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

July 30, 1996

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July 30, 1996

Minutes of the Meeting of the Power Authority of the State of New York held at the St. Lawrence/F.D.R. Power Project at 10:00 a.m.

Present: Clarence D. Rappleyea, Chairman
Thomas R. Frey, Vice Chairman
Louis P. Ciminell, Trustee
Hyman M. Miller, Trustee*
Robert J. Waldbauer, Trustee

Robert G. Schoenberger	President and Chief Operating Officer
Charles M. Pratt	General Counsel
William J. Cahill	Chief Nuclear Officer
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
Philip J. Pellegrino	Senior Vice President - Energy Efficiency & Technology
Robert L. Tscherne	Senior Vice President - Business Services
Woodrow W. Crouch	Vice President - Project Management - Power Generation
Robert J. Deasy	Vice President - Appraisal and Compliance
Deborah Perry Estrin	Vice President - Human Resources
Harry P. Salmon, Jr.	Vice President - Nuclear Operations
James Ford	Regional Manager - Western New York
Daniel P. Berical	Director - Intergovernmental Affairs
Carmine J. Clemente	Counsel
John L. Murphy	Director - Public Information
Gary Paslow	Director - Policy Development
James H. Yates	Director - Business Marketing and Economic Development
James K. Asselstine	Chairman - Nuclear Advisory Committee
Anne Wagner-Findeisen	Corporate Secretary
Vernadine E. Quan-Soon	Assistant Corporate Secretary - Corporate Affairs

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

* Trustee Miller was absent from the room during the consideration of items 1 through 6, inclusive.

1. <u>Approval of the Minutes</u>

The Minutes of the Regular Meeting of June 30, 1996 were approved.

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2. Financial Report for the Six Months Ended June 30, 1996

3. Authorization to Fund SENY Public Customer Energy Efficiency Services Program

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize funding in the amount of $82 million to initially fund energy efficiency services included in the ten year Long Term Energy Partnership Agreements ('LTEPA') with those SENY public customers that have already executed such agreements. These services were included in the LTEPA to encourage the affected customers to execute the agreements. The requested funding would cover the three year period ending in 1998.

BACKGROUND

"As part of the LTEPA, the Authority would provide energy efficiency services to reduce the public customer's overall energy costs. In the competitive market, the Authority must react to customer needs and provide value-added energy efficiency services to customers as part of its on-going business relationships. The services rendered should not be limited to program specific offerings but, rather, be flexible to allow the customer to request services specific to their individual needs. A customer-tailored project-specific offering would complement the Authority's existing menu of programs and allow flexibility in the design of services which add customer value.

"Energy services provided pursuant to the LTEPA could include existing Trustee- approved programs (e.g., HELP, Electrotechnologies, New Construction, and Non-Electric End Uses, etc.), as well as other, customer-requested energy services, such as Supervisory Control and Data Acquisition systems, window replacements, and building envelope related improvements that have been reviewed and approved for their environmental compliance. It should be noted that for the LTEPA executed to date: (i) the aggregate amount of funding contemplated in the agreements for such energy services is up to $387 million, over the ten year LTEPA term; and (ii) the agreements specifically require the Authority to complete projects already identified under SENY HELP, or otherwise funded by the customer, prior to the execution of the LTEPA.

DISCUSSION

"Eighty-two million dollars in initial funding authorization is requested for energy efficiency services to be provided pursuant to the LTEPA 'SENY Public Customer Energy Efficiency Services Program' to allow the SENY customers an opportunity to further reduce their overall energy costs utilizing a successful turn-key approach developed by the Authority. This approach allows improvements to be made at customer sites at no up-front cost, with repayment following project completion from energy cost savings. Unlike previous energy efficiency programs offered by the Authority to SENY customers, with only notable exceptions, LTEPA energy efficiency services will be paid for completely by the participant (i.e., there will be no incentives).[1] The program will allow customers to select energy

[1] The exceptions include (i) about $5 million in incentives applicable to SENY HELP projects, where customer commitments were executed prior to July 1, 1996; (ii) grants that may be made available from Petroleum Overcharge Restitution Fund Programs authorized by the Trustees at their meeting of January 30, 1996, and (iii) any incentives paid for electrotechnology projects pursuant to

efficiency services based on their specific needs.

"Based on staff's discussions with the affected customers, the $82 million funding request for the LTEPA should be adequate to cover anticipated energy services costs through 1998. This request supplements $90 million of previously authorized funding for the Public Housing Refrigerator, Coal Conversion, Electrotechnologies, Non-Electric End Use and Petroleum Overcharge Restitution Fund ('POCR') Programs, of which $47 million is applicable to the LTEPA through 1998.

FISCAL INFORMATION

"Energy efficiency program spending of $82 million is requested to initially fund the Authority's service offerings under the LTEPA. Energy Efficiency Program expenditures are currently funded primarily from the Energy Conservation Effectuation and Construction Fund, using the Tax Exempt Commercial Paper Program. All costs (excluding any POCR grants), including Authority overheads and the cost of advancing funds, will be recovered within a repayment period not to exceed ten years. Collection experience to date has been excellent.

RECOMMENDATION

"The Senior Vice President - Energy Efficiency and Technology and the Senior Vice President - Marketing and Economic Development recommend that the initial authorized funding for the SENY Public Customer Energy Efficiency Services Program be established at $82 million, covering the period from 1996 through 1998.

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

In response to questions from Trustee Waldbauer, Mr. Pellegrino explained that the current request for $82 million would suffice to fund the Authority's energy efficiency commitments, as already approved by the Trustees under the LTEPAs, through 1998. He further explained that because the total eventual cost of such services will approximate $400 million, the Trustees' authorization for additional funding will be sought by staff at a later time, based upon requests for energy services. In response to further questions from Trustee Waldbauer, Mr. Pellegrino stated that each customer is subject to a dollar cap, in accordance with the terms of the particular agreement.

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

RESOLVED, That the authorized funding level for the SENY Public Customer Energy Efficiency Services Program be $82 million.

Energy Conservation Effectuation and Construction Fund	**Expenditure Authorization**

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the program authorization approved by the Trustees at their meeting of March 29, 1994.

SENY Public Customer Energy Efficiency Services Program	**$82 million**

4. Allocation of Economic Development Power

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the allocation of 1,500 kW of Economic Development Power ('EDP') to BFGoodrich Aerospace Engine Electrical Systems ('BFGoodrich').

BACKGROUND

"At its meeting of April 30, 1996, the Economic Development Power Allocation Board ('EDPAB') approved an application for EDP submitted on behalf of BFGoodrich and recommended this allocation for approval to the Authority. BFGoodrich is in the service area of the New York State Electric and Gas Company ('NYSEG'). Under an existing contract between the Authority and NYSEG, EDP is sold for resale to the designated industrial customer at a special tariff rate.

DISCUSSION

"BFGoodrich, located in Norwich, is a major manufacturer and supplier of engine components to the aerospace market. The company's products are present on most every commercial and military aircraft. High operating costs have recently compelled the company to relocate its interconnect business out-of-state. BFGoodrich is struggling to contain its cost structure and to keep remaining jobs in Norwich. BFGoodrich maintains an ongoing energy conservation program. The allocation of 1,500 kW would retain 375 jobs and produce a ratio of 250 jobs per megawatt. The company would save an estimated $200,000 annually over NYSEG's standard rates. The proposed five year allocation of revitalization power, subject to the availability of wheeling capacity, is supported by the Chenango Industrial Development Agency.

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

RECOMMENDATION

"The Director - Business Marketing and Economic Development recommends that the Trustees approve the allocation of 1,500 kW of Economic Development Power for resale to BFGoodrich as described herein.

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

In response to questions from Vice Chairman Frey, Mr. Yates explained that under the terms of the delivery agreement with NYSEG, the proposed allocation would reach the maximum quantity of EDP that can be wheeled through NYSEG territory. In response to further questions from Vice Chairman Frey, Mr. Pratt described the efforts of Authority staff in advising the PSC of the difficulties experienced with the delivery of EDP through the service territories of the IOUs, and explained that to date, Orders issued by the Commission have not encompassed retail customers. Chairman Rappleyea noted that recently proposed legislation, which was not ultimately enacted, would have more clearly defined the utilities' respective obligations vis a vis EDP. Trustee Waldbauer requested that the Trustees be kept abreast of developments concerning the wheeling of EDP to Authority customers.

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

WHEREAS, the Economic Development Power Allocation Board has recommended an allocation of Economic Development Power to BFGoodrich Aerospace Engine Electrical Systems in the quantity specified in the foregoing report of the President,

NOW THEREFORE BE IT RESOLVED, That the Authority hereby approves the allocation of Economic Development Power to the company in the foregoing report of the President, in accordance with the terms described in such memorandum; and be it further

RESOLVED, That the Director - Business Marketing and Economic Development or his designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the above allocation.

5. Open Access Transmission Service Tariff/ - Authorization to Seek Public Comment

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize staff to seek comment by existing Authority transmission customers and the public concerning the appropriate form and substance of an Authority open access transmission service tariff.

BACKGROUND

"In March 1995, the Federal Energy Regulatory Commission ('FERC') issued its Notice of Proposed Rulemaking ('NOPR') concerning open access transmission with the intent to spur wholesale competition and to bring more efficient, lower cost power to the nation's electricity consumers. On April 24, 1996, FERC finalized the proposed rulemaking with the issuance of two final rules, Orders 888 & 889.

"In Order 888, FERC mandated that by July 9, 1996, the 166 investor-owned utilities ('IOUs') that own, control, or operate transmission facilities used in interstate commerce file with the Commission a wholesale open access tariff ('OAT'). FERC's goal is to eliminate the patchwork of closed and open transmission systems and ensure that these systems not unduly discriminate in the use of their monopoly systems . In Order 889, FERC required that IOUs establish Open Access Same-time Information Systems ('OASIS') that provide electronic information to transmission customers about available capacity and price. Order 889 also required that IOUs establish 'standards of conduct' to functionally separate transmission and wholesale power merchant functions. The compliance date for Order 889 is November 1, 1996.

"In its ruling, FERC stated that it had no authority under sections 205 and 206 of the Federal Power Act ('FPA') to require non-jurisdictional utilities, such as the Authority, to file tariffs with the Commission. However, FERC believes that Section 211 of the FPA, applied on a case-by-case basis, provides the authority to require the same quality of open access from transmission systems owned and operated by non-jurisdictional utilities. FERC has used its authority under Section 211 to direct a public power entity in Minnesota and the federally-owned, Tennessee Valley Authority ('TVA') to provide open access transmission service.

"Moreover, FERC's pro forma tariff contains a 'reciprocity provision' that would require a non-jurisdictional transmission customer requesting transmission service under an IOU's open access tariff to provide comparable transmission service to the IOU upon request. FERC has defined 'comparability' to mean that, when there is available capacity, a utility must honor the wholesale demands of a third party on the same terms, conditions and prices that it applies to itself for utilizing the transmission system. A major public power entity, the South Carolina Public Service Authority ('Santee Cooper'), has already tendered a 'reciprocity tariff' to insure it can obtain service from neighboring IOU's transmission systems. FERC has ruled that Santee Cooper must comply in all material respects with the Order 888 pro forma open access tariff in order to be assured of receiving reciprocal treatment from the utilities.

DISCUSSION

"Since March 1995, staff has monitored the FERC open access rulemaking process to determine its possible consequences to the Authority and to decide whether it is in the Authority's interest to voluntarily submit an open access tariff to FERC. Although the Authority currently offers open access to its transmission system, the terms and conditions of the Authority's existing transmission tariffs are not in accordance with the FERC pro forma open access tariff and, as a result, the Authority cannot be assured of receiving needed new transmission service from the IOUs under their open access tariffs. Moreover, the Authority runs the risk of having a FERC 211 proceeding brought against it by an entity unwilling to accept service under the Authority's existing rates, terms and conditions. Recently, FERC staff informed a delegation from the American Public Power Association ('APPA') that its goal is that all transmission providers, whether jurisdictional or not, offer service equivalent to the Order 888 pro forma tariff.

"Staff currently believes that the best course is for the Authority to submit an open access transmission tariff to FERC for reciprocity purposes. However, staff recommends that public comment be sought from Authority customers and the public prior to filing.

"Specifically, public input will be sought through a 'Notice of Inquiry' process. Among other things, comments will be sought on whether FERC's pro forma tariff is appropriate for the Authority, consistent with contractual, bond covenant and other legal requirements. Comments will be sought on whether the Authority should revise the way it presently prices its transmission services to become consistent with the FERC's pro forma tariff. In seeking public comment, particular attention will be paid to how any change in the terms of the Authority's transmission service will impact electric customers. In addition, comments will be sought on how changes in the Authority's transmission tariffs will enhance competition and facilitate the transition to retail choice in New York. Two public meetings should be held as well as separate meetings with customer groups.

"Based on the public comment process, an Authority open access tariff will be developed for Trustees' approval. It is staff's intent to submit an Authority open access tariff to FERC by year end.

RECOMMENDATION

"The Manager - Transmission Service and Interconnection Agreements and the Senior Vice President - Transmission Business Unit recommend that the Trustees authorize a 'Notice of Inquiry' and public input process in the development of an Authority open access transmission tariff.

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

At President Schoenberger's request, Mr. English briefed the Trustees on the evolution of current FERC open access issues and their possible impact on the Authority and its customers. In response to questions from Trustee Waldbauer, Mr. English reported that the Authority has notified FERC of its intent to file by December 31st and had, in its capacity as a member of the Large Public Power Council ("LPPC"), participated in the public comment process in 1995. In response to questions from Vice Chairman Frey, Mr. English explained that the concept of "postage stamp" transmission rates requires the rolling in of all costs, including underground cable costs. In response to further questions from Vice Chairman Frey, Messrs. English and Pratt explained that a number of petitions for rehearing have been filed with FERC and that, although the tariffs filed by the IOUs have not to date engendered litigation, they may do so in the foreseeable future.

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

RESOLVED, That the Trustees hereby authorize a public comment process to assist in the development of an Authority open access transmission service tariff, as set forth in the foregoing report of the President.

6. Richard M. Flynn Power Plant - Parsons-Main of New York, Inc. Settlement of Claims And Contract Close Out

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve an increase of $8,894,000 in the contract value, to $115,482,000, with Parsons-Main of New York, Inc. ('MAIN') under Contract No. 02-9483-89 for settlement of claims, purchase of additional spare parts, and close out of the contract for construction, start-up and testing of the Richard M. Flynn Power Plant ('RMFPP'). This increase is within the approved budget.

BACKGROUND

"The contract agreement between the Authority and MAIN for the RMFPP is a unique partnership agreement. The project was established as a 'Target Cost' contract with bonus and penalty incentives shared equally by the Authority and MAIN. The agreement anticipated changes and reserved to the Authority the right to direct changes in the work. When such changes were made for the Authority's convenience, the contract required adjustment to the Target Cost and additional compensation to Main for services and fee at established rates.

"The contract between Long Island Lighting Company ('LILCO') and the Authority provides for a three million dollar penalty for missing the in-service date. Although the project construction start date was delayed six months, the project was built on a fast track basis and contended with the usual challenges as well as the assignment of the Gas Turbine supply contract from Turbo Power and Marine to Siemens and a steam turbine bearing failure six weeks prior to the commercial operation date. The plant was nevertheless completed on schedule. It was also completed within the approved budget. The RMFPP has performed above expectation during its two years of operation.

DISCUSSION

"Upon approval of this additional payment, the Authority would formally close out the project with its partner, MAIN. During the fast track construction of the RMFPP, a number of changes were made to the project, at the Authority's request, to enhance its operability and reliability. These changes included increasing the warehouse size, relocating the gas line, using double wall pipe for drain piping, increasing the number of motor operated valves and changing the Siemens combustion turbine No_x guarantee from 25 parts per million to 9 parts per million. These requests were reviewed by MAIN and accepted where there was no compromise of the design or good engineering practice. Staff has been negotiating with MAIN since the completion of the project. Based on these extensive discussions, which have entailed review of costs for the various changes, we have concluded that the costs associated with these items is $5,856,000, as shown below:

Resolution of changes during construction	$4,383,000
Purchase new last stage blades for steam turbine	800,000
MAIN Settlement	418,000
Remaining Punch List Items	255,000
	$5,856,000

MAIN agrees to this accounting, agrees to close out the job, and forego any further claims.

"In addition, the Authority elected to procure spare parts for the plant through MAIN. Since MAIN held the purchase orders for all the equipment, this was the most cost effective way to proceed and MAIN provided this service as a pass-through without a mark-up on the costs. The cost for spare parts is $3,038,000.

"Hence it is recommended that a change order be issued to MAIN in the amount of $8,894,000 bringing the final contract value to $115,482,000.

FISCAL INFORMATION

"Payment for these capital expenditures will be made from the Construction Fund - Holtsville Generating Plant.

RECOMMENDATION

"The Vice President - Project Management recommends that the Trustees approve an increase in the final value of the contract with Parsons-Main of New York, Inc. to $115,482,000.

"The Vice President - Procurement Administration and Real Estate, the General Counsel, the Senior Vice President - Power Generation, and I concur in the recommendation."

In response to questions from Trustee Ciminelli, Mr. Crouch explained that under the partnership type of arrangement that the Authority has with Parsons-Main for the Flynn Project, the cost of the work items listed on the "punch list" is offset against the contractual target and reduces the bonus payable to Parsons-Main.

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

RESOLVED, That approval is granted to increase the contract value of the contract with Parsons-Main of New York, Inc. in the amount and for the purpose listed below:

Capital	**Contract Approval**	**Projected Closing Date**
Parsons-Main of N.Y., Inc.	**$ 8,894,000**	
Previously Authorized	**106,588,000**	
TOTAL AMOUNT AUTHORIZED	**$115,482,000**	**12/31/96**

7. Next Meeting

The Regular meeting of the Trustees will be held on **Tuesday, August 27, 1996**, **at the Niagara Power Project** at **10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

8. Motion to Conduct Executive Session

"Mr. Chairman, I move that the Authority conduct an executive session in connection with matters concerning the employment history of particular persons and corporations and matters leading to its employment of services of persons and corporations." Upon motion made and seconded, an executive session was held.

(After Executive Session)

"Mr. Chairman, I move that the Authority resume the meeting in open session."

Closing

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

Anne Wagner-Findeisen
Corporate Secretary

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