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

September 24, 1996

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September 24, 1996

Minutes of the Meeting of the Power Authority of the State of New York held at the Indian Point 3 Nuclear Power Plant 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
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
Arnold M. Bellis	Vice President - Controller
Woodrow W. Crouch	Vice President - Project Management - Power Generation
Robert J. Deasy	Vice President - Appraisal & Compliance
John M. Hoff	Vice President - Procurement and Real Estate
William Josiger	Vice President - Engineering & Project Control
Charles I. Lipsky	Vice President & Chief Engineer - Power Generation
Deborah Perry Estrin	Vice President - Human Resources
Harry P. Salmon, Jr.	Vice President - Nuclear Operations
Stephen P. Shoenholz	Vice President - Public Relations
Ronald W. Ciamaga	Regional Manager - Northern New York
James Ford	Regional Manager - Western New York
Richard Kuntz	Regional Manager - Southeast New York
James J. McCarthy	Regional Manager - Central New York
Daniel P. Berical	Director - Intergovernmental Affairs
John W. Blake	Director - Environmental Programs
Carmine J. Clemente	Counsel
Jordan Brandis	Director - Performance Planning
Lydia Helle Maide	Director - Major Accounts - Governmental
Richard H. Lauman, Jr.	Director - Nuclear Business Operations
John L. Murphy	Director - Public Information
Mark O'Connor	Director - Real Estate
Gary Paslow	Director - Policy Development
Carl Patrick	Director - Nuclear Policy & Information
Russell J. Krauss	Chief Information Officer
Allison Shea	Attorney
Anne Wagner-Findeisen	Corporate Secretary
Laura M. Badamo	Assistant Corporate Secretary - Legal Affairs
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.

1. Approval of the Minutes

The Minutes of the Regular Meeting of August 27, 1996 were approved.

2. <u>**Financial Report for the Eight Months Ended August 31, 1996**</u>

President Schoenberger added that he was particularly pleased to report that the Flynn Plant had earned $2 million in revenues.

3. <u>Village of Springville - Increase in Retail Rates - Notice of Adoption</u>

The President submitted the following report:

<u>SUMMARY</u>

The Trustees are requested to approve revisions in the base retail rates of each customer service classification for the Village of Springville, New York. This will result in additional total annual revenues of $182,785 or 10.1%.

<u>BACKGROUND</u>

The proposed rate increase is required to provide adequate revenues to meet the electric department's additional debt service obligations, increase its emergency cash reserve and allow sufficient working funds to meet forecasted increases in operation and maintenance expenses. Current rates have been in effect since July 28, 1987, when the Trustees approved a 8.0% revenue increase.

The electric department has planned capital additions and replacements of about $315,000 through fiscal year 1996. This includes reconductoring of distribution circuits, purchase of transportation equipment and replacement of some customers' meters. The Village plans to debt finance $300,000 and fund the remainder through the revenue increase.

The proposed rate revisions are based upon a cost of service study prepared by Power Authority staff. At the request of the Village Board, changes to the Village's rate design are also being proposed. In the interest of energy conservation, the rate structure for the residential and small commercial service classifications has been revised to include three rate blocks. The rates were based on costs attributable to the different blocks. The assignment of more cost responsibility to the mid and tail blocks will provide a price signal to high usage customers. In addition, the proposed rate revisions include the establishment of a new large commercial rate class (S.C. No. 3).. This new class was created for all customers using over 10,000 kWh per month to properly reflect the cost of providing service to these users.

<u>DISCUSSION</u>

Pursuant to the Authority's Administrative 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 July 31, 1996. A public hearing was held by the Village's Board on July 1, 1996. No objections were raised to the proposal.

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

Comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits '3-A' and '3-B', respectively.

September 24, 1996

RECOMMENDATION

The Manager - Municipal and Cooperative Regulation recommends that the attached schedule of rates for the Village of Springville, New York, be approved to take effect beginning 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 General Counsel, the Senior Vice President - Marketing and Economic, 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 Springville, New York, be and hereby are 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 is required by statute or regulation.

4. The New York Convention Center Operating Corporation - Long-Term Agreement

The President submitted the following report:

SUMMARY

The Trustees are requested to authorize the execution of an agreement with the New York Convention Center Operating Corporation (‘Center') concerning the electricity supply to the Jacob K. Javits Convention Center of New York (‘Javits’).

BACKGROUND

The Center became an Authority customer when it opened in April 1986. It uses Authority electricity in operating one of the world's largest buildings, occupying 1.8 million square feet of land. The Center accommodates meetings ranging in size from as few as ten to as many as 35,000 participants. Its facilities permit the serving of 10,000 meals simultaneously. The Center accommodates a wide range of trade shows, conventions and conferences, public shows, banquets, stockholders meetings and industrial exhibitions and has more than 100 separate meeting rooms.

In 1995, annual revenues from the Center were over $4 million; $2.3 million was for Authority production of electricity and $1.8 million for Consolidated Edison Company of New York, Inc. delivery charges.

DISCUSSION

Consistent with the Authority's goal to ensure sales, revenue stability and its staff's commitment to retain customers in a highly competitive market, as well as the Center's desire to control its future electric costs, the parties entered into discussions seeking a mutually satisfactory agreement on these common objectives. This agreement is a result of those discussions.

The staff of the Center expects the final approval of the attached agreement by the governing body of the Center will occur at its next meeting, whereupon the agreement would be executed.

The agreement is similar to the contract entered into with other large Southeast New York (‘SENY’) governmental customers; however, this agreement is customized to meet the particular needs of the Center.

The agreement's main provisions are as follows:

> The Center purchases its total energy requirements or 40,000,000 kWh (whichever is lower) from the Authority through at least December 31, 2005. However, starting in 2002, the Center may transfer up to 10% year or a total of 30% of its load to an alternate supplier on two years’ notice. This transfer to an alternate supplier will only occur after the Center has purchased the requisite 40,000,000 kWh. The Authority retains the right of first refusal before any load can be transferred to an alternate supplier.

The Authority agrees 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 for years 2002 and 2003 is greater than 7%, the Center can exercise its right to transfer any remaining market test load (30% referenced above) to a non-Authority supplier on six month's notice.

Beginning in 1998, the Center has 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 two year average, the Center's pro rata share of such difference will be refunded to it in the form of a rate rebate.

The Authority can provide up to $1.75 million in financing of energy efficiency programs on behalf of the Center. This assistance is the same as that provided New York City after being adjusted for the relative contribution of the Center to the Authority's SENY production revenues.

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 the Center.

RECOMMENDATION

The Director - Major Accounts Governmental recommends that the Trustees authorize the execution of an agreement substantially in the form attached hereto as Exhibit '4-A'.

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

Chairman Rappleyea commended Ms. Morman and the staff members whose efforts had resulted in reaching the agreement with the Convention Center.

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

WHEREAS, the Jacob K. Javits Convention Center of New York is a valued customer of the Power Authority; and

WHEREAS, the Jacob K. Javits Convention Center of New York desires rate predictability and stability and the Power Authority desires sales and revenue stability;

NOW THEREFORE BE IT RESOLVED, That the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and the Senior Vice President - Marketing and Economic Development are, and each hereby is, authorized to execute an agreement (the 'Agreement') between the Jacob K. Javits Convention Center of New York and the Authority in substantially the form attached hereto as Exhibit '4-A', with such amendments, deletions, and supplements, along with any other agreements or documents necessary to effectuate the foregoing, as the Chairman, the President and Chief Operating Officer, or the Senior Vice President -

Marketing and Economic Development deems necessary or advisable; and be it further

RESOLVED, That the authorized funding level for the SENY Public Customer Energy Efficiency Services Program be increased by $1.75 million to fund energy efficiency services included in this Agreement.

5. Firm System Transmission Tariff - <u>Proposed Action to Adopt Tariff Rates</u>

The President submitted the following report:

<u>SUMMARY</u>

The Trustees are requested to authorize the Secretary to file notice for publication in the State Register of a proposed action to adopt a new firm system transmission service tariff, which would be the applicable transmission tariff for most transmission services provided by the Authority. A system-wide, rolled-in rate would be applicable to most users taking transmission service over more than one specific transmission facility. Under this new tariff, current and future customers can also take transmission service on a point-to-point basis over specific transmission facilities at the same rate currently charged for such service so that no current customers will experience a rate increase and other users will have access to these lines on a comparable basis. The non-firm transmission charge will be derived from the system firm rate. The Trustees are also requested to authorize the holding of a public forum to obtain the views of interested persons concerning the proposed system rate and open-access tariff filing with the Federal Energy Regulatory Commission (‘FERC’).

<u>BACKGROUND</u>

The Authority's method of developing firm transmission charges is not typical of that of the utility industry. The firm wholesale transmission rates of investor-owned utilities (‘IOUs’) are regulated by the FERC and are based on a ratemaking method which rolls in all the expenses and capital costs which comprise the transmission system revenue requirement. Under the rolled-in concept, the IOU's revenue requirement associated with its integrated transmission system is allocated among all users of the transmission system, resulting in uniform, ‘postage-stamp’ rates. Insofar as staff is aware, all other publicly-owned utilities also use the rolled-in methodology.

The Authority, however, has previously used a non-rolled-in approach for pricing its firm transmission services because the components of its system were built for specific purposes at different times. These facility-specific transmission rates, which are promulgated under service tariffs, include: the Marcy-South 345 kV line at $1.60 per kW-month (ST-45); the Massena-Marcy 765 kV line at $1.60 per kW-month (ST-47); and the ‘Upstate Facilities’ at $1.30 per kW-month (ST-52). The Upstate Facilities comprise the 345 kV lines from the Niagara Project to Niagara Mohawk's Edic substation in Marcy and the 230 kV lines from the St. Lawrence Project southward to the Adirondack substation and eastward to Plattsburgh and the interconnection with Vermont. A $2.19 per kW-month capped rate is applicable to service rendered using more than one Authority transmission facility. The Long Island Sound Cable which extends from Consolidated Edison Company of New York, Inc.’s Sprain Brook substation to Long Island Lighting Company’s (‘LILCO’) East Garden City substation was built for LILCO, which is paying for the use of the project. The current charge for firm service over the Long Island Sound Cable is $4.21 per kW-month.

The Authority's non-firm transmission rate (ST-31) development is also atypical of industry practice. This rate, last revised in 1988, is largely based on the costs of certain portions of the Marcy-South line and provides for a charge of up to $3.00 per MWh.

DISCUSSION

At present, the Authority's transmission rates and practices are not regulated by the FERC. However, following the enactment of the Federal Energy Policy Act of 1992 (‘EP Act’) and the issuance of the FERC's Order 888 promoting wholesale competition through open access and non-discriminatory transmission services by IOUs, the Authority's transmission rates and practices could come under FERC jurisdiction. A case in point is that the EP Act allows the FERC to order transmission services from the Authority under section 211 of the Federal Power Act as added by EP Act if the Authority and the requestor of transmission services are unable to resolve issues arising out of a good faith request for such services.

The FERC has been encouraging non-jurisdictional entities to file pro-forma tariffs substantially the same as the pro forma tariffs required to be filed by IOUs under Order 888. Chairman Rappleyea sent a letter, dated July 3, 1996, to the Chair of the FERC stating the Authority’s intent to voluntarily submit an open access tariff to the FERC by December 31, 1996 and that the Authority is continuing to work with the other members of the New York Power Pool (‘NYPP’) with the goal of agreeing on a state-wide transmission pricing plan. The Authority's proposed pro forma tariff is expected to be in effect only until a NYPP tariff is filed with the FERC and takes effect. The letter also stated that such open access tariff might contain necessary modifications to the open access tariff included in FERC's Order 888 to reflect statutory and tax concerns of the Authority.

At their meeting of July 23, 1996, the Trustees authorized a ‘Notice of Inquiry’ process to seek comments from the public concerning whether the Authority must revise its present transmission rate structure to become consistent with FERC’s pro forma tariff; concerning how such changes might affect customers; and concerning how changes might enhance competition in New York State. Two public meetings were held in early September. Numerous meetings were also held with various customer groups to obtain their views on this Authority rate issue. A report on comments received from the public is attached hereto as Exhibit ‘B’. The views expressed at these meetings were generally supportive of the Authority filing an open access tariff with the FERC but concerns were raised that existing customers should not have to pay higher transmission costs.

The three goals of a system transmission tariff are: (1) the offering of the FERC Order 888 pro forma tariff; (2) the avoidance of rate increases for users of specific parts of the Authority's transmission system; and (3) ensuring comparability by making all tariff rates available to all current and future customers, and the Authority as well.

The Authority has developed a system rate which it believes would be acceptable to the FERC and which meets the concerns of most entities that provided comments to the Authority. Using FERC ratemaking methodology, a rolled-in rate of $2.23 per kW-month was developed for the Authority's integrated transmission system, namely the Massena-Marcy, Marcy-South and Upstate Facilities projects, together with costs related to the three transmission lines of the Blenheim-Gilboa Project and the FitzPatrick-to-Edic transmission line. Costs related to the Long Island Sound Cable were excluded since this facility is not a part of the Authority's integrated transmission system. This system firm rate would generally be applicable to all customers who currently take service under more than one Authority transmission tariff, as well as future customers taking similar service.

A concern has been raised whether the current transmission customers using more than one specific transmission facility should continue to pay the $2.19 per kW-month rate or the new

$2.23 per kW-month rate should be applied to them. While the new rate represents a 1.8% increase over the $2.19 per kW-month rate, it is believed that the impact on the customer's ultimate delivery cost would be insignificant. As such, staff recommends that the new rate be published in the State Register for discussions with customers and the public at future customer meetings and a public forum. Staff has scheduled a meeting(s) with the FERC staff in early

October to discuss these Authority transmission rate issues. Based on the results of these discussions, staff will
then make a final recommendation on the rates to be adopted by the Trustees.

Based on accepted FERC methodology, the non-firm transmission rate would be capped at $6.43 per MWH. Discounts can be granted on a nondiscriminatory basis.

With respect to ancillary services, Order 888 outlined two such services which are required to be included in an open access tariff. The Authority's open access tariff will include these required services but will not provide for a separate charge.

A public forum will be scheduled in mid November for the purpose of obtaining the views of interested parties concerning the proposed system rate and open access tariff filing with the FERC.

FISCAL INFORMATION

Implementation of the proposed firm system transmission tariff would result in an increase in firm transmission revenues of approximately $150,000. It is difficult to estimate the impact of implementing the revised nonfirm rate because it is an up-to rate and the rate for each transaction may be different depending on the market conditions.

RECOMMENDATION

The Senior Vice President - Transmission recommends that the Trustees authorize the Secretary: (1) to file notice with the Secretary of State for publication in the State Register of the Authority's intention to promulgate a transmission tariff which moves current rates into the format of the FERC open access tariff and establishes system rates, both firm and non-firm, to be these new rates, and (2) schedule a public forum for the purpose of gathering the views of interested persons concerning the proposed system rate and open access tariff filing with the FERC.

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

At the President's request, Mr. English summarized the genesis and the preliminary results of the public meetings that had been held at Clark Energy Center and at the New York Office in early September. Mr. English explained that there would be a de minimis impact on existing customers, and that the proposed tariff would affect only those who are using two zones, as illustrated in the exhibit to the President's Memorandum. President Schoenberger added that the need for Authority rate revisions would be obviated if the Authority determines it will participate in the newly reconstructed New York Power Pool, which will utilize a value-based rate pricing

methodology ("LMBP"); however, in the interim it would be prudent for the Authority to proceed on a parallel course since a condition precedent to our joining would entail ensuring recovery of the Authority's costs and no disproportionate impact on Authority customers. In response to

questions from Vice Chairman Frey, Mr. English explained that the Pool rate would probably not impact the Authority's customers until 1998, and could in theory benefit certain classes of existing customers. In response to questions from Trustee Waldbauer concerning rates payable to the Authority by LILCO, Mr. English explained that under our contractual arrangement with LILCO, the latter pays the total costs of such transmission service, and the Authority pays only for what it withdraws for Authority customers. In response to questions from Trustee Miller, Mr. English explained that even in the event that FERC mandates "postage stamp" rates for the future, which in any event are currently being utilized by most utilities, FERC would "grandfather" the Authority's existing contracts. Mr. English also explained that the IOUs' rates are generally higher than those now charged by the Authority, although some of the older IOU systems may be cheaper. In response to further questions from Vice Chairman Frey, Mr. English explained that because the IOUs are subject to FERC's system of accounting, under which certain types of expenses are "borderline" as to whether they are properly allocable to a transmission, or generation, or distribution function, the IOUs are now reallocating certain expenses from generation to transmission in order to maximize their competitive positions.

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

RESOLVED, That the Secretary of the Authority be, and hereby is, authorized to file notice with the Secretary of State for publication in the State Register of the Authority's proposed action to promulgate a transmission tariff which moves current rates into the format of the FERC open access tariff and establishes system rates, both firm and non-firm, to be these new rates, as set forth in the foregoing report of the President; and be it further

RESOLVED, That the Secretary of the Authority be, and hereby is, authorized to schedule a public forum for the purpose of obtaining the views of interested persons concerning the proposed system rate and open-access tariff filing with the FERC.

Exhibit ‘5-A’
September 24, 1996

New York Power Authority

Open Access Tariff

Terms and conditions to be consistent with FERC Order 888 Pro Forma Tariff with necessary modifications to reflect statutory and tax concerns of the Authority.

Transmission rates under this tariff:

Rate 1: For firm service using the ‘Upstate Facilities’ - $1.30 per kW-month.

Rate 2: For firm service using the Massena-Marcy facilities - $1.60 per kW-month.

Rate 3: For firm service using the Marcy-South facilities - $1.60 per kW-month.

Rate 4: For firm service using the Long Island Sound Cable - $4.21 per kW-month.

Rate 5: For firm service using the Authority’s integrated transmission system - $2.23 per kW-month.

Rate 6: For nonfirm service using the Authority’s integrated transmission system - up to $6.43 MWH.

Exhibit '5-B'
September 24, 1996

At their meeting of July 30, 1996, the Trustees authorized 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.

Specifically, public input was to be sought through a 'Notice of Inquiry' (NOI) process. Comments were to be sought on whether FERC's pro forma tariff is appropriate for the Authority, consistent with contractual, bond covenant and other legal requirements; on whether NYPA must revise its present transmission rate structure to be consistent with FERC's pro forma tariff; on how such changes may impact customers; and how changes might enhance competition in New York state.

The NOI consisted of eight questions and customers were given opportunities to orally address the NOI at two public meetings; one held on September 4, 1996 at the Authority's Energy Control Center in Marcy and the other held at NYPA's New York Office on September 6, 1996. Customers and other members of the public had until September 13, 1996, to respond with written comments. Given below are the eight NOI questions and individual customer group responses, and a matrix tabulation of the written comments.

NOI Questions

Question 1: Does NYPA's existing transmission rate structure meet FERC's comparability standard?

Responses 1: *NYPA's existing transmission rate structure provides comparability as defined by FERC* (Multiple Intervenors).....*MEUA's position is that the answer is 'yes,' since the existing rate schedule is used by the Power Authority to serve its existing customers, and thus potential new customers would be charged a comparable rate* (MEUA).....*NYPA's current practice of individually assessed rates based on facilities is not comparable* (Con Edison).....*The present rate structure does not meet the comparability standard* (ALCOA)....*The existing transmission rate would not appear to be consistent with the FERC Open Access pricing principles, including comparability* (MMWEC).

Question 2: Should NYPA file an open access tariff in order to guarantee 'reciprocal' open access to investor-owned utility systems?

Responses 2: *Multiple Intervenor's believes that NYPA should undertake the voluntary safe harbor procedure and obtain a declaratory judgment from FERC indicating that NYPA is entitled to nondiscriminatory transmission service from other utilities* (Multiple Intervenors).....*In the abstract, MEUA does not believe that the Power Authority should file a open access tariff merely to guarantee open access transmission to the IOUs in the absence of a poolwide tariff* (MEUA).....*If NYPA wishes to guarantee reciprocal service it should file an open access tariff* (NYSEG)..... *In our view, NYPA should file an open access tariff to FERC in order to Guarantee 'reciprocal' open access to investor-owned utility systems* (Hydro-Québec).....*All of the New York State electric cooperatives receive power that requires transmission over investor owned utility systems... Based on this dependency, the cooperatives in New York support having NYPA file an open access tariff to guarantee 'reciprocal' open access* (NYSRECA).....*Yes*(ALCOA).....*Con Edison strongly feels that in order for NYPA to comply with the Final Order's reciprocity requirement, NYPA must file an open access transmission tariff following the outline of FERC's* *pro forma tariff* (Con Edison)....*NYPA should reciprocate with municipal and other systems that have open access transmission tariffs or policies* (MMWEC).

Question 3: Should NYPA formulate an open access tariff responsive to FERC Rule 888, or do its existing service tariffs provide sufficiently for open access transmission service?

Responses 3: *NYPA may have to make some changes in its existing tariffs to create an OAT that will be acceptable to FERC. However, none of these requirements mandates a fundamental change to the NYPA facility by facility pricing of transmission. NYPA's current transmission arrangements 'substantially conform or are superior to' the requirements of Order No. 888.* (Multiple Intervenors).....*The following* [reassignment, own use, curtailment, reservation of transmission service, scheduling of services , losses, adjustment of charges] *are key provisions in FERC's pro forma tariff which are either not addressed or inadequately addressed by NYPA's existing transmission agreements.*(Con Edison).....*It seems unlikely that FERC will accept terms and conditions that vary greatly from those of utilities that have already filed.* (ALCOA) ..... *NYPA should formulate its open access tariff in accordance with FERC Rules 888 and 889.* (Hydro-Québec).....*NYPA's existing service tariffs do not provide all terms and conditions required to provide comparable transmission service.* (NYSEG)..... *In the alternative* (to a statewide pool tariff) *MEUA believes that the Power Authority should file an individual Final Rule pro forma tariff incorporating whatever rates FERC deems just and reasonable.* (MEUA).....*NYPA should follow the guidelines of FERC Rule 888 in formulating a system-wide Open Access Transmission Tariff. NYPA should pursue a joint 'tight pool' wide transmission rate which would allow a non-pancaked pricing arrangement at reasonable prices to be available for the out of state recipients* (MMWEC).

Question 4: Should NYPA apply its new open access transmission tariff and associated rates to existing transactions and if it does not would it be unduly discriminatory to charge new customers under the tariff?

Responses 4: *Existing transmission customers should have the option of continuing transmission service under existing arrangements or transferring to the new open access tariff.* (MEUA).....*NYPA should not apply directly its new open access transmission tariff to existing transactions* (Hydro-Québec).....*If existing transactions are in the form of existing contracts it seems unnecessary to change the contract ... New customers, however, should be subject to the new rates or any negotiated rates that are nondiscriminatory.* (ALCOA).....*Existing customers who are required to use ... NYPA facilities should be given preferred rates based on the guaranteed nature of the revenue from such use.* (NYSRECA).....*NYPA's current rate structure should satisfy the requirements of FERC's Order No. 888, modification of the facility by facility rates should be unnecessary.*(Multiple Intervenors).....*It is not necessary and may be wrong to unilaterally supersede existing transmission arrangements prior to their contractual termination* (MMWEC).

Question 5: The FERC pro forma tariff calls for the provision of both point-to-point and network service. Is it possible for NYPA, without control area responsibility, to provide network service or does the provision of flexible point-to-point service reasonably meet the goals of network service given NYPA's situation?

Responses 5: *As NYPA does not benefit from 'network' service when utilizing its own facilities, it should not be required, and may not be capable of, offering it to others.* (Multiple Intervenors).....*It may not be possible for NYPA to provide network services since NYPA does not have a control area and it does not own distribution facilities.*(Con Edison).....*If only flexible point to point rates are offered, then losses should be based on the losses of the transmission* *segment used in the rate.* (NYSRECA).....*NYPA should be required to offer network service to the extent possible* (NYSEG).....*MEUA recommends that the Power Authority file an open access tariff which incorporates the terms and conditions of the pro forma tariff as written.* (MEUA)..... *MMWEC would like NYPA to provide as an option to each customer the existing project specific rates and a 'tight pool' system-wide rate* (MMWEC).

Question 6: NYPA proposes to develop its transmission rates in order to cover the entire cost of its transmission facilities. Is there any basis for collecting less than the full revenue requirement and, if so, where would the lost revenues come from?

Responses 6: *MEUA believes that the Power Authority is obligated to recover its costs on a facility specific basis through rates which recover its costs at the lowest rates reasonably possible.* (MEUA)*.....NYPA should consider multiple criteria, including the recovery of its revenue requirement, when choosing the rate making method that is most appropriate for its circumstances.*(NYSEG)*.....NYPA should separate its transmission function from other functions and develop rates based on the embedded cost of operating the transmission system* (ALCOA)*.....The entire cost should be recovered, but allowances for losses must reflect actual losses* (NYSRECA)*.....Section 1005(5) of the New York State Public Authorities Law requires that the costs of the Niagara and St. Lawrence projects be accounted for and recovered on a project specific basis. Similar provisions regarding the Power Authority's projects... are contained in Section 1005(6) of the New York Public Authorities Law.* (Multiple Intervenors)....
Under no scenario should NYPA or any other transmission provider be required to set firm rates at 'less than the full revenue requirement' for use of its high voltage transmission system (MMWEC).

Question 7: Would the promulgation of a NYPA open access transmission tariff enhance and facilitate the transition to competition in New York?

Responses 7: *The promulgation of a NYPA open access tariff would enhance the transition to competition by eliminating the use of transmission monopolies by the investor-owned utilities as a means of thwarting or minimizing the yardstick competition offered by NYPA's retail programs.* (Multiple Intervenors)*.....Yes* (Con Edison), (ALCOA), (NYSRECA), (Hydro-Québec), (NYSEG)*....The promulgation of a Power Authority specific tariff would have a minor effect on competition in New York* (MEUA)*....A New York Power Pool system-wide rate would be even better* (MMWEC).

Question 8: To avoid the 'pancaking' of transmission charges is it appropriate for NYPA and the IOUs to join together and offer a single, statewide transmission rate?

Responses 8: *Yes* (MEUA), (Hydro-Québec), (ALCOA), (Con Edison), (MMWEC)*.....NYSEG believes that LBMP is the appropriate method for New York State transmission pricing.* (NYSEG)*.....Even if a single statewide transmission rate might be appropriate for the New York investor-owned utilities, NYPA should not join together with them and offering a single, statewide transmission rate. The New York State Public Authorities Law circumscribes the ability of NYPA to join with New York State's investor-owned utilities to offer a single, statewide transmission rate by requiring that the costs of each of NYPA's projects be accounted for and recovered on a project by project basis.* (Multiple Intervenors).

6. Agreement with White Plains Entertainment, L.C. - Use of White Plains Office Parking Garage

The President submitted the following report:

SUMMARY

The Trustees are requested to approve the execution of a 15 year agreement (‘Agreement’), including two five year renewal options, with White Plains Entertainment, L.C., (‘WPE’) whereby the Authority would open the Authority's parking garage, adjoining the Authority's Centroplex Building in White Plains, to the public. The garage would be available for use outside of normal Authority business hours by the proposed movie theater and retail complex. An executed agreement is necessary in order for WPE to present its proposal to the Common Council of the City of White Plains (‘Common Council’). The Trustees are also requested to authorize the purchase of the necessary bonds from the General Reserve in order to satisfy Internal Revenue Service restrictions.

BACKGROUND

The City of White Plains has expressed an interest in having a movie theater located in the downtown area as a means of stimulating business development and rejuvenating the area. Two competing proposals to construct a multiplex movie theater have been presented to the City. The proposals differ as to the locations of the theater within the downtown area. One developer, WPE, has proposed building a 3800 seat theater, which would include a small number of retail outlets, on a parcel of Urban Renewal property adjourning the Authority’s Centroplex building. Due to space limitations of its proposed site, WPE has requested that the Authority, for a fee, make its parking garage available to the public after normal business hours and on weekends.

DISCUSSION

The Authority is the owner and operator of the parking garage at 123 Main Street, White Plains, which is adjacent to the Authority's Centroplex Building. The parking garage has a capacity of 750 spaces.

In February 1996, WPE contacted the Authority and indicated an interest in having the Authority open its parking garage to the public after 5:00 p.m. on weekdays, on weekends, and holidays when Authority staff and Centroplex tenants are not occupying the parking spaces.

The business terms of the proposed Agreement are summarized in the attached abstract (Exhibit ‘6-A’).

The primary reason for the Authority to participate in the Agreement is to be a good corporate citizen by supporting the development of the downtown area. To minimize the financial risk to the Authority, the terms of the Agreement include an annual fee of $75,000, subject to escalation and payable to the Authority by WPE. This fee will supplement the hourly charge payable directly to the Authority by each vehicle entering the garage. The Authority would be responsible for all operating and maintenance costs including security. Based on projected public parking usage, the Authority expects to generate an average profit of $80,000/yr over the life of the Agreement. To further protect the interests of the Authority, the Agreement includes provisions which allow termination of the Agreement if the Authority determines that the economic viability of the Centroplex building is being compromised by the opening of the parking garage to the public.

Because of Internal Revenue Service restrictions on the use of tax-exempt-bond-financed facilities, it will be necessary for the Authority to purchase its bonds associated with the original purchase of the White Plains office building in the par amount of $10 million to permit the contemplated expanded use of the garage. Such bond purchases would be made from amounts in the General Reserve Fund and the cost, if any, have been included in staff's economic assessment.

FISCAL INFORMATION

Implementation of this Agreement will generate revenue for the Authority. Payment for the bond purchases will be from the General Reserve Fund.

RECOMMENDATION

The Director - Corporate Support Services, the Director - Real Estate, and the Vice President - Procurement and Real Estate recommend that the Trustees authorize the execution of an Agreement with White Plains Entertainment, L.C. whereby the Authority will make available to the public its parking garage facilities adjoining the Centroplex Office during peak hours of operation of the proposed movie theater and retail complex.

The Trustees are also requested to authorize the purchase of the necessary bonds from the General Reserve in order to satisfy Internal Revenue Service restrictions.

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

In response to questions from Trustee Miller, Mr. Hoff explained that appropriate indemnification provisions had been agreed upon with White Plains Entertainment, L.C. ("WPE") and that use of the parking garage would be during non-business hours. In response to questions from Trustee Waldbauer, Mr. Hoff explained that any additional cost for security guards has been built into the agreement, and that the guards would ensure that the flow of traffic in connection with matinee performances would not interfere with the Authority's daytime use of the garage, which is technically already accessible to the public during business hours. The Vice Chairman expressed concurrence with the idea of increasing evening usage of the space. In response to further questions from Trustee Waldbauer, Messrs. Tscherne and Hoff explained that the cost of buying back the Authority's bonds will include a premium which has also been built into the agreement with WPE.

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

RESOLVED, That the conclusion of an agreement with White Plains Entertainment, L.C., pursuant to which the Authority will open the public ist parking garage during peak hours of operation of the proposed movie theater and retail complex be, and hereby is, approved on substantially the same terms and conditions set forth in the foregoing report of the President; and be it further

RESOLVED, That the Senior Vice President - Business Services, or his designee be, and hereby is, authorized to execute the aforesaid agreement and to execute such other documents may be necessary or desirable to effectuate the foregoing; and be it further

RESOLVED, That the Trustees of the Authority hereby authorize the payment of funds available in the General Reserve Account in an amount not to exceed $12 million for the purchase of up to $10 million in aggregate principal amount of the Authority's General Purpose Bonds, Series AA, of such maturities. The Senior Vice President - Business Services may in his discretion select to effectuate the purposes discussed in the foregoing report of the President, provided, however, that as a condition to each such payment of monies from the General Reserve Account for such purpose, the Treasurer or Deputy Treasurer shall certify that there is available from the General Reserve Account, and not needed for the purposes specified in paragraphs 1-4 of Section 512 of the General Purpose Bond Resolution, monies in the amount of such proposed withdrawal, and provided further, that the aggregate amount withdrawn pursuant to this Resolution for such purpose shall not exceed $12 million; and be it further

RESOLVED, That the Senior Vice President - Business Services and the Treasurer are, and each hereby is, authorized 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 he/she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolutions and the purposes discussed in the foregoing report of the President.

Exhibit '6-A'
September 24, 1996

Theater Proposal Abstract

Commitment: Provide 700 public parking spaces during the following hours:

Weekdays	- 5:00 p.m. To 1:00 a.m.	
Weekends/Holidays	- 12:00 p.m. To 2:00 a.m.	

Duration: 15 years with two five-year renewal options.

Rates: The Authority charges $.50 per hour or any part thereof for first three years. Thereafter the rate can be increased by the Authority to whatever the market bears.

Fee: The Theater will pay the Authority $75,000 annually escalated at 10% or the CPI, whichever is greater, with a cap of 15%. Escalation occurs in years: 5,10,15,20.

Should revenue exceed $350,000/yr., the $75,000 fee shall be reduced on a dollar for dollar basis for each dollar over $350,000.

Fee Additions: The Theater will pay the Authority an additional fee of $1 per car in years 4 - 10 and $1.50 per car in years 11 - 25 for each car less than 200,000 using the garage. In lieu of this fee, the Authority can terminate the agreement.

Cost: The Authority pays all operating costs. The Theater pays for any Capital Improvements its requests and any additional taxes due to the change in garage usage.

7. Niagara-Adirondack Tie Line Acquisition of Cut, Trim, & Removal of Trees and Brush Map No. Ol-1423, Parcel Nos. 1423a, 1423b

The President submitted the following report:

SUMMARY

The Trustees are requested to authorize the acquisition of a 10.5± acre permanent easement at a negotiated cost of $21,000 to cut, trim, and remove trees and brush across the lands owned by the New York State Urban Development Corporation ('NYSUDC') and doing business as Empire State Development Corporation ('Empire State'). The proposed easement will encumber a 50-foot wide strip of land along each side of the Niagara-Adirondack Tie Line transmission line in the Town of Lysander, County of Onondaga.

BACKGROUND

The Niagara-Adirondack Tie Line ('NATL') right-of-way, which runs from Niagara Power Project to the Edic Substation near Utica, is 300 feet wide and contains two 345 kV lines. This right-of-way was acquired before the Authority adopted a policy of acquiring additional rights to cut, trim, and remove trees and brush at the same time that the transmission line easements were acquired.

In some instances the right to cut, trim, and remove trees and brush adjacent to the transmission lines has been acquired by easement (either temporary or permanent), but the vast majority of the trees have been purchased on an individual basis through negotiation with the landowner. The Authority usually offers the timber value of the trees in question, and in most cases, that amount or an amount reasonable to both parties is agreed upon.

In recent years, however, subdivisions have been developed proximate to the Authority's transmission line easements. Further, there has been a tendency for newer homeowners to prefer more wooded and secluded lots. This has dramatically increased the resistance to the purchase of danger trees outside but adjacent to the Authority's right-of-way.

DISCUSSION

In January 1996, Empire State informed the Authority of its planned development of the remainder of its property in the Town of Lysander, County of Onondaga, in an area known as the Radisson Community. The proposed danger tree acquisition would acquire permanent rights to cut, trim, and remove trees and brush on property adjacent to the NATL through this entire residential subdivision. The development plan indicates that an additional 50 new landowners could be abutting the NATL once the property is fully developed. As a result of negotiations, the Authority has secured an option for the purchase of a 10.5± acre danger tree easement for $21,000. The agreed amount is approximately 10% of the land value of the encumbered area, which is customary for such transactions. Acquiring these rights from individual landowners over time has the potential to be much more expensive.

FISCAL INFORMATION

Funds required for this purpose were included in the 1996 Approved Operations and

Maintenance Budget. Payment will be made from the Operating Fund.

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RECOMMENDATION

The Director - Environmental Programs, the Director - Real Estate, and the Regional Manager - Central New York recommend that the Trustees approve the acquisition by purchase of the permanent easement as shown on Niagara-Adirondack Tie Line Map No. OL-1423 on substantially the terms described herein.

The Vice President - Procurement and Real Estate, the General Counsel, the Senior Vice President - Business Services, the Senior Vice President - Transmission, and I concur in the recommendation.

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

RESOLVED, That pursuant to the provisions of Article 5, Title 1 of the Public Authorities Law, the Authority hereby finds it necessary to acquire a permanent easement by purchase as shown on Niagara-Adirondack Tie Line, Map No. OL-1423, and hereby finds and determines that the acquisition of such permanent easement is reasonably necessary and desirable for the operation and maintenance of the Niagara-Adirondack Tie Line; and be it further

RESOLVED, That the President and Chief Operating Officer, the Senior Vice President - Transmission, the Regional Manager - Central New York, or the Director - Procurement and Real Estate of the Authority be, and each hereby is, authorized to execute on behalf of the Authority such agreements, certificates, requests, and directions on terms and conditions substantially in accord with the foregoing report, as are necessary or desirable for the acquisition of such permanent easement; and be it further

RESOLVED, That the Regional Manager - Central New York or the Director - Real Estate of the Authority be, and each hereby is, authorized on behalf of the Authority to execute any and all other agreements, papers, or instruments which may be deemed necessary or desirable to carry out the foregoing.

8. Addition to the Nuclear Generation O&M Expenses - Indian Point 3 Nuclear Power Plant

The President submitted the following report:

SUMMARY

The Trustees are requested to approve the addition of $18 million to the Indian Point 3 Nuclear Power Plant ('IP3') Operations and Maintenance ('O&M') budget for 1996 as a result of the extended outage of earlier this year and the need for improvement programs at that plant to ensure progress to a consistently high level of performance.

BACKGROUND

At their meeting of December 19, 1995, the Trustees approved a 1996 O&M budget of $97.6 million for IP3. This budgeted level of expenditures assumed that the hydrogen cooler repair forced outage would be completed and IP3 would be restarted by the end of 1995.

Subsequent to the preparation and approval of IP3's 1996 O&M budget, increased outage work scope as well as more repairs and operations performance problems caused the outage to be extended until April 1996. Since restart in April 1996, the plant has operated at a capacity factor of greater than 90% and a continuous improvement program is underway to raise IP3's performance to the level necessary to accomplish the Authority's 1997-99 Strategic Plan goals. Also since restart, IP3 net revenues have exceeded forecast, and primary Institute of Nuclear Power Operations safety system performance indicators have shown a consistent improving trend.

The Trustees and senior Authority management were kept informed of the status of the outage and the problems encountered. Nuclear Generation's primary goal has been to ensure that the plant equipment, staff, management, programs and processes are in place to support the safe restart and continued operation of IP3.

DISCUSSION

IP3's O&M expenses are expected to exceed the budgeted amount by $20.5 million. The additional costs are in three major categories: outage repairs and maintenance, (including repairs to critical plant systems, corrective and preventive maintenance, and plant material condition upgrades); growth in critical engineering tasks due to the outage and regulatory concerns, including reduction of backlogs, completion of mandated programs and analysis to support elimination of a 1996 surveillance outage; and continuous improvement programs to ensure safe, consistent and economical operation and achieve business plan goals.

The additional spending for outage costs was a non-recurring expense required for restart. Completion of critical engineering tasks is also a non-recurring expense required for uninterrupted operation for the remainder of 1996. The spending for IP3's Continuous Improvement Program provides the resources to move IP3 from a plant on the Nuclear Regulatory Commission's Watch List to a plant on the road to superior regulatory performance and operational excellence. Continuous improvement funds originally planned as part of IP3's 1996 O&M budget were required to resolve the hydrogen cooler outage and other high priority regulatory issues. Since restart in April, an IP3 Business Plan has been prepared which incorporates the Continuous

Improvement Plan actions. Many of the improvement programs and the outage reduction planning are in their initial stages.

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A comparable improvement program was funded at the James A. FitzPatrick Nuclear Power Plant ('JAF') in 1993 at the conclusion of its extended outage. Ten ($10) million dollars were provided for JAF's Results Improvement Program in 1993, following its return to service, and $7 million in 1994. IP3's Continuous Improvement Program includes actions in areas such as operations training, procedure upgrade, planning and scheduling control, and future outage length reduction. Continued improvement will be necessary to maintain current performance levels and make preparations for a successful 1997 refuel outage regardless of the outcome of the proposed alliance with Entergy. Funding for ongoing Continuous Improvement Programs will also be included in the 1997 O&M budget request.

This request for additional funding is summarized below:

<u>Extension of 'hydrogen cooler' outage</u>:

Additional overtime	$2,250,000
Additional craft labor and supervision for modifications, corrective and preventive maintenance	$4,530,000
Material condition and improvements	$4,300,000
Additional planners and schedulers	$1,130,000
Additional parts and materials	$ 990,000

<u>Continuous improvement</u>

Additional overtime (primarily Maintenance Dept.)	$1,400,000
Operator training	$1,000,000
Replacement/additional spare parts	$ 900,000
Additional planners and schedulers	$ 700,000
Refuel outage planning (Westinghouse)	$ 800,000
Improved Technical Specifications	$ 500,000

<u>Engineering</u>

Modification closeout	$1,000,000
Surveillance test extension (to support elimination of maintenance outage)	$1,700,000
Setpoint control program	$ 900,000
Design basis documents	$ 300,000
NRC Maintenance Rule program support	$1,000,000
Plant Equipment database support	$ 500,000

Electrical engineering support	$ 600,000
Offsetting budget reductions	
Elimination of Spring, 1996 maintenance outage	$(4,500,000)
Other reductions benefiting IP3's budget	$(1,800,000)
Total request	$18,000,000

FISCAL INFORMATION

The Authority's 1996 net revenue goal is $75 million. Through the end of August, net revenues are $99 million. Assuming the Authority's plants run well for the rest of the year, even with this additional significant expense, the Authority can still meet its annual net revenue target. This additional expense is a necessary investment to enhance plant performance and satisfy NRC concerns relative to IP3 being removed from the Watch List next year. Payment will be made from the Operating Fund.

RECOMMENDATION

The Plant Manager - Indian Point 3 Nuclear Power Plant, the Vice President - Engineering and Project Management, the Vice President - Nuclear Operations, the Vice President - Appraisal, Compliance and Regulatory Affairs, and the Chief Nuclear Officer recommend approval of additional funds in the amount of $18 million to the Operations & Maintenance Budget benefiting the Indian Point 3 Nuclear Power Plant.

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

In response to questions from Trustee Ciminelli, Messrs. Schoenberger and Salmon stated that although IP3 has been continuously up and running for some 100 days, the fact that the outage lasted until April has impacted the O&M budget as originally forecast, and has resulted in maintenance and engineering backlogs which the Authority must reduce.

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

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, authorization is hereby granted to increase the 1996 Operations and Maintenance Budget as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

Indian Point 3 Operations and Maintenance

1996 Original Operations and Maintenance Expenses Approved December 1995	**$ 97,600,000**

IP3 Additional Expenditure Authorization	**18,000,000**
Revised Approved 1996 Operations and Maintenance Expenditures	**$115,600,000**

9. Procurement (Services) Contracts - James A. FitzPatrick, Indian Point 3 Nuclear Power Plants; Headquarters; and Non-Nuclear Facilities - Extensions, Approval of Additional Funding, and Increase in Compensation Ceiling

The President submitted the following report:

SUMMARY

The Trustees are requested to approve the continuation and funding of the procurement contracts listed in Exhibit '9-A' for the Indian Point 3 ('IP3') and James A. FitzPatrick ('JAF') Nuclear Power Plants, as well as for Headquarters and the non-nuclear facilities. In addition, the Trustees are requested to approve an increase in the compensation ceiling of the procurement contract with NPS Energy Services, Inc. ('NPS'), for General Maintenance Services for IP3, to $24,000,000 from the previously approved ceiling of $14,000,000. A detailed explanation of the nature of such services, the reasons for extension, and the projected expiration dates are listed below.

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

DISCUSSION

While the Authority's policy is to use its own staff to perform necessary engineering and craft labor work, there are cases where it is necessary to utilize external contractors or consultants to supplement Authority staff during peak working periods in support of refueling and other outages, or if special expertise is required which is not available within the Authority.

Although the firms identified in Exhibit '9-A' have provided effective services, the issues or projects requiring these services have not been resolved or completed and the need exists for continuing these contracts. Trustees' approval is required because the terms of these contracts exceed one year and/or because the cumulative change order limits will exceed the levels authorized by the Expenditure Authorization Procedures in forthcoming change orders. All of the subject contracts contain provisions allowing the Authority to terminate the services at will, without liability other than paying for acceptable services rendered to the effective date of termination.

These contract extensions do <u>not</u> obligate the Authority to a specific level of personnel resources or expenditures. As the Authority performs more work in-house over the next several years, funding allocated for services performed pursuant to these contract extensions will be correspondingly reduced.

Extension of each of the contracts identified in Exhibit '9-A' is requested for one or more of the following reasons: 1) additional time is required to complete the current contractual work scope or additional services related

to the original work scope; 2) to accommodate an Authority or external regulatory agency schedule change, which has delayed, re-prioritized, or otherwise suspended required services; 3) the original consultant is uniquely qualified to perform services and/or continue its presence, and rebidding would not be practical; 4) the contractor provides a proprietary technology or specialized equipment at reasonable negotiated rates, which the Authority needs to continue until a permanent system is put in place; or 5) issues are related to the IP3 Continuous Improvement Program.

<u>Contracts in Support of the Nuclear Plants:</u>

The contract with **Duke Engineering & Services Inc.** ('Duke'; S95-76581) provides for an Operations Shift Mentoring Program at IP3. The objectives of this program are as follows: 1) to provide coaching and mentoring to IP3 shift managers and control room superiors to enhance their managerial and technical competencies based upon independent assessment of performance versus industry standards; 2) to provide feedback to IP3 plant Operations and senior management concerning crew performance reflecting both observed strengths and areas for improvement; and 3) to provide constructive input to IP3 plant Operations and senior management concerning work process improvements and other similar performance enhancements. It should be noted that the shift mentors do not serve in a line management capacity and that the safe operation of IP3 remains exclusively vested with the IP3 shift manager and operating crew. The contract with Duke became effective on November 17, 1995 to support the safe restart of IP3 and to address declining Operations' performance, as noted by the Nuclear Regulatory Commission ('NRC'). Recent inspections and evaluations by the NRC noted some measurable improvements in Operations' performance as well as some concerns. The NRC has noted that the presence of the Duke personnel has had a positive effect and should be maintained until a higher level of performance has been achieved. A six-month extension is therefore requested in order to address these issues, to ensure that the desired work processes are permanent and internalized, and to extend the benefits of observation, coaching, and evaluation by the mentors to new personnel designed to strengthen the Department. The current contract amount is $966,000; it is anticipated that an additional $566,000 will be required for the extended term. Trustees' approval is requested to extend the subject contract through May 31, 1997 and to approve the additional funding. The need for these services will be assessed intermittently during the extended period to determine whether they can be discontinued at an earlier date.

The contract with **Lawler Matusky & Skelly** (S94-64179) continues a program for collecting data needed to study the population dynamics of striped bass and Atlantic tomcod in the Hudson River. From November through April of the following year, striped bass and Atlantic tomcod are caught in nets, marked, and released alive into the Hudson River. The ongoing study, which is jointly funded by Consolidated Edison of New York, Inc; Central Hudson Gas & Electric; Orange and Rockland Utilities; and the Authority, provides the utilities with data that are used to estimate the abundance of striped bass and Atlantic tomcod in the river. The estimates of abundance are used to evaluate the effect of fish mortality caused by the operation of the Indian Point, Bowline, and Roseton power plants on the population of Hudson River striped bass and Atlantic tomcod. Data from the study will be used in support of applications to renew the State Pollutant Discharge Elimination System ('SPDES') permits for the Indian Point, Bowline, and Roseton generating stations during the current State Environmental Quality Review Act process.

While the Authority is the lead organization in this effort, all expenditures for this work are shared by the utilities according to the cost-sharing formula established by the Hudson River Cooling Tower Settlement Agreement. The Authority's share of the total is 22.89%. It should be noted that this program is part of a multi-party environmental arrangement which enabled the utilities operating power plants along the Hudson River to avoid building costly cooling towers. This contract commenced on October 1, 1994 and was approved by the Trustees at their meeting of October 25, 1994 for a term of two years and three months. A one-year extension is

requested to exercise an option for a third year in order to continue services required related to the ongoing study. The current contract amount is $499,548. It is estimated that an additional $255,750 will be required for the extended term. Rates will remain firm for the duration of the contract. It should be noted that these amounts represent the total expenditures by all utilities combined; the Authority's share of the proposed extension will be approximately $58,541. Trustees' approval is requested to extend the subject contract through December 31, 1997 and to approve the additional funding.

The contract with **Scientific Ecology Group ('SEG'; S95-74182)**, which provides for transportation, incineration, compaction, and disposal services for low level radioactive waste from JAF, commenced on October 1, 1995. The original award, in the amount of $870,000, was for one year with an option to extend for up to two additional years. Approval is now sought to exercise the option to extend the term of this SEG contract so that it coincides with seven other radwaste contracts that were approved by the Trustees at their meeting of March 26, 1996. The purpose of these contracts is to provide processing, treatment, and disposal services for the radioactive materials and radioactive waste for both IP3 and JAF. The radioactively contaminated materials and low level radioactive waste may include, but are not limited to: contaminated sludges and debris; spent processing resins and charcoal filter media; irradiated hardware; radioactively contaminated metals and wood; contaminated mechanical or electrical equipment; contaminated asbestos; contaminated used oils and hydraulic fluids; and contaminated lead (shielding). An extensive evaluation indicated that awarding multiple contracts would provide responsible Authority site managers with the ability to select the most appropriate, efficient, and cost-effective treatment method for each individual radioactive material and waste stream. Although many of the recommended vendors provide a unique service, several provide the same or similar services, but have different receipt or acceptance criteria. Multiple awards foster competition by having several vendors provide the same or similar services bid on tasks as they are required; by providing a wider range of lower-cost options for treating and dispositioning materials that will not necessarily end up at the Barnwell, South Carolina disposal site; and ensuring that each waste stream encountered at the sites can be managed in the most timely and effective manner. The Authority's agents select a particular vendor for an individual service based upon the criteria deemed most appropriate at the time, including: the material requiring treatment, waste acceptance and license criteria; vendor's unique capability; timing and availability of service; and pricing. With a multiple contractor approach, the Authority will make use of the particular expertise, specialized technologies, specific areas of service, and unique regulatory licenses of each contractor, to process and dispose of individual wastes at lower costs.

SEG offers unique radwaste incineration, waste reforming and extraction services that are not available elsewhere and that complement the services provided by the aforementioned <u>seven</u> other radwaste vendors. The continuation of services provided by SEG, in conjunction with the other service vendors, will provide additional opportunities for both plants to obtain the most competitive pricing for waste processing and reduction services. In addition, staff intends to consolidate the same radwaste services currently provided by SEG for IP3 (under a separate contract) into this contract, thus improving volume pricing, streamlining the administration process, and standardizing other terms and conditions. When this approach is fully implemented, the Authority should realize a potential savings of up to 24% compared to current costs. The current contract amount is $870,000; it is estimated that an additional $3,030,000 will be required to service both plants for the extended term. Trustees' approval is requested to extend the expanded contract through March 31, 1999 and to approve the additional funding.

Peak work periods during refueling and other outages, and the need to perform major modification work during non-outage periods to minimize outage duration, require the use of craft labor and supervision to supplement the Authority's permanent work force. Since this work is cyclical, it would not be prudent to hire an additional cadre of craft personnel full-time, since there would be insufficient work to occupy them during non-peak periods.

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The contract with **Williams Power Corp. (C94-Z0015)**, which provides for General Maintenance Services for JAF, commenced on August 31, 1994. At their meeting of August 30, 1994, the Trustees approved an initial term of one year, in the amount of $9,000,000 to cover payroll and administrative costs for providing craft labor to JAF, with the option to extend for up to two additional years. Craft labor provided under this contract works under the direction of Authority supervision and is used to support intermittent peak workloads, including maintenance and modification tasks, which are required during non-outage periods and which cannot be performed by Authority staff. There is no mark-up added to the direct cost of these craft services pursuant to this contract. At their meeting of March 28, 1995, the Trustees approved an additional $3,277,000 for additional work required due to the extension of the JAF 94-95 Refuel Outage and other maintenance and modification tasks. The Trustees approved a sixteen-month extension through December 31, 1996 and an additional $11,000,000 at their meeting of June 27, 1995. A one-year extension is now requested to exercise the third year option in order to fully support the next JAF Refueling Outage scheduled to begin in September, to support non-outage maintenance and modification tasks through 1997, and to make this contract coterminous with its counterpart for IP3, in the event a decision is made to consolidate the approach regarding general maintenance services for both plants. The current contract amount is $12,916,350; since the previously approved total compensation ceiling is $23,277,000, it is anticipated that no additional funding will be required for the extended term. The Trustees' approval is requested to extend this contract through December 31, 1997 with no anticipated additional funding.

<u>Contracts in Support of Headquarters and all Facilities</u>

The contract with **Focused Change International** (‘FCI’; S96-78576) provides for strategic planning services and for assistance in developing a strategically-driven culture at the Authority to improve overall performance. Due to the impending dramatic changes expected to occur in the electric industry in New York State, it is evident that the Authority must establish a strong strategic focus and develop a dynamic and competitive set of behaviors in order to maintain a vital and successful position within both the state government and the electric utility industry. In preparing for this challenge, Authority staff have investigated what others both within and outside the electric utility industry are doing to improve performance and prepare for increased competition. In general, most are trying to ‘transform’ their businesses through a combination of initiatives including re-engineering, mergers and acquisitions, downsizing, pursuing new business opportunities, cultural change, etc.

In discussions with leading management consulting firms, most recommended that the Authority ‘re-engineer’ its work processes to become more competitive. One firm, FCI, recommended a completely integrated approach that drives a strategic perspective to all employee levels while changing the Authority's culture, to ensure that every employee is motivated and empowered to take the actions necessary for success. FCI’s approach consists of a number of distinct processes: Strategy Development, Change Management, and Financial Performance Improvement. Its process is proprietary, and has worked successfully in dramatically transforming companies which have opted for this approach, such as Arizona Public Service and Western Resources.

To gauge whether the consultant's methodology could produce the results claimed (prior to full implementation by the Authority), FCI was contracted to assist the Authority in developing a Strategic Plan and to conduct two pilot 'FOCUS' sessions, consisting of intensive one-week organizational simulation involving some 180 Authority employees. The President, pursuant to the Authority's Expenditure Authorization Procedures, authorized commencement of services on January 2, 1996, for the initial scope of work up to $500,000, with an additional $150,000 later authorized to include a second 'FOCUS' session.

With FCI's assistance, senior management developed a proposed three-year Strategic Plan, consisting of a Mission Statement and Performance Measures. In order to quantify staff's achievements in those areas identified

as critical to the Authority's success, specific targets were established for each measure during the 1997-1999 time frame. Utilizing that plan as their guide, two 5-day 'FOCUS' sessions were held on July 15-19 and August 26-30, respectively. On the final day of each session, recommendations were made and approved for implementation by the senior executive team in attendance to improve productivity, efficiency, and other non-personnel related actions that are expected to result in potential O&M reductions estimated to be approximately $3 million. The employees also discussed other action steps to be taken immediately upon returning to their work locations, to ensure that these and other performance improvements are realized.

Based on the Authority's experience with FCI and the results achieved during the pilot sessions, staff is recommending that the programs be continued and expanded to include six additional 5-day 'FOCUS' sessions for selected employees viewed as influence leaders; 3-day 'FOCUS' sessions for all other employees; strategy development at all levels in the Authority; and a financial 'Z' team to identify additional cost savings in the Authority's O&M and capital budgets (limited at this time to the Authority's non-nuclear operations). The estimated cost for these additional services is $2,050,000, resulting in a total expected expenditure of $2,700,000 through December 31, 1997. The Trustees' approval is requested to extend this contract through December 31, 1997, and to approve the additional funding.

The contract with **The Forum Corp. (S95-74037)** provides for the design, development, and presentation of an executive development training/360 degree feedback program. This program has two parts -- a workshop and a process. The objective of the workshop is to acquaint executives with the key elements of executive success, networking, personal style, factors critical to success and derailment, and 360 degree results and action plan. The 360 degree feedback provides participants with a snapshot of how they are perceived in the organization, as well as techniques for improving such perceptions as appropriate. The process consists of a collaborative approach with the executive and his/her manager. A management development consultant provides a number of suggestions and resources to develop the executive, including individual coaching, internal/external consultants, job rotations, seminars, workshops, temporary assignments, etc. This agreement became effective on August 7, 1995 for a term of up to one year in the amount of $100,000. The President's interim approval was obtained to extend services through September 30, 1996 and to increase the contract amount by $50,000. A one-year extension is now requested in order to complete the original scope of the program, which was suspended for six months, as well as to accommodate the expanded scope, which includes an additional level of managers. The current contract amount is $150,000. It is anticipated that an additional $75,000 will be required for the extended term. Trustees' approval is requested to ratify the President's interim approval, to extend the subject contract through June 30, 1997 and to approve the additional funding.

The contract with **General Physics** (C95-Z0052) provides for the review and reduction of inventory levels at all Authority sites. This includes software and analysis that identified opportunities to help the operating facilities reduce overall inventory levels by 10% and on-site support to assist Materials Managers in implementing the software's features. The original award was issued on July 28, 1995, in the firm lump sum of $188,800, for a period of less than one year. The President's interim approval was obtained to extend services through September 30, 1996 in accordance with the Authority's Guidelines for Procurement Contracts and Expenditure Authorization Procedures. A nine-month extension is requested in order to complete work on Change Order 1, which was issued on April 1, 1996, in the additional amount of $74,105. This involves the standardization of the Authority's inventory nomenclature, which includes developing a Materials Catalog using standard stock codes and electronically updating the Authority's inventory database. This effort is very comprehensive and will require more time to complete than originally anticipated. The current contract amount is $262,905; it is estimated that an additional $37,095 may be required for the extended term for any related miscellaneous tasks that may be required. The Trustees' approval is requested to ratify the President's interim approval, to extend this contract through June 30, 1997, and to approve the additional funding.

September 24, 1996

The contract with **Prism Consulting** (C95-Z0065), which became effective on October 2, 1995, provides for management consulting services to assist the Authority in the assessment of key strategic issues relating to the Authority's nuclear program. The initial primary emphasis was to develop a comprehensive analysis of the potential options available to the Authority with regard to the safe, reliable, and competitive operation of its nuclear plants. A secondary issue involved examination of the Authority's changing role in light of an increasingly competitive industry. This led to a more detailed examination of the options for operating the nuclear plants, including obtaining the services of an Advanced Nuclear Enterprise (‘ANE’). Since the Authority has chosen this option, prelimarily selecting the firm of Entergy, a three-month extension is requested in order to retain the consultant's services to assist in the negotiation of issues and development of further agreements. The current contract amount is $427,500; it is anticipated that an additional $180,000 will be required for the extended term. The Trustees' approval is requested to extend this contract through December 31, 1996 and to approve the additional funding.

The contract with **Enisol, Inc.** (S95-71868), which became effective on May 5, 1995, provides for computer programming services related to the implementation of a Niagara River flow forecasting model. This involves integrating a mathematical, computerized flow forecasting model, developed by the University of Pittsburgh under a separate agreement, into the operating environment for the Niagara River Control Centre (‘NRCC’). The NRCC is jointly owned and operated by the Authority and Ontario-Hydro for the purpose of dispatching water to the Niagara Power Project and Ontario-Hydro's generating stations, pursuant to the terms of the 1950 Treaty Concerning the Uses of the Waters of the Niagara River between the United States and Canada, and with other regulatory constraints established by the International Board of Control.

Completion of work to be performed by Enisol was delayed by tasks that Authority staff were to perform to support Enisol, but could not be completed due to a need for Authority staff to work on other priority items; the delay was not due to Enisol. An extension of 20 months is requested to complete the original work scope, as well as to allow Enisol sufficient time to complete tasks that Authority staff were to perform, to complete the integration of the model into operations, and to transfer the computer programs and documentation to the Authority and Ontario-Hydro.

The current contract amount is $50,458; it is anticipated that an additional $25,000 will be required for the extended term. The Trustees' approval is therefore requested to extend the subject contract through December 31, 1997 and to approve the additional funding. It should be noted that the Authority and Ontario-Hydro share these costs equally under provisions of the Niagara Joint Works Agreement. The development and implementation of the flow forecasting model was justified based on a favorable benefit-cost assessment of reductions in power generation losses that result from storm surge events that occur in Lake Erie. It is estimated that the cost of the development and implementation of the flow forecasting model will be recovered within about three years of its full-time, on-line use by the NRCC staff.

The contract with **McDaniel Fire Systems** (S95-76216), which became effective on November 14, 1995, provides for control tunnel fire protection modifications at the Robert Moses Niagara Power Project. The award, for the firm lump sum of $1,595,500, included the engineering and design as well as installation of fire protection modifications. However, the initial release to McDaniel Fire Systems included only the engineering data and drawing preparations work in the amount of $45,618. The Authority planned to release the remaining contract amount for the construction work upon successful completion of the initial engineering and design work and receipt of the necessary construction permits. The initial schedule called for completion of both phases in less than one year. This has proven to be too ambitious, due to various delays in the iterative review process. McDaniel has resolved these comments, the hydraulic calculations, and the drawings are finalized. Since the construction work was just authorized to commence on August 21, 1996, an extension through December 31, 1997 is requested in

order to complete all such work and allow sufficient time for final contract closeout. The current contract amount is expected to remain at $1,595,500. The Trustees' approval is requested to extend the subject contract through December 31, 1997 with no anticipated additional funding.

<u>Contract on behalf of the Law Department:</u>

The contract with **Hawkins, Delafield, & Wood** (CZ-7116) provides for advice and counsel to the Authority concerning changes in tax laws and regulations, and for services relating to the Authority's ability to issue obligations under the Power Authority Act and various bond and note resolutions. The firm is at the center of numerous substantive matters, including the marketing of Authority power and energy and transmission services, under new Internal Revenue Service (‘IRS’) regulations, and New York State electric industry restructuring. This contract became effective on April 1, 1986 and was reviewed and approved by the Trustees at their meetings of April 29, 1986, December 19, 1988, November 27, 1990, and August 30, 1994, respectively. A three-year extension through December 31, 1999 is now requested. This extension and projected increase in the level of expenditures reflects continued focus on tax issues of marketing as well as the need for legal advice regarding industry restructuring. The current contract amount is $1,662,000; it is anticipated that an additional $650,000 will be required for the extended term. The Trustees' approval is therefore requested to extend the subject contract through December 31, 1999 and to approve the additional funding.

The contract with **Lippes, Silverstein, Mathias & Wexler** (S92-34429) provides assistance to the Authority in the Preference Power rate litigation pending in Niagara County. Many of the issues raised in this case are similar to those in the earlier Replacement Power rate cases, handled by Ms. Sharon Porcellio of this firm. While the Authority's legal papers are prepared by Authority in-house legal staff, Ms. Porcellio will act as the Authority's local counsel; she will apprise staff of local rules, procedures, and judges; help in serving and filing papers; and handle routine court appearances. This contract became effective on May 1, 1992; an extension was approved by the Trustees at their meeting of February 23, 1993. A three-year extension through May 16, 1999 is now requested. Although activity and fees in 1996 were minimal, the litigation is likely to intensify in 1997. The current contract amount is $50,000; it is anticipated that an additional $10,000 will be required for the extended term. The Trustees' approval is therefore requested to extend the subject contract through May 16, 1999 and to approve the additional funding.

The contract with **National Economic Research Associates, Inc.** ('NERA'; S95-76393) provides for this firm to assist the Authority with industry restructuring issues, and, particularly, the transmission proposal. NERA provides economic and industry analyses and advice in connection with the restructuring forums. The Authority is taking an increasingly active role in utility industry restructuring matters in New York and can benefit from an economic consultant with expertise in this area. NERA is intimately familiar with industry restructuring in England and California, two venues in which restructuring activities have been underway for several years. NERA's energy practice principal, Ms. Sally Hunt, lived in England for more than three years working on English utility industry restructuring matters and is now active in the California restructuring effort. This agreement became effective on October 6, 1995. A three-year extension through October 5, 1999 is now requested, since the restructuring effort has intensified and substantive work is expected to be required. The current contract amount is $250,000; it is anticipated that an additional $50,000 may be required for the extended term to cover any additional economic analyses, which may be required in the event the Authority's transmission proposal re-emerges as a serious option in the restructuring debate. The Trustees' approval is therefore requested to extend the subject contract through October 5, 1999 and to approve the additional funding.

September 24, 1996

The contract with **Shaw, Pittman, Potts & Trowbridge** (S96-80503) provides for legal services in
connection with 1) the retention of an Advanced Nuclear Enterprise ('ANE'); and 2) the pursuit of refunds for possible overcharges and/or negotiations to achieve more favorable pricing for nuclear fuel/uranium enrichment services from the United States Enrichment Corporation ('USEC'), the successor to the United States Department of Energy. Although the first matter may be substantially complete by the end of 1996, negotiations for a five-year Management Services Contract may be ongoing, and activity may continue into 1997. The Authority's regular outside nuclear counsel, Winston & Strawn, has an apparent conflict of interest, as that firm represents Entergy in some matters. With respect to the second matter, Shaw, Pittman has spearheaded an industry effort to recover overcharges from USEC or negotiate better pricing for new contracts for upcoming enrichment services contracts. Since the Authority's Fuels Group uses USEC services for approximately 70% of its enrichment contracts, and the possible recovery for past services is estimated between $2 - 4 million, this effort is expected to be pursued vigorously. This contract, which was approved on a contingency basis by the Trustees at their meeting of March 26, 1996, commenced on April 1, 1996. Since the aforementioned matters are expected to require substantive work, a three-year extension through March 31, 1999 is requested. The current contract amount is $50,000; it is anticipated that an additional $100,000 may be required for the extended term. The Trustees' approval is therefore requested to extend the subject contract through March 31, 1999 and to approve the additional funding.

The contract with **Stetson-Harza** (CZ-7369) provides for technical analyses of the Niagara River's ice carrying capacity in connection with the DeLaura v. Power Authority litigation. The outcome of this case may dictate how the Niagara Project is operated during periods of adverse winter weather conditions. In turn, these operational constraints will affect the revenue stream from the Niagara Project. The Federal District Court in Buffalo dismissed plaintiffs' complaint in December 1991. However, under New York law, plaintiffs were entitled to, and in fact did, file a new complaint in the New York State Supreme Court, Niagara County, making the same claims and requesting the same relief as in federal court. In March 1995, the Authority moved to dismiss the complaint and plaintiffs opposed the motion. To date, no decision has been issued by the

Court. A decision is anticipated, and, in this context, the consultant may be requested to start preparations for trial. This contract became effective on October 1, 1986 and was reviewed and approved by the Trustees at their meetings of November 24, 1987, December 21, 1989, April 30, 1991, and May 25, 1993, respectively. The current contract amount is $364,000; it is anticipated that no additional funding will be required for the extended term. The Trustees' approval is therefore requested to extend the subject contract through June 30, 1999 with no anticipated additional funding.

Extension/Increase in Compensation Ceiling:

The contract with **NPS Energy Services, Inc.** (‘NPS’; C95-Z0040), which provides for General Maintenance Services for IP3, commenced on July 1, 1995. The scope of this contract consists of performing modification, maintenance, and repair work, which cannot be performed by Authority in-house personnel, during normal operations, scheduled outages, and forced outages. The following work will be performed on an ‘as required’ basis: facility maintenance; plant modification installation; corrective and preventive maintenance; outage support activities; and work package planning. The Trustees approved an initial term of 18 months and a contract amount of $14,000,000 at their meeting of June 27, 1995.

A one-year extension is now requested in order to fully support the next IP3 Refueling Outage at IP3 scheduled to begin in April of 1997, to support non-outage maintenance and modification tasks through 1997, and to make this contract coterminous with its counterpart for JAF, in the event a decision is made to consolidate the approach regarding general maintenance services for both plants. The forthcoming Refueling Outage at IP3 (‘RO9') includes tasks supporting painting in radiological areas, asbestos abatement, improving material condition of the plant, work area reconfiguration, and general modification work. These include, but are not limited to:

replacing piping and radwaste lines, performing upgrades to the control room and radiation monitors, etc. The current estimate for the total amount expected to be expended for RO9-related tasks is $10,000,000, including contingency.

The Trustees' approval is requested to authorize the RO and non-outage maintenance tasks as outlined above, to approve an extension of the subject contract through December 31, 1997, and to approve the additional funding.

FISCAL INFORMATION

Funds required to support contract services for various non-nuclear Headquarters departments/Business Units have been included in the 1996 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

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

Funding for subsequent years for both JAF and IP3 will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

The Plant Manager - James A. FitzPatrick Nuclear Power Plant, the Plant Manager - Indian

Point 3 Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, the Director - Environmental Programs, and the Senior Vice President - Power Generation, recommend the Trustees' approval of the extension and additional funding of the procurement contracts listed in Exhibit '9-A' and of an extension and increase in compensation ceiling of the contract with NPS Energy Services, Inc., as set forth above.

The Vice President - Procurement and Real Estate, the General Counsel, the Senior Vice President - Business Services, the Chief Nuclear Officer, and I concur in the recommendation.

The Vice Chairman inquired about the status of management's efforts to reduce the overall number of outside contractors. President Schoenberger responded that the number of "FTEs" (full-time equivalent employees) including outside contractors, which was in the vicinity of 5,000 prior to 1993, has been and continues to be scrutinized and is steadily decreasing. He added that on the non-nuclear side, cost-cutting projections are currently being established through 1999, and that on the nuclear side, Entergy will carry out that task. The Vice Chairman requested that the Trustees be provided with a written summary of the applicable numbers.

In response to questions from Trustee Miller, Mr. Hoff explained that the Forum Corporation provides a proprietary process which is being used in the evaluation of performance by all levels of management. In response to further questions from Trustee Miller, Mr. Pratt described the parameters of certain work performed by local counsel.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit 9-A is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed below, as recommended in the foregoing report of the President; and be it further

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, an increase in the compensation ceiling of the contract with NPS Energy Services, Inc. be, and hereby is, approved as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

O & M	**Contract Approval (Increase in Compensation Ceiling**	**Projected Closing Date**
Provide General Maintenance Support Services for IP3		
NPS Energy Services (C95-Z0040)	**$10,000,000**	**12/31/97**
Previously Approved Compensation Ceiling	**14,000,000**	
TOTAL REVISED COMPENSATION CEILING	**$24,000,000**	

10. Procurement (Services) Contracts - James A. FitzPatrick and Indian Point 3 Nuclear Power Plants; and Headquarters - Awards

The President submitted the following report:

SUMMARY

The Trustees are requested to approve the award and funding of the multi-year procurement contracts listed in Exhibit '10-A' for the James A. FitzPatrick ('JAF') and Indian Point 3 ('IP3') Nuclear Power Plants, and Headquarters. A detailed explanation of the nature of such services, the basis for the awards, and the intended duration of such contracts are listed in the discussion below.

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.

In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services contracts in excess of $3,000,000, as well as personal services contracts in excess of $1,000,000 if low bidder, or $500,000 if sole source or non-low bidder, require Trustees' approval.

DISCUSSION

While the Authority's policy is to use its own staff to perform necessary engineering and craft labor work, there are cases where it is necessary to utilize external contractors or consultants to supplement Authority staff during peak working periods in support of refueling and other outages, or if special expertise is required that is not available within the Authority.

The terms of these contracts will be more than one year, therefore the Trustees' approval is required. All of these contracts contain provisions allowing the Authority to terminate the services at will, without liability other than paying for acceptable services rendered to the effective date of termination. Approval is also requested for funding all contracts, ranging in estimated value from $12,000 to $5,000,000.

These contract awards do not obligate the Authority to a specific level of personnel resources or expenditures. As the Authority performs more work in-house over the next several years, funding allocated for services performed pursuant to these contract awards will be correspondingly reduced.

The issuance of multi-year contracts is recommended from both a cost and efficiency standpoint. In many cases, reduced prices can be negotiated for these longer term contracts. Since these services are typically required on a continuous basis, it is more efficient to award longer term contracts than to rebid these services annually.

MULTIPLE AWARDS IN SUPPORT OF HEADQUARTERS AND BOTH NUCLEAR PLANTS:

The four contracts with **G.D. Barri & Associates, Inc.; Horace Cofer Associates, Inc.; Sun Technical Services, Inc.; and Tad Energy Services (Q-02-1633; PO #'s TBA)** will become effective on January 1, 1997, subject to the Trustees' approval. The purpose of these contracts is to provide temporary training personnel to the IP3 Training Department on an 'as required' basis, in support of training commitments to the Nuclear Regulatory Commission ('NRC') and Institute of Nuclear Power Operations ('INPO'). Temporary trainers are required to fill vacant permanent Authority staffing positions, since these positions remain difficult to fill. The areas of specialized training include, but are not limited to: simulator hard- and software, health physics, radwaste and chemistry, instrumentation and control, licensed Senior Reactor Operators and non-licensed Nuclear Reactor operators.

Eighteen bids were received in response to the Authority's request for proposals (in addition to twelve non-responding vendors and notice in the Contract Reporter). Based on the mark-up rankings of the responding bidders, the first 10 bidders were selected for technical evaluation. They were assessed according to the following weighted criteria: ability to supply personnel for all positions in the Training Department; capability of screening potential candidates; number of similar positions filled at other nuclear sites; ability to meet all technical requirements in the proposal; frequency and ability to make site visits; and ability to meet the Authority's M/WBE requirements. The final ranking of the most technically qualified bidders, based on the summation of the weighted attributes, follows: Sun Technical Services; Tad Energy Services; Horace Cofer Associates; and G.D. Barri & Associates, Inc. Based on these commercial and technical evaluations, as well as past experience with this approach, it was determined that multiple awards to several most technically qualified bidders would be most efficient and cost-effective to the Authority. The four selected firms will competitively bid against each other for services, submitting resumes of their most technically qualified personnel, corresponding rates and availability for each training course required. This will ensure the best possible product/services and price for the Authority. It should also be noted that G.D. Barri is a New York State certified Women's Business Enterprise ('WBE').

The intended term of these contracts is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the three-year term of the contracts, $5,000,000. Commitments will be made to the individual contracts as trainers are hired; commitments and expenditures for all four contracts will be tracked against the approved total. The need for these services will be assessed intermittently during the contract period to determine whether they should be discontinued at an earlier date.

The three contracts with **Altran, Inc.; Kalsi Engineering; and MPR Associates, Inc. (Q-02-1705; PO #'s TBA)** will become effective on October 1, 1996, subject to the Trustees' approval. The purpose of these contracts is to provide motor-operated valve ('MOV') engineering services in support of IP3 and JAF. The work scope includes: providing assistance in implementing the EPRI MOV Performance Prediction Methodology for selected MOVs at IP3 and JAF; applying advanced analytical methods, including finite element modeling, to quantify required stem loads to open valves under thermal- and pressure-induced binding conditions, and pressure locking conditions; providing assistance in evaluating the potential issue of Limitorque actuator motor shaft cracking at both plants; and increasing existing weak link analysis thrust limits for selected MOVs at both plants. These services are deemed necessary to enable expeditious resolution of such potential industry issues and to support closure of the Nuclear Regulatory Commission ('NRC') Generic Letter ('GL') 89-10 and 95-07 programs at both plants.

Seven bids were received (in addition to 7 additional non-responding bidders and notice in the Contract Reporter). All seven bids received were reviewed for technical capability, specific experience, potential cost, and responsiveness to the requirements of the Authority's request for proposals. Based on the information provided, four bidders were eliminated from further consideration, since these firms did not have specific experience in the most important technical areas required, viz., implementation and extension of the EPRI methods; evaluation of the motor shaft cracking issue; and use of state-of-the-art methods for evaluating pressure locking and thermal binding. The three remaining bidders, Altran, Kalsi, and MPR, are considered to be the most technically qualified in different areas of the workscope. No one firm is clearly superior in all aspects, and since the rates for technical personnel are very similar, there is no clear cost advantage to selecting one of these three firms. It is therefore recommended to award three contracts and competitively bid workscopes as they are required.

The intended term of these contracts is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the three-year term of the contracts, $250,000.

The two contracts with **Structural Integrity Associates, Inc. (‘SIA’) and MPR Associates, Inc. (‘MPR’) (Q-02-1660; PO #'s TBA)** will become effective on October 1, 1996, subject to the Trustees' approval. The purpose of these contracts is to provide inter-granular stress corrosion cracking (‘IGSCC’) services in support of IP3 and JAF. These include, but are not limited to: design of weld overlays (with preparation of calculation packages, technical review, letter report, and incorporation of Authority comments); fracture mechanics and crack growth analysis; shrinkage stress analysis; seismic/deadweight evaluation; and vessel/piping integrity support.

Four bidders submitted bids in response to this request for proposal (in addition to five non-responding vendors and notice in the Contract Reporter). Based upon a review of firm price bids, it is recommended that SIA be awarded the primary contract for IGSCC services; SIA was the low bidder for all firm price items except one workscope and the vendor is uniquely positioned within the nuclear industry on material issues at both boiling and pressurized water reactor plants. It is also recommended that MPR be a awarded a ‘backup’ contract for emerging workscopes, to allow for competitive bidding on new tasks, as they may arise.

The intended term of these contracts is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the three-year term of the contracts, $500,000.

The contract with **Westinghouse Electric Corp. (S96-82552)** commenced on August 5, 1996, with the Chief Nuclear Officer's approval, in accordance with the Authority's Guidelines for Procurement Contracts and Expenditure Authorization Procedures. The President's interim approval was also obtained to authorize an additional $250,000 through September 30, 1996. The purpose of this contract is to provide on- and off-site pre-outage services for IP3, in preparation for Refuel Outage 9 (‘RO 9'), scheduled to commence in April 1997. The major tasks that Westinghouse will perform include: developing engineering work packages for all Westinghouse services; facilitating the upgrade/revision of service procedures; assisting with parts planning; developing detailed schedules and contingency plans; and conducting general outage logistics planning.

This contract was awarded on a sole source basis, since Westinghouse is the original designer and manufacturer of the Nuclear Steam Supply System and other plant equipment at IP3. It is contemplated that Westinghouse will be retained to provide an ‘integrated outage’ approach to RO 9, in which Westinghouse will have extensive responsibility for performance of the overall outage and fewer tasks will be performed by other contractors. Through this unique approach, it is planned to reduce the outage duration to fifty days or less, which will have a significant positive impact on overall plant operating costs for 1997. The intended term of this contract is approximately eight months; it will terminate upon the start of RO 9, currently scheduled to commence approximately April 14, 1997. The current contract amount is $450,000. The Trustees' approval is requested for the total amount expected to be expended for the term of this contract, $2,500,000. The final contract to be negotiated with Westinghouse for RO9 will include appropriate incentive/penalty provisions regarding schedule performance targets for that outage.

Contracts in support of Headquarters:

The contracts with **Towers Perrin and The Hay Group (Q-02-1659)** will commence on October 1, 1996, subject to the Trustees' approval. The purpose of these contracts is to provide compensation consulting services for the Authority. These are comprised of conducting market pricing studies for particular jobs or groups of jobs in selected groups of competitor organizations (including analysis of base pay, incentives, total cash, and policies and practices); providing compensation plan design, which may include large and small group incentives, broadbanding, competency-based pay, recommending compensation strategies, providing assistance in structuring the Authority's compensation plans; and continued evaluation of individual job positions and groups of positions using the Hay Method of Job Evaluation.

Nine proposals were received (in addition to four non-responsive firms and notice in the Contract Reporter). Based on the information provided, five bidders were eliminated from further consideration, since these firms did not have the requisite qualifications and experience. The remaining four bidders were all qualified to perform the work and each has a compensation market pricing data base. All have significant compensation consulting experience in electric utilities. Two, Towers Perrin and the Hay Group, have experience with large public power utilities. Based on the technical evaluation, including bidders' qualifications, experience, and rates, the award of contracts to two firms is recommended: Towers Perrin, for plan design and associated market pricing, and The Hay Group, for job evaluation and selected market pricing studies. This will provide the Authority with continued depth of expertise in issues unique to the Authority, access to the market pricing data base used by the Authority in the past, additional breadth of expertise in plan design, exposure to the compensation strategies used by a broad array of utilities, and access to an additional market pricing data base. The intended term of these contracts is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the three-year term of the contracts, $210,000.

IP3 AWARDS:

The contract with **A-All Pest Control Services (C96-I6828)** will commence on February 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide exterminating services on a monthly and an 'as needed' basis for various buildings and locations at IP3. A-All Pest Control was the low bidder of nine bids received (in addition to eight non-responding vendors and notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $18,000.

The contract with **Bently Nevada (C96-I6831)** will commence on September 25, 1996, subject to the Trustees' approval. The purpose of this contract is to provide field service technicians to provide on-site troubleshooting and repair services of Main Turbine Generator ('MTG') and Main Boiler Feed Pump ('MBFP') vibration analysis and balancing at IP3. Since Bently Nevada is the original equipment manufacturer ('OEM'), this contract is awarded on a sole source basis; it should be noted that a notice was also published in the Contract Reporter in an attempt to identify additional potential bidders; however, no additional bidders were identified. Bently Nevada is the only firm also capable of providing remote on-line analysis of MTG and MBFP vibration problems via computer tie-in to System 64. This is crucial for quick emergency assessments of machine conditions of the MTG and MBFP, which are directly related to electrical generation. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $30,000.

The contract with **C.C. Boyce & Sons, Inc. (C96-I6827)** will commence on January 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide waste removal services, on an 'as needed' basis, for IP3 and the Wenco warehouse building on occasion. The contractor is responsible for providing numerous dumpsters of various capacities with tarps, as well as compactors. C.C. Boyce was the low bidder of five bids received (in addition to nine non-responding vendors and notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $270,000.

The contract with **Centrico, Inc. (C96-I6830)** will commence on January 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide a factory service representative to provide quarterly preventative maintenance inspection and service for the Westfalia equipment at IP3, as well as to perform repairs on such equipment, on an 'as required' basis. This equipment removes water and particulates from hydraulic oil systems for the Main Turbine Generator and Main Boiler Feeder Pump. Since Centrico is the only factory certified representative for Westfalia, the original equipment manufacturer of this permanently installed system, this contract is awarded on a sole source basis. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $54,000.

The contract with **Dutchess Overhead Door (C96-I6826)** will commence on January 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide preventive and corrective maintenance on all metal overhead doors at IP3, on an 'as required' basis. The contractor will also inspect all overhead doors approximately once a year and issue a detailed report of findings. Estimated repair costs and time to make the repairs will be identified. Dutchess was the low bidder of two bids received (in addition to five non-responding vendors and notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $30,000.

The contract with **Foxboro Company (C96-I6813)** will commence on January 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide off-site repair of Foxboro equipment, on an 'as needed' basis, for IP3. Foxboro equipment is used to monitor and control all processes associated with the control room, i.e., safety-related systems and critical instrumentation. Since Foxboro is the original equipment manufacturer ('OEM'), this contract is awarded on a sole source basis; it should be noted that a notice was also published in the Contract Reporter in an attempt to identify additional potential bidders; however, no additional bidders were identified. The intended term of this contract is two years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $20,000.

The contract with **HBA Automotive, Inc. (C96-I6816)** commenced on July 1, 1996, subject to subsequent Trustees' approval. The purpose of this contract is to provide automotive and truck maintenance and repair services, on an 'as required' basis, for IP3 vehicles. Services include: NYS inspection, safety inspection, oil changes, tune-ups, repairs, parts, brakes, tires, and towing. HBA Automotive was the sole responding bidder of seven bids solicited (in addition to notice in the Contract Reporter). The intended term of this contract is three years (one year award with an option for two additional years), subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $120,000. The Procurement Division has negotiated significant discounts in the price for oil changes, safety checks, and other repairs.

The contract with **ITI Movats Inc. (C96-I6814)** will commence on October 1, 1996, subject to the Trustees' approval. The purpose of this contract is to provide off-site calibration and repair of Authority-owned motor-operated valve (MOVATS) diagnostic equipment, on an 'as required' basis, for IP3. ITI Movats was the sole responding bidder of two bids solicited (in addition to notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $150,000.

The contract with **National Nuclear Corp. (C96-I6811)** will commence on October 1, 1996, subject to the Trustees' approval. The purpose of this contract is to provide off-site repair and/or calibration services for National Nuclear radiation detection and monitoring equipment, on an 'as needed' basis, for IP3. Since National Nuclear is the original equipment manufacturer ('OEM'), this contract is awarded on a sole source basis; it should be noted that a notice was also published in the Contract Reporter in an attempt to identify additional potential bidders; however, no additional bidders were identified. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $12,000.

The contract with **Reading Crane and Engineering Company (C96-I6854)** will commence on September 25, 1996, subject to the Trustees' approval. The purpose of this contract is to provide for on-site preventive and corrective maintenance services (scheduled and emergency repairs) on approximately 37 Cat I and Non-Cat I cranes, located in various buildings and areas at IP3. Reading Crane was the low bidder of three bids received (in addition to four non-responding vendors and notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, $705,000. This amount is consistent with historical usage data and expenditures under the previous contract.

FISCAL INFORMATION

Funds required to support contract services for various headquarters Business Units have been included in the 1996 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

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

Funding for subsequent years for both JAF and IP3 will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

The Plant Manager - James A. FitzPatrick Nuclear Power Plant, the Plant Manager - Indian Point 3 Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, and the Vice President - Procurement and Real Estate, recommend the Trustees' approval of the award of multi-year procurement contracts to the companies listed in Exhibit '10-A' and as discussed above.

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

In response to questions from the Vice Chairman, Ms. Estrin explained that the Human Resources Department continues to require the Hay Associates' data on the utility industry since it is virtually unobtainable from other sources.

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 the multi-year procurement contracts listed in Exhibit 10-A are hereby approved for the period of time indicated, in the amounts and for the purposes listed, as recommended in the foregoing report of the President.

11. Next Meeting

The next regular meeting of the Trustees will be held on **Tuesday, October 29, 1996**, **at the New York City Office** at **10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

Upon motion made and seconded, the meeting was closed at 10:50 A.M.

Anne Wagner-Findeisen
Corporate Secretary

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