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

April 28, 1998

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Minutes of the regular meeting of the Power Authority of the State of New York held at the New York office at 11:00 a.m.

Present:	Clarence D. Rappleyea, Chairman
	Thomas R. Frey, Vice Chairman
	Hyman M. Miller, Trustee
	Louis P. Ciminelli, Trustee
	Frank S. McCullough, Jr., Trustee

Eugene W. Zeltmann	President and Chief Operating Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Peter W. Delaney	Executive Vice President and Chief Financial Officer
Robert A. Hiney	Executive Vice President - Project Operations
John F. English	Senior Vice President – Corporate Planning
Louise M. Morman	Senior Vice President – Marketing and Economic Development
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Russell Krauss	Chief Information Officer
Arnold M. Bellis	Vice President – Controller
Daniel Berical	Vice President – Policy and Governmental Affairs
Woodrow W. Crouch	Vice President – Project Management
H. Kenneth Haase	Vice President – System Planning
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President and Chief Engineer
Michael Petralia	Vice President – Public Affairs
Harry P. Salmon, Jr.	Vice President – Project and Engineering
Stephen P. Shoenholz	Vice President - Public Relations
Vincent Vesce	Vice President - Human Resources
Carmine J. Clemente	Deputy General Counsel
Gary Paslow	Executive Director – Policy Development
Jordan Brandeis	Director – Performance Planning
Joseph J. Brennan	Director – Internal Audit
John L. Murphy	Director - Public Information
James J. Peterson	Director – Power Contracts
William Slade	Director - Environmental
James H. Yates	Director - Business Marketing & Economic Development
George W. Collins	Treasurer
Craig Banner	Manager – Municipal and Cooperative Markets
Anne Wagner-Findeisen	Deputy Secretary
Laura M. Badamo	Assistant Secretary
Vernadine Quan-Soon	Assistant Secretary

Chairman Rappleyea presided over the meeting. Executive Vice President, Secretary and General Counsel Blabey kept the Minutes.

1. Approval of the Minutes

The minutes of the Regular Meeting held on March 31, 1998 were approved.

2. <u>Financial Report for the Three Months Ended March 31, 1998</u>

3. Report from the President and Chief Operating Officer

President Zeltmann expressed his satisfaction with the prior month's positive fiscal results, which were being submitted to the Trustees, and underscored that this achievement is due to the hard work and long hours put in by many dedicated NYPA employees. The President further underscored that all NYPA staff is striving to ensure and maintain the safe, reliable and cost-effective operations of the Authority's plants and facilities.

At the President's request, Mr. Krauss reported on the overall status and developments in the ongoing Year 2000 Program Management effort, in particular the roles of the Executive Steering Committee, and the Program Management Office, and the discrete processes being implemented by the six Business Unit Coordinators as integral parts of the Vision 2000 effort. Mr. Haase then summarized the support processes involving the Transmission Department's "Energy Management System". Mr. Lipsky of the Power Generation unit described the status of the ongoing assessment of the compliance-readiness of the Authority's transmission lines. Mr. Krauss reported on the progress of the current Inventory Assessment phase, scheduled to be completed by the third quarter.

In response to questions from Trustee McCullough, Mr. Krauss explained that determining the compliance status of the IP3 systems will proceed rapidly once it is under way, which is anticipated to be in the near future. In response to questions from Trustee Ciminelli, Mr. Krauss explained that the 'criticality' of various systems is presently being defined by the individual Business Units, and may be redefined on a corporate level when priorities and contingencies are established, but in any event, well before December 1999.

In response to further questions from Trustee Ciminelli concerning compliance of the Authority's Nuclear Generation systems, Messrs. Delaney and Salmon explained that the certification of compliance to the NRC is due by July 1999, and that they are confident that NYPA will achieve compliance within the required time frame.

4. Additional Sale of High Load Factor Power - Encore Paper Company, Inc.

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the sale of an additional 5,000 kilowatts of High Load Factor power from the James A. FitzPatrick Power Plant ('FitzPatrick') to Encore Paper Company, Inc. ('Encore'). This sale of power above the base contract amount will allow Encore to expand and operate new equipment. Encore, an existing high load factor customer, meets applicable product content and electric demand requirements necessary to receive an additional high load factor power allocation.

BACKGROUND

"The Authority entered into a contract with Encore as a 'high-load factor manufacturer' on January 16, 1996 for the sale of a base amount of 9,000 kilowatts and a job commitment of 254 jobs. The Trustees have authorized the officers of the Authority to consider the provision of additional High Load Factor power from the FitzPatrick plant to Encore upon written application of the company and approval by the Authority. Encore has requested an additional allocation of 5,000 kW to operate new equipment approved by its Board as part of an expansion project for a term of seven years, to December 31, 2005. This term matches the end date of the existing contract between Encore and the Authority.

DISCUSSION

"Encore is the largest recycled paper producer in New York State and one of the major employers in its area. The South Glens Falls facility employs more than 300 people. On January 20, 1998, Encore's Board of Directors approved a major expansion project. Encore's engineering reports indicate that 5,637 horsepower is required to operate new equipment, including a new de-inking machine and a new paper machine. The new equipment will be phased-in over the next 12 months. The proposed seven-year sale would permit Encore to plan for stabilized production levels and increased employment levels. Encore anticipates hiring up to 20 new employees in this expansion.

"The cost of power and a continuing partnership with the Authority are primary considerations of Encore in deciding to expand its New York operations. Encore was established in March 1992 at the site of a former James River Mill in South Glens Falls. The proposed seven-year allocation of 5,000 kW of High Load Factor power from the FitzPatrick plant would allow Encore to plan for a continuing orderly expansion of the plant and jobs. This allocation is in accordance with New York State's and the Authority's economic development goals. The amount of FitzPatrick power is available for the term requested.

"Delivery to Encore will be made pursuant to existing contract arrangements with Niagara Mohawk Power Corporation.

RECOMMENDATION:

"The Director – Business Marketing and Economic Development recommends that the Trustees approve the allocation to Encore Paper Company, Inc. of an additional 5,000 kW of high load factor power for a term of seven years as described herein.

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

Chairman Rappleyea noted that Encore is a recipient of one of the Authority's earliest economic development power programs, for high load factor customers, and that is has been the success of these other programs that set the stage for the current Power for Jobs program.

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That the proposed additional allocation of 5,000 kilowatts of FitzPatrick high load factor power to Encore Paper Company, Inc. as recommended in the foregoing report of the President be, and hereby is, approved; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the above allocation, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

5. Modification to New York State Electric & Gas Corporation – Rural and Domestic Hydropower Agreement

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve a modification to the February 22, 1989 Agreement ('the Agreement') under which the Authority provides low-cost hydropower to New York State Electric & Gas Corporation ('NYSEG' or 'the Company') for resale to the Company's rural and domestic customers. The modification, which is required as a result of NYSEG's retail restructuring settlement that has been approved by the Public Service Commission ('PSC'), will eliminate a provision that entitles NYSEG to certain relinquished Authority hydropower.

BACKGROUND

"NYSEG had been purchasing blocks of low-cost hydropower from the Authority under contracts that expired in 1985 (St. Lawrence Contract S-7) and 1990 (Niagara Contract NS-11). Such power was resold by NYSEG without markup to its rural and domestic customers pursuant to the requirements of the Power Authority Act.

"The Agreement, which became effective on January 1, 1990, and expires on August 31, 2007, was intended generally to replace power that NYSEG had been purchasing under Contracts S-7 and NS-11. However, pursuant to decisions of the Federal Energy Regulatory Commission, ('FERC') the Authority was required to increase sales of hydropower to municipal and cooperative systems eligible for preference under the Niagara Redevelopment Act ('NRA') during the period 1985 through 1990. As such, the amount of hydropower available under the Agreement to NYSEG, which is not entitled to preference under the NRA, was lower than the quantity that the Company had been purchasing prior to 1985.

"In hope of eventually increasing its purchases of hydropower, NYSEG (and the other upstate utilities) insisted on a specific provision in the Agreement under which any hydropower that might ultimately be relinquished by one or more of the North Country Industries (Aluminum Company of America, Reynolds Metals Company and General Motors PowerTrain) would be maintained in the service areas of the upstate utilities. Specifically, Paragraph K of the Agreement ('Restoration of Withdrawn Power and/or Energy') provides that power surrendered by the North Country Industries would initially be apportioned among NYSEG and the other upstate utilities on an interim basis for resale to the utilities' industrial service classifications. Such power would ultimately be subject to direct allocation by the Authority to businesses within the service areas of NYSEG and the other upstate utilities which would be required to deliver such power under terms and conditions similar to those applicable to Economic Development Power ('EDP') arrangements.

DISCUSSION

"In connection with NYSEG's plan to introduce retail competition in its service area, NYSEGPlan, the Company negotiated specific terms and conditions with the Authority which, among other things, protect existing Authority industrial allocations from the imposition of NYSEG stranded costs and provide for a modest increase in the amount of EDP that the company is willing to deliver. Because paragraph K is fundamentally inconsistent with the development of competitive retail markets and the role of wires companies like NYSEG in those markets, the settlement approved by the PSC in the NYSEG Competitive

Opportunities Proceeding provides for the elimination of Paragraph K from the Agreement, subject to approval by the Trustees.

"Paragraph K was developed solely at the insistence of NYSEG and the other upstate utilities and imposes geographical and pricing constraints on the reallocation of any relinquished North Country industrial hydropower. Although there is no expectation that any of such power will indeed be relinquished, the elimination of Paragraph K would ensure that decisions concerning at least the NYSEG 'share' of any relinquished power are solely the Authority's based on the region's and the State's economic development interests.

RECOMMENDATION

"The Director **-** Power Contracts recommends that the Senior Vice President – Marketing and Economic Development be authorized to execute a letter agreement with NYSEG eliminating Paragraph K from the Agreement.

"The Senior Vice President – Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, and the Executive Vice President – Project Operations, and I concur in the recommendation."

In response to questions from Vice Chairman Frey, Mr. Peterson explained that similar contractual provisions are set forth in the agreements with Niagara Mohawk and Rochester Gas & Electric; however, the latter were not addressed in the PSC settlement. Chairman Rappleyea indicated that because of economic conditions, any released power should currently be retained for use in the upstate area.

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That the Senior Vice President - Marketing and Economic Development be, and hereby is, authorized to execute a letter agreement with New York State Electric & Gas Corporation ('NYSEG') eliminating Paragraph K, 'Restoration of Withdrawn Power and Energy' from the February 22, 1989 Rural and Domestic Hydropower Agreement between NYSEG and the Authority.

6. Power Allocations Under the Power for Jobs Program

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve 76 allocations of available power under the Power for Jobs program to the businesses listed in Exhibits '6-A' and '6-B' which have been recommended for such allocations by the Economic Development Power Allocation Board ('EDPAB').

BACKGROUND

"In July 1997, Governor George E. Pataki and the New York State Legislature approved a program to provide low-cost power to businesses that agree to retain or create jobs in New York State. The program is called Power for Jobs and makes available 400 megawatts of power; 200 megawatts provided from the Authority's James A. FitzPatrick Nuclear Power Project and 200 megawatts purchased by the Authority through a competitive bid process. The program will be phased in over three years, with approximately 133 megawatts being made available each year. Approved allocations will entitle the customer to receive the power from the Authority pursuant to a sale for resale agreement with the customer's local utility. A separate allocation contract between the customer and the Authority will contain job commitments enforceable by the Authority.

"The program is designed to assist New York State businesses that are at risk of reducing or closing their operations or moving out of State or are willing to expand job opportunities. Small businesses and not-for-profit corporations are also eligible. Businesses are required to create or maintain a specific number of jobs in order to qualify for an allocation. At their meetings of December 16, 1997, January 27 and March 31, 1998, the Trustees approved allocations to 78 businesses under the Power for Jobs program.

DISCUSSION

"In an effort to receive quality applications and to announce the program, advertisements announcing the program were placed in major newspapers and business publications statewide; a direct-mail piece was distributed; regional meetings were hosted around the state; and the program was promoted through television ads within and without the state. To date, over 2,100 inquires have been received and over 750 applications have been sent to prospective customers.

"Completed applications were reviewed by EDPAB and recommendations were made based on a number of competitive factors including: the number of jobs retained or created, the amount of capital investment in New York State, and whether a business is at a competitive disadvantage in New York. Seventy-six applications were deemed highly qualified and presented to the EDPAB for its review on April 28, 1998. These allocations use all of the megawatts designated for the first year of the program. All remaining applications will be considered during program year two.

"As a result of its meeting, the EDPAB recommended that the Authority's Trustees approve the allocations to the 44 not-for profit corporations and 32 businesses listed in Exhibits '6-A' and '6-B'. Collectively, these organizations have agreed to create or retain over 66,000 jobs in New York State in exchange for allocations totaling 58,610 kilowatts. The allocation contracts will be for a period of three years. The power will be wheeled by the investor-owned utilities as indicated in Exhibits '6-A' and '6-B'. The basis for EDPAB's recommendations is also included in Exhibits '6-A' and '6-B'.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance and the Director – Business Marketing and Economic Development recommend that the Trustees approve the allocations of power under the Power for Jobs program to the companies listed in Exhibits '6-A' and '6-B'.

"The Senior Vice President – Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Chief Financial Officer, the Executive Vice President – Project Operations, and I concur with the recommendation."

Chairman Rappleyea stated that the fifth set of allocations under the Power for Jobs program is before the Trustees. From the outset, every effort has been made to implement the benefits of Power for Jobs as quickly as possible to achieve the program's goals of saving and creating jobs.

The Chairman stressed that the benefits of the program have been spread as widely as possible. The 133 MW available in the first year of the program are clearly not enough to meet the demand, in view of the fact that the applications received to date request in excess of 550 MW. However, the megawatts available have been stretched to generate the greatest possible job impact. The Chairman commended staff for their diligent efforts in ensuring the program's success.

The Chairman noted that the allocations to date represent a good geographic spread in that they comprise 32 business allocations in 21 counties; and 44 not-for-profit allocations in 15 counties. He also cited the excellent job creation results (2,574 new jobs); as well as an outstanding job/MW impact involving 66,000 jobs for 58.61 MW. This translates into a jobs per megawatt ratio of 1,100 jobs/MW, which is 11 times greater than the original target of 100 jobs/MW.

The Chairman further noted that with the approval of this set of allocations, the Trustees will have approved Power for Jobs allocations to more than 150 applicants. In return for that power, those applicants have committed to save and create more than 100,000 jobs. When approved by the Trustees. these allocations will exhaust the total 133 MW available in the first year of the program. The first-year allocations will average more than 750 jobs/MW.

The Chairman added that the numbers are impressive for a program that was projected to average 100 jobs/MW and impact 40,000 jobs over the next three years, and are even more impressive when viewed in the context that the total number of jobs linked to Power Authority electricity exceeds 250,000.

The attached resolution, as recommended by the President, was unanimously adopted.

WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve an aggregate 58,610 MW of allocations of Power for Jobs power to 92nd Street Young Men's and Young Women's Hebrew Association; Adirondack Medical Center; American Health Foundation; Asia Society; Ballet Hispanico of New York; Ballet Theatre Foundation; BASF Corporation; Blythdale Children's Hospital; Bomax, Inc.; Bristol-Myers Squibb Company; Church & Friary of St. Francis of Assisi; Coca-Cola Bottling Company of New York – Elmsford Plant; Coca-Cola Bottling Company of New York – Maspeth Plant; Coca-Cola Bottling Company of New York – Bronx, Elmsford, Queens, Richmond Plants; Columbia University; Corning Incorporated – Erwin Plant; Corning Incorporated – Big Flats Plant; Edison Price Lighting, Inc.; Edward John Noble Hospital of Gouverneur; Emerson Power Transmission Corporation; Englehard Corporation; Faxton Hospital; Frito-Lay, Inc.;Good Samaritan Hospital Medical Center; Henry Street Settlement; IEC Electronics Corporation; Industrial Ceramics, Inc.; International Center for the Disabled; John T. Mather Memorial Hospital of Port Jefferson, New York, Inc.; Kaz Incorporated; Keymark Corporation; Kilian Manufacturing Corporation; Knowlton Specialty Papers, Inc.; Leake & Watts Services, Inc.; Leviton Manufacturing Company, Inc.; Lewis County General Hospital; Lincoln Center for the Performing Arts; Lion Brand Incorporated; Long Beach Medical Center; Maimonides Medical Center; Medeva Pharmaceuticals Manufacturing, Inc.; Mercury Aircraft, Inc.; Mill Services, Inc.; Montefiore Medical Center; Museum of Modern Art; National Baseball Hall of Fame; New Museum of Contemporary Art; New York Flushing Hospital Medical Center; North General Hospital; Pall Trinity Micro Division of Pall Corporation; Pietrafesa, L.P.; Rome Cable Corporation; Sealed Air Corporation; Sisters of Charity Health Care System - Baley Seton Hospital; Sisters of Charity Health Care System - St. Elizabeth Ann's Health Care and Rehabilitation Center; Sisters of Charity Health Care System - St.Vincent's Medical Center; Snyder Tank Corporation; Solomon R. Guggenheim Foundation; South Street Seaport Museum; Southampton Hospital Association; Steinway, Inc.; St. John's Episcopal Hospital; St. Joseph's Hospital Health Center; St. Lawrence University; St. Luke's-Memorial Hospital Center; St. Peter's Hospital; Symbol Technologies, Inc.; Syracuse University; Syroco, Inc.; The American Cancer Society; The Educational Alliance; The Jewish Museum; The Joyce Theater; United Jewish Appeal-Federation of New York; Welch Allyn, Inc.; and the Whitney Museum of American Art.

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves a 200 kW allocation of Power for Jobs power to the 92nd Street Young Men's and Young Women's Hebrew Association; a 200 kW allocation of Power for Jobs power to Adirondack Medical Center; a 250 kW allocation of Power for Jobs power to American Health Foundation; a 225 kW allocation of Power for Jobs power to Asia Society; a 25 kW allocation of Power for Jobs power to Ballet Hispanico of New York; a 25 kW allocation of Power for Jobs power to the Ballet Theatre Foundation, Inc.; a 1,235 kW allocation of Power for Jobs power to BASF Corporation; a 150 kW allocation of Power for Jobs power to Blythdale Children's Hospital; a 400 kW allocation of Power for Jobs power to Bomax, Inc.; a 5,000 kW allocation of Power for Jobs power to Bristol-Myers Squibb Company; a 200 kW allocation of Power for Jobs power to Church & Friary of

St. Francis of Assisi; a 1,250 kW allocation of Power for Jobs power to Coca-Cola Bottling Company of New York – Elmsford Plant; a 600 kW allocation of Power for Jobs power to Coca-Cola Bottling Company of New York – Maspeth Plant; a 400 kW allocation of Power for Jobs power to Coca-Cola Bottling Company of New York – Bronx, Elmsford, Queens, Richmond Plants; a 750 kW allocation of Power for Jobs power to Columbia University; a 500 kW allocation of Power for Jobs power to Corning Incorporated – Erwin Plant; a 500 kW allocation of Power for Jobs power to Corning Incorporated – Big Flats Plant; a 400 kW allocation of Power for Jobs power to Edison Price Lighting, Inc.; a 100 kW allocation of Power for Jobs power to Edward John Noble Hospital of Gouverneur; a 1,400 kW allocation of Power for Jobs power to Emerson Power Transmission Corporation; a 1,500 kW allocation of Power for Jobs power to Englehard Corporation; a 350 kW allocation of Power for Jobs power to Faxton Hospital; a 1,000 kW allocation of Power for Jobs power to Frito-Lay, Inc.; a 800 kW allocation of Power for Jobs power to Good Samaritan Hospital Medical Center; a 300 kW allocation of Power for Jobs power to Henry Street Settlement; a 1,000 kW allocation of Power for Jobs power to IEC Electronics Corporation; a 600 kW allocation of Power for Jobs power to Industrial Ceramics, Inc.; a 200 kW allocation of Power for Jobs power to International Center for the Disabled; a 400 kW allocation of Power for Jobs power to John T. Mather Memorial Hospital of Port Jefferson, New York, Inc.; a 400 kW allocation of Power for Jobs power to Kaz Incorporated; a 800 kW allocation of Power for Jobs power to Keymark Corporation; a 400 kW allocation of Power for Jobs power to Kilian Manufacturing Corporation; a 650 kW allocation of Power for Jobs power to Knowlton Specialty Papers, Inc.; a 500 kW allocation of Power for Jobs power to Leake & Watts Services, Inc.; a 700 kW allocation of Power for Jobs power to Leviton Manufacturing Company, Inc.; a 200 kW allocation of Power for Jobs power to Lewis County General Hospital; a 3,000 kW allocation of Power for Jobs power to Lincoln Center for the Performing Arts; a 500 kW allocation of Power for Jobs power to Lion Brand Incorporated; a 600 kW allocation of Power for Jobs power to Long Beach Medical Center; a 1,350 kW allocation of Power for Jobs power to Maimonides Medical Center; a 2,000 kW allocation of Power for Jobs power to Medeva Pharmaceuticals Manufacturing, Inc.; a 1,550 kW allocation of Power for Jobs power to Mercury Aircraft, Inc.; a 300 kW allocation of Power for Jobs power to Mill Services, Inc.; a 1,100 kW allocation of Power for Jobs power to Montefiore Medical Center; a 1,000 kW allocation of Power for Jobs power to Museum of Modern Art; a 350 kW allocation of Power for Jobs power to National Baseball Hall of Fame; a 50 kW allocation of Power for Jobs power to the New Museum of Contemporary Art; a 600 kW allocation of Power for Jobs power to New York Flushing Hospital Medical Center; a 400 kW allocation of Power for Jobs power to North General Hospital; a 2,750 kW allocation of Power for Jobs power to Pall Trinity Micro Division of Pall Corporation; a 600 kW allocation of Power for Jobs power to Pietrafesa, L.P.; a 2,150 kW allocation of Power for Jobs power to Rome Cable Corporation; a 600 kW allocation of Power for Jobs power to Sealed Air Corporation; a 800 kW allocation of Power for Jobs power to Sisters of Charity Health Care System - Baley Seton Hospital; a 225 kW allocation of Power for Jobs power to Sisters of Charity Health Care System - St. Elizabeth Ann's Health Care and Rehabilitation Center; a 775 kW allocation of Power for Jobs power to Sisters of Charity Health Care System - St.Vincent's Medical Center; a 400 kW allocation of Power for Jobs power to Snyder Tank Corporation; a 475 kW allocation of Power for Jobs power to Solomon R. Guggenheim Foundation; a 175 kW allocation of Power for Jobs power to South Street Seaport Museum; a 350 kW allocation of Power for Jobs power to Southampton Hospital Association; a 600 kW allocation of Power for Jobs power to Steinway, Inc.; a 400 kW allocation of Power for Jobs power to St. John's Episcopal Hospital; a 1,000 kW allocation of Power for Jobs power to St. Joseph's Hospital Health Center; a 800 kW allocation of Power for Jobs power to St. Lawrence University; a 700 kW allocation of Power for Jobs power to St. Luke's-Memorial Hospital Center; a 1,000 kW allocation of Power for Jobs power to St. Peter's Hospital; a 1,750 kW allocation of Power for Jobs power to Symbol Technologies, Inc.; a 2,000 kW allocation of Power for Jobs power to Syracuse University; a 750 kW allocation of Power for Jobs power to Syroco, Inc.; a 100 kW allocation of Power for Jobs power to The American Cancer Society; a 400 kW allocation of Power for Jobs power to The Educational Alliance;

a 200 kW allocation of Power for Jobs power to The Jewish Museum, a 150 kW allocation of Power for Jobs power to The Joyce Theater; a 650 kW allocation of Power for Jobs power to United Jewish Appeal-Federation of New York; a 2,000 kW allocation of Power for Jobs power to Welch Allyn, Inc.; and a 400 kW allocation of Power for Jobs power to the Whitney Museum of American Art (the 'Customers'), as submitted to this meeting, and that the Authority finds that such allocations are in all respects reasonable, consistent with the requirements of the Power for Jobs program and in the public interest; and be it further

RESOLVED, That a total of 58,610 kW of power from the James A. FitzPatrick Plant and power purchased by the Authority in a competitive bid process be sold to the utilities that serve such Customers for resale to them for a period of up to three years under the terms of both the Authority's Power for Jobs sale for resale contracts with the utilities and separate allocation contracts between the Authority and such Customers; and be it further

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

7. Villages of Silver Springs and Frankfort
Increases in Retail Rates - Notices of Adoption

The President submitted the following report:

SUMMARY

"The Boards of the Villages of Silver Springs and Frankfort, New York have requested that the Trustees approve revisions for each system's base retail rates of each customer service classification. This will result in additional total annual revenues of about $33,000 or 17.3% and about $153,000 or 15% for Silver Springs and Frankfort, respectively. The Authority's energy and power rates are not changing.

BACKGROUND

Village of Silver Springs

"The Village Board of Silver Springs has requested the proposed rate increase to provide revenues to meet the electric department's additional debt service obligations, help fund planned capital expenditures, allow for sufficient working capital funds, increase its depreciation fund and enable the Village to meet projected increases in operation and maintenance expenses. Current rates have been in effect since 1993, when the Trustees approved a 7.1% rate increase.

"The Village electric department has planned capital additions and replacements of about $129,200. These expenditures include substation improvements, the purchase of a new bucket truck and a purchase of a new watt-hour test meter board. The Village plans to debt finance about $100,000 and fund the remainder of the capital program through the rate increase and cash reserves.

"Under the Village's rate design, an average winter residential customer using 500 kWh monthly, who currently pays about 4.1 cents per kWh for electricity, will pay about 4.8 cents per kWh after the increase. A small commercial customer using 1,000 kWh each month, which currently pays 3.9 cents per kWh, will pay 4.6 cents per kWh once the new winter rates are effective. For a large commercial customer using 6,500 kWh, the monthly rate would increase from 3.0 cents per kWh to 3.5 cents per kWh. In comparison, similar residential, small commercial and large commercial customers served by New York State Electric & Gas pay about 14 cents per kWh, 12 cents per kWh, and 10 cents per kWh, respectively.

Village of Frankfort

"The Village Board of Frankfort has requested the proposed rate increase to provide revenues to meet Frankfort Municipal Lighting 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 1993, when, with the approval of the Trustees, the Village instituted a service class rate redistribution, without changing the total system revenue.

"The management of the Village of Frankfort has planned additions to plant-in-service amounting $1,500,000. The capital program consists of a major upgrade of its distribution substation equipment, primarily to handle significant increases in Industrial and Large Commercial loads. The Village plans to debt finance its capital program by issuing a $1,500,000 bond.

"Under the Village's rate design, an average residential customer who currently pays about 4.6 cents per kWh, will pay about 4.7 cents per kWh after the increase. A small commercial customer currently pays 5.1 cents per kWh and will pay 5.6 cents per kWh, after the increase. Large commercial customers are presently paying 3.5 cents per kWh and will pay 4.9 cents per kWh after the increase.

"The industrial class will be newly introduced by the Village, in response to the growth of industrial load. Until now, industrial customers were served under the large commercial class. The new industrial class will more appropriately recover costs from these customers. An industrial customer currently pays 3.3 cents per kWh and will pay 5.1 cents per kWh after the rate increase. In comparison, residential, small commercial, large commercial and industrial customers served by Niagara Mohawk pay about 12, 11, 8 and 11 cents per kWh, respectively.

"The proposed Silver Springs and Frankfort rate revisions are based upon cost of service studies requested by the Villages and prepared by Authority staff.

DISCUSSION

"Pursuant to the Authority's Administrative Procedures, the Senior Vice President- Marketing and Economic Development requested the Executive Vice President, Secretary and General Counsel to file notices for publication in the State Register of the Village's of Silver Springs and Frankfort proposed revisions to retail rates. Both notices were published on March 4, 1998. A public hearing was held by the Silver Springs and Frankfort Village Boards on February 2, 1998 and January 29, 1998, respectively. There was no opposition to the proposed rates and both Village Boards have requested that they be approved.

"Comparisons of present and proposed total annual revenues and corresponding rates for each system by service classification are attached as Exhibits '7-A', '7-B', '7-C', and '7-D'.

RECOMMENDATION

"The Manager - Municipal and Cooperative Marketing & Regulation recommends that the schedules of rates as set forth in Exhibits '7-A' and '7-B' for the Villages of Silver Springs and Frankfort, New York, be approved as requested by both Villages to take effect beginning with the first full billing period following this date.

"It is further recommended that the Trustees authorize the Executive Vice President, Secretary and General Counsel to file notices of adoption with the Secretary of State for publication in the State Register and to file such other notices as may be required by statute or regulation.

"The Senior Vice President - Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, Executive Vice President – Project Operations, and I concur in the recommendation."

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That the proposed rates for electric service for the Villages of Silver Springs, New York and Frankfort, New York, as requested by such Villages, be approved to take effect with the first full billing period following this date, as recommended in the foregoing report of the President; and be it further

RESOLVED, That the Secretary of the Authority be, and hereby is, authorized to file notices of adoption with the Secretary of State for publication in the State Register and to file other notices as is required by statute or regulation.

8. 1997 Annual Report of Procurement Contracts and Annual Review of Open Procurement Contracts

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the 1997 Annual Report of Procurement Contracts (Exhibit '8-A-1'), and the Guidelines for Procurement Contracts (Exhibit '8-A-2'), and to review open service contracts exceeding a year as detailed in the Annual Report (Exhibit '8-A-3'). An Executive Summary is set forth in Exhibit '8-A'.

BACKGROUND

"Section 2879 of the Public Authorities Law governs the administration and award of procurement contracts equal to or greater than $5,000, and requires the Authority to annually prepare and approve a report on such contracts. The annual report must include a copy of the Authority's current Guidelines, details concerning any changes to the Guidelines during the year and particular information concerning procurement contracts. The following information for each procurement contract included in the report must be identified: annual report which shall include: 1. a copy of the Guidelines, 2. an explanation of the Guidelines and any amendments thereto since the last annual report, 3. a list of all Procurement Contracts entered into since the last annual report, including all contracts entered into with New York State business enterprises and the subject matter and value thereof and all contracts entered into with foreign business enterprises, and the subject matter and value thereof, 4. a list of fees, commissions or other charges paid, and 5. a description of work performed, the date of the contract and its duration, the total amount of the contract, the amount spent on the contract during the reporting period and for the term of the contract to date and the status of the existing Procurement Contracts, 6. method of awarding the contract (e.g., competitive bidding, sole source or competitive search), and 7. reasons why any procurements over $5,000 were not noticed in the Contract Reporter.

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

"The Authority's current Guidelines were approved by the Trustees at their meeting of October 31, 1989 and, were implemented as of January 1, 1990.

"Lastly, Section 2879 requires an annual review by the Trustees of open service contracts exceeding one year. Those long term service contracts exceeding a year and awarded after January 1, 1990, are included in the Annual Report. Open service contracts awarded prior to January 1, 1990, are listed in Exhibit '8-A-3'.

DISCUSSION

"The 1997 Annual Report of Procurement Contracts is attached for review and approval by the Trustees (Exhibit '8-A-1'). This report reflects activity for all procurement contracts equal to or greater than $5,000, as identified by the Authority's PARIS computer system, that were open, closed, or awarded in 1997, including contracts awarded in 1990 through 1996 that were completed in 1997, or were extended into 1998. All additional information required by the statute is also included. The Trustees are requested to approve the attached Annual Report pursuant to Section 2879 prior to submittal thereof to the Division of the Budget; the

Department of Audit and Control; the Department of Economic Development; the Senate Finance Committee; and the Assembly Ways and Means Committee.

"A copy of the Guidelines for Procurement Contracts, effective April 28, 1998 (Exhibit '8-A-2'), is attached to the Report. These Guidelines are substantively the same as the version approved last year. Minor outline, format and editing changes have been made for clarity and consistency.

RECOMMENDATION

"The Vice President - Procurement and Real Estate recommends that the Trustees approve the 1997 Annual Report of Procurement Contracts, the Guidelines for Procurement Contracts, and review of open service contracts as attached hereto in Exhibits '8-A-1' through '8-A-3.'

"The Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, Executive Vice President – Project Operations, and I concur in the recommendation."

In response to questions from Vice Chairman Frey, Messrs. Delaney and Hoff explained that substantial savings in the procurement process have been achieved via the implementation of the credit card purchasing system as compared to the prior use of "purchase orders", each of which had cost some $110 to generate.

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That pursuant to Section 2879 of the Public Authorities Law and the Authority's Procurement Guidelines, the Annual Report of Procurement Contracts, as listed in Exhibit "8-A-1", and the Guidelines for the use, awarding, monitoring and reporting of Procurement Contracts (Exhibit "8-A-2") be, and hereby are, approved; and be it further

RESOLVED, That the open service contracts exceeding a year be, and hereby are, reviewed.

9. Robert Moses Niagara Power Plant Upgrade - Expenditure Authorization and Increases in Compensation Ceilings

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize capital expenditures of $52.3 million to upgrade three additional generating units at the Robert Moses Niagara Power Plant ('RMNPP'), and to increase the compensation ceilings of previously awarded contracts for equipment fabrication and installation services required to upgrade the three units.

BACKGROUND

"Beginning in the early 1980s, the Authority undertook a series of studies to increase the ability of the Niagara Power Plant to produce electricity during peak demand periods and to provide additional firm capacity. Originally, a plan was developed that involved construction of new underground powerhouses at both the Robert Moses and Lewiston Pump Generating Plants. It was planned that approximately 1,200 gigawatt-hours could be added to peak period production by storing water that otherwise would have been used to generate at night when electricity demand was low. The proposed four-unit addition to the Niagara Plant, which would have cost as much as $1 billion, would have allowed the Authority to replace relatively expensive oil-fired generation with low cost hydro power.

"Recognizing that the building of a new underground powerhouse would be very costly, and have major environmental impacts, and that there had been significant interim improvements in turbine design methods, the Authority evaluated the feasibility of upgrading the existing generating equipment. It was concluded that it would be feasible to upgrade the existing units at the RMNPP.

"Based on economic analyses, the Authority adopted a plan to rehabilitate and upgrade the generating units to increase the Plant's use of available water, improve operating efficiency of each unit, allow additional operating flexibility, and provide for life extension and modernization of the facilities. The current program involves an upgrade of each of the 13 generating units at the RMNPP from a nominal output of 175 MW to 200 MW. Work includes replacement of the turbine, modifications to the generator, replacement of the transformer, and other associated equipment modifications and replacement. The RMNPP upgrade program has evolved to allow for major maintenance of the existing equipment. After 37 years of operation, the units exhibit the usual wear and tear and the need for major repairs. More than half of the cost is related to maintenance. Combining maintenance with the upgrade work provides substantial cost savings and minimizes the problem of scheduling and unit downtime.

"The rehabilitation plan initially called for completion of the upgrade of all 13 units at the RMNPP by 1998, but that schedule was extended due to changes in capacity projections and economic conditions. After receiving Federal Energy Regulatory Commission approval in 1989, the upgrade program of the Robert Moses units began in 1991. Installation of the prototype turbine-generator on Unit 4 was completed in 1993. Since then, upgrades have been completed on Unit 13 (1995), Unit 2 (1996), and Unit 1 (1997). Work on Unit 10 began in October 1997. The unit is scheduled to return to operation in July 1998. The remaining units are scheduled to be upgraded at the rate of one per year, with the program concluding in 2006.

"Analyses of the operating performance of the upgraded units demonstrate that the improvements have exceeded expectations. The upgraded units are capable of producing in excess of an additional 25 MW per unit at an increase in efficiency of 2%.

"For upgrade of the prototype unit, crews from various contractors performed much of the work. Beginning with the upgrade of the second unit, the Authority began a progressive effort to employ Niagara Plant craft personnel and technicians for an increasing number of tasks. Today, the Authority's employees perform approximately two-thirds of the upgrade work. The increased use of Authority employees has reduced contractor costs.

DISCUSSION

"Economic and revenue analyses support continuation of the upgrade program. In addition, the conditions of the equipment and problems discovered when units were disassembled during the upgrade are indicative of the need to perform major maintenance. Excessive water cavitation damage has occurred to the turbine waterways and waterwheels, which could result in major failures and extensive outage time. The stationary turbine seal rings have become distorted and mating waterwheel seal rings are beginning to wear excessively. Generator rotor rims have lost original compression and turbine bearings are wearing out. The units are in need of complete precision alignment and balancing. Further, after many years of reliable operation, some of the devices and systems are approaching the end of their service life and there is concern about their reliability and obsolescence due to lack of spare parts. These components are being repaired or replaced during the upgrade outage.

"To ensure continued reliable operation, more efficient power production, ability to re-time additional power production to peak demand periods, and to provide for life extension and modernization of the RMNPP, the upgrade of the remaining units must be continued. It is requested additional capital funding be authorized at this time for the upgrade of three more units.

"Since the inception of the Niagara Project Expansion in 1981, the Trustees have authorized total capital funding in the amount of $156.4 million. Of this amount, $121.2 million was authorized for the upgrade of the first six units at the RMNPP. The remaining $35.2 million was authorized for the feasibility studies, engineering and licensing associated with the Niagara Project expansion, and payments made by the Authority for recreational facilities improvements and community grants.

"In accordance with previous authorizations by the Trustees, contracts were awarded for major equipment fabrication and installation services for the RMNPP upgrade. The expenditure commitment to these contracts is subject to the Authority's Expenditures Authorization Procedures.

"To continue upgrade of the additional three units, (the 7th, 8th, and 9th units in the sequence), it is necessary to commit to fabrication of the long delivery time equipment as described below:

Turbine Fabrication and Installation – Voith Hydro Inc. ('Voith')

"The Authority has two contracts with Voith: one for fabrication of turbines and one for turbine installation services.

"At their meeting of November 22, 1988, the Trustees approved the award of a contract for $39.8 million, plus escalation, to Voith for fabrication of a prototype and 13 additional turbines, one of which is a spare. To date, the Trustees have authorized expenditure commitments in the amount of $25 million to Voith for fabrication of a total of seven turbines.

"The pricing provisions in the original contract include escalation based on U.S. Bureau of Labor statistics. The original terms and conditions of the contract with Voith are valid through March 1999. The Authority and Voith have reached agreement to extend the terms and conditions through 2007.

"Lead-time for fabrication of a turbine is 27 months. Fabrication release for the eighth turbine is required in June of 1998. It is requested that the contract with Voith be extended and that the compensation ceiling be increased in the amount of $10.3 million to allow for fabrication of three additional turbines.

"At their meeting of February 22, 1994, the Trustees approved the award of a contract in the amount of $3.3 million to Voith for installation services for two turbines. The contract contains a provision that allows the Authority to award installation services for additional turbines. The escalation formula is based on millwright rates in the Niagara Falls area, and ensures equitable price adjustment for each additional unit. At their meeting of August 29, 1995, the Trustees approved extension of the Voith installation services contract for three additional turbines at a cost of $5.1 million.

"Voith, as supplier of the turbines and accessories for the RMNPP upgrade, is responsible for meeting the turbine performance guarantees. In accordance with the contract terms with Voith, the performance guarantees are subject to Voith providing technical supervision during the turbine installation. Voith's installation services contract includes the cost of such installation supervision. If the turbine installation were to be performed by others, Voith would be required to provide installation supervision at an added cost of approximately $150,000 per unit. Voith's performance to date on the installation of the first five turbines has been excellent.

"It is requested that a change order be authorized for the installation services contract with Voith for installation of three additional turbines at a cost of $5.9 million.

Generator Fabrication and Installation - ASEA, Brown Boveri Power Generation Inc. ('ABB')

"At their meeting of January 30, 1990, the Trustees approved the award of a contract to ABB in the amount of $49.7 million for fabrication and installation of equipment and materials for upgrade of the generators on the thirteen units at RMNPP. To date, the Trustees have authorized an expenditure commitment to ABB in the amount of $20.2 million for the prototype and five additional generator upgrades.

"ABB's original pricing for the equipment and installation work was based on the upgrade of two units per year through March 1998. The contract contained a fixed escalation clause of 6% per year. Due to an upgrade schedule extension through 2006, the Authority and ABB renegotiated contract terms and conditions for equipment fabrication and installation that occurs after March 1998. ABB has agreed to hold its 1997 prices firm through the year 2002. Pricing for years 2003 through 2006 will be escalated at a fixed 2% per year rate. Savings associated with the revised terms and conditions are estimated at $10 million.

"The lead time requirement for delivery of the generator materials is one year. Therefore, materials fabrication release for the seventh unit is required in July 1998. It is requested that the ABB contract be extended and that the compensation ceiling be increased in the amount of $12.7 million to allow for materials fabrication and installation for the upgrade of three additional units at the RMNPP.

Transformer Fabrication – SMIT Transformatoren, B.V. ('SMIT')

"At their meeting of January 30, 1990, the Trustees approved the award of a contract to SMIT in the amount of $22 million, plus escalatin for fabrication of fourteen transformers, one of which is a spare, for the

RMNPP upgrade. To date, the Trustees have authorized an expenditure commitment to SMIT in the amount of $10.4 million for six transformers, of which five have been delivered and one is in fabrication.

"The original contract terms and conditions are valid through June 1998. The pricing provisions in the original contract include escalation based on U.S. Bureau of Labor statistics. The Authority and SMIT have reached an agreement to extend the contract terms and conditions through 2006.

"Transformer delivery lead-time is in excess of one year. Fabrication release for the seventh transformer is required in June 1998. It is requested that the SMIT contract be extended and that the compensation ceiling be increased in the amount of $6.3 million to allow for fabrication and delivery of transformers for the upgrade of three additional units at the RMNPP.

Fabrication of Rotor Rim Material – Franbilt, Inc. ('Franbilt')

"In October 1995, the Authority awarded a contract in the amount of $988,000 to Franbilt of Lockport, New York, the lowest evaluated bidder, to fabricate rotor rim spring plates and keys for four generator upgrades at the RMNPP.

"Prior to the second unit upgrade, the Authority assessed that the rotor rims had lost original compression and needed to be replaced to maintain generator alignment and balance. This work was not part of the initially planned upgrade program. However, to take advantage of the upgrade outage duration, it was deemed prudent to undertake rotor rim retensioning work during upgrade of each unit.

"Franbilt has fabricated and delivered material to precision tolerances for four units; its performance and material quality has been excellent. Franbilt has agreed to supply materials for three additional units at its 1995 price. It is requested the Trustees authorize a change order to the Franbilt contract in the amount of $800,000 for fabrication of rotor rim spring plates and keys for the upgrade of three additional units at the RMNPP.

FISCAL INFORMATION

"Payments for capital costs associated with the upgrade of the next three units at the Robert Moses Niagara Power Plant will be made from the Capital Fund.

RECOMMENDATION

"The Regional Manager - Western New York, the Vice President and Chief Engineer – Power Generation, the Vice President – Project Management, and the Vice President - Procurement and Real Estate recommend that the Trustees authorize capital funding of $52.3 million for the upgrade of three additional generating units at the Robert Moses Niagara Power Plant. It is further recommended that the Trustees authorize extension of contracts and increase of expenditure commitments for equipment fabrication for Voith Hydro, Inc. and SMIT Transformatoren B.V.; as well as extension of contract and increase of expenditure commitment for fabrication and installation services for ASEA Brown Boveri Generation, Inc., and authorize change orders and expenditure commitments for installation services to Voith Hydro, Inc. and fabrication of materials to Franbilt, Inc.

"The Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, the Executive Vice President - Project Operations, and I concur with the recommendation."

Mr. Hiney gave a presentation on the nature of the work being performed at the Niagara Plant, the equipment being upgraded, and the anticipated results of the effort in terms of increased efficiencies. In

response to questions from Trustee McCullough, Mr. Hiney stated that the current and anticipated expenditures for 1998 comprise a substantial portion of the O&M and Capital budgets which had been approved by the Trustees at their meeting of December 1997. In response to questions from Trustee Miller, Mr. Hiney explained that upon completion of the upgrade work, the Niagara Plant will be able to generate more electricity during the day, which is preferable, and achieve an overall efficiency increase of some two percent.

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That additional capital funding is hereby approved to be committed in accordance with the Authority's Expenditure Authorization Procedures for the upgrade of three units at the Robert Moses Niagara Power Plant in the amount listed below:

Capital Funding Previously Authorized	**$156,400,000**
Current Expenditure Authorization Request	**$ 52,300,000**
TOTAL AMOUNT AUTHORIZED	**$208,700,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted to extend the contract with Voith Hydro, Inc. through 2007 and commit funds for fabrication of three turbines for the upgrade of three additional units at the Robert Moses Niagara Power Plant under existing contract number NEP-P-026701 in the amount listed below:

Expenditures Previously Authorized	**$ 25,000,000**
Current Expenditure Authorization Request	**$ 10,300,000**
TOTAL AMOUNT AUTHORIZED	**$ 35,300,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted to issue a change order to Voith Hydro, Inc. for installation services for three additional turbines for the upgrade of the Robert Moses Niagara Power Plant as part of existing contract number S-945816 in the amount listed below:

Expenditure Previously Authorized	**$ 8,400,000**
Current Expenditures Authorization Request	**$ 5,900,000**
TOTAL AMOUNT AUTHORIZED	**$ 14,300,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted to extend the contract with ASEA Brown Boveri Power Generation, Inc. through 2006 and commit funds for fabrication and installation of generator equipment required to upgrade three additional units at the Robert Moses Niagara Power Plant under existing contract number NEP-P-026702 in the amount listed below:

Expenditure Previously Authorized	**$ 20,200,000**
Current Expenditures Authorization Request	**$ 12,700,000**
TOTAL AMOUNT AUTHORIZED	**$ 32,900,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted to extend the contract with SMIT Transformatoren, B.V. through 2006 and commit funds for fabrication of three transformers for the upgrade of three additional units at the Robert Moses Niagara Power Plant under the existing contract number NEP-P-026703 in the amount listed below:

Expenditures Previously Authorized	**$ 10,400,000**
Current Expenditure Authorization Request	**$ 6,300,000**
TOTAL AMOUNT AUTHORIZED	**$ 16,700,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted to issue a change order to Franbilt, Inc. for fabrication of rotor rim material for the upgrade of three additional units at the Robert Moses Niagara Power Plant under the existing contract number S-95-75703 in the amount listed below:

Expenditures Previously Authorized	**$ 988,000**
Current Expenditures Authorization Request	**$ 800,000**
TOTAL AMOUNT AUTHORIZED	**$ 1,788,000**

10. James A. FitzPatrick Nuclear Power Plant - Spent Fuel Facilities - Expenditure Authorization

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve a capital expenditure of $20.0 million out of an estimated project cost of $29.2 million for the engineering, design, procurement and installation of Spent Fuel Handling Upgrades (the 'Project') at the James A. FitzPatrick Nuclear Power Plant ('JAF'). This expenditure request is for the upgrade of the reactor building crane, the purchase of three multipurpose canisters ('MPC') and the engineering for the fuel handling systems. The balance of the Project funding will be requested upon completion of these tasks and final definition of the project scope.

"The Trustees are also requested to approve the award of multi-year contracts to: Ederer, Inc. in the sum of $3,800,000 for the design, analysis, fabrication and installation of the reactor building crane upgrade and Holtec International in the sum of $4,854,000 for the design, analysis, fabrication and delivery of three MPCs and handling equipment. The balance of this authorization will fund the personnel necessary to support the licensing, nuclear engineering, design review, radiological control, safety, quality assurance, plant operations and project management, in addition to engineering services to implement the Project.

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, awards of equipment or non-personal service 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.

"The spent fuel pool at JAF was designed to store only a fraction of the spent fuel that would be generated over its 40 years of licensed operation. At the time of plant construction, the spent fuel pool could accommodate 760 bundles. The expectation was to contract with a private firm to reprocess spent fuel into usable fuel for the next refueling. In the mid-1970's the federal government banned reprocessing of spent fuel and required commercial nuclear facilities to store spent fuel on site. Subsequently, the Nuclear Waste Policy Act of 1982 was enacted and it directed the U.S. Department of Energy ('DOE') to begin accepting spent fuel for permanent storage by January 31, 1998. DOE has failed to meet the deadline and at this time DOE's schedule is to begin accepting spent fuel sometime in the year 2010. These DOE delays have required the Authority to retrofit the JAF spent fuel pool with additional racks, thus increasing its fuel storage capacity to 3,247 bundles.

"It is the opinion of senior management of the Nuclear Generation Department that maintaining the plant's full core offload capability is the most prudent course for continued operation. The JAF plant will now lose full core offload capability following the refueling outage planned for 2002. This Project is scheduled for completion in 2001 and will provide for and maintain the full core off load capability. It will also ready JAF spent fuel for storage at a government or other repository.

DISCUSSION

"The reactor building crane must be upgraded to meet the Nuclear Regulatory Commission 'single failure proof' requirement which provides that a loaded MPC will not be dropped in the event of a crane malfunction during its operation. ('Single failure proof' means that if there is a malfunction within the crane the load will automatically be secured and prevented from falling). The crane's load bearing rating will be increased to 125 tons as a loaded MPC weighs approximately 120 tons. The MPC system includes the dry storage multipurpose canister, a concrete overpack for storage, transfer cask, handling and rigging equipment and portable lifting equipment. The purchase of the MPC system and the upgrading of the reactor building crane are tasks which would be required even if the DOE was presently accepting spent fuel for storage or the fuel were to be shipped to an off-site facility. Successive plant refuelings will also require the purchase of additional MPCs at a per cycle cost of $3 million. These amounts will be included in future budget requests.

"Similar dry spent fuel handling systems have been successfully installed at other nuclear power plants and are in operation today. This technology is at use at Calvert Cliffs Nuclear Power Station, Virginia Power's Surry Plant, Consumers Energy's Palisades Plant, the Point Beach Nuclear Power Station and Duke Power's Oconee Plant. Many other utilities currently have dry fuel storage in the design or construction phase.

"Alternatives to an MPC system for managing spent fuel were explored. Reracking is already being undertaken to the extent possible. Fuel rod consolidation was considered, but the technology is not proven. Transshipment to other plants has been explored, but there is no facility to accept this material. Niagara Mohawk was approached with the suggestion of using space in its spent fuel pool at Nine Mile Point Unit 1. The company declined as its spent fuel pool will handle its needs into 2010.

"Through 1997, the President and Chief Operating Officer approved preliminary funding of $996,000 to begin the development of the design criteria, procurement specifications and staff support for the Project. The Project will require the award of two contracts at this time for services and equipment to upgrade the reactor building crane and the procurement of three MPCs and requisite material handling equipment. Competitive bids were solicited for both components and Staff recommends awards to the following firms:

1) Ederer, Inc. for the design, analysis, engineering, equipment and installation for the upgrade of the reactor building crane at JAF to single failure proof with a capacity of 125 tons in the amount of $3,800,000.

2) Holtec International for the design, analysis, fabrication and delivery of three MPCs and associated handling equipment in the amount of $4,854,000. The system will consist of a stainless steel canister, a concrete overpack storage cask and a transfer cask. Holtec will also provide the equipment necessary to handle and move the canisters and casks.

As a contingency this request includes a $300,000 payment to be paid to the NAC company, a potential alternate supplier of MPCs. This payment is for NAC's engineering specifications and to lock in the MPC unit pricing. This measure is being taken to assure that all the design parameters for this fuel handling upgrade project will be compatible with at least one alternate supplier should the need arise at some time in the future.

FISCAL INFORMATION

"The James A. FitzPatrick Improvement Project Proceeds Account has a current balance of $51.2 million, of which $41.2 million has already been authorized by the Trustees for use on other projects. Based upon current cash flow projections, funds are available through the year 2000. Payment will be made from the appropriate Construction Fund – James A. FitzPatrick Improvement Project Proceeds Account until such funds are depleted. Additional expenses associated with this project and future projects will be funded with internal funds.

RECOMMENDATION

"The Site Executive Officer – James A. FitzPatrick Nuclear Power Plant, the Vice President – Nuclear Engineering, and the Vice President - Procurement and Real Estate recommend that the Trustees approve capital expenditures in the amount of $20.0 million for the Spent Fuel Handling Upgrades Project and the award of two procurement contracts as set forth above.

"The Vice President – Controller, the Chief Nuclear Officer, the Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, the Executive Vice President - Project Operations, and I concur in the recommendation."

In response to questions from Trustee Miller, Mr. Salmon explained that in view of the regulatory requirement for maintaining full core offload facilities, the plant needs to add racks for the upcoming outage; this increase will leave space only for one additional re-racking. Mr. Delaney added that the crane and the canisters are necessary for existing plant requirements and could be used for future transport of the fuel and for decommissioning purposes.

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President, in the amounts and for the purposes listed below; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multi-year procurement contract listed are hereby approved for the period of time indicated, in the amounts and for the purposes listed below, as recommended in the foregoing report of the President:

Capital	**Expenditure Authorization**
James A. FitzPatrick Nuclear Power Plant	
Previous Authorization	**$ 996,000**
Spent Fuel Handling Upgrades	**20,000,000**
Total Authorization	**$20,996,000**

Capital	**Projected Closing Date**	**Contract Approval**
Ederer, Inc. **(For the design, analysis, fabrication and installation of the Reactor Building Crane Upgrade)**	**09/30/2002**	**$3,800,000**
Holtec International **(For engineering, analysis, fabrication and delivery of multipurpose canisters and associated Handling Equipment)**	**09/30/2002**	**$4,854,000**

11. Election of Authority Non-Statutory Officers

The Executive Vice President, Secretary and General Counsel submitted the following report:

SUMMARY

"The Trustees are requested to elect certain non-statutory officers of the Authority for a term expiring at the next annual Trustees' meeting or until their successors are elected.

BACKGROUND AND DISCUSSION

"Article IV, Section 2 of the Authority's By-Laws provides for the election of certain non-statutory officers by the Trustees. Section 3 of the same Article provides that such non-statutory officers shall hold office for a term expiring at the next annual Trustees' meeting or until their successors are elected.

RECOMMENDATION

"It is recommended that the following non-statutory officers provided for in Article IV of the By-Laws adopted December 18, 1984 and last amended in September 11, 1997, be elected by the Trustees to hold office for terms expiring at the next Annual Meeting of the Trustees in April 1999 or until their successors are elected, as follows:

Eugene W. Zeltmann	President and Chief Operating Officer
Robert A. Hiney	Executive Vice President – Project Operations
David E. Blabey	Executive Vice President, Secretary and General Counsel"

The attached resolution, as recommended by the Executive Vice President, Secretary and General Counsel was unanimously adopted.

RESOLVED, That the following non-statutory officers of the Power Authority of the State of New York be, and each hereby is, elected pursuant to Section 2 of Article IV of the By-Laws, as adopted on December 18, 1984 and last amended September 11, 1997, to hold office for a terms expiring at the next annual Trustees' meeting or until their successors are elected:

Eugene W. Zeltmann	**President and Chief Operating Officer**
Robert A. Hiney	**Executive Vice President - Power Operations**
David E. Blabey	**Executive Vice President, Secretary and General Counsel**

12. Procurement (Services) Contracts - Blenheim-Gilboa Pumped Storage Power Project - South Access Road Slide Area - Extensions and Increases in Compensation for Engineering Support Services

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize extensions of contracts and increases in compensation ceilings to previously awarded contracts for engineering support services to Paul C. Rizzo Associates, Inc., Dr. Alfred J. Hendron, and Parsons Brinckerhoff Quade (for the services of Thomas S. Lee) to supply engineering support services on the South Access Road Slide Area for the Blenheim-Gilboa Pumped Storage Power Project.

DISCUSSION

"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 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.

"The south access road and transmission line corridor from the plant is located in a geologically unstable area adjacent to the lower reservoir. The slide area is about one mile away from the 100-foot high lower reservoir earth dam and emergency spillway. Movement in the slide area was observed immediately upon initial operation of the reservoir in the early 1970's. At that time, the area of movement was thought to be limited to the immediate vicinity of the reservoir shoreline. The movements resulted in cracking of roadway pavement and displacement of electrical conductor insulators. Some localized stabilization measures such as rock buttresses at the toe and deep horizontal drains were installed along the shore area. This reduced the rate of movement to about two inches per year.

"Monitoring revealed that since the fall of 1995, the rate of movement has increased to about four inches per year. A recent infrared image and aerial topographic mapping also revealed that the slide area is much larger than previously assumed. Recent subsurface investigations between 1994 and 1998 included installation of soil borings, piezometers, slope inclinometers and laboratory soil testing. This investigation went to greater depths and covered a larger area than previously studied.

"In addition to the subsurface investigations, Engineering staff performed an analysis of conductor tension due to displacement in the transmission towers. It was found that all insulators were pulled by the slide movement to tilt downhill at a pair of transmission towers located just uphill of the slide area. The excessive tension was reduced after a four to five foot extension was added to each affected conductor insulator. The insulators are back to their normal vertical position. The extension lengths agree well with the surveyed annual movement during the past 25 years.

"Because of the specialized nature of staff soil mechanics involved and significance of the slope stability concerns, Engineering recommended that a Board of Consultants be formed to assist staff in the investigation, evaluation, analysis, and design of remedial measures. Based on the recommendation, contracts for engineering services were awarded in accordance with the expenditure authorization procedures.

"Slope stability analyses were conducted with updated soil characteristics and slope geometry. The results indicate that a rapid movement of the massive slide is unlikely because the sliding plane is already at residual shear strength. Therefore, the slide area will continue to be active and will likely continue to move at an annual rate of one to four inches per year unless some stabilization actions are taken. The analyses also indicate that continued displacement of the slope toe area is likely. The Board of Consultants has recommended certain remedial measures to stabilize the toe area. These measures will effectively protect the Authority's transmission lines and plant access road, both of which are vital to the operation of the plant.

"In order to continue with the investigation and prepare a detailed design for remedial measures, it is necessary to increase compensation ceilings and extend contracts as described below.

<u>Engineering Support Services – Paul C. Rizzo Associates, Inc.</u>

"A contract was awarded in the amount of $7,330, to Paul C. Rizzo Assoicates, Inc. ('Rizzo') to review and to confirm the Authority's engineering staff findings in the slide area study. The <u>initial</u> review resulted in potential safety concerns. It was necessary therefore to perform more in-depth investigations and Rizzo's scope of work was expanded by Change Orders #1 and #2 to a new contract value of $233,177. Based on these additional findings, it is now necessary to develop a detailed design to stabilize the slide area. Due to safety concerns, the need to proceed on an accelerated basis, expertise and knowledge of this work by Rizzo, it is not feasible to re-bid this new scope of work.

"It is estimated that additional services from Rizzo will require a two year extension to the contract and an additional $366,823. This would bring the total commitment for Rizzo to $600,000. The revised scope of services would include additional slope stability analyses, borrow source material investigations and evaluations, additional Board of Consultants meetings, additional subsurface investigations (test pits and borings) in the proposed toe buttress area, and detailed design for construction of remedial measures.

<u>Board of Consultants - Dr. Alfred J. Hendron and Parsons Brinkerhoff Quade (Thomas S. Lee)</u>

"Because of the new information concerning the slide area and the reporting requirements of the Federal Energy Regulatory Commission ('FERC'), staff decided to utilize a Board of Consultants for better execution of the investigation and analysis. Upon soliciting and evaluating qualification packages from seven potential consultants in the fall of 1997, staff selected Dr. Alfred J. Hendron and Mr. Thomas S. Lee to join Dr. Paul C. Rizzo on forming the Board of Consultants. Due to the involvement of the Board, staff now has a better understanding of the slide area. The Board was successful in convincing FERC that there are no dam safety problems related to the slide area. Staff believes that it is important to retain Dr. Hendron and Mr. Lee for their expert opinions on major engineering decisions.

"Commitments for additional services from Dr. Hendron and Mr. Lee require a two year extension and an additional $25,000 each to offer expert opinions on various engineering decisions. This would bring their total contract amount to $50,000 each. The revised scope of services would include review of new subsurface data, review of the remedial design, and additional Board of Consultants meetings.

<u>FISCAL INFORMATION</u>

"Funds required for these contracts are included in the 1998 Approved Capital Budget. Payment will be made from the Capital Fund.

RECOMMENDATION

"The Vice President and Chief Engineer – Power Generation, the Vice President – Project Management, the Vice President – Controller, and the Vice President – Procurement and Real Estate recommend that the Trustees authorize change orders for an extension of the contract with Paul C. Rizzo Associates, Inc. through June 2000 and an increase in contract compensation limit to $600,000. It is further recommended that the Trustees authorize change orders for an extension of the contract with Dr. Alfred J. Hendron through October 2000 and an increase in contract compensation limit to $50,000. It is also recommended that the Trustees authorize change orders for an extension of the contract with Parsons Brinckerhoff Quade for the services of Thomas S. Lee through October 2000, and an increase in contract compensation limit to $50,000.

"The Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, the Executive Vice President - Project Operations, and I concur in the recommendation."

Mr. Lipsky presented diagrams and illustrations of the geological history of the ancient slide area, and explained that although this natural process could not be halted by engineering intervention, the sliding can be significantly slowed down, so as to not impede operations. In response to questions from Trustee Ciminelli, Mr. Lipsky stated that the transmission towers are subject to movement because of the slide, but that such movement is manageable with the use of term buckles and similar engineering mechanisms; if necessary, it would also be feasible to re-set individual towers to ensure their stability.

The attached resolution, as recommended by the President, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the contracts with Paul C. Rizzo Associates, Inc., Dr. Alfred J. Hendron, and Parsons Brinckerhoff Quade (for the services of Thomas S. Lee) to supply engineering support services on the South Access Road Slide Area for Blenheim-Gilboa Project be, hereby authorized for extension, and that the compensation ceilings be increased, as recommended in the foregoing report of the President, and as listed below:

Engineering Services	**Contract Amount**	**Projected Closing Date**
Paul C. Rizzo Associates Inc. Monroeville, PA (S97-05035)	**$600,000**	**06/30/2000**
Dr. Alfred J. Hendron Savoy, IL (S97-08050)	**$ 50,000**	**10/30/2000**
Parsons Brinckerhoff Quade (Thomas S. Lee) San Francisco, CA (S97-08045	**$ 50,000**	**10/30/2000**

13. Establishment of Operating Reserve

The President submitted the following report:

SUMMARY

"The Trustees are requested to establish an Operating Reserve in the amount of $150 million pursuant to the provision of the 1998 Bond Resolution and to authorize the withdrawal of monies from the Operating Fund for the payment of up to $1 million to the Prospect Street NYC Discovery Fund, L.P.

BACKGROUND

"Pursuant to Subsection 2 of Section 503 of the 1998 Bond Resolution, the Authority must determine (i) the amount, to be held as a reserve in the Operating Fund, which in the judgment of the Authority is adequate for the purpose of providing for the costs of emergency repairs or replacements essential to restore or prevent physical damage to, and prevent loss of Revenues from, any Project and (ii) the amount, to be held as a reserve in the Operating Fund, which in the judgment of the Authority is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments and improvements with respect to any Project necessary to keep the same in operating condition or required by any governmental agency having jurisdiction over such Project and to provide a reserve for the retirement from service, decommissioning or disposal of facilities comprising either a Project or a part of a Project.

"Once the reserve to be held in the Operating Fund is determined, the Authority may then under Subsection 1(e) of Section 503 withdraw monies for any lawful corporate purpose as determined by the Authority, including but not limited to the purchase or redemption of Obligations or Subordinated Indebtedness, provided that prior to any withdrawal pursuant to Subsection 1(e), the Authority shall have determined, taking into account, among other considerations, anticipated future receipts of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for any of the other purposes specified in the 1998 Bond Resolution.

"In 1995, as part of the long-term electric sales agreement with the City of New York, the Trustees approved funding of the Prospect Street NYC Discovery Fund, L.P., in the amount of $5 million. The purpose of the Prospect Street partnership is to provide capital to small businesses in New York City for the creation of jobs. The monies were to be taken from the General Reserve Account under the 1974 General Purpose Bond Resolution, and to date $4 million has been transferred to the Prospect Street partnership, leaving an obligation on the part of the Authority to fund an additional $1 million. Under the 1998 Bond Resolution, the Trustees must authorize the withdrawal of these funds from the Operating Fund.

DISCUSSION

"At their meeting of February 24, 1998, the Trustees authorized the use in 1998 and 1999 of up to $100 million for the purchase of the Authority's Series 1998 Bonds and for the payment of the Authority's Commercial Paper Notes. However, pursuant to Section 503 of the 1998 Bond Resolution, the Trustees must determine the appropriate Operating Reserve, as described above, before monies can be withdrawn to purchase the Series 1998 Bonds or to pay Commercial Paper Notes.

"The Trustees are being asked to establish the Operating Reserve at a level of $150 million, which amount has been an internal target of the Authority for the last two years and represents an amount that would be necessary to support Authority operations for a period of one and half years if one of the Authority's plants were to become inoperative and require major expenditures to restore operations. This was the case when the James A. FitzPatrick Power Plant ('FitzPatrick') was out of service from November 1991 to February 1993.

"Once the Operating Reserve is established, the staff expects to consummate the purchase of $12 million of its Series A 1998 Revenue Bonds this month and to pay down $25 million of Series 3 Commercial Paper Notes relating to FitzPatrick on or before June 30, 1998. The purchase of the debt related to FitzPatrick is part of the Authority's overall plan to eliminate FitzPatrick's debt by the middle of 1999.

"The Trustees are also being asked to authorize the withdrawal of up to $1 million from the Operating Fund under the 1998 Bond Resolution to fulfill the balance of the commitment of $5 million, as discussed above.

RECOMMENDATION

"The Treasurer recommends that the Trustees approve the establishment of an Operating Reserve in the amount of $150 million in the Operating Fund and authorize the withdrawal of up to $1 million from the Operating Fund to fulfill its obligations to the Prospect Street NYC Discovery Fund, L.P., as discussed above.

"The Executive Vice President, Secretary and General Counsel, the Executive Vice President - Power Operations, the Executive Vice President and Chief Financial Officer, and I concur in the recommendation."

In response to questions from Trustee Millers, Messrs. Collins and Ernsthaft explained that the size of the Reserve Fund is established by the Trustees and is subject to increase or decrease at the Trustees' discretion. In response to questions from Vice Chairman Frey, Mr. Ernsthaft explained that the amount recommended by staff for the initial establishing of the Reserve is based upon an analysis of cash drawdowns during defined time periods.

The attached resolutions are recommended for adoption.

RESOLVED, That the Trustees hereby establish an Operating Reserve in the Operating Fund in the amount of $150 million; and be it further

RESOLVED, That it is hereby authorized that up to $1 million of Operating Fund monies be withdrawn from such Fund and used for expenditures relating to the funding of the Prospect Street NYC Discovery Fund, L.P., as described in the attached President's Memorandum; and be it further

RESOLVED, That any amounts to be withdrawn from the Operating Fund for the foregoing purpose may be withdrawn only upon the execution by the Treasurer of a certificate certifying that the amounts to be withdrawn are not required for any of the purposes specified in Paragraphs (a)-(c) of Section 503 (1) of the General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998.

14. <u>Next Meeting</u>

"The Regular meeting of the Trustees will be held on **Wednesday, May 27, 1998**, at the **Charles Poletti Power Project, 31st Street and 20th Avenue, Astoria, NY** at **11:30 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 12:40 p.m."

David E. Blabey
Executive Vice President,
Secretary and General Counsel