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

February 24, 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 10:00 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
John F. English	Senior Vice President – Corporate Planning
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 Services and Technology
Russell Krauss	Chief Information Officer
Arnold M. Bellis	Vice President – Controller
Daniel Berical	Vice President – Policy and Governmental Affairs
John M. Hoff	Vice President – Procurement and Real Estate
William Josiger	Vice President – Project Activities
Charles I. Lipsky	Vice President and Chief Engineer
Stephen P. Shoenholz	Vice President - Public Relations
Vincent Vesce	Vice President - Human Resources
Arthur Cambouris	Assistant General Counsel
Joseph J. Carline	Assistant General Counsel
Gerard V. Loughran	Assistant General Counsel
Carmine J. Clemente	Deputy Counsel
William Ernsthaft	Principal Attorney
Gary Paslow	Executive Director – Policy Development
Jordan Brandeis	Director – Performance Planning
Joseph J. Brennan	Director – Internal Audit
Robert Meehan	Director – Compensation & Benefits
John L. Murphy	Director - Public Information
William Slade	Director - Environmental
James H. Yates	Director - Business Marketing & Economic Development
George W. Collins	Treasurer
Anne Wagner-Findeisen	Deputy Secretary
Laura M. Badamo	Assistant Secretary – Legal Affairs

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 January 27, 1998 were approved.

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2. <u>**Financial Report for the Year Ended December 31, 1997 (Final) and the Month of January 1988**</u>

3. <u>Refunding of all of the Authority's General Purpose Bonds</u>

Mr. John Miller of PFM, the Authority's financial adviser, briefed the Trustees on the highlights of the proposed transaction. In response to questions from Trustee Ciminelli, Mr. Miller explained that the Authority's strong financial history and credit ratings are recognized by the credit rating agency community and that he does not anticipate any material rating downgrade. In response to further questions from Trustee Ciminelli, Mr. Miller stated that the proposed refunding could be cancelled or withdrawn up to the day of pricing in the event that market or other conditions indicate that the Authority should delay the transaction.

Trustee Hyman Miller underscored his support for a transaction that would enhance the Authority's ability to achieve its mission of making low-cost power available to eligible users and would thus further economic development in the State. Trustee Miller stressed that the Authority is not seeking additional customers; rather, the Authority is committed to meeting the needs of the Authority's existing customers and providing them with low-cost power. He urged that Mr. Delaney and other Authority senior executives convey that policy message to the appropriate members of the Legislature.

Vice Chairman Frey noted that within the context of the current deregulation of the utility industry, it is the Authority's mission to be fiscally competitive so as to pay off its outstanding debt and avoid stranded costs. Mr. Delaney added that the Authority's rates must also be competitive so as to retain Authority customers. Trustee McCullough expressed agreement, underscoring the Authority's legislative mandate to serve its customers competitively.

President Zeltmann pointed out that the Authority has an affirmative obligation to maximize its financial flexibility. Trustee Miller expressed the hope that the proposed refunding will be accurately understood as the Trustees' furthering the important legislative objectives for which the Authority was created, and not result in misleading media coverage. Vice Chairman Frey pointed to the resolution's explicit pledge of Authority revenues to fulfill its obligations by providing for the establishment of reserves. Mr. Delaney added that successful completion of this transaction would enable the Authority to proceed with lowering certain rates, *as well as paying off its debt and stranded costs. Mr. Blabey stated that the Preliminary Official Statement clearly delineates the Authority's goals and positions.*

Mr. Ernsthaft described resolutions submitted for consideration of the Trustees, as follows, noting that the Trustees are also being requested to authorize the Chairman to amend such resolutions as he deems advisable:

1. *General Resolution Authorizing Revenue Obligations, which authorizes the issuance of the Series 1998 Bonds and other senior lien obligations.*
2. *The First Supplemental Resolution authorizing the issuance of the Series 1998 Bonds in an amount not to exceed $1.5 billion, in such form as the Chairman may approve within the parameters set forth in such Supplemental Resolution, including permissible interest rates, for the refunding of all of the Authority's General Purpose Bonds.*
3. *A Supplemental Resolution authorizing a new Series of Taxable Commercial Paper Notes, Series 4, in an amount not to exceed $275 million for the purpose of effectuating the refunding, and designating Goldman Sachs and J.P. Morgan as equal dealers for such notes.*
4. *Authorization of modification of the General Resolution in relation to the 1995 Revolving Credit Agreement which provides liquidity support for the Authority's Adjustable Rate Tender Notes. This modification is necessary to allow the 1995 Revolving Credit Agreement to be on a parity with the Series 1998 Bonds and the ART Notes as the Authority's senior debt.*

Mr. Ernsthaft also described certain additional resolutions submitted to the Trustees for their adoption, as follows:

1. *A resolution authorizing the sale of the Series 1998 Bonds to the Underwriters listed in the resolutions at such aggregate price as may be determined by the Chairman in accordance with the First Supplemental Resolution, under four separate Contracts of Purchase, substantially in the form submitted at this meeting.*
2. *A resolution authorizing the issuance of a Preliminary Official Statement and final Official Statements in connection with the sale of the Series 1998 Bonds.*

Mr. Ernsthaft also described the agreements which the Trustees were being asked to approve substantially in the form presented at this meeting in connection with the issuance of the Series 1998 Bonds and Series 4 Notes, with such amendments as an authorized officer deems advisable, as follows:

1. *Forward Supply Agreements to achieve economies from the Escrow Fund relating to the refunding.*

2. *Escrow Deposit Agreements with The Chase Manhattan Bank to effectuate the refunding.*

3. *Qualified Swap Agreements relating to the debt to be issued in the future to redeem or purchase the Series 1998 B Bonds and pay off the Taxable Commercial Paper issued for the refunding, with such entities as may be chosen through a competitive bidding process, in an amount not to exceed $800 million.*

4. *Amendments to certain existing Revolving Credit Agreements and the Morgan Note Agreement as necessary to effectuate the refunding.*

5. *A Continuing Disclosure Agreement which would require the Authority to update certain operations and financial data contained in the Official Statement on a yearly basis and provide notice of certain material events, such as defaults under bond resolutions, rating changes, and defeasances.*

6. *A Revolving Credit Agreement with Morgan Guaranty Trust Company of New York and certain other banks listed in the resolutions to provide liquidity support for the Series 1 and Series 4 Commercial Paper Notes, with a borrowing amount not to exceed $575 million.*

7. *Dealer Agreements with Goldman Sachs and J. P. Morgan relating to the Series 4 Commercial Paper Notes.*

The Trustees were also asked to authorize agreements with Hawkins, Delafield & Wood, Nixon Hargrave Devans & Doyle and Danforth Rogers for legal services in connection with the Series 1998 Bond issuance, commercial paper issuances, and other related matters.

Mr. Ernsthaft also described the resolutions submitted to the Trustees for their consideration which relate to the utilization of funds after the refunding, as follows:

(1) *Use of up to $50 million of monies in the Construction Fund for the refunding, with remaining Construction Fund monies deposited in the new Capital Fund.*

(2) *Deposit of up to $40 million of General Reserve monies in the new Capital Fund, with the remainder being deposited in the Operating Fund.*

(3) *Use of all Bond Service and Bond Reserve monies for the refunding.*

(4) *Deposit of all monies in the Authority's Revenue and Operating Fund into the new Operating Fund.*

(5) *Authorize the use of up to $100 million from the new Operating Fund during 1998 and 1999 to purchase in the open market Series 1998 Bonds and Commercial Paper, if such monies are available under the new Resolution.*

The Trustees were also requested to appoint The Chase Manhattan Bank as Trustee, Registrar and Paying Agent under the new Resolution.

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The following resolutions were adopted pursuant to a single vote of the Trustees on motion of Trustee Miller and second by Trustee Frey.

4. Village of Andover 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 Village of Andover ("Village"), New York. This will result in additional total annual revenues of $24,600, or 8.3%.

BACKGROUND

"The proposed rate revisions are required to provide adequate revenues to meet the Village'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 operating and maintenance expenses. Current rates have been in effect since 1996, when the Trustees approved a 15.0 percent rate increase.

"The electric department is in the final phase of a construction project to expand and upgrade the Village's substation capacity to 4,160 volts. No major improvement or upgrade has been undertaken since the Village's substation was built in 1977. To date, the Village financed $408,000 of the planned capital expenditures. The remaining $77,500 of the sub- station project will be funded from the rate increase and cash reserves.

"An average residential customer, using 500 kWh monthly pays about 4.2 cents per kWh for electricity before the rate increase and about 4.5 cents after the increase. A small commercial customer using 1,000 kWh each month pays 4.9 cents per kWh before the increase and 5.2 cents per kWh once the new rates are effective. For a large commercial customer using 20,000 kWh, the monthly rate would move from 3.8 cents per kWh to 4.2 cents per kWh. In comparison, similar residential, small commercial and a larger commercial customer served by Niagara Mohawk pay about 12 cents per kWh, 11 cents per kWh, and 8 cents per kWh, respectively.

"The proposed rate revisions are based upon a cost of service study prepared by Authority staff.

DISCUSSION

"Pursuant to the Authority's Administrative Procedures, the Executive Vice President, Secretary and General Counsel filed notice for publication in the State Register of the proposed revisions in retail rates. Such notice was published on December 31, 1997. A public hearing was held by the Village on December 9, 1997 and no objections were raised to the proposed rates.

"Comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits '4-A' and '4-B', respectively.

RECOMMENDATION

"The Manager – Municipal and Cooperative Marketing & Regulation recommends that the attached schedule of rates for the Village of Andover, 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 Executive Vice President, Secretary and General Counsel to file notice of adoption with the Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation.

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

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

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

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

5. Diversity Power Contract with Hydro-Quebec Price for Firm Energy Purchases for the 1998 Season

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve letter agreements concerning the proposed amounts and prices for the 1998 summer Diversity Energy to be purchased from Hydro-Quebec and resold to Consolidated Edison Company of New York, Inc. ("Con Edison") and Rochester Gas & Electric Corporation ("RG&E").

BACKGROUND

"In 1974 the Authority entered into a contract with Hydro-Quebec for the purchase of 800,000 kilowatts ("kW") of Firm Diversity Power and up to 3 billion kilowatt-hours ("kWh") per year of Firm Diversity Energy. Service under the contract began in 1979, after the Authority's Massena-Marcy 765 kilovolt ("kV") transmission line was placed in service, and will terminate October 31, 1998. The power is sold to Con Edison (780,000 kW) and RG&E (20,000 kW) during the seven warm weather months (April through October) of the year when New York State experiences its annual peak load. The contract provides that the amount of and price for Diversity Energy each year will be subject to negotiation. If no agreement is reached on the amount and price, or if agreement is made to purchase less than the 3 billion kWh, the contract provides that the remaining energy may still be purchased during the summer months but it must be sold back at the same price the following winter.

DISCUSSION

"The Diversity Contract provides that a proposed amount and price of energy be offered two years prior to the delivery. Accordingly, in March 1996, Hydro-Quebec offered the full contractual amount of 3 billion kWh of energy for the 1998 Diversity period at a base price of 27 mills per kWh with an index to monthly oil prices. This price formula was not acceptable to the Authority and the utilities since it was believed that less expensive energy would be available during that period.

"Subsequently, the parties completed negotiation of an energy price for a firm take-or-pay basic amount of 1.5 billion kWh of Diversity Energy for the 1998 period. This amount of energy will be resold to Con Edison since RG&E has informed the Authority that it will not buy any basic amount. As provided in the contract, the balance of 1.5 billion kWh (1,500 million kWh) may also be purchased subject to the requirement that any amount purchased from this balance must be sold back at the same price in the winter months. RG&E may purchase up to its full contractual entitlement of 75 million kWh from the balance of 1.5 billion kWh of Diversity Energy and sell it back during the winter months and Con Edison may purchase the balance of its entitlement, 1.425 billion kWh also subject to selling it back during the winter months.

"The price for the basic amount as well as any "take-and-return" energy, exclusive of transmission charges, is 23.5 mills per kWh. The Authority provides firm transmission service from April through October each year to Con Edison and RG&E under a related agreement approved previously by the Trustees. This transmission service produces annual revenues of approximately $19 million for the Authority. As noted above, the Diversity Contract with Hydro-Quebec will end on October 31, 1998; hence 1998 will be the last year during which the Authority will obtain the related transmission revenue.

"Attached for approval is a proposed letter agreement (Exhibit '5-A') between Hydro-Quebec and the Authority for the basic amount of 1.5 billion kWh of summer Diversity Energy for 1998. Also attached are proposed letter agreements (Exhibits '5-B-1' and '5-B-2') with Con Edison and RG&E for the 1998 period. The agreement with Hydro-Quebec will be contingent upon Con Edison's formal acceptance of the agreement.

"The agreement for the sale of the Diversity Energy is subject to approval of the Hydro-Quebec Board and the National Energy Board of Canada.

FISCAL INFORMATION

"All costs incurred by the Authority for the purchase of energy from Hydro-Quebec for Con Edison and RG&E are recovered from those utilities.

RECOMMENDATION

"The Senior Vice President - Transmission Business Unit recommends that the proposed letter agreements with Hydro-Quebec, Consolidated Edison Company of New York, Inc. and Rochester Gas & Electric Corporation be approve substantially in the form attached hereto.

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

In response to questions from Trustee Miller, Mr. Pellegrino confirmed that the proposed take-or-pay arrangements are a continuation of the present status quo in which the Authority serves primarily as a conduit and is not locked into paying. Mr. Pellegrino further confirmed that RG&E is not interested in this power since it prefers to take energy in the peak summer season and return it during the off-peak winter season.

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

WHEREAS, the Authority entered into a 1974 contract with Hydro-Quebec for sale to the Authority of Diversity Power and Energy which provides that the amount and price of Diversity Energy for the years after 1981 will be subject to negotiation; and

WHEREAS, Hydro-Quebec and the Authority have agreed on the amounts and price for Diversity Energy for 1998; and

WHEREAS, Consolidated Edison Company of New York, Inc. and Rochester Gas and Electric Corporation have indicated acceptance of proposed amounts and price of Diversity Energy for the 1998 Diversity Period;

NOW THEREFORE BE IT RESOLVED, That the proposed amount and price of Diversity Energy be approved, and that the Senior Vice President — Transmission Business Unit be, and hereby is, authorized to execute letter agreements, substantially in the form attached hereto, with Hydro-Quebec for the purchase of Diversity Energy and with Con Edison and RG&E for the resale of such Diversity Energy as recommended in the foregoing report of the President, contingent upon formal approval of such agreement by Consolidated Edison of New York, Inc. for purchase of Diversity Power and Energy.

6. Procurement (Services) Contract -
James A. FitzPatrick Nuclear Power Plant -
Noble Metal Chemical Addition -
General Electric Corporation – Award

The Executive Vice President – Project Operations submitted the following report:

SUMMARY

"The Trustees are requested to approve the award and funding of a multi-year procurement contract in the amount of $4 million to the General Electric Company ("GE") to implement the Noble Metal Chemical Addition ("NMCA") program over the next 6 years at the James A. FitzPatrick Nuclear Power Plant ("JAF"). NMCA is a new technologically advanced process for mitigating Intergranular and Irradiation Assisted Stress Corrosion Cracking ("IGSCC" and "IASCC") within BWR vessels. If IGSCC & IASCC were not addressed, the design life of the JAF reactor vessel components could be significantly shortened.

"At their meeting of November 28, 1995, the Trustees approved a capital funding request in the total amount of $5.6 million for a project entitled "Increased Hydrogen Water Chemistry" to mitigate IGSCC & IASCC of the reactor internal components. The NMCA process is a newer and preferred technology and will be installed in lieu of the Increased Hydrogen Water Chemistry task.

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, award of 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.

DISCUSSION

"Base metals and weld materials in the BWR reactor vessel are typically made of stainless steel or inconel alloys. These metals are subject to cracking (IGSCC & IASCC) from stress and environmental conditions created by the ongoing nuclear reaction within the vessel (i.e. radiation, water chemistry, oxygen and peroxide). Some of the components in the core have indications of existing cracks, some components have yet to be examined, while other components have been replaced with less susceptible materials. If left unprotected, many of the components in the lower part of the reactor would have to be repaired and/or replaced. In some cases, repair or replacement technology is not available or would be prohibitively expensive.

"The November 1995 Trustee item discussed possible alternatives; "an alternative was to delay implementation of the hydrogen water chemistry modifications in the hopes other mitigation techniques are proven successful and less costly". At that time, NMCA was already under development by the BWR Vessel Internal Project (BWRVIP) but longer term results were unknown. In October 1996, the Iowa Electric Duane Arnold Nuclear Power Plant hosted a test demonstration of this technology. The initial results were favorable and results to date indicate the plant is protecting the reactor vessel components with very little hydrogen, therefore minimizing both the operating cost of hydrogen and the operating dose rates due to hydrogen injection.

"The only portion of the Increased Hydrogen Injection scope completed was the zinc addition skid to reduce shutdown dose rates contributed by the addition of hydrogen for $.43 million (this work would still have been required under NMCA). An additional expenditure of $0.35 million was made for design engineering of turbine building shielding and a procurement specification for a new hydrogen and oxygen storage facility. Of the $5.6 million approved, only $0.8 million was expended.

"The Hydrogen Water Chemistry Upgrade project has been discontinued in favor of NMCA. The NMCA method of controlling IGSCC and IASCC is technologically advanced and more economical compared to the previous plan of implementing Increased Hydrogen Water Chemistry. The NMCA process consists of injecting a solution of platinum and rhodium, which are inert metals, into the reactor, an "atoms thick" layer of metal is then deposited on all wetted internal reactor components. This catalytic layer reduces the electrochemical corrosion potential of treated surfaces, which then reduces the crack growth rate. The NMCA process has many technological and financial benefits over the previously proposed Moderate Hydrogen Injection process such as protecting additional components within the reactor, generating lower operating dose rates, and lower capital costs. The capital cost for this process will be $2.7 million, $2.1 million less than the $4.8 million to complete Increased Hydrogen Water Chemistry project.

"The Trustees are requested to approve a sole source contract award to the General Electric Company for $4.0 million for implementation of NMCA at JAF for a period of five years starting at the end of JAF's RO13 scheduled to be complete in November 1998 ($2.7 million for capital project activities and $.25 million annually for five years for a service warranty). This technology is a General Electric proprietary process not licensed to others. A sole source contract will be issued to GE to provide the technology, engineering, material, application, and ongoing services for this project.

"Since the application of NMCA at JAF will be utilizing different operating conditions and formulations of the noble metal compound used at Duane Arnold, additional equipment will be installed to monitor the effectiveness and durability of the process. Due to leading edge technology of this program, some funding of these expenses may be available from EPRI/BWRVIP, these funds will be credited back to the capital account. The amount of this grant is unknown at this time. This project will be subject to the GE discount available under the GE settlement agreement.

"This project will provide ongoing anticipated savings of $36 million in reduced maintenance costs for the remaining life of the plant. Also, the benefit /cost ratio for NMCA compared to Increased Hydrogen Injection would improve from 4.8 to 13.5, and the payback period would decrease from 4.1 years to 1.26 years. Funds for the capital portion of this task were included in the 1998 Capital Plan; the $1.25 million in operating expenses will be budgeted as O&M for the next five years at the rate of $250,000 annually.

FISCAL INFORMATION

"Payment will be made from the appropriate Construction Fund – James A. FitzPatrick Improvement Project Proceeds Account. The $1.25 million operating expenses ($250,000 annually for five years) will be paid from the Operating Fund.

RECOMMENDATION

"The Site Executive Officer – James A. FitzPatrick Nuclear Power Plant, the Vice President – Nuclear Engineering, the Vice President – Procurement and Real Estate and the Chief Nuclear Officer recommend the Trustees approve the award of a multi-year sole source contract to the General Electric Company in the amount of $4.0 million for the implementation of Noble Metal Chemical Addition.

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

In response to questions from Trustee McCullough, Mr. Knubel explained that the proposed work was included in the Authority's capital plan and actually represents savings over the initially anticipated cost.

The following resolution, as recommended by the Executive Vice President – Project Operations, 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 contract to General Electric Company is hereby approved for the period of six years, in the amount of $4,000,000 and for the purposes listed, as recommended in the foregoing report of the President.

O& M and Capital	Expenditure Authorization	Projected Closing Date
James A. FitzPatrick Nuclear Power Plant		
General Electric Company Noble Metal Chemical Addition:		**02/01/2004**
Capital (***approved in 1998 Capital Budget***)	**$2,700,000**	
Operating Expenses (***$250,000 to be budgeted each year starting in 1999 for 5 years)***	**$1,300,000**	
Total Contract Approval	**$4,000,000**	

7. New Enterprise Business Management System – Expenditure Authorization and Contract Award – The INC Group

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve funding for the implementation of an enterprise-wide business management system as follows:

	$ Millions
Software	$ 2.0
Hardware	1.9
Construction/Implementation	10.2
NYPA Labor	2.9
Other	0.8
	$17.8

"In addition, the Trustees are requested to approve the award of a contract to The INC Group, Inc. for installation and implementation of the new system at an anticipated cost of $6,478,000 including expenses and potential bonus for meeting schedule. These costs are included in the above estimate.

"It should be noted that the above request includes a provision for the cost of the Authority's labor in the amount of $2,861,000. This represents the salaries and fringe benefits of internal staff assigned to the project, and therefore, part of the total cost to be capitalized; it does not represent an incremental cost of 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, 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

"To meet the demands and competitive pressures of a deregulated electric utility industry, it is imperative that the Authority position itself with information systems that can help improve its business processes and ability to provide relevant, timely and accurate information. The implementation of a new enterprise-wide business management system will assist the Authority in meeting these challenges.

"PARIS, the Authority's current financial information system, was implemented in the late 1980s. The PARIS system, which runs on a leased mainframe, is not "year 2000" compliant and will cease to function properly after 12/31/99. Recent advances in information technology, coupled with the significant cost of correcting the year 2000 problem ($6.6 million estimated), make the decision to replace PARIS justifiable. The Authority has targeted this implementation to include the major financial, material management and human resources modules. This will encompass functions such as general ledger accounting, budgeting and planning, fixed assets, accounts payable, purchasing, inventory management, personnel and benefits administration and payroll.

"After conducting a thorough evaluation of potential software solutions by a cross-functional team, the Authority selected Systeme Anwendung Produkte's ("SAP's") R/3 system. The R/3 system is considered the best fit for the Authority based upon its depth and breadth of functionality, flexibility and control, integration across system modules and best practice business process models inherent in the software. R/3's unique approach to separating regulatory (e.g., FERC) reporting from management reporting will provide the Authority an opportunity to improve the delivery of key operational and management data. R/3 will also allow the Authority to replace administrative effort with analytical effort due to its integrated design and automated workflow capabilities. From a vendor perspective, SAP was selected due to its strong presence in the utility industry and on-going commitment to research and development.

"Initial estimates indicate that the Authority can expect net annual cost savings of approximately $1.3 million from the implementation of SAP related to the avoided costs associated with the operation, maintenance and support of current systems. In addition, one-time savings resulting from the avoided cost of the PARIS year 2000 remediation effort are estimated at $6.6 million. Additional cost savings from process improvements are also anticipated. For example reductions in overall purchasing costs of at least 5-10% after implementing R/3 are common. This is attributed to the ability of buyers to optimize order quantities, take advantage of volume discounts and re-negotiate contracts as a result of having access to real-time supplier data. In the Authority's case, a 5% reduction in those non-fuel purchase and service contracts that would lend themselves to re-negotiation could ultimately equate to savings of approximately $3 million annually. In the area of inventory, significant reductions have been verified at other SAP client sites. This is based upon the ability of R/3 to provide real-time data and statistics on inventory levels and optimization of inventory using methods such as materials requirements planning, materials forecasting, etc. A conservative estimate of a 10% reduction would equate to about an $8million reduction in inventory. The payback period for this project is therefore estimated to be within three years.

"Installation of the SAP R/3 software will require the services of an external implementation consultant to configure and test the software, convert data and conduct training. This is an extensive effort that will involve approximately 25 contract personnel, as well as over 30 Authority employees, many assigned full-time. The active involvement of staff is necessary to support the installation effort and ensure complete transfer of knowledge to Authority employees.

"Proposals were solicited from eleven bidders with experience implementing the R/3 system in an electric utility environment. (A notice had been placed in the New York State Contract Reporter prior to that solicitation, requesting firms to submit qualification information.) Three firms submitted proposals for the implementation: Price Waterhouse; LLP; IBM; and The INC (Integrated Network Company) Group, Inc. IBM submitted a partial proposal that only included technical infrastructure consulting and systems integration. As a result, IBM was not considered. The other two proposals received from Price Waterhouse and INC were in full compliance with the RFP requirements and have been evaluated by a team of Authority financial, IT and material management personnel.

"The bids for completing the implementation in 1999 were as follows, including estimated expenses:

- INC Group - $6,200,000
- Price Waterhouse - $9,700,000

"Both bidders were provided an opportunity to present their implementation approaches and methodology, staff credentials and proposed work plans.

"Price Waterhouse was deemed qualified to perform the work. INC, the low bidder, has proposed an impressive project team consisting of consultants with considerable SAP software experience, as well as utility experience. After meeting with INC and its proposed key project leaders, the Authority's evaluation team concluded that the project team proposed by INC is well qualified to perform the work.

"To provide additional contractual assurances that this implementation will be successful, INC has agreed to the following:

1. INC's parent company, Real Software, will be signatory to the contract.

2. A standby Letter of Credit of up to $2 million assuring performance of the work will be provided by INC if so required by the Authority.

3. Work performed by INC will be reimbursed on a milestone schedule based upon completion of specific work efforts.

4. A bonus/penalty provision will be included in the contract whereby INC will risk 5% of its compensation in the event that the work cannot be performed as scheduled. INC will also be entitled to receive a bonus of equal amount in the event that schedule is met.

5. INC has agreed to perform the first phase of the work, which should take from three to five weeks, at its own risk. This involves the initial review of Authority work processes as well as some training for the project team members. In the event the Authority is not satisfied with INC's performance (which is subject to audit by SAP) during this period, the contract can be terminated at no cost to the Authority.

"Based upon low price, satisfactory project team organization, and adherence to schedule requirements, it is staff's recommendation that this contract be awarded to the INC Group in the estimated amount of $6,478,000 including expenses. (This includes a potential bonus in the event it is earned by INC.)

"It should be noted that SAP, the software provider, will have an active role in this entire implementation, as it does with all its implementations, to assure that its products are implemented in the highest quality manner. This includes providing consulting resources to work as part of the project team. The estimated cost of SAP's participation in the implementation is included in the total project estimate. Authorization for award of a contact for these services will be requested at a later date.

"With the approval of the President, the initial work began on February 2, 1998. The scheduled completion of work is February 1999, with a go-live date of January 2, 1999.

<u>FISCAL INFORMATION</u>

"Payment will be made from the Facilities Improvement Fund.

<u>RECOMMENDATION</u>

"The Vice President and Controller, Vice President - Procurement and Real Estate and the Chief Information Officer recommend approval for funding of the above enterprise-wide business management system and award of the aforementioned contract to the INC Group.

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

The following 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 amount and for the purpose 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 to the INC Group is hereby approved, subject to approval of the form of the contract by the Executive Vice President, Secretary and General Counsel, for the period of time indicated, in the amount and for the purpose listed below, as recommended in the foregoing report of the President:

Capital	**Expenditure Authorization**	**Projected Closing Date**	**Contract Approval**
Enterprise-wide Business Management System	**$17,784,800**		
The INC Group, Inc. Contract#: C98Z0003 Implementation of Enterprise-wide Business Management System		**03/01/99**	**$6,478,000**

8. Employees' Savings Plan Amendment

The President submitted the following report:

SUMMARY

"A resolution adopted at the September 11, 1997 Trustees' meeting provided service and benefit credits to newly hired New York Power Authority ("Power Authority") employees based on their prior public service in the Executive, Legislative or Judicial branches of New York State government or with another Authority or qualifying entity. The instant resolution implements this provision as it relates to the Employees' Savings Plan ("Plan") by authorizing officers of the Authority to file the attached amendment to the Plan.

BACKGROUND

"At their meeting of November 28, 1995, the Trustees approved a one-year waiting period for employer matching contributions in the Plan. As a result employees hired on or after January 1, 1996 could still become members of the Plan and make employee contributions, they would just not begin to receive the employee matching contribution until after their first year of employment with the Authority.

DISCUSSION

"At the September 11, 1997 meeting the Trustees approved a resolution authorizing credit for previous public service for new employees. Henceforth, such employees would transfer their accruals and service (including their initial hire dates with the State) to the Authority for purposes of determining eligibility for all Authority benefits. The proposed amendment to the Plan provides appropriate service credit to conform the terms and conditions of the Plan to the Trustees' resolution. Under the revisions, employees who were employed by the Power Authority at any time during 1997 or later, both current (continuing) employees and new employees, will be able to include prior public service as Power Authority service for the purpose of determining eligibility for all benefits including the 401(k) match. The Plan Committee is authorized to file this amendment and to establish procedures to implement this change. Any adjustment to be made for any period prior to 1997 for these eligible employees may be made as determined by the Vice President of Human Resources. This amendment to the Plan is necessitated by the terms of the Plan and federal tax code considerations and is recommended by outside counsel.

RECOMMENDATION

"Accordingly, the Employees' Savings Plan Committee recommends that the Trustees approve the adoption of an amendment substantially in the form attached (Exhibit '8-A') in order to authorize the grant of service credit under the Plan to new Power Authority employees who have prior qualifying public service."

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

RESOLVED, That the provisions of the Power Authority of the State of New York Employees' Savings Plan be amended for the purposes set forth in this memorandum, and that appropriate officers of the Authority are authorized to execute a Sixth Amendment to the Plan substantially as set forth in Exhibit "8-A".

9. Motion to Conduct Executive Session

"Mr. Chairman, I move that the Authority conduct an executive session in connection with matters relating to collective negotiations pursuant to Article 14 of the Civil Service Law." Upon motion duly made and seconded, an executive session was held.

10. Collective Bargaining Agreement Between the Power Authority and Local Unions 2032 and 2104, International Brotherhood of Electrical Workers – Extension

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve an Agreement for Contract Extension to the Collective Bargaining Agreement ("Agreement") dated August 27, 1991 between the Power Authority and Local Unions 2032 and 2104 of the International Brotherhood of Electrical Workers ("IBEW"). This Agreement which increases the term of an existing extension agreement by one year and will now expire on June 30, 2001, covers employees at the Authority's St. Lawrence/FDR Power Project, Niagara Power Project, Blenheim-Gilboa Pumped Storage Power Project ("B-G"), Frederick R. Clark Energy Center ("Clark"), and James A. FitzPatrick Nuclear Power Plant ("JAF").

BACKGROUND

"Generally, one union represents the bargaining unit work force at each one of the investor-owned utilities in the Sate of New York. Thus, at Niagara Mohawk, New York State Electric and Gas ("NYSEG"), Central Hudson, Orange and Rockland ("O&R"), and Long Island Lighting Company ("LILCO"), the IBEW represents the rank and file employees and the Utility Workers Union of America ("UWUA") represents the rank and file contingent at Consolidated Edison Company ("Con Ed"). As a consequence the terms and conditions of employment for bargaining unit personnel at Niagara Mohawk are addressed in the collective bargaining agreement negotiated between such employees' union, the IBEW, and such employees' employer, Niagara Mohawk. The same process would apply at each of the other investor owned utilities. (At Rochester Gas & Electric employees are not represented by a union.) Among other things, such a process facilitates the temporary reassignment of bargaining unit personnel from one Niagara Mohawk work site to another Niagara Mohawk work site, or from one NYSEG work site to another NYSEG work site, or from one LILCO work site to another LILCO work site, and so forth.

"At the Authority more than one union represents sizable segments of its bargaining unit personnel. The IBEW represents rank and file employees at St. Lawrence/FDR, Niagara, B-G, Clark and JAF, while the rank and file personnel at Indian Point 3 ("IP3") and Poletti are represented by the UWUA. The Authority has temporarily reassigned bargaining unit personnel who regularly work at a site covered by the collective bargaining agreement between the Authority and the IBEW (i.e., St. Lawrence/FDR, Niagara, B-G, Clark and JAF) to another site covered by such agreement when the needs of work required such a reassignment. Likewise, when the needs of work dictated it the Authority has temporarily reassigned bargaining unit personnel who regularly work at Poletti to IP3, facilities covered by a collective bargaining agreement between the Authority and the UWUA. However, jurisdictional issues and labor relations principles impede unilateral assignment by the Authority of bargaining unit personnel represented by the IBEW to facilities where the UWUA is the exclusive representative of operations, mechanical, technical and clerical personnel and vice versa.

DISCUSSION

"Attached is the Agreement for Contract Extension (Exhibit '10-A') entered into by the Authority and the IBEW, subject to ratification of the IBEW bargaining unit members, approval by the Authority's Trustees and the IBEW International Office and an agreement for shared services between the Authority and the UWUA. The IBEW bargaining unit members ratified the Agreement for Contract Extension on January 19, 1998, by a vote of

94 in favor to 157 opposed. Approval by the IBEW International Office is procedural in nature and will be obtained after Trustee approval. An agreement for shared services between the Authority and the UWUA is also anticipated. However, in the event the Authority does not consummate a shared services agreement with the UWUA, the one year extension agreement with the IBEW, including the shared services arrangement with them, will be nullified according to the terms of the attached exhibit.

"The existing Agreement for Extension scheduled to expire on June 30, 2000, will be further extended by one year until June 30, 2001. The bargaining unit personnel represented by the IBEW, will receive a general wage increase of 3.0% effective July 1, 2000 and their job security as it is currently observed will be extended until June 29, 2001. (The existing collective bargaining agreement for Niagara Mohawk bargaining unit personnel represented by the IBEW provides for a wage increase of 3.0% in 2000.) During the one year extension pension, welfare and miscellaneous other benefits will be maintained at present levels.

"The centerpiece of the one-year extension agreement is a shared services agreement enabling the Authority to dispatch bargaining unit personnel at JAF to IP3 to support outage activities. Such an arrangement will reduce the Authority's use of contractor personnel. Cost savings result from avoided costs; Authority employees who are part of the Authority's fixed costs (salary and benefits) are used in lieu of contractor personnel who represent added Authority costs. In addition to outage support at IP3, IBEW bargaining unit personnel from St. Lawrence/FDR, B-G and Clark will perform downstate switchyard, substation and transformer work which had heretofore been done by contractor personnel.

"The Vice President – Human Resources has consulted with a representative of the Governor's Office of Employee Relations regarding the terms of the contract extension.

FISCAL INFORMATION

"Annual savings of $400,000 are projected through the use of shared services. The wage increase for July 1, 2000 is less than that projected in the Authority's long-term financial forecast.

RECOMMENDATION

"The Vice President - Human Resources, the Executive Vice President, Secretary and General Counsel, the Executive Vice President Project - Operations, and the Executive Vice President & Chief Financial Officer, recommend that the agreement reached be approved by the Trustees.

"I concur in the recommendation."

In response to questions from Trustee Ciminelli, Mr. Loughran explained that separate negotiations are ongoing with the Utility Workers of America bargaining unit.

11. Motion to Resume Meeting in Open Session

"Mr. Chairman, I move to resume the meeting in open session." On motion moved and seconded, the meeting resumed in open session.

Collective Bargaining Agreement Between the
Power Authority and Local Unions 2032 and 2104,
International Brotherhood of Electrical Workers – Extension

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

RESOLVED, That the Director of Employee and Labor Relations be, and hereby is authorized on behalf of the Authority to execute an Agreement for Contract Extension further extending the collective bargaining agreement with Local Unions 2032 and 2104, International Brotherhood of Electrical Workers, AFL-CIO, dated August 27, 1991, covering specified operating and maintenance employees at the St. Lawrence/FDR, Niagara, Blenheim-Gilboa, Clark and James A. FitzPatrick facilities, with changes to that agreement as described in the attached memorandum of the President.

Year 2000 - Computer Issues

President Zeltmann introduced Mr. Krauss who summarized the status of staff's efforts to address year 2000 computer issues. In response to questions from Trustee Ciminelli, Mr. Knubel described the measures being taken on the nuclear side and the NRC's stringent, industry-wide requirements governing compliance and certification of readiness. In response to questions from Trustees McCullough and Ciminelli, Mr. Krauss explained that the budgeting process effectuated by staff does not fully address the potential costs, currently unquantifiable, of achieving year 2000 compliance and that it could also ultimately involve the full-time efforts of up to 200 employees. Trustee McCullough requested that the Trustees be briefed on a monthly basis as to status, consultant recommendations, progress, and anticipated expenditures. President Zeltmann responded that such reports would also address potential liability issues. Trustee Ciminelli expressed support for the monthly briefings and requested that the Trustees be provided with applicable charts and graphs.

12. <u>Next Meeting</u>

"The Regular meeting of the Trustees will be held on **Tuesday, March 31, 1998**, **at the New York Office** at **11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees."

Closing

"Upon motion made and seconded, the meeting was closed at 1:45 p.m."

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

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