processing and check disbursement.

(2) New Technology

(i) Software was purchased and installed to support Electronic Data Interchange ("EDI") where purchase order (and releases to such orders) activity between an Owner and Vendor (referred to as trading partners) is paperless and performed computer to computer. High volume transactions (such as plumbing supplies, electrical parts, and spare parts with major manufacturers) are suited for EDI. In some cases, discounts from standard pricing may be appropriate, due to reduced costs for processing purchase orders. For example, Westinghouse Electric Corp. has agreed to an additional 2% discount for all spare parts purchased through EDI. EDI can ultimately be expanded to handle invoice processing and shipping documentation.

(ii) A Pilot Bar Coding Program was initiated at the FitzPatrick facility in 1994, and will be fully operational in April, 1995. This will enable processes such as receipt inspection, inventory control, and cycle counts to be automated, resulting in additional efficiencies and more accurate inventory data. If successful, Bar Coding may be extended to the Indian Point Nuclear Facility.

(3) Blanket Orders

Over 70 continuous service agreements, approved by the Trustees, were awarded in 1994 to provide

engineering and support services for our nuclear operations. These included service agreements included fire protection and Appendix "R" work, electrical engineering support, licensing engineering support, Instrumentation and Control ("I&C") engineering, mechanical engineering, Probabilistic Risk Assessment, Training services, Design Basis Documentation ("DBD"), and temporary engineering support services.

A similar effort has begun to bid and award "system" blanket contracts for goods and other services in support of our operating facilities.

(4) Raising the Limit for Competitive Bidding

As recommended by the Cost Reduction Team, the limit above which competitive bidding is required was raised, with the President's approval, from \$2,500 to \$4,999. Any non-emergency procurement \$5,000 and above requires noticing in the Contract Reporter published by New York State's Department of Economic Development.

(5) Small Business and Other Economic Incentives

In October 1994, the Trustees approved incentives to promote participation of New York State small businesses and New York State businesses which manufacture and distribute goods or provide personal services to the Authority. Formal contract language has been prepared and incorporated into new bidding documents.

Minority/Women-Owned Business Enterprise ("M/WBE") Program

A major objective last year, as it has been in the past, was to optimize our utilization of M/WBE firms providing goods and services in support of the Authority operations. As noted in Attachment II, the Authority awarded almost \$25,000,000 for goods and services in 1994 to M/WBE firms. This included both direct procurements of office supplies, computer equipment, No. 6 residual fuel oil and natural gas on the spot market, and construction work (including electrical work in support of the HELP Program).

The Authority includes subcontracting goals to M/WBE firms in non-construction procurements over \$25,000 and construction procurements over \$100,000. This was, for example, a major focus for our HELP and other construction contracts, and resulted in major subcontracts to M/WBE firms for electrical work including installation of ballasts and fixtures.

The Authority's annual Vendor Fair, co-sponsored with the National Minority Business Council ("NMBC"), was held in June 1994 and was attended by approximately 150 M/WBE entrepreneurs. This was an opportunity for these firms to meet with procurement personnel at the various Authority facilities as well as with representatives of our major vendors. A similar vendor fair will be held in 1995.

The Authority has also focused on increasing opportunities for M/WBE firms to participate in investment banking activities, including treasury bill investments, as well as including an M/WBE firm as a co-manager in our Tax Exempt Commercial Paper Program.

Procurement representatives also worked closely with, and were members of, the NMBC, the Association of Minority Enterprises of N.Y. ("AMENY") and the Minority Business Opportunity Committee ("MBOC") in 1994.

ANNUAL REPORT - 1994 PROCUREMENT CONTRACTS

The Annual Report includes specific details of procurements of \$5,000 or greater, awarded since January 1, 1990 and which had activity in 1994. There were 3,488 such contracts with an estimated value exceeding \$2,077,000,000,

\$600,000,000 of which represents Enron Fuel Agreement's estimated additional expenditures from the year 2000 through 2014 (the 1993 annual report included only estimated expenditures through the year 2000).

Total procurement expenditures in 1994 exceeded \$361,000,000. This included over \$78,000,000 for the purchase of fossil fuels, and over \$7,000,000 for Authority contracts in support of Shoreham decommissioning, the latter reimbursed to the Authority by the Long Island Power Authority ("LIPA"). Approximately 58% of the contracts having activity in 1994 were closed out last year.

As noted in Attachment III, approximately 2% of these contracts were for construction work, over 60% were for the purchase of equipment and commodities, over 10% were for consulting contracts (e.g., engineering, design, specialized analysis), with the remaining 29% for other services, such as technician work and contracted personnel. It should also be noted that while approximately 46% of the 1994 non-fuel contracts covered by the Report exceeded \$25,000, the total value of those contracts were approximately 95% of the total non-fuel expenditures. Attachment IV indicates that based upon the total value of the contracts included in the Annual Report, approximately 90% of the total dollars expended (including fuels) were for contracts which were competitively bid. In terms of the numbers of contracts processed (Attachment IV), approximately 65% were competitively bid and 35% were sole source awards. Major reasons for the sole source awards included the purchase of spare parts and services from original equipment manufacturers, and to procure services on an emergency basis and from proprietary sources in support of our nuclear operations. It should be noted that the dollar value of emergency procurements declined in 1994 and represented only 8% of the total non-fuel dollars expended for contracts \$5,000 and greater.

Attachment VI provides a breakdown of total expenditures in 1994 by the Authority's various facilities and Fuels Procurement group for those contracts covered by the Report.

10. Informational Item - Nuclear Decommissioning Trust Funds

The President submitted the following report:

BACKGROUND

"In compliance with Nuclear Regulatory Commission ('NRC') regulations, the Authority has established a sinking fund whereby it sets aside an amount of money each month that is expected, together with earnings on that money, to be sufficient to pay the costs of decommissioning of the James A. FitzPatrick ('JAF') and Indian Point 3 ('IP3') Nuclear Power Plants at the end of their license lives.

"To further comply with the NRC regulations, these funds cannot be subject to bankruptcy proceedings and are deposited into a Trust which is administered by a Trustee, The Bank of New York, and are invested by professional investment managers. The objective is to be certain that the funds needed for decommissioning are, in fact, available at the end of the license.

"As of December 31, 1994, the Trust contained \$253 million. Of this amount, \$191 million was set aside from revenues derived from our customers and \$62 million was earned from the investment of these funds.

INVESTMENT OBJECTIVES

"The money contained in the Decommissioning Trust Account is actively managed by two investment management firms having the objective of maximizing the earnings or the funds in order to minimize the rate impact on Authority customers.

"In order to achieve this, the Authority allows the investment managers to invest in government, corporate and foreign securities rated AA or better. As regards the investment in foreign securities, the investment managers are limited to investing no more than 20% of the portfolio in such securities and no more than 5% of that total can be exposed to foreign exchange risk. The investment managers may also invest in futures, but such investments are limited to 10% of the portfolio. As a result, earnings have fluctuated.

INVESTMENT STRATEGY

"The current policy is to retain investment managers, J.P. Morgan Investment Management, Inc. and RCM Capital, and give them the latitude to invest in securities having either long or very short maturities. The licenses for JAF and IP3 end in 2014 and 2015, respectively. However, the Authority's existing guidelines require the average life of the portfolio to approximate an intermediate term, roughly 5-7 years. This requirement is in place for two major reasons. First, securities having an intermediate maturity range are 40% less price sensitive to interest rate swings than longer term securities. In the unlikely event of a premature decommissioning, less losses might be incurred in the event the portfolio had to be liquidated. Secondly, historically, intermediate term portfolios have been able to return 90-100% of the 30-year bond yield with less volatility in market value.

"As the President has pointed out, if we purchased long-bonds that mature when the license expire, we would be completely indifferent to interest swings and at the moment could obtain interest rates higher than for shorter term securities.

"Consistent with the way mutual and pension fund investment managers manage portfolios, the Authority's managers are continually investing and reinvesting the portfolio in order to maximize yields or reduce losses

depending on market fluctuations. Since the portfolio was established in August 1990, the portfolio managers have exceeded the market as measured by the Lehman Intermediate Term Index, producing an annualized return of 8.7% compared to 8.2% for the index. However, in 1994 the yield was less than 1%, raising some concerns as to the risks associated with this strategy.

"The table below shows the history of the portfolio size, income and annual return on a cost basis.

<u>Year</u>	<u>Portfolio Size</u> <u>at 12/31/</u> <u>< Millions ></u>	<u>Investment</u> <u>Earnings</u> <u>< Millions ></u>	<u>Portfolio</u> <u>Yield</u>
1990	\$ 128.9	\$ 3.8	9.48%*
1991	162.7	16.6	11.40%
1992	197.5	17.7	9.81%
1993	237.8	23.1	10.61%
1994	253.0	1.0	.40%

*Annualized

MODIFIED INVESTMENT STRATEGY

"Although staff is satisfied with the performance of the investment managers under existing guidelines, after considerable thought and discussion with our outside financial adviser we believe it would be more prudent to exercise the option of locking in portions of the portfolio's investments to the nuclear plants' license expiration dates as market opportunities arise. This would lessen the volatility of earnings and achieve a greater predictability of earnings at an acceptable rate of return.

"To achieve this, we plan to modify our approach and lock in a portion of the portfolio when rates are 7.75% or above. The amount of such investments would be limited annually to the monies deposited to the Trust Fund plus, the amount of interest earned on investments during the year. The amount that would have been invested under this approach in 1994 would have been approximately \$30 million. This change in approach will still allow for a significant portion of the Fund's assets to be managed on a total return basis. It would also offer greater predictability of earnings for planning purposes, above market returns and will reduce management fees.

"The Authority will also be rebidding the investment management of the Nuclear Decommissioning Trust Funds this year with the intention of reducing the term of these contracts to three years. We again expect to hire two managers and, given the size of the balances we expect the fees to be in the neighborhood of 15 basis points (.0015%) as opposed to the 26 basis points which we are currently paying.

In response to questions from Trustee Duch, Ms. Irving explained that the contracts with the investment managers are actually terminable at will by the Authority on 30 days' notice. Trustee Duch expressed agreement with the concept of utilizing two investment managers and urged staff to explore the availability of a more advantageous fee structure. Trustee Duch also requested that the investment guidelines address the prudent use of derivatives.

11. Niagara Power Project - Fire Protection Improvements - Expenditure Authorization

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the funding of \$4,300,000 for the installation of the fire protection improvements and associated work at the Niagara Power Project.

BACKGROUND

"In 1982-83, the Authority's insurance carrier, American Insurers Group, conducted fire protection studies at all of the Authority's non-nuclear Projects. Their initial reports for Niagara, St. Lawrence, B-G and Poletti contained 151 recommendations. These findings were evaluated by an independent fire consultant, Gage - Babcock and Associates, in 1984-1985, including an evaluation of property loss potential and business interruption based on the probability and possible damage due to fire in specific areas of the facilities. The findings were presented in 1986 to System Operations and a program to evaluate and correct deficiencies began. To date, the Authority has implemented 46 of the recommendations and determined through engineering evaluations that 79 were unnecessary. Implementation of 25 are planned for 1995 and 1996. The remaining item, Poletti Turbine Protection, has not been resolved and is currently under evaluation.

"Although the survey covered all the Projects in their entirety, this need for improved fire protection remains only in those areas strategic to plant operations and where potential for property damage or business interruption losses exceeded \$1,000,000. The results have been reaffirmed by subsequent insurance carriers, Industrial Risk Insurers and Protection Mutual.

"In January 1994, a program was initiated to implement recommendations to enhance the protection of Project personnel, visitors and equipment at Niagara, St. Lawrence, B-G, and Poletti. The recommendations include many fire protection improvements which are required. The review also identified some of the priority items which the insurance company recommended as mandatory improvements. These items provide fire protection for grouped cables in Control Cable Tunnels and Cable Spreader Rooms. The program at St. Lawrence, B-G and Poletti was included in the 1995-96 capital budget in the amounts of \$1,345,000, \$1,000,000 and \$1,700,000, respectively. The total cost of Power Generation Business Unit Capital Fire Protection improvements is \$8.345M.

DISCUSSION

"The Authority staff has reviewed these recommendations and concurs. The staff has prepared a fire protection improvements program which includes installation of automatic sprinkler piping system in the Control Cable Tunnels from the Generation Units for the Robert Moses Plant and Lewiston Plant to the Switchyard, including all affected cable spreader rooms and the 538 Gallery Transition Station. Work also includes sealing all cable conduit and tray penetrations through the walls and associated work for the fire mains and pumps to maintain compliance with the New York State Uniform Fire Prevention and Building Code.

"Project management, engineering and construction management will be performed by the Authority's Power Generation staff.

"The Authority's estimate for the fire protection improvement at Niagara is a total of \$4,300,000, which consists of \$2,800,000 which was approved by the Trustees in the 1995 capital budget, and \$1,500,000 in 1996.

"The Authority's Expenditure Authorization Procedures require that projects with capital funding in excess of \$3,000,000 be approved by the Trustees. Accordingly, the Trustees are requested to approve this funding request.

FISCAL INFORMATION

"Monies are available in the Bond Reserve Account sufficient to fund the authorized cost of these fire protection improvements and will be transferred for such purpose to the Facilities Improvement Project Proceeds Account in the Construction Fund. Payment will be made from the Facilities Improvement Project Proceeds Account.

RECOMMENDATION

"The Regional Manager - Western New York, the Vice President - Project Management, the Vice President and Chief Engineer - Power Generation, and the Senior Vice President - Power Generation recommend that the Trustees authorize \$4,300,000 for the fire protection improvements and associated work at the Niagara Power Project.

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

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

RESOLVED, That the tasks necessary for the implementation of a fire protection improvements program, including the procurement and installation of fire protection equipment, at the Niagara Power Project, the Blenheim-Gilboa Project, the St. Lawrence/FDR Project, and the Poletti Project are hereby authorized to be tasks comprising a portion of the Facilities Improvement Project, as defined in the Twenty-Seventh Supplemental General Purpose Bond Resolution, and any amounts expended for such purposes shall be deemed to be a Cost of Construction for such Project; and be it further

RESOLVED, That whereas there are amounts in the Bond Reserve Account in excess of the Bond Reserve Requirement and not immediately required to make good any deficiency referred to in paragraph 1 of Section 511 of the General Purpose Bond Resolution, as amended and supplemented, the transfer of amounts, not to exceed \$8,345,000, from the Bond Reserve Account into the Facilities Improvement Project Proceeds Account in the Construction Fund, is hereby authorized; and be it further

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures authorization is granted for funding of the installation of fire protection improvements at the Niagara Power Project from the Facilities Improvement Project Proceeds Account in the Construction Fund, in the amount listed below:

<u>Capital</u>	<u>Expenditure Approval</u>
Fire Protection Improvements Niagara Power Project	<u>\$4,300,000</u>

12. Procurement (Services) Contract - St. Lawrence/FDR Power Project - Boundary Resurvey - McIntosh & McIntosh, P.C. - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a multi-year procurement contract for the resurvey of the St. Lawrence/FDR Power Project Federal Energy Regulatory Commission ('FERC') Project Boundary and other related property and easement boundaries to McIntosh & McIntosh, P.C. for an estimated cost of \$198,150. The term of this contract is expected to be from May 1, 1995 through April 30, 1997.

BACKGROUND

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

"The purpose of this contract is to retrace the existing boundaries in the field and to acquire basic survey information. This information is essential for the maintenance and control of the St. Lawrence Project boundary. Further, the information derived thereby will be used to prepare a new project area map (known as Exhibit '12-G') which must be submitted to the FERC to support the relicensing of the St. Lawrence Project.

DISCUSSION

"The boundaries of the St. Lawrence Project were established by surveys during construction in the 1950's. The intervening years have seen in excess of 30% of these monuments destroyed due to routine road maintenance, construction, and other causes. A number of the remaining monuments are in poor condition and require replacement or rehabilitation. Also, development has led some adjoining landowners to build closer to the Project boundary line. A resurvey will identify where these landowner improvements are located in relationship to the Project boundary. Due to the above issues, a resurvey of the Project boundary is necessary. Further, the preparation and filing of an accurate and current Project boundary survey is a FERC relicensing requirement.

"The vast size of this Project (over 100 miles of boundary, over 1,000 monuments, thousands of files to be researched and evaluated) indicates that it is likely that this work will take 18 to 24 months to complete. Given the scope of work involved, the Authority does not have survey capacity to perform this work with existing staff.

"Competitive bids were solicited from 34 firms. Of these, 14 firms responded with formal proposals. The responding firms and their proposed costs are tabulated on the attached Exhibit '12-A'.

"The proposals were evaluated for overall responsiveness to the Request for Proposal 'RFP', relevant experience and expertise, and ability to complete the work in the specified time. The firms which met these criteria were then ranked by price, with the lowest qualified bidder being recommended for the award of the contract.

"Dana L. Drake, L.S., P.C. (hereinafter 'Drake') was the low bidder; however, a review of Drake's proposal and a subsequent conversation with a Drake principal led staff to conclude Drake has limited experience and personnel resources to perform a project of this magnitude within the time frame required. The next lowest bidder, McIntosh and McIntosh, P.C. has both the experience and available resources to complete this task on schedule.

FISCAL INFORMATION

"Payment will be made from the Operating Fund.

RECOMMENDATION

"The Director - Real Estate, the Director - Licensing and the Vice President - Procurement and Estate recommend the Trustees' approval of the award and funding of a multi-year procurement contract for the resurvey of the St. Lawrence/FDR Power Project boundaries to McIntosh and McIntosh, P.C. in the estimated amount of \$198,150.

"The Senior Vice President - Business Services, the General Counsel, the 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 multi-year procurement contract for the resurvey of the St. Lawrence/FDR Power Project boundaries to McIntosh & McIntosh, P.C. is hereby approved through April 30, 1997, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>O & M</u>	<u>Contract Approval</u> (Estimated)	<u>Projected Closing Date</u>
Boundary resurvey St. Lawrence /FDR Power Project	<u>\$198,150</u>	04/30/97

PROCUREMENT (SERVICES) CONTRACT
BOUNDARY RESURVEY OF THE ST. LAWRENCE/F.D.R. POWER PROJECT
TABULATION OF RESPONDENTS TO RFP

<u>FIRM</u>	<u>QUOTED PRICE</u>
Dana L. Drake, L.S., P.C. (Malone, NY)	\$175,000
McIntosh & McIntosh, P.C. (Lockport, NY)	\$198,500
GYMO (Watertown, NY)	\$238,500
Rowe, Woodin, and Parsons (Oneonta, NY)	\$258,000
Erdman Anthony and Associates (Rochester, NY)	\$290,784
Lafave, White, and McGivern, L.S.,P.C.(Theresa, NY)	\$309,354
Spencer F. Thew, P.E.,L.S. (Canton, NY)	\$319,250
Galson Corporation (Syracuse, NY)	\$445,000
Konski Engineers, P.C. (Syracuse, NY)	\$598,680
Clough, Harbor and Associates (Albany, NY)	\$581,287
TVGA (Orchard Park, NY)	\$672,000
GEOD Corporation (Newfoundland, NJ)	\$678,100
C.T. Male Associates, P.C. (Latham, NY)	\$722,504
Harza Northeast (Utica, NY)	\$799,600

13. Procurement (Services) Contract - St. Lawrence/FDR Power Project Relicensing - Initial Consultation Package and Other Services - Kleinschmidt Associates - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award and funding of a 20-month contract to Kleinschmidt Associates ('KA') for \$275,000 for preparation of an Initial Consultation Package and other services to assist the Authority in beginning the formal relicensing process for the St. Lawrence/FDR Power Project ('St. Lawrence'). This contract is expected to extend through 1996.

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.

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

DISCUSSION

"The Authority intends to begin consultation with the public and regulatory agencies in mid-1996. At a public meeting ('scoping'), the public and agencies will identify issues to be addressed in: 1) studies to be conducted before filing the license application; 2) the Authority's license application; and 3) the environmental review documents to be prepared by FERC. In preparation for this meeting, FERC will prepare and distribute a scoping document describing: 1) the Authority's project which will be proposed for a new license; 2) the existing environment in which it will operate; 3) any enhancements proposed by the Authority; and 4) studies the Authority proposes to conduct to provide additional information for the license application and environmental review documents.

"The Authority is discussing development of a process for relicensing St. Lawrence with FERC and the New York State Department of Environmental Conservation ('DEC'). The goal of these discussions is to expedite licensing by defining an early, active role for FERC and DEC in the relicensing process. The involvement of FERC and DEC should help identify licensing issues early and determine the necessary studies prior to filing the license application.

"To assist FERC and DEC in the preparation of a scoping document for St. Lawrence, the Authority will prepare a document which summarizes the information FERC will need to include in its scoping document. The Authority's document is termed an Initial Consultation Package ('ICP'). In addition to supplying the basic information, the ICP can attempt to streamline and focus the remaining portion of the relicensing process. A thorough ICP which reflects not only historic data but recent baseline environmental studies conducted by the Authority will help increase the public and agencies' understanding of the project environment and may reduce the tendency of reviewing parties to ask for more detailed and potentially unnecessary studies.

"Consideration was given to performing this work with in-house staff. Given the current workload of Authority staff qualified to prepare the ICP, it would be necessary to hire additional staff to perform this work. Due to the short duration of the work (20 months), it is not practical to hire additional staff; therefore, the most cost-

effective approach is to employ a consultant.

"In addition to preparation of an ICP, the contract will provide the Authority with other services related to relicensing. These services include assistance with a scoping meeting, review of report documents produced in 1995 and 1996, assistance with production of ICP maps in a format compatible with the Authority's Geographic Information System, and preparation for the follow-up engineering and/or environmental studies.

"Twenty-two requests for proposal were issued. Proposals were received from:

Acres, International Corp. ('Acres')	Amherst, New York
Environmental Resources Management ('ERM')	Annapolis, Maryland
Foster Wheeler Environmental ('FW')	Arlington, Virginia
Harza Northeast ('Harza')	Utica, New York
Ichthyological Associates ('IA')	Lansing, New York
Kleinschmidt Associates ('KA')	Pittsfield, Maine
Lawler, Matusky & Skelly ('LMS')	Pearl River, New York
Northrop, Devine, & Tarbell ('NDT')	Portland, Maine

"Bidders were requested to provide lump-sum prices for ICP preparation and all-inclusive hourly rates for classifications of personnel for the other work as may be directed by the Authority. A list of lump sum prices for ICP preparation and associated effort are:

	<u>Lump Sum to Prepare ICP</u>	<u>Effort (Days)</u>
ERM	\$ 36,244	62
LMS	39,400	65
Harza	66,142	94
Acres	68,400	100
NDT	98,000	182
IA	109,036	218
KA	186,900	301
FW	256,390	390

"Proposals were evaluated according to the bidders experience with FERC, ICP preparation, scoping, and other miscellaneous tasks as well as quality of proposals.

"It appears that four bidders (ERM, LMS, Harza, and Acres) did not comprehend or carefully examine the scope of the work for ICP preparation because the effort estimated by each firm was at least 75% less than the effort estimated by the Authority (385 days) to prepare an appropriate ICP for the Project. Because of these low estimates, these proposals were judged not responsive and inadequate to support an effective ICP preparation for FERC scoping.

"NDT's proposal did not demonstrate much, if any, experience with ICP preparation by the project manager or individual team members. All of the firm's demonstrated experience with ICP preparation resided in a principal of the firm who would act as a special consultant. Without this experience among the staff of the project team, it is doubtful that NDT could produce an ICP which meets the Authority's needs.

"IA proposed a team which included Environmental Design and Research ('EDR'), The Engineer's Collaborative ('TEC'), and Phoenix Hydro Corporation ('PHC'). Each firm is small, and none demonstrated experience in preparing a complete ICP in a tight time frame. Some team members demonstrated little or no relevant FERC experience. It is questionable that this group could produce the necessary documents according to the Authority's needs given the accelerated nature of the schedule, scope of the ICP, tight schedule, and extensive

coordination required.

April 25, 1995

"Proposals from KA and FW met the threshold needs for the ICP. Both proposals were team efforts with KA teaming with Beak Consultants (Buffalo, NY); Nutter Associates (Rochester, NY); and the Rochester Museum. FW teamed with Gomez & Sullivan (Utica, NY) and Normandeau Associates (Bedford, NH).

"The FW team was judged to have somewhat greater technical ability and a more experienced project manager than the KA team. Notwithstanding this technical conclusion favoring FW, KA is qualified to prepare an ICP commensurate with the needs of the Project. The Authority will be required to expend more time in 1995 to coordinate KA's efforts (in comparison with FW) but the price differential of \$69,490 was too great to recommend the FW team.

"It is recommended that the contract be awarded to KA be \$275,000. KA will be authorized \$186,900 as a lump sum price for the ICP preparation. Expenditures against the \$88,100 for other services, will come at the direction of the Authority, as needed.

"Substantial components of the work on the ICP will be conducted within New York. While KA is headquartered in Pittsfield, Maine, KA's project manager will be located at KA's Syracuse office. Team members from Beak Associates, Nutter Associates, and the Rochester Museum will be located in Buffalo and Rochester.

FISCAL INFORMATION

"Funds for this contract will be withdrawn from the General Reserve Account in the Authority's General Fund and will be disbursed in accordance with the St. Lawrence/FDR Relicensing CEAR. The preparation of the ICP will be done on a lump sum basis. Assistance in public scoping and the miscellaneous services will be authorized as needed and will be reimbursed according to Kleinschmidt's approved rate schedule.

RECOMMENDATION

"The Director - Licensing and the General Counsel recommend the Trustees approve the award and funding of a procurement contract for preparation of an Initial Consultation Package and assistance in related relicensing services to Kleinschmidt Associates in the amount of \$ 275,000.

"The Senior Vice President - Business Services, the 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 and funding of a multi-year procurement contract for the preparation of an Initial Consultation Package and associated licensing services for the St. Lawrence/FDR Power Project to Kleinschmidt Associates, is hereby approved through December 31, 1996 in the amount of \$ 275,000, 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>
Initial Consultation Package preparation		

Kleinschmidt Associates

12/31/96

\$275,000

14. Defeasance of Series V Bonds with General Fund Monies

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize (i) the use of monies available in the General Fund to defease the Series V Bonds due 2013 and 2017 in the aggregate principal amount of \$252 million, and (ii) the execution of an escrow deposit agreement with The Chase Manhattan Bank, N.A., to effectuate the defeasance, in substantially the form attached to the proposed resolution as Exhibit `14-A'.

BACKGROUND

"In 1988, the Authority issued \$653 million Series V Bonds with maturities out to 2017 and coupons ranging up to 8%. \$650 million of the Bonds remain outstanding. The Bonds are the Authority's highest cost debt and are prime candidates for refinancing or retirement. The proceeds of the Series V Bonds were used to advance refund Series N and S Bonds, both of which were also advance refunding issues for bonds issued to construct portions of both nuclear facilities, Poletti, the Massena-Marcy transmission line, and the small hydroelectric projects. The tax laws preclude the Authority from a third advance refunding and, accordingly, the Bonds will remain outstanding until their first optional call date on January 1, 1998.

DISCUSSION

"As previously discussed with the Trustees, the Authority routinely reviews opportunities to use its cash balances for the economic retirement of its outstanding debt. For example, in 1992 the Trustees approved the use of cash reserves to redeem \$231 million of high coupon Series J Bonds. Such economic retirements of debt lowers fixed debt service and is an important part of the Authority's program to reduce its overall costs and enhance its competitiveness.

"Staff has identified such an opportunity through the early retirement of a portion of the Authority's highest cost debt. The Authority will realize \$80 million in net present value debt service savings by applying cash reserves to the legal defeasance of \$252 million Series V term bonds. Monies otherwise invested and earning about 6.7% to the first call date would be applied to the reduction of debt costing 7.875% and 8%. With the economy continuing to weaken, yields on investments are not expected to rise appreciably in the foreseeable future to close the spread between investment opportunity and the cost of the Series V Bonds.

"Monies available in the General Reserve, Bond Reserve, and Bond Service Accounts of the General Fund, some of which reflect reserves in the Operating Fund, would be deposited in an escrow account for the purchase of U.S. Government securities in amounts sufficient to pay the debt service and redemption price of 102% on the first call date of January 1, 1998. The proposed transaction would defease all of the \$107 million 7.875% term bonds due in 2013 and all of the \$145 million 8% term bonds due in 2017. The redemption of these Bonds on their first call date would avoid approximately \$368 million in debt service payments over their remaining life.

RECOMMENDATION

"The Treasurer and the Vice President - Corporate Finance recommend that the Trustees authorize the (i) use of up to \$275 million of monies in the General Fund to defease the Series V Bonds maturing in 2013 and 2017; and (ii) execution of an escrow deposit agreement with The Chase Manhattan Bank, N.A., in substantially the form attached to the proposed resolution as Exhibit `14-A'.

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

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

RESOLVED, That it is hereby authorized that \$230 million of General Reserve Account monies be withdrawn from such Account and utilized for the redemption and defeasance of all of the Series V Bonds having a maturity of January 1, 2013 and all of the Series V Bonds having a maturity of January 1, 2017; and be it further

RESOLVED, That it is hereby authorized that up to \$9.8 million of Bond Service Account monies apportioned to Series V Bonds be withdrawn from such Account and utilized for the redemption and defeasance of Series V Bonds described above; and be it further

RESOLVED, That it is hereby authorized that up to \$35.2 million of Bond Reserve Account monies apportioned to Series V Bonds be withdrawn from such Account and utilized for the redemption and defeasance of Series V Bonds described above; and be it further

RESOLVED, That such amounts to be withdrawn from the General Reserve Account are not required for any of the purposes specified in Paragraphs 1 - 4 of Section 512 of the General Purpose Bond Resolution adopted on November 26, 1974, as amended and supplemented (the 'Resolution'); and be it further

RESOLVED, That such amounts to be withdrawn from the Bond Service Account are not needed for any of the purposes set forth in clauses (i), (ii), and (iii) of Paragraph 1 of Section 510 of the Resolution, with respect to the Series V Bonds, and are not needed to meet any deficiency in the Bond Service Account for any other Series Outstanding, as such term is defined in the Resolution; and be it further

RESOLVED, That such amounts to be withdrawn from the Bond Reserve Account are in excess of the Bond Reserve Requirement, as such term is defined in the Resolution, and not required to make good any deficiency referred to in Paragraph 1 of Section 511 of the Resolution; and be it further

RESOLVED, That the President, Senior Vice President - Business Services, and Vice President - Corporate Finance, are, and each hereby is, authorized to enter into an Escrow Deposit Agreement, on behalf of the Authority, with The Chase Manhattan Bank, N.A., to effectuate the redemption and defeasance described above, with such Agreement being substantially in the form attached hereto as Exhibit '14-A', with such amendments, insertions, deletions, and supplements as shall be approved as necessary or desirable by the officer executing such Agreement, such approval to be evidenced conclusively by such execution; and be it further

RESOLVED, That the President, Senior Vice President - Business Services, and Vice President - Corporate Finance, are, and each hereby is, authorized to execute such amendments to the Escrow Deposit Agreement as the President, Senior Vice President -Business Services, and Vice President - Corporate Finance, deems necessary or desirable to effectuate the redemption and defeasance described above; and to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, demands, directions, consents, approvals, orders, applications, agreements, certificates, supplements, and further assurances or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolutions or to comply with the requirements of the Escrow Deposit Agreement.

ESCROW DEPOSIT AGREEMENT

ESCROW DEPOSIT AGREEMENT, dated as of _____, 1995 (the "Escrow Agreement"), by and between Power Authority of the State of New York (the "Authority") and The Chase Manhattan Bank, N.A., New York, New York, as Trustee under the Resolution (as defined below) and as escrow agent hereunder (hereinafter referred to, in either or both capacities, as the "Escrow Agent").

WHEREAS, the Authority under and pursuant to the terms of the General Purpose Bond Resolution, adopted on November 26, 1974, as amended and supplemented in accordance with its terms (the "Resolution") has authorized and issued its General Purpose Bonds as follows: Series V, in the aggregate principal amount of \$653,640,000, \$649,925,000 of which are outstanding and unpaid (the "Series V Bonds"); and

WHEREAS, the Authority has determined to deposit with the Escrow Agent moneys in amounts adequate to acquire non-callable United States Treasury Obligations (the "Initial Securities"), the principal of and interest on which when due, together with any portion of such moneys held uninvested, shall be sufficient to pay when due the Redemption Price (as defined in the Resolution) and interest due and to become due on the Series V Bonds which mature on the first day of January in the years 2013 and 2017 (collectively, the "Bonds to be redeemed"), on and prior to their respective dates of redemption; and

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

a. All terms defined in Section 101 of the Resolution shall have the same meanings, respectively, in this Escrow Agreement as such terms are given in said Section 101 of the Resolution.

b. Receipt of a copy of the Resolution, certified by the Secretary or an Assistant Secretary of the Authority as being true and correct, is hereby acknowledged by the Escrow Agent. The applicable and necessary provisions of the Resolution, specifically including Section 704 thereof, are incorporated herein by reference. Reference herein to or citation herein of any provisions of the Resolution shall be deemed to incorporate the same as a part hereof in the same manner and with the same effect as if the same were fully set forth herein.

c. Pursuant to the Resolution, there is hereby created and established with the Escrow Agent a special and irrevocable trust fund designated the "Power Authority of the State of New York General Purpose Bonds, Series V Bonds, 1995 Escrow Deposit Fund" (the "Escrow Fund") to be held by the Escrow Agent separate and apart from all other funds of the Authority or the Escrow Agent.

d. (1) Concurrently with the execution of this Escrow Agreement, the Authority herewith deposits or causes to be deposited with the Escrow Agent, and the Escrow Agent acknowledges receipt of, the Initial Securities described in Schedule I hereto (collectively, as invested, reinvested or substituted pursuant to this paragraph 4, the "Escrow Securities") and cash in the amount of \$_____. Amounts received as interest on or repayments of principal of the Escrow Securities shall be deposited in the Escrow Fund. Except as provided herein, the Escrow Agent shall have no power or duty to invest any moneys held hereunder or to make substitutions of the Escrow Securities held hereunder or to sell, transfer, or otherwise dispose of the Escrow Securities or moneys acquired hereunder. Neither the Escrow Securities, principal or interest payments on the Escrow Securities nor the moneys held hereunder shall be used for any purpose other than, and shall be held in trust for, the payment of the Redemption Price and interest on the Bonds to be redeemed; provided that any amounts derived from Escrow Securities not then needed for such purpose shall, to the extent practicable, be reinvested in non-callable direct obligations of the United States of

America maturing at times and in amounts sufficient to pay when due, as shown in the then currently applicable certified public accountants' verification, the Redemption Price and interest to become due on the Bonds to be redeemed on and prior to the redemption dates thereof, but only at the request of and as directed by the Authority, as supported by a Counsel's Opinion, to the effect that such transaction, including any release of excess moneys described in the next sentence, shall not (i) affect adversely the exclusion from federal income tax of interest on the Bonds to be redeemed, or (ii) affect adversely the status of the Bonds to be redeemed as being deemed no longer outstanding under the Resolution. If there shall be delivered to the Escrow Agent an unqualified Counsel's Opinion (as defined in the Resolution) that Section 1101 of the Resolution and paragraph 8 hereof so permit and that the payment of such moneys hereinafter referred to is not otherwise prohibited, and if the Authority shall deliver written instructions to the Escrow Agent so to pay, then interest earned from the investment of moneys in the Escrow Fund and not required to pay when due, as shown in the then currently applicable certified public accountants' verification, the Redemption Price and interest due and to become due on the Bonds to be redeemed on and prior to the redemption dates thereof, shall be paid over to the Authority as promptly as practicable by the Escrow Agent.

(2) The Escrow Securities may be sold, transferred or otherwise disposed of, and the Escrow Fund may be restructured, invested and reinvested, but only in the non-callable direct obligations of the United States of America or the Authorized Certificates of Deposit described in subsection 2 of Section 1101 of the Resolution, and only at the request of and as directed by the Authority, as supported by a Counsel's Opinion to the effect that such transaction, including any release of excess moneys described in the next sentence, shall not (i) affect adversely the exclusion from federal income tax of interest on the Bonds to be redeemed, or (ii) affect adversely the status of the Bonds to be redeemed as being deemed no longer outstanding under the Resolution. Prior to any such sale, transfer or other disposition of the Escrow Securities held in the Escrow Fund, the Escrow Agent shall receive a certified public accountants' report to the effect that any new Escrow Securities are sufficient to provide for the payment required pursuant to subsection 2 of Section 1101 of the Resolution. To the extent that such sale, transfer or other disposition results in excess moneys which are no longer required to make payments at the times and in the amounts sufficient to pay when due the Redemption Price and interest to become due on the Bonds to be redeemed on and prior to the redemption dates thereof, such excess moneys shall, at the request of the Authority, be released to it as its absolute property and free from trust.

e. The Authority hereby represents, warrants and certifies to the Escrow Agent that the Escrow Securities deposited in the Escrow Fund are direct obligations of the United States of America as provided by subsection 2 of Section 1101 of the Resolution and shall mature at such times and in such amounts, as set forth in the Schedule referred to in paragraph 4 hereof, such that the maturing principal of and the interest on the Escrow Securities will be sufficient, together with any moneys held uninvested hereunder, to pay when due the Redemption Price and interest due and to become due on the Bonds to be redeemed on and prior to the redemption dates thereof, all in accordance with and in satisfaction of the provisions of the Resolution.

f. The deposit of the Escrow Securities and moneys in the Escrow Fund shall constitute an irrevocable deposit in trust solely for the payment of the Redemption Price and interest on the Bonds to be redeemed and the principal of and interest earnings on such Escrow Securities and moneys shall be used solely for such purposes, subject to paragraph 4 hereof.

g. The Authority hereby directs and the Escrow Agent hereby agrees that it will take all of the actions required to be taken by it as Trustee under the Resolution, including the timely transfer of moneys to the Paying Agents under the Resolution, in order to effectuate this Escrow Agreement. The Escrow Agent hereby agrees to hold the Escrow Securities and apply the maturing principal and interest thereof, together with any moneys held uninvested hereunder, in accordance with the provisions of Section 1101 of the Resolution. The liability of the Escrow Agent for the payment of the Redemption Price and interest on the Bonds to be redeemed pursuant to this paragraph and the Resolution shall be limited to the application of the Escrow Securities and the interest earnings thereon available for such purposes in the Escrow Fund.

h. Notwithstanding any other provision of this Escrow Agreement, the Authority hereby covenants that no part of the moneys or funds held by the Escrow Agent hereunder shall be used and that it shall not direct the Escrow

Agent to use any of such moneys or funds at any time, directly or indirectly, in a manner that would cause any of the Bonds to be redeemed to be an "arbitrage bond" under Section 148 of the Internal Revenue Code of 1986, as amended. Neither the Authority nor the Escrow Agent shall sell, transfer or otherwise dispose of the Escrow Securities or the funds held uninvested under this Escrow Agreement, except as otherwise provided in paragraph 4 hereof and except that the Escrow Agent may effect the transfer of such Escrow Securities or funds to a successor escrow agent in accordance with the Resolution relating to the transfer of rights and property to successor trustees.

i. The Authority hereby irrevocably instructs the Escrow Agent, as Trustee under the Resolution, (i) to publish at the appropriate times the notice required by Section 1101(2) of the Resolution in connection with the payment of the Bonds to be redeemed, and (ii) to publish at the appropriate times, as provided in Article IV of the Resolution, notice of redemption of the Bonds to be redeemed, in accordance with the Schedule of Payments attached hereto as Schedule II.

j. Concurrently with the deposit of the Escrow Securities and moneys as set forth in paragraph 4 hereof, the Bonds to be redeemed are hereby deemed to have been paid within the meaning and with the effect expressed in subsection 1 of Section 1101 of the Resolution.

k. Subject to the provisions of paragraph 4 hereof, the trust hereby created shall be irrevocable and the holders of the Bonds to be redeemed shall have an express lien on all moneys and Escrow Securities deposited in the Escrow Fund pursuant to paragraph 4 hereof and the interest earnings thereon until paid out, used and applied in accordance with this Escrow Agreement.

l. This Escrow Agreement is made pursuant to and in furtherance of the Resolution and for the benefit of the Authority and the holders from time to time of the Bonds to be redeemed and it shall not be repealed, revoked, altered or amended without the written consent of all such holders and the written consent of the Escrow Agent. If any such repeal, revocation, alteration or amendment takes place, notification of such action shall be given to Moody's Investors Service, 99 Church Street, New York, New York 10007 (Attention: Public Finance Rating Desk) and Standard & Poor's Ratings Group, 25 Broadway, New York, New York 10004 (Attention: Municipal Finance Department). The Authority and the Escrow Agent may, without the consent of, or notice to, holders from time to time of the Bonds to be redeemed, enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such holders, for any one or more of the following purposes:

(1) to cure any ambiguity or formal defect or omission in this Escrow Agreement;

(2) to grant to, or confer upon, the Escrow Agent for the benefit of the holders of the Bonds to be redeemed, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Agent; provided that the Escrow Agent shall not be required to enter into any such supplemental agreement which adversely affects the Escrow Agent's own rights, duties or immunities under this Escrow Agreement; and

(3) to subject to this Escrow Agreement additional funds, securities or properties.

The Escrow Agent shall be entitled to rely exclusively upon an unqualified opinion of nationally recognized attorneys on the subject of municipal bonds with respect to compliance with this paragraph, including the extent, if any, to which any change, modification or addition affects the rights of the holders of the Bonds to be redeemed, or that any instrument executed hereunder complies with the conditions and provisions of this paragraph.

m. In consideration of the services rendered by the Escrow Agent under this Escrow Agreement, the Authority agrees to and shall pay to the Escrow Agent its proper fees and expenses, including all reasonable expenses, charges, counsel fees and other disbursements incurred by it or by its attorneys, agents and employees in and about the performance of their powers and duties hereunder, from any moneys of the Authority lawfully available therefor and the Escrow Agent shall have no lien, claim or right of setoff whatsoever upon or against any of the Escrow Securities or the funds held uninvested in said Escrow Fund for the payment of such proper fees and expenses. The

Authority further agrees to indemnify and save the Escrow Agent harmless against any liabilities which it may incur as a result of entering into this Escrow Agreement or which it may incur in the exercise and performance of its powers and duties hereunder and which are not due to the Escrow Agent's negligence, willful misconduct or bad faith.

n. This Escrow Agreement shall terminate when the Bonds to be redeemed have been paid and discharged; provided, however, that if any Bonds to be redeemed are not presented for payment, any moneys held by the Escrow Agent therefor remaining unclaimed for six years after the date on which such Bonds became due and payable shall be repaid to the Authority in accordance with subsection 3 of Section 1101 of the Resolution and this Escrow Agreement shall terminate with respect to such Bond on the date of such repayment with the effect described in said subsection 3. Upon termination of this Escrow Agreement, all moneys remaining in the Escrow Fund shall be released to the Authority as its absolute property and free from trust.

o. This Escrow Agreement shall be governed by the applicable laws of the State of New York.

p. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the Authority or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

q. This Escrow Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have each caused this Escrow Agreement to be executed by their duly authorized officers and elected officials and the Authority has caused its seal to be hereunder affixed and attested as of the date first above written.

(SEAL)

POWER AUTHORITY OF THE
STATE OF NEW YORK

ATTEST:

By _____
Vice President—Corporate Finance

THE CHASE MANHATTAN BANK, N.A.
as Trustee and Escrow Agent

By _____
[Second Vice President]

INITIAL SECURITIES

United States Treasury Bill

<u>Maturity Date</u>	<u>Par Amount</u>	<u>Price</u>	<u>Cost</u>
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United States Treasury Notes

<u>Maturity Date</u>	<u>Par Amount</u>	<u>Coupon</u>	<u>Price</u>	<u>Cost</u>
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Schedule of Payments at Redemption Date

Series V Bonds to be Called for Redemption on January 1, 1998

<u>Maturity Date</u> <u>(January 1)</u>	<u>Principal Amount</u>	<u>Redemption Premium</u>	<u>Redemption Price</u>
2013			
2017			

April 25, 1995

15. Next Meeting

The next Regular meeting of the Trustees will be held on **Tuesday, May 23, 1995, in the New York Office** at **10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

April 25, 1995

Closing

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

Anne Wagner-Findeisen
Corporate Secretary

APRMINs.95