

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

June 24, 1997

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Minutes of the Meeting of the Power Authority of the State of New York held at the St. Lawrence(F. D. Roosevelt Power Plant at 10:00 a.m.

Present: Clarence D. Rappleyea, Chairman
Louis P. Ciminelli, Trustee
Hyman M. Miller, Trustee
Robert J. Waldbauer, Trustee

Robert G. Schoenberger	President and Chief Operating Officer
Peter W. Delaney	Senior Vice President - Business Services
John F. English	Senior Vice President - Corporate Planning
Robert A. Hiney	Senior Vice President - Power Generation
James Knubel	Senior Vice President and Chief Nuclear Officer
Louise M. Morman	Senior Vice President - Marketing and Economic Development
Philip J. Pellegrino	Senior Vice President - Transmission
Robert L. Tscherne	Senior Vice President - Energy Efficiency & Technology
Charles M. Pratt	General Counsel
Arnold M. Bellis	Vice President and Controller
John M. Hoff	Vice President - Procurement and Real Estate
Russell J. Krauss	Chief Information Officer
Charles I. Lipsky	Vice President - Chief Engineer - Power Generation
Gerard V. Loughran	Vice President - Human Resources
Stephen P. Shoenholz	Vice President - Public Relations
Ronald W. Ciamaga	Regional Manager - Northern New York
Richard E. Kuntz	Regional Manager - SENY Southeast New York
Daniel Berical	Director - Intergovernmental Affairs
Joseph J. Brennan	Internal Auditor
Jordan Brandeis	Director - Strategic Planning
Thomas J. Concadoro	Director - Corporate Accounting
John L. Murphy	Director - Public Information
Mark D. O'Connor	Director - Real Estate
William Slade	Director - Environmental Programs
John Suloway	Director - Licensing
George W. Collins	Treasurer
Carmine J. Clemente	Counsel
Craig D. Banner	Manager - Muni and Coop Marketing
James J. Peterson	Manager - Power Contracts
Anne Wagner-Findeisen	Corporate Secretary
Laura M. Badamo	Assistant Corporate Secretary - Legal Affairs
Vernadine E. Quan-Soon	Assistant Corporate Secretary - Corporate Affairs

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

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1. Approval of the Minutes

The minutes of the Regular Meeting held on May 20, 1997, were approved.

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2. **Financial Report for the Four Months Ended April 30, 1997**

3. City of Plattsburgh - Increase in Retail Rates - Notice of Adoption

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve revisions in the base retail rates of each customer service classification for the City of Plattsburgh, New York. These revisions will result in additional total annual revenues of \$961,361 or 8.8%.

BACKGROUND

"The proposed rate increase is required to provide adequate revenues to meet Plattsburgh Municipal Lighting Department's ('PMLD') 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 April 21, 1989 when the Trustees approved a 4.6% system revenue increase.

"The management of the PMLD has planned additions to plant-in-service amounting \$3,258,000 through calendar year 1998. The program includes the installation of a modern load management system, replacement of four old line trucks, purchase of line transformers and the reconductoring of distribution circuits. The PMLD plans to debt finance a portion of the capital program by issuing a \$2,500,000 bond and fund the remainder through the revenue increase.

"The proposed rate revisions are based upon a cost of service study prepared by PMLD's consultant and reviewed by the Authority, for consistency with the Authority's cost of service methodology.

DISCUSSION

"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 April 30, 1997. A public hearing was held by the City on March 25, 1997, with no objection to the proposal. On April 4, 1997 the City Common Council approved the proposed rates.

"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.

RECOMMENDATION

"The Manager - Municipal and Cooperative Marketing and Regulation recommends that the attached schedule of rates for the City of Plattsburgh, 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.

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“The General Counsel, the Senior Vice President - Marketing and Economic Development, 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 City of Plattsburgh, 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 final 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. Letter Agreement with Long Island Lighting Company Governing Richard M. Flynn Power Plant Energy Pricing and Operation

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the terms of a new agreement ('Proposed 1997 Agreement') with Long Island Lighting Company ('LILCO') governing, among other things, energy pricing and dispatching and gas balancing in connection with the Richard M. Flynn Power Plant (the 'Plant'). The new agreement would replace the current letter agreement governing these matters that has expired.

BACKGROUND

"The Authority and LILCO are parties to the Capacity Supply Agreement ('CSA') and the Gas Transportation Agreement ('GTA') relating to the Plant, both dated December 13, 1991. The CSA allows LILCO to economically dispatch the Plant as LILCO desires, with the Authority obligated to provide natural gas and balancing services as required to meet such dispatch. The CSA also provides for LILCO to use its own gas when it is economic to do so, with the parties sharing the resulting savings from the transaction.

"Under the terms of the CSA and in view of then-prevailing gas prices, the Plant would have experienced a very low capacity factor when it went into commercial service in May 1994. This pricing situation continues today. To ensure that the Plant, which is the most efficient unit on Long Island, operated as a baseload facility, the Authority and LILCO entered into a May 19, 1994 Letter Agreement ('the 1994 Agreement') which, among other things, modified certain pricing and operating provisions of the CSA. Under the terms of the 1994 Agreement, the Authority provided all the gas for the Plant predicated on a shared savings arrangement that allowed the Plant to operate when it would otherwise not be dispatched under the CSA due to high gas costs.

"The 1994 Agreement expired on April 30, 1997. While LILCO customers and the Authority have both realized savings and would continue to receive benefits from the shared savings provision of the 1994 Agreement, LILCO is unwilling to extend that agreement in its existing form. LILCO observes that, under the locational based marginal cost pricing ('LBMP') system that LILCO, the Authority and the other New York Power Pool members are endeavoring to implement, LILCO will be required to bid the output of the Plant on an hourly basis. To that end, it will require pricing in advance, a feature not consistent with the provisions of the 1994 Agreement.

DISCUSSION

"The Authority and LILCO have negotiated the Proposed 1997 Agreement that will benefit both organizations. The term of the Proposed 1997 Agreement, which is attached hereto as Exhibit '4-A' in draft form, is from May 1, 1997 through December 31, 2000. The Proposed 1997 Agreement is designed to stabilize the Plant's revenue stream, provide additional revenue support during periods of low natural gas prices, and ensure economic dispatch of the Plant in an unpredictable and evolving competitive market. In addition, it provides for improved gas balancing services from LILCO.

Electricity Pricing

"The Proposed 1997 Agreement would replace the shared savings arrangement for electricity generated at the Plant with a pricing mechanism predicated on the Economy Gas Rate, along with LILCO's payment of variable operation and maintenance Plant costs. The Economy Gas Rate consists of: (1) the Commodity Price of Gas, which is the simple average of the NYMEX settlement price for the prompt month contract on the last three trading days prior to the month of delivery; (2) a sliding percentage markup predicated on the Commodity Price of Gas; (3) the Authority's variable gas transportation costs including any tariff surcharges; and (4) any taxes now or hereafter imposed on the sale of gas to LILCO. The Economy Gas Rate will provide LILCO with sufficient pricing information to bid the output of the Plant into an LBMP market environment.

Gas Balancing

"The Proposed 1997 Agreement would continue the gas balancing arrangements made under the 1994 Agreement. The Authority would continue to provide all the gas for the Plant, and LILCO will purchase any excess gas or provide additional gas ('deficiency gas') whenever the amount of gas supplied by the Authority during the day does not match the amount of gas burned. Each month, excess gas would be purchased by LILCO at the Base Cost of Gas. The Base Cost of Gas consists of: (1) the Commodity Price of Gas; (2) the Authority's variable gas transportation costs including any applicable tariff surcharges; and (3) any taxes now or hereafter imposed on the sale of gas to LILCO. Any deficiency gas would be repaid by the Authority in kind in the next succeeding month.

"LILCO would continue to provide gas balancing services at the same \$150,000 cost per month as contained in the 1994 Agreement. In addition, LILCO has agreed to provide higher priority for delivery of Authority gas through LILCO's system, resulting in an expanded balancing service at no additional cost to the Authority.

Fuel Gas Delivery System Modifications

"Under the Proposed 1997 Agreement, the Authority would agree to a reduction in the minimum gas pressure guarantee that LILCO is obligated to provide under the terms of the GTA from 230 PSI to 170 PSI. Since the minimum pressure reduction will require extensive modification of the existing fuel gas delivery system at the Plant, LILCO has agreed to pay for the cost of such modification. This modification will also mitigate a concern of LILCO's regarding the Authority's operation of the Plant. When gas system pressure drops below a certain level, a gas compressor at the Plant must be brought on line to maintain minimum gas pressure to the combustion turbine. Operation of this compressor has required that the Plant reduce its output and this reduction has complicated LILCO's electric system dispatch. The Authority and LILCO would also agree to modify the GTA to reflect the lower minimum gas pressure guarantee.

FISCAL INFORMATION

"The Proposed 1997 Agreement, in providing for a mark-up to the spot price of gas, will produce some additional revenues for the Authority over and above those revenues which would have been produced without the Agreement. Predicated on current gas prices, the additional revenues would be approximately \$500,000 less per year than the amount that would have otherwise been earned under the now expired 1994 Agreement; however, the amount represents less than 1% of the Plant's total revenues.

"The improved balancing services will cost \$1.8 million per year (\$150,000/month) which is the same cost set forth in the 1994 Agreement. In addition, there are no price escalation provisions for the term of the Proposed 1997 Agreement.

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"LILCO has agreed to pay the Authority \$1.2 million in equal monthly payments of \$100,000 towards the cost of the fuel gas delivery system modification subject to reconciliation with actual costs incurred.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development and the Senior Vice President - Power Generation recommend that the Trustees approve the basic principles outlined in the Proposed 1997 Agreement with the Long Island Lighting Company and authorize the negotiation and execution of such Agreement substantially in the form set forth in Exhibit '4-A' attached hereto.

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

In response to questions from Trustee Waldbauer, Mr. Hiney explained that the agreement would permit the Flynn Plant to run non-stop and be competitive in the energy market for an additional 3 ½ years. In response to questions from Trustee Miller, Mr. Hiney explained that this agreement affects only the dealings between LILCO and the Authority and has no impact on the existing take-or-pay contract with Enron.

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

RESOLVED, That the President or his designee(s) are, and each hereby is, authorized to enter into a Letter Agreement with the Long Island Lighting Company, on behalf of the Authority, in substantially the form attached hereto as Exhibit "4-A", with such amendments, insertions, deletions, and supplements as shall be approved as necessary or desirable by the officer executing each such Agreement, such approval to be evidenced conclusively by such execution; and be it further

RESOLVED, That the President or his designee(s) are, and each hereby is, authorized to do and perform or cause to be 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 and certificates and further assurances or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolution or to comply with the requirements of such Letter Agreement.

5. Statewide High Efficiency Lighting Program - Scope Modification to Include Snow/Ice Making Measures for the Olympic Regional Development Authority

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the addition of electric saving snow and ice making equipment as an eligible measure in the Statewide High Efficiency Lighting Program ('SW HELP') for the Olympic Regional Development Authority ('ORDA') facilities. No change in funding authorization is requested at this time.

BACKGROUND

"In keeping with its tradition of providing lower cost energy on a competitive basis for the benefit of the people of New York State, the Authority has assisted the State's public sector in acquiring demand side resources through HELP. These programs are turn-key services where the Authority provides for all aspects of conservation services, from initial energy audits through direct installation of eligible conservation equipment.

"There are five major HELP initiatives. The South East New York ('SENY') HELP program serves the Authority's direct public customers located in the SENY service territory. The Statewide, Long Island, Public Schools, and County & Municipal ('C&M') HELP programs target customers of the investor owned utilities that are State-owned facilities, Long Island public schools, all other public schools across the State, and all county and municipal facilities across the State, respectively.

"To date, eligible measures for each of the programs has primarily been state-of-the-art high efficiency lighting, premium efficiency motors, and air conditioning controls such as Energy Management Systems.

DISCUSSION

"In 1981, ORDA was formed as a public benefit corporation to operate, manage, and maintain the Olympic facilities in and around Lake Placid. ORDA's mission is to utilize the combined 1980 Winter Olympic infrastructure to provide programs and services of recreational and entertainment benefit for the general public and to provide state-of-the-art training facilities and venues for future Olympic hopefuls. ORDA works cooperatively with local interests to promote tourism in order to increase the economic strength and employment opportunities in the Adirondack Region. In recent years, ORDA has undertaken the challenge of improving facilities and services to compete with strong ski centers being established in the New England states.

"In 1996, ORDA requested the Authority to conduct a HELP audit of its facilities. Since that time, preliminary audits have been completed at several ORDA sites. Many measures being recommended in these audits are the traditional items included in any HELP audit, but the vast majority of ORDA's energy is used to make snow and ice. At the ski centers, large volumes of compressed air and water are transported to snow-making guns located up and down the ski slopes. At sledding and skating venues, chilled water is needed to make ice.

"In May 1997, ORDA notified Authority staff that the U.S. Ski and Snowboard Association ('USSA') had selected Lake Placid as the site for the USSA Olympic Trials. These trials will be held over the 1998 New Year season and will be televised nationally. The trials include alpine, cross country, free style (aerial and moguls), jumping and Nordic combined events. Due to the prominence of these events, ORDA is eager to implement

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measures to improve and expand the efficiency and uses of the facilities. This is particularly true at Whiteface Mountain, where the bulk of the alpine skiing events will be held.

“Generally, HELP programs have focused on simple-to-install measures that provide customers with the quickest payback. This has allowed customers to achieve the highest savings with the smallest investment. ORDA presents a unique case in which the bulk of the energy-consuming equipment is outside the scope of the SW HELP. Staff is confident, based on audits conducted so far, that ice/snow making equipment such as air compressors, chillers, water pumps, and related equipment can be cost upgraded at ORDA sites effectively consistent with established SW HELP economic criteria. These upgrades will displace the use of inefficient equipment currently in use for base load snow and ice making. Recommended equipment will be both electrically and diesel engine driven. Diesel will be used where constraints on the electrical feeds to the site, or topography, make electric engines inappropriate or cost prohibitive. Sites contemplated for potential diesel application are the Gore and Whiteface ski centers.

FISCAL INFORMATION

“Funds to finance the ORDA energy conservation measures will come from available Petroleum Overcharge Restitution (‘POCR’) Funds or the Authority’s Commercial Paper Program, or, if such Commercial Paper Program or POCR funding is not feasible, the Authority’s General Reserve Account.

RECOMMENDATION

“The Senior Vice President - Energy Efficiency and Technology recommends that the Trustees authorize the addition of electric saving, energy efficient snow/ice making equipment to the current menu of eligible measures for the Statewide High Efficiency Lighting Program for the Olympic Regional Development Authority. It is further recommended that the Senior Vice President - Energy Efficiency and Technology, or his designee(s), be authorized to execute any agreements or documents between the Authority, and ORDA, as necessary or desirable to implement these measures.

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

In response to questions from Trustee Miller, Mr. Tscherne explained that if POCR funds were utilized, the Authority would not be repaid. In response to questions from Trustee Ciminelli, Mr. Tscherne explained that although ORDA is not a direct customer of the Authority, the Village of Lake Placid is a long-standing municipal customer which supports the proposed action. In response to further questions from Trustee Ciminelli, President Schoenberger noted that this may be the only public-owned ski area eligible for HELP benefits.

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

RESOLVED, That the Senior Vice President - Energy Efficiency and Technology, or his designee(s), be authorized to offer energy-saving snow/ice making equipment in the Statewide High Efficiency Lighting Program to the Olympic Regional Development Authority; and be it further

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RESOLVED, That the Senior Vice President - Energy Efficiency and Technology or his designee(s), be authorized to execute any agreements or documents on behalf of the Authority between and among the Authority, Olympic Regional Development Authority and/or related parties as deemed necessary or desirable to implement such measures; 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 \$2 million for the purpose of financing the energy conservation measures described in the foregoing report of the President; and be it further

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

RESOLVED, That the Senior Vice President - Energy Efficiency and Technology or his designee(s) 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 as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolutions.

6. Bond Purchases to Satisfy Internal Revenue Service Private Use Requirements

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the purchase of up to \$17.8 million in par amount of New York Power Authority Bonds, Series AA, to satisfy the private use requirements of the Internal Revenue Service ('IRS') arising from the leasing of White Plains Office building space.

BACKGROUND

"In 1991, the Authority purchased the building it currently occupies at 123 Main Street in White Plains, New York. The portion of the building occupied by the Authority was financed using tax-exempt bond proceeds and the portion occupied by private businesses was financed with Authority equity. Under IRS regulations (the 'Regulations'), if the percentage of the building occupied for private use increases, the Authority must purchase either in the open market or through a tender offer a sufficient amount of the Series AA bonds to comply with the Regulations.

DISCUSSION

"The Authority has and is planning to rent additional space to tenants that will be classified as private use under the Regulations. When the building was originally purchased, floors 4, 5, a portion of 9, 17 and the lobby were leased to tenants. Subsequently, the Trustees have approved leases for portions of the 6th, 7th, and 8th floors, increasing the percentage of the building occupied for private use. In addition to these increases, the Authority is planning to lease the remainder of these floors plus additional space on the ground, on the 9th, and the 17th floors as well as the entire mezzanine floor. Ultimately, the Authority will have rented about 59% of the building and garage space to private use tenants.

"Bond Counsel has indicated that the rental of this amount of additional private use space in the building would require the Authority to ultimately purchase up to a par amount of \$17.8 million of the Series AA bonds. Staff would only purchase bonds as additional space is leased and then only up to the \$17.8 million. Previously approved leases for portions of the 6th, 7th and 8th floors will require the purchase of \$9.05 million of Series AA bonds in the next thirty days to satisfy IRS Regulations. The \$17.8 million would be in addition to the \$10 million par amount of bonds the Trustees approved for purchase on September 24, 1996, subject to the Authority entering into an agreement with White Plains Entertainment, L. C., for the use of the Authority's garage. This agreement is contingent upon that company's ability to obtain permission to build a movie theater in the downtown area of the City of White Plains. The calculation of the amount of bonds to be purchased is based upon a replacement cost analysis performed by Bond Counsel.

"As previously indicated, staff intends to only purchase bonds as the additional space is rented and only up to a par amount of \$17.8 million. Such purchases of bonds will be made from amounts in the General Reserve Account.

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FISCAL INFORMATION

"Payment for the bond purchases will be from the General Reserve Account monies, and staff has determined that sufficient monies are available for this purpose.

RECOMMENDATION

"The Treasurer recommends that the Trustees authorize the purchase of the necessary bonds from the General Reserve Account monies in order to comply with the Internal Revenue Service Regulations.

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

Mr. Collins added that the loss of income from funds used to purchase the bonds would be offset by lower interest payments. Mr. Delaney explained that fiscally it would be a "wash" between the interest income and interest expense. However, new rental income resulting from leasing the space will generate some \$2 million annually. In response to questions from Trustee Miller, Mr. Delaney explained that following the Trustees' approval of the lease to Advanced Career Technologies later at this meeting, over 70% of the previously vacant space at 123 Main Street will be under lease.

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

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 \$19 million for the purchase of up to \$17.8 million in aggregate principal amount of the Authority's General Purpose Bonds, Series AA. The Senior Vice President - Business Services may in his discretion select the method by which 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 the 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 \$19 million.

7. Long Island Power Authority - Interim Financial Assistance

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize an advance by the Authority to the Long Island Power Authority ('LIPA') in the amount of \$9 million to provide interim financial assistance to LIPA. Repayment of such advance would be governed by a Memorandum of Understanding (the 'MOU') to be executed by LIPA and the Authority.

BACKGROUND

"LIPA has been negotiating with the Long Island Lighting Company ('LILCO') for the purchase of its transmission and distribution facilities as part of a plan to lower electric rates on Long Island. LIPA has requested the Authority to provide interim financial assistance to LIPA, in the form of an advance (the 'Advance') of \$9 million to LIPA, the repayment of which would be governed by the MOU. The draft MOU is attached hereto as Exhibit '7-A'.

DISCUSSION

"The MOU would provide that LIPA agrees to include a provision for repayment of the Advance in the plan of finance for its acquisition of LILCO facilities, and that, subject to the approval of LIPA Trustees, LIPA would take such other steps to assure that the Advance is repaid from the proceeds of bonds issued by LIPA to finance such acquisition.

FISCAL INFORMATION

"The monies to be used for the Advance to LIPA would be drawn from the Authority's General Reserve Account.

RECOMMENDATION

"The Senior Vice President - Business Services recommends that the Trustees authorize the Advance to provide interim financial assistance to the Long Island Power Authority, contingent upon LIPA's execution of the Memorandum of Understanding.

"The General Counsel and I concur in the recommendation."

The following resolution, as recommended by the President, was adopted by a vote of three in favor with one abstention:

RESOLVED by the Trustees of the Power Authority of the State of New York, that the Authority hereby authorizes the advancement of \$9 million to the Long Island Power Authority ('LIPA') to provide interim financial assistance to LIPA, such advance to be contingent upon LIPA executing a Memorandum of Understanding substantially in the form of Exhibit "7-A" attached hereto; and be it further

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RESOLVED, That the Chairman, President, and Senior Vice President - Business Services are, and each hereby is, authorized to execute, on behalf of the Authority, the Memorandum of Understanding substantially in the form attached hereto as Exhibit "7-A", with such modifications as deemed necessary or desirable by such officer and consistent with the foregoing report of the President; and be it further

RESOLVED, That the Chairman, President, Senior Vice President - Business Services, and 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, including any agreements relating to the LIPA Memorandum of Understanding, certificates, supplements, and further assurances or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolutions; and be it further

RESOLVED, That it is hereby authorized that up to \$9 million of General Reserve Account monies be withdrawn from such account and utilized for making the payment specified in the foregoing report of the President; and be it further

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

Draft: 6/18/97

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING, dated the __ day of June, 1997, is made by and between the Power Authority of the State of New York (the "New York Power Authority"), a corporate municipal instrumentality of the State of New York, constituting a body corporate and politic and political subdivision of the State of New York created pursuant to the New York Power Authority Act, being Title 1 of Article 5 of the Public Authorities Law of the State of New York (the "NYPA Act"), having an office located at 1633 Broadway, New York, New York 10019, and the Long Island Power Authority (the "LIPA"), a corporate municipal instrumentality of the State of New York and a political subdivision of the State of New York created pursuant to the Long Island Power Authority Act, being Title 1-A of Article 5 of the Public Authorities Law of the State of New York (the "LIPA Act"), having an office located at 333 Earle Ovington Boulevard, Uniondale, New York 11553.

WHEREAS, pursuant to the LIPA Act, LIPA is authorized to acquire the securities and/or assets of Long Island Lighting Company ("LILCO") and in accordance with such authorization, LIPA proposes to acquire LILCO (the "Acquisition");

WHEREAS, pursuant to the LIPA Act, LIPA is authorized to make and execute agreements, contracts and other instruments necessary or convenient in the exercise of the powers and functions of LIPA under the LIPA Act, including contracts with any state agency (as defined in the LIPA Act) and any such state agency is authorized thereunder to enter into and do all things necessary to perform any such agreement, contract or other instrument with LIPA;

WHEREAS, pursuant to the NYPA Act, the State legislature has declared that there shall be full cooperation among private and public entities including the New York Power Authority, engaged in power generation, transmission and distribution and associated developmental and service activities;

WHEREAS, the New York Power Authority wishes to cooperate with and assist LIPA in connection with the development and implementation of its proposed Acquisition of LILCO;

WHEREAS, the parties hereto believe that their respective purposes and interests will be furthered if the New York Power Authority were to advance the sum of \$9,000,000 (hereinafter referred to as the "Advance") to LIPA in order to assist LIPA in its efforts to lower the cost of electric energy in the LIPA Service Area (as defined in the LIPA Act);

WHEREAS, the LIPA expects and intends that in conjunction with the acquisition of LILCO that it will be able to repay the Advance to the New York Power Authority in accordance with the terms hereof;

NOW, THEREFORE, in consideration of the mutual benefits expected to be realized and the mutual agreements herein contained, the parties hereby agree as follows:

SECTION 1. Defined Terms. For purposes of this Memorandum of Understanding, in addition to the terms defined in the recitals hereto, the following terms shall have the meaning set forth below:

(a) "Bonds" means the bonds, notes or other obligations issued pursuant to the LIPA Act.

(b) "Comptroller" means the Comptroller of the State of New York and his or her officers, employees and agents.

(c) "Excess Revenues" shall mean LIPA earnings derived from Authority operations and/or investments not required for debt service on LIPA bonds, reserve requirements on the bonds, or ongoing or projected expenses to meet the Authority's statutory obligations.

(d) "State" means the State of New York.

SECTION 2. Advance of Moneys; Repayment of Advance. Concurrently with the execution hereof, New York Power Authority is advancing to LIPA the amount of \$9,000,000. LIPA intends to repay the Advance, without interest, in the manner hereinafter provided at the time of the completion of the Acquisition of LILCO. In order to implement such intention, LIPA agrees to take the following actions:

(i) include provision for the repayment of the Advance in the plan of finance for the Acquisition; and

(ii) subject to the approval of the Trustees of LIPA, take such other steps as may be necessary to assure that the Advance is repaid from the proceeds of bonds issued by LIPA to finance the Acquisition.

To the extent that the Acquisition has not occurred by December 31, 1999, at the request of the New York Power Authority, LIPA agrees to consider applying any Excess Revenues available to LIPA to the repayment of the Advance. Any such application shall be pursuant to duly adopted resolution of the Trustees of LIPA.

SECTION 3. Covenants. The Authority hereby covenants with the New York Power Authority as follows:

(a) The Authority shall establish and maintain one or more bank accounts at banking institutions within the State (collectively, the "Account"). The Account shall be for the purposes of receiving and holding the Advance and for the purpose of making withdrawals therefrom for the purposes permitted by the LIPA Act.

(b) The monies deposited in the Account shall not be commingled with any other monies.

(c) The Authority shall use the monies in the Account solely for the purposes enumerated in the LIPA Act.

SECTION 4. Notices. All notices that may be given in connection with this Agreement shall be in writing and shall be delivered personally, or mailed, postage prepaid, by certified mail to the parties at the following address:

**If to the New York Authority:
Chairman
New York Power Authority
1633 Broadway
New York, New York 10019**

**with a copy to the General Counsel
at the same address**

**If to LIPA:
Chairman
Long Island Power Authority
333 Ovington Boulevard
Uniondale, New York 11553**

**with a copy to the General Counsel
at the same address**

or to such other addresses as may be designated in writing from time to time. Simultaneously with the repayment of the Advance to the New York Power Authority by LIPA pursuant to this Memorandum of Understanding, LIPA shall give notice of such repayment to the New York Power Authority. Unless otherwise provided herein, notices shall be effective from the date of delivery, if delivered personally, or from the date of deposit with the U.S. Mail, if mailed.

SECTION 5. Captions. The captions of this Memorandum of Understanding are for convenience of reference only and in no way define, limit or describe the scope or intent of this Memorandum of Understanding or in any way affect this Memorandum of Understanding.

SECTION 6. Severability. In case any one or more of the provisions contained in this Memorandum of Understanding should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired hereby.

SECTION 7. Successors and Assigns. This Memorandum of Understanding shall inure to the benefit of and be binding upon the New York Power Authority and LIPA and their respective successors and assigns; provided that neither party may assign their rights and obligations hereunder without the prior written consent of the other party.

SECTION 8. Term. This Agreement shall be effective immediately as of the day and year first written above and shall remain in effect until the full amount of the Advance has been paid in full.

SECTION 9. Agreement not to Constitute Debt of LIPA. This Memorandum of Understanding is the understanding and expectation of the parties as to the repayment of the Advance and is not a legally binding agreement of LIPA to repay the Advance. The parties understand that a legally enforceable obligation to repay the Advance will not arise without the approval of, among others, the Public Authorities Control Board and the Comptroller of the State. Without limiting the generality of the foregoing, nothing in this Memorandum of Understanding is intended to constitute "bonds, notes or other obligations" within the meaning of subdivision 12-a of Section 1020-b of the LIPA Act.

SECTION 10. Exculpatory Provisions. All covenants, promises, agreements and obligations of the New York Power Authority and LIPA, respectively, contained herein shall be deemed to be covenants, stipulations, promises, agreements and obligations of the New York Power Authority and LIPA, as the case may be, and not of any member, trustee, officer, employee or agent of the New York Power Authority or LIPA, as the case maybe, and in his or her individual capacity, and no recourse shall be had for any claim hereunder against any member, director, officer, employee or agent of the New York Power Authority or LIPA as the case may be.

SECTION 11. No Third-Party Beneficiaries. This Memorandum of Understanding shall not be deemed to grant any rights to any person, firm or corporation except the parties hereto, and the term hereof shall be enforceable only by the parties hereto.

SECTION 12. Entire Understanding. Each party hereto acknowledges its full understanding of this Memorandum of Understanding, that there is not verbal promises, undertakings or agreements in connection herewith and that this Memorandum of Understanding can be modified only by a written agreement signed by the parties hereto.

All previous negotiations and agreements between the parties hereto with respect to the transaction set forth herein are merged into this instrument which fully and completely expresses the entire agreement between the parties setting forth all the parties rights and obligations.

SECTION 13. Governing Law. This Memorandum of Understanding shall be construed and enforced in accordance with the internal laws of the State of New York, without giving effect to principles of conflict of laws.

SECTION 14. Counterparts. This Memorandum of Understanding may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the New York Power Authority has caused this Memorandum of Understanding to be executed in its name by its duly authorized officer; and the Long Island Power Authority has caused this Agreement to be executed by its duly authorized officer, all as of the day and year first written above.

**POWER AUTHORITY OF
THE STATE OF NEW YORK**

By: _____
Title:

LONG ISLAND POWER AUTHORITY

By: _____
Title:

8. Lease of Office Space - Centroplex Building - Advanced Career Technologies of New York, Inc. - Mezzanine Floor

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the execution of a lease totaling approximately 11,000 square feet of office space on the Mezzanine floor of the Centroplex Building, White Plains, New York by the Authority as landlord to Advanced Career Technologies of New York, Inc. ('Advanced Career') as tenant. The proposed lease to Advanced Career is for a term of seven years and six months at an average annual fixed rent of \$21.50 per square foot, excluding electricity, plus adjustments to recover increases in taxes and operating expenses over a base year, as more specifically described in Exhibit '8-A' attached hereto.

BACKGROUND

"The Authority acquired the Centroplex Building by deed dated July 10, 1991. This is a commercial office building with the majority of the existing space occupied by Authority personnel. Due to staff reductions, relocation of employees and expiration of leases over the past few years, the Authority no longer has a need to occupy certain space within the building, including the Mezzanine floor. In July 1995, the Authority engaged the real estate brokerage services of Rostenberg-Doern Company to solicit offers for leasing all or portions of this space.

DISCUSSION

"Advanced Career Technologies of Massachusetts, Inc. is a program management firm for Clark University, which is New England's oldest graduate institution. As part of Clark's College of Professional and Continuing Education, computer training centers have been established in Framingham, Cambridge and Braintree, Massachusetts. Currently, six certificate programs and a range of hands-on programs in computer skills are offered. The White Plains center will be Advanced Career, a separate and distinct operating company. Advanced Career will be a program management firm for Skidmore College. The premises will be used for both day and evening programs. Preliminary negotiations on this space have resulted in the basic lease terms set forth in Exhibit '8-A'. A review of local market conditions indicated that this transaction compares favorably to other deals recently completed in Downtown White Plains.

FISCAL INFORMATION

"Payment for standard brokerage commissions, tenant improvements, and architectural and engineering fees as set forth in Exhibit '8-A' will be made from the Operating Fund.

RECOMMENDATION

"The Director - Real Estate and the Vice President - Procurement and Real Estate recommend that the Trustees approve entering into a lease agreement with Advanced Career Technologies of New York, Inc. for commercial office space in the Centroplex Building on terms substantially in accordance with the foregoing and Exhibit '8-A'.

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

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

RESOLVED, That the President, the Senior Vice President - Business Services or the Vice President - Procurement and Real Estate be, and hereby is, authorized to enter into a lease agreement for office space in the Centroplex Building with Advanced Career Technologies of New York, Inc. on substantially the terms set forth in the foregoing report of the President; and be it further

RESOLVED, That the Senior Vice President - Business Services, the Vice President - Procurement and Real Estate or the Director - Real Estate be, and 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.

BASIC LEASE TERMS

Authority to Advanced Career Technologies of New York, Inc.

- Premises:** Approximately 11,000 square feet on the Mezzanine floor of the Centroplex Building.
- Initial Term:** Seven years and six months, rent to commence four months after delivery of all the demised space improved in accordance with the lease terms. The projected commencement date is September 1, 1997.
- Fixed Rent:** For the first three years at \$239,250 annually or \$21.75 and for years four through seven, \$277,750 annually or \$25.25 per square foot. The fixed rent includes an electric inclusion factor of \$2.25 per square foot.
- Renewal Option:** Two five-year renewal terms at 95% of fair market value.
- Operating Escalation:** Pro-rata share of increases in operating expenses over a base year of 1997.
- Real Estate Tax Escalation:** Pro-rata share of increases in real estate taxes over a weighted average base year of 1997.
- Parking:** Tenant will be entitled to 19 parking spaces. Reserved monthly charges are \$90.00 per space and non-reserved charges are \$75.00 per space.
- Tenant Improvement Allowance:** Work letter of \$28.00 per square foot (total \$308,000), including tenant's architectural and engineering fees. Additionally, the Authority will expend approximately \$25,000 to satisfy code compliance issues specific to the premises. All additional tenant improvement costs will be paid by tenant.
- Building Security:** Should tenant's operations dictate that additional security services are required at the building, tenant shall be responsible for costs associated with such services.
- Brokerage Commissions:** The Authority will pay a standard Brokerage Commission.

9. St. Lawrence/FDR Power Project - Lease Agreements - Power Authority of the State of New York and the Town of Louisville and Town of Lisbon

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve a renewal of a 25-year Lease Agreement between the Authority and the Town of Louisville ('Louisville') for public recreational facilities.

"The Trustees are also requested to approve a renewal of a 25-year Lease Agreement between the Authority and the Town of Lisbon ('Lisbon') for the Lisbon Town Beach and related appurtenances.

BACKGROUND

"The Authority and the Town of Louisville entered into a Lease Agreement dated August 1, 1972, for public recreational facilities along Lake St. Lawrence located on Authority land. This Lease Agreement was for a term of 25 years and contained a renewal clause whereby Louisville could renew this Lease Agreement for another 25-year term.

"On August 4, 1958, a ten year Lease Agreement for 5.3 acres of Authority property used for public recreational purposes located in the Town of Lisbon was entered into between the Authority and Lisbon. This Lease Agreement was superseded by a Lease Agreement dated May 31, 1966, which enlarged the leased area to 71" acres. This 1966 Lease Agreement was superseded by a 25-year Lease Agreement dated and commencing March 1, 1972, so the Town of Lisbon could receive a federal grant for the construction of pleasure craft facilities on the leased premises. This Lease Agreement was amended on August 30, 1994, to allow Lisbon to charge a reasonable fee to non-residents of Lisbon for the use of the Town Beach.

DISCUSSION

"The Federal Power Commission (now the Federal Energy Regulatory Commission) issued orders on December 27, 1965, setting forth a new policy on outdoor recreational development at projects licensed under the Federal Power Act which included a provision making a licensee responsible for, among others, encouraging and cooperating with appropriate local agencies in determining public recreation needs and planning and providing for recreational use of public lands.

"The present Lease Agreement with Louisville expires August 1, 1997. The new Lease Agreement will be for a term of 25 years, for \$1.00, Payment Waived, on substantially the same terms and conditions as the Lease Agreement dated August 1, 1972.

"The present Lease Agreement with Lisbon expired March 1, 1997, and has been extended by a Letter Agreement until a new Lease Agreement can be executed. The new Lease Agreement will be for a term of 25 years, for \$1.00 a year, Payment Waived, on substantially the same terms and conditions as the Lease Agreement dated March 1, 1972, and Amendment dated August 30, 1994.

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"Both Louisville and Lisbon have been advised that the Authority's federal license expires in 2003 and that any renewal beyond that time would be conditioned on the Authority retaining the license to operate the St. Lawrence/F.D.R. Power Project. Each of the leases will include a provision to this effect.

FISCAL INFORMATION

"There will be no fiscal impact. Under the Lease Agreement, each town will be responsible for the costs of operation and maintenance of the leased premises.

RECOMMENDATION

"The Director - Real Estate, the Regional Manager - Northern New York and the Vice President - Procurement and Real Estate recommend that the Trustees approve the renewal of the lease with the Town of Louisville for recreational purposes and that the Trustees approve the renewal of the Lease with the Town of Lisbon for recreational purposes.

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

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

RESOLVED, That the Chairman and the President be, and each hereby is, authorized to enter into a renewal of the Lease Agreement with the Town of Louisville on terms substantially in accordance with the foregoing report of the President, as well as any and all other documents necessary or desirable to effectuate the foregoing; and be it further

RESOLVED, That the Chairman and the President be, and each hereby is, authorized to enter into a renewal of the Lease Agreement with the Town of Lisbon on terms substantially in accordance with the foregoing report of the President, as well as any and all other documents necessary or desirable to effectuate the foregoing.

10. New York State Energy Research and Development Authority - Power Authority Financial Contribution

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the President to enter into a five year agreement with the New York State Energy Research and Development Authority ('NYSERDA'). This agreement represents the Authority's financial contribution to NYSERDA's research program of \$3.1 million each year, adjusted annually for inflation, plus such further co-funding of specific research projects as may be agreed. This would be the third such agreement between the Authority and NYSERDA.

BACKGROUND

"Pursuant to the Authority's Expenditure Authorization Procedures, the Trustees' approval is required for cumulative change orders to procurement contracts in excess of \$3 million.

"The State's investor-owned electric and gas utility companies ('IOUs') are mandated by the New York Public Service Law to provide financial support to NYSERDA on an annual basis in accordance with a Public Service Commission's ('PSC') assessment formula. In 1985, the Governor's Office originally proposed a budget which increased the PSC assessment and placed the Authority under the formula. As a result of staff's discussion with the State Division of the Budget, the Authority agreed to contribute \$2.5 million per year for five years to NYSERDA's research budget to reflect the new PSC formula, provided that the Authority be taken out of the PSC assessment formula. The state budget appropriation bill to NYSERDA was amended to reflect this agreement. At their meeting of February 26, 1985, the Trustees approved the first five-year agreement with NYSERDA, fixing the Authority's annual contribution at \$2.5 million per year.

"In response to the budget proposed by the Governor and approved by the Legislature with an increase in the PSC assessment and the Authority's voluntary contribution, the Authority increased its contribution to \$2.9 million in 1989 and \$3.0 million in 1990. At their meeting of March 26, 1991, the Trustees approved a second five-year agreement with NYSERDA, fixing the Authority's annual contribution at \$3.1 million in the first year, with annual adjustments for future inflation. This resulted in a contribution of \$3.1 million in 1991, \$3.2 million in 1992, \$3.3 million in 1993 and \$3.38 million in 1994. The Authority's contribution in 1995 was reduced to \$3 million to reflect the 10% reduction in NYSERDA's R&D program plan resulting from the reduction of the assessment on the IOUs as included in the State Budget.

DISCUSSION

"In 1996, the Authority's contribution to NYSERDA of \$1.8 million was made in the absence of a new agreement. The current proposed agreement continues a longstanding policy of support for research in broad-based energy technologies by NYSERDA, and is for five years beginning April 1, 1997 and ending March 2002.

FISCAL INFORMATION

"The \$1.8 million originally anticipated for the Authority's payment to NYSERDA in 1997 is provided for in the 1997 Approved R&D budget. An additional \$1.2 million is needed to ensure availability of sufficient funds under the agreement. Payment will be made from the Projects' Study Fund.

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RECOMMENDATION

“The Director - Research and Development recommends that the Trustees approve the requisite adjustment to the R&D budget and authorize the President to enter into a five-year extension of the agreement with the New York State Energy Research and Development Authority in the amounts described above.

“The General Counsel, the Senior Vice President - Business Services, the Senior Vice President - Energy Efficiency & Technology, and I concur in the recommendation.”

In response to questions from Trustee Miller, Mr. Tscherne explained that the formula utilized for identifying the size of members' contributions is based on the fluctuating proportionate share of kWh. In response to further questions from Trustee Miller, Chairman Rappleyea stressed that discussions have been ongoing to increase the coordination of efforts between NYPA and NYSERDA and would involve more co-funding of R&D projects.

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

RESOLVED, That approval is hereby granted to increase the 1997 R&D budget by \$1.2 million; and be it further

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, the President is hereby authorized to enter into a five-year extension of the agreement with the New York State Energy Research and Development Authority, as recommended in the foregoing report of the President, with such agreement having such terms and conditions as the President deems necessary or advisable, in the amount and for the purpose listed below:

<u>Projects' Study Fund</u>	<u>Contract Approval</u>	<u>Projected Closing Date</u>
Authority Contribution		
New York State Energy Research and Development Authority	<u>\$3.1 million</u> each year, adjusted annually for inflation for the five year term of the agreement.	03/2002

11. Procurement (Services) Contracts - James A. FitzPatrick and Indian Point 3 Nuclear Power Plants; and Non-Nuclear Facilities - 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 '11-A' for the James A. FitzPatrick ('JAF') and Indian Point 3 ('IP3') Nuclear Power Plants, as well as the non-nuclear facilities. A detailed explanation of the nature of such services, the basis for the new awards, and the intended duration of such contracts are set forth 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 \$21,000 to \$260,000.

"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.

CONTRACTS IN SUPPORT OF THE NUCLEAR FACILITIES:

"The contract with **Analytical Laboratories (S97-03014)** commenced on April 16, 1997, for an initial one year term, subject to subsequent Trustees' ratification and approval. The purpose of this contract is to provide asbestos air monitoring and training services, on an "as required" basis, for IP3. Services include on-site area and

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personnel air monitoring services, bulk sampling and off-site laboratory analysis for asbestos contained material (less than 1% asbestos only), as well as various on-site asbestos training courses. Analytical Laboratories was the low bidder of 18 bids received (of 51 bids solicited and notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Rates will remain firm for the duration of the contract. Approval is also requested for the total amount expected to be expended for the term of the contract, \$260,000.

"The contract with **Copes Vulcan Inc. (S97-03718)** will commence on August 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide maintenance and repair services for Copes-Vulcan valves at IP3. Since Copes-Vulcan is the original equipment manufacturer ('OEM'), this contract is awarded on a sole source basis. 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, \$100,000.

"The contract with **GTS Duratek (C97-Z0039)** commenced on April 16, 1997, for an initial one year term, subject to subsequent Trustees' ratification and approval. The purpose of this contract is to provide backup decontamination personnel and services, on an 'as required' basis, for IP3. Services include providing all necessary labor, equipment, and services required to perform: 1) decontamination services during scheduled transmission outages and at other times as requested by the Authority; and 2) cavity decontamination during outages, as required by the Authority. At their meeting of December 17, 1996, the Trustees approved the award of a primary contract for these services to Bartlett Nuclear, Inc. Based on prior Authority needs, past experience with these services and with this particular firm, staff felt that there was no need to award a backup contract. Due to recent industry trends affecting the availability of qualified personnel which, in turn, affected the ability of the primary vendor to provide sufficient manpower loading for the duration of the job, a backup contract was awarded to GTS Duratek in April 1997. Based on the original technical and commercial evaluations, GTS was the second lowest evaluated technically acceptable bidder. The intended term of this contract is two years and nine months (coterminous with the Bartlett contract), subject to the Trustees' approval, which is hereby requested. Rates will remain firm for the duration of the contract. Since approval for the total amount expected to be expended for the duration of the services (\$2,000,000) was obtained at the December 17, 1996 Trustees' meeting, no additional funding is requested.

"The contract with **Industrial Process Solutions Inc. (PO # TBA)** will commence on July 22, 1997, subject to the Trustees' approval. The purpose of this contract is to provide on-site preventive maintenance services for instrument air dryers for IP3. Since Industrial Process Solutions is the original equipment manufacturer ('OEM'), this contract is awarded on a sole source basis. 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, \$21,000.

"The contract with **US Filter/Envirex (PO # TBA)** will commence on August 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide on-site technical assistance for the traveling water screens at IP3. Since US Filter/Envirex is the original equipment manufacturer of the traveling screens that are installed at the plant, 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, \$60,000.

CONTRACTS IN SUPPORT OF THE NON-NUCLEAR FACILITIES:

"The contract with **Wilkins Sanitation (QB-03-5155; PO # TBA)** will commence on July 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide trash removal and disposal services, including furnishing waste containers, for the Authority's Blenheim-Gilboa Project ('B-G'). Wilkins was the low bidder of three bids received (in addition to two 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, \$45,000.

"The contract with **Woodward Governor (QB-03-4766; PO # TBA)** will commence on July 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide maintenance, parts, and service for Woodward Governor equipment at B-G and related facilities (Crescent and Vischer Ferry). Services may include: off-site engineering and factory repair support, on-site field service inspections, repair and maintenance at Authority facilities, training of Authority personnel, and providing parts for stock and direct turnover items. The equipment includes 12 hydro governors used in utility generating service, four Woodward distributing valves and gate positioners, as well as hydraulic pumping units. Woodward Governor was the low bidder of two bids received (in addition to three non-responding bidders and notice in the Contract Reporter). The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Rates will remain firm for the duration of the contract. Approval is also requested for the total amount expected to be expended for the term of the contract, \$122,000.

"The contract with **Gehring Pumps (Q09-BG32; PO # TBA)** will commence on July 1, 1997, subject to the Trustees' approval. The purpose of this contract is to provide repair and maintenance service and replacement parts for Peerless Pumps equipment at B-G and related facilities (Crescent and Vischer Ferry). Gehring Pumps was the sole responding bidder (of six bids solicited 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, \$56,000.

FISCAL INFORMATION

"Funds required to support contract services for JAF, IP3, the Blenheim-Gilboa Project and related non-nuclear facilities have been included in the 1997 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.

RECOMMENDATION

"The Site Executive Officer - James A. FitzPatrick Nuclear Power Plant, the Site Executive Officer - Indian Point 3 Nuclear Power Plant, the Regional Manager - Central New York, the Vice President - Nuclear Operations, 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 '11-A' and as discussed above.

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

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multi-year procurement contracts listed in Exhibit "11-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.

12. Procurement (Services) Contracts - James A. FitzPatrick, Indian Point 3 Nuclear Power Plants; and Headquarters - Extensions, Approval of Additional Funding, and Increases 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 '12-A' for the Indian Point 3 ('IP3') and James A. FitzPatrick ('JAF') Nuclear Power Plants, as well as for Headquarters. In addition, the Trustees are requested to approve an increase in the compensation ceiling of the procurement contracts with seven companies (Proto Power Corp., Raytheon Engineers & Constructors, Stone & Webster Engineering Corp., Yankee Atomic Electric Co., Burns & Roe Enterprises, Inc., Cataract, Inc., and Sargent & Lundy), for General Services Agreements providing for engineering services to support both nuclear plants, to \$20,000,000 from the previously approved ceiling of \$13,000,000; and also with three firms (Altran, Inc., Kalsi Engineering, and MPR Associates, Inc.) for motor-operated valve engineering services to support both nuclear plants, to \$1,000,000 from the previously approved ceiling of \$250,000. 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 '12-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 date of termination.

"These contract extensions 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 extensions will be correspondingly reduced.

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"Extension of each of the contracts identified in Exhibit '12-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 as well as preparation for and execution of Refuel Outage 9 ('RO9').

CONTRACTS IN SUPPORT OF THE NUCLEAR PLANTS -- INCREASE IN COMPENSATION CEILING:

"At their meeting of November 26, 1996, the Trustees approved the award of seven three-year General Services Agreements ('GSA's') to provide engineering personnel to perform design changes and modifications, on an "as required" basis, in support of both nuclear plants. The contracts with **Proto Power Corp., Raytheon Nuclear, Stone & Webster Engineering Corp., Yankee Atomic Electric Company, Burns & Roe Enterprises, Inc., Cataract, Inc., and Sargent & Lundy (C96-Z0050 - C96-Z0056)**, which became effective on October 15, 1996, were awarded as a result of competitive bidding. The original intent, as previously indicated to the Trustees in the aforementioned item, was that some tasks would be assigned on a sole source basis to the firm with a specific specialty or which could meet compressed schedule requirements, but that as tasks were identified to be performed, the selected firms would competitively bid against each other, by submitting their qualifications, corresponding costs, and appropriate level of staffing to meet the required schedule for each task. In actuality, as indicated to the Trustees in a subsequent 'informational' item presented at their meeting of March 25, 1997, most of the IP3 tasks were awarded on a sole source basis due to the criticality of tasks to support Refueling Outage 9 ('RO9') and the engineering backlog reduction effort, which is a significant issue with the NRC. Since awarding the majority of the initial critical tasks on a sole source basis, staff have been increasingly successful in bidding tasks that are not critical to RO9. Backlog reduction tasks are awarded on a sole source basis only when the expertise required is available from only one specific vendor.

"However, additional work has been performed under these seven GSA's, which was either not anticipated to be performed under the GSA's or was not anticipated to the extent ultimately required. Such work included: Radiation Monitor upgrades, Service Water System piping improvements, trailer park modifications (including trailer setups, electrical service upgrades, additional telephone service installation and upgrades, and installation of computer lines), instrumentation and control modifications, senior seconded personnel, and refueling equipment upgrades (including polar and manipulator cranes and fuel transfer system).

"In addition, as the list of RO9 modifications has grown, work plans have been revised and the role of the GSA vendors with respect to supporting the outage has been modified. As a result, staff have determined that there is a need to increase the compensation limit for this contract by an estimated \$7,000,000 through the end of June 1998. This will provide adequate funding to perform the following work: FSAR support activities, balance of plant, and seconded personnel for JAF; diverse engineering activities involving RO9 support for IP3, as well as installation support activities, engineering backlog reduction, normal maintenance, regulatory issues, plant upgrades, and other engineering projects in support of IP3. The work involves all classifications of engineering activities, such as civil/structural, electrical, mechanical, instrumentation & control, maintenance, and special projects, and non-outage modifications and contingency maintenance support to be performed after RO9. Only funded tasks are intended to be included under these GSAs.

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"The Trustees' approval is requested to authorize the RO9 and non-outage tasks for IP3 and JAF as outlined above and to approve the additional funding, thereby increasing the compensation limit to \$20,000,000.

"The three contracts with **Altran, Inc. (S96 - 83920), Kalsi Engineering (S96-83918), and MPR Associates, Inc. (S96-83916)** 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.

"At their meeting of September 24, 1996, the Trustees approved the award of the three aforementioned contracts for a term of two years, in the total combined amount of \$250,000. These contracts were intended primarily for structural mechanics analysis work relating to valve issues at both nuclear plants. Due to emergent work in response to NRC GL 96-06, additional funding was committed to resolve the GL 96-06 water hammer and thermal pressurization issues for IP3. The current contract amounts total \$393,900; it is estimated that an additional \$600,000 will be required to support both planned as well as emergent work under these contracts. The Trustees' approval is requested for this additional funding, thereby increasing the total combined compensation limit to \$1,000,000.

CONTRACTS IN SUPPORT OF HEADQUARTERS:

"The two contracts with **Doreen Morgillo (S96-82408) and We Design (S96-83204)** provide for computer graphics and design services, on an "as required" basis, for the Authority's New York Office. Services include: preparation of comprehensive layouts for corporate communications and publications, such as the Annual Report and Employee Newsletter, advertising, marketing materials, presentations, and exhibits. The original awards became effective on July 16, 1996 and October 1, 1996, respectively for an initial term of one year, with an option to extend services for one additional year. A one-year extension is now requested to exercise the option in the contract, in order to continue to provide such services, as needed. The current contract amounts are \$32,466 and \$21,476, respectively. It is anticipated that an additional \$30,000 will be required for the contract with Ms. Morgillo and \$40,000 for the We Design contract for the extended term. Trustees' approval is requested to extend the subject contracts through July 14, 1998 and September 30, 1998, respectively, and to approve the additional funding.

"The contract with **Octel Communications Corp. (S96-83626)** provides for maintenance services for the Authority's voice mail system. The original award for maintenance became effective on July 15, 1996, after a one year warranty period included with the initial purchase of the system. The initial maintenance term was for one year, with the option to extend services for up to three additional years. A three-year extension is now requested to exercise the option in the contract to extend services and continue maintenance. The current contract amount is \$22,203; it is estimated that an additional \$51,808 will be required for the extended term. The Trustees' approval is requested to extend this contract through July 14, 2000, and to approve the additional funding.

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FISCAL INFORMATION

“Funds required to support contract services for various non-nuclear Headquarters departments/Business Units, JAF, and IP3 have been included in the 1997 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.

RECOMMENDATION

“The Site Executive Officer - James A. FitzPatrick Nuclear Power Plant, the Site Executive Officer - Indian Point 3 Nuclear Power Plant, the Vice President - Nuclear Operations, the Vice President - Nuclear Engineering, the Chief Information Officer, and the Vice President - Public Affairs recommend the Trustees' approval of the extension and additional funding of the procurement contracts listed in Exhibit '12-A', and of an increase in the compensation ceiling of the General Service Agreements with the following seven firms: Proto Power Corp., Raytheon Engineers & Constructors, Stone & Webster Engineering Corp., Yankee Atomic Electric Co., Burns & Roe Enterprises, Inc., Cataract, Inc., Sargent & Lundy; and also of an increase in the compensation ceiling of the contracts with the following three firms: Altran, Inc., Kalsi Engineering, and MPR Associates, 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 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 “12-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 seven contracts with Proto Power Corp., Raytheon Engineers & Constructors, Stone & Webster Engineering Corp., Yankee Atomic Electric Co., Burns & Roe Enterprises, Inc., Cataract, Inc., and Sargent & Lundy, and an increase in the compensation ceiling of the three contracts with Altran, Inc., Kalsi Engineering, and MPR Associates, Inc., be, and hereby are, approved as recommended in the foregoing report of the President, in the amounts and for the purposes listed below:

<u>O & M</u>	<u>Contract Approval (Increase in Compensation Ceiling</u>	<u>Projected Closing Date</u>
General Services Agreements to provide foreengineering services for IP3 and JAF:		
Proto Power Corp. C96-Z0050	\$ 7,000,000	10/14/99
Raytheon Eng. & Constructors C96-Z0051		
Stone & Webster Eng. Corp. C96-Z0052		
Yankee Atomic Electric Co. C96-Z0053		
Burns & Roe Enterprises, Inc. C96-Z0054		
Cataract, Inc. C96-Z0055		
Sargent & Lundy C96-Z0056		
Previously Approved Compensation Ceiling	<u>\$13,000,000</u>	
TOTAL REVISED COMPENSATION CEILING	<u>\$20,000,000</u>	
 General Services Agreements to provide motor-operated valve engineering services for IP3 and JAF:		
Altran, Inc. S96-83920	\$ 600,000	09/30/98
Kalsi Engineering S96-83918		
MPR Associates, Inc. S96-83916		
Previously Approved Compensation Ceiling	<u>\$ 250,000</u>	
Additional Committed Amount	<u>\$ 150,000</u>	
TOTAL REVISED COMPENSATION CEILING	<u>\$ 1,000,000</u>	

**13. Procurement (Services) Contract - Independent Accounting
Services - Price Waterhouse LLP - Award**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement contract to Price Waterhouse LLP ('Price Waterhouse') to perform the annual audit of the Authority's financial records for the years 1997 through 2001.

"The contract will provide for a limit of \$584,000 for the five year period.

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.

"At their meeting of May 27, 1992, the Trustees approved the award of a contract to Coopers & Lybrand to perform the audits of the Authority's financial records for a period of four years from 1992 through 1995 with an option to extend the contract for fifth year (1996). In addition to 24 its report expressing an opinion on the Authority's financial statements, Coopers & Lybrand also provided a separate report with respect to its review of the Authority's system of internal accounting controls and a separate report with respect to its review of the Authority's compliance with its Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Coopers & Lybrand also performed special accounting services upon request. On October 26, 1996, the President approved the extension of Coopers & Lybrand's contract for a fifth year as a result of their providing satisfactory services during the four year period and the offer of reasonable rates to perform the 1996 audit.

"At their meeting of December 17, 1996, the Trustees approved the establishment of an Audit Committee to provide executive oversight of the Authority's external and internal audit functions and issues concerning the Authority's Code of Conduct. The Committee is comprised of two Trustees who are charged with, among other things, advising the Board in its selection of an independent accounting firm and overseeing the Authority's relationship with such firm.

DISCUSSION

"On March 31, 1997, the Authority published in the Contract Reporter its intent to solicit bids for independent accounting services, in accordance with Procurement Contract Guidelines. Eighteen firms, including all of the 'Big Six' accounting firms, indicated an intent to bid. As of the bid due date, April 28, 1997, four

proposals were received. Cost was the major criteria considered by staff in evaluating the bids. A summary of the bids received follows:

<u>Bidder</u>	<u>Average Total Annual # of Hours</u>	<u>Cost (000's)</u>
Price Waterhouse	1400	\$584.0
Arthur Andersen	1629	\$803.0
Coopers & Lybrand	1325	\$853.8
Deloitte & Touche	2576	\$1349.0

“Other criteria considered by staff in evaluating bids included: firm utility experience, policies regarding client confidentiality, and the utility experience of proposed staff.

“Each of the ‘Big Six’ accounting firms has a significant electric utility practice and the technical expertise to perform the services requested. As indicated, Price Waterhouse’s price was, by far, the lowest bid received. Their total price of \$584,000, for five years, is \$219,000 (27%) less than Arthur Andersen’s price of \$803,000, as second lowest bidder. Also, the average annual number of hours proposed by Price Waterhouse, at 1400, is realistic based on the actual number of hours incurred to perform the 1996 audit. Price Waterhouse is capable of providing comprehensive and high quality services, as evidenced by their serving as auditor for many of New York State’s major utilities as well as many utilities outside the state. Our discussions with Price Waterhouse revealed that they proposed senior staff for the Authority’s engagement that have in-depth utility experience.

“Accordingly, staff recommends the award of the contract to Price Waterhouse based on their low bid, large utility practice and in-depth audit team experience. Staff consulted with the Audit Committee in developing and finalizing its recommendation.

FISCAL INFORMATION

“The actual cost of the 1996 audit was \$173,000. The proposed contract will result in 1997 audit expenses of \$110,000, i.e., significant immediate savings as well as additional savings over the five year agreement. Payment will be made from the Operating Fund.

RECOMMENDATION

“The Director - Corporate Accounting, the Vice President and Controller, and the Vice President - Procurement and Real Estate recommend the Trustees approve the award of a five year contract to Price Waterhouse LLP to perform the annual audit of the Authority’s financial records for the years 1997 through 2001 in an amount not to exceed \$584,000.

“The General Counsel, the Senior Vice President - Business Services, and I concur in the recommendation. The members of the Audit Committee support the staff’s recommendation.”

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Trustee Miller commended Messrs. Bellis and Concadoro for their efforts in identifying and recommending the selection of a firm which will result in cost savings to the Authority.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract to Price Waterhouse LLP is hereby approved, to perform the audits of the Authority's financial records for the years 1997 through 2001 and to perform other special services, as requested, as recommended in the foregoing report of the President in the amount and for the purpose listed below:

<u>O & M</u>	<u>Projected Closing Date</u>	<u>Contract Approval</u>
Independent Accounting Services		
Price Waterhouse LLP	06/15/02	Not to exceed <u>\$584,000</u>

June 24, 1997

14. Ratification of Agreements Among the Authority, Niagara Mohawk and the New York Department of Public Service

The President submitted the following report:

“The General Counsel recommends the adoption of the following resolution. I concur in the recommendation.”

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

RESOLVED, That the Trustees hereby ratify and approve the Agreement among the Authority, Niagara Mohawk Power Corporation and the New York State Department of Public Service dated May 22, 1997, resolving and settling certain disputes concerning the delivery by Niagara Mohawk of FitzPatrick High Load Factor and Economic Development Power, which has been executed by the Chairman, and is attached hereto as Exhibit “14-A”.

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15. **Next Meeting**

The Regular meeting of the Trustees will be held on **Tuesday, July 29, 1997, at the James a. FitzPatrick Nuclear Power Plant at 10:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

June 24, 1997

Closing

“Upon motion made and seconded, the meeting was closed at 11:45 a.m.”

Anne Wagner-Findeisen
Corporate Secretary

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