

October 27, 1998

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

October 27, 1998

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

Present: Clarence D. Rappleyea, Chairman
Louis P. Ciminelli, Trustee
Hyman M. Miller, Trustee
Frank S. McCullough, Jr., Trustee*
Gerard D. DiMarco, 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
James Knubel	Senior Vice President - Chief Nuclear Officer
Louise M. Morman	Senior Vice President - Marketing and Economic Development
Robert L. Tscherne	Senior Vice President - Energy Services and Technology
Vincent Vesce	Senior Vice President - Human Resources
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
Russell J. Krauss	Vice President - Information Technology
Michael Petralia	Vice President - Public Affairs
Joseph J. Carline	Assistant General Counsel
Stephen P. Shoenholz	Deputy Vice President - Public Relations
Carmine J. Clemente	Deputy General Counsel
Gary Paslow	Executive Director - Policy Development
Richard E. Kuntz	Regional Manager - Southeast New York
Jordan Brandeis	Director - Performance Planning
Joseph J. Brennan	Director - Internal Audit
John Leonard	Director - Special Projects/Y2K PMO
John L. Murphy	Director - Public Information
William Slade	Director - Environmental Programs
James H. Yates	Director - Business Marketing and Economic Development
George W. Collins	Treasurer
William Ernsthaft	Principal Attorney II
Craig D. Banner	Manager - Municipal and Cooperative Marketing
Anne Wagner-Findeisen	Deputy Secretary
Vernadine Quan-Soon	Assistant Secretary
Angela Graves	Assistant Secretary

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

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1. Approval of the Minutes

The minutes of the Regular Meeting held on September 28, 1998 were approved.

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2. Financial Report for the Eight Months Ended September 30, 1998

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3. Report from the President and Chief Operating Officer

At President Zeltmann's request, Mr. Knubel reported on the progress of the ongoing JAF refuel outage, noting that the refueling process itself was underway and that the generator rewind task was actually ahead of schedule. Mr. Knubel pointed, however, to complications with the torus strainer replacement, which have contributed to the overall outage work running some 4.5 days behind schedule. Mr. Knubel also noted that there had been no safety-related personnel accidents to date, and that the one recordable accident to date was minor. Mr. Knubel indicated that the plant should be back on line in early December. With respect to outage planning, Mr. Knubel noted that a recent INPO publication had recognized and commended the schedule planning work performed by two individual NYPA employees.

At President Zeltmann's request, Mr. Krauss briefed the Trustees on the current status and developments in the ongoing Year 2000 Program effort. Mr. Krauss introduced Mr. John Leonard, Program Manager, and then reported on the progress achieved in the "testing/validation" phases of the overall schedule and milestones. In particular, Mr. Krauss explained that the principal system the IT Department will continue to focus on in early 1999 is the SAP System for the replacement of P.A.R.I.S. With respect to testing at Poletti, Mr. Krauss reported that testing has been slated to coincide with a scheduled outage of that facility.

In response to questions from President Zeltmann, Mr. Krauss explained that the Niagara Project had performed a mock Y2K test and had done well. With respect to JAF, Mr. Krauss reported that assessments are scheduled to be performed during the current refuel outage, and that at IP3, there will be an outage schedule contingency built into the operating schedule for 1999, in the event that Y2K work needs to be performed. Mr. Krauss reported that faster progress at Nuclear Generation - WPO is needed in order to maintain the schedule, and that the Billing Function within the Marketing Department plans to do parallel testing in preparation for Go-Live in the coming month, the results of which will be reported to the Trustees at their next meeting.

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Mr. Krauss also described the status of nationwide “collaborations” as well as the results of an IP3 “Peer Review” process undertaken within the Northeast Energy Alliance. In particular, the Peer Review recognized “sound project methodology”; “strong plant leadership”; and competent “team” composition; on the other hand, the review process also identified a need for a dedicated site QA representative. Mr. Krauss also reported on the status of efforts ongoing within the North American Electric Reliability Council (“NERC”), in which the Authority is a participant, and the two major coordinated “drills” scheduled for April and September 1999.

Trustee Ciminelli expressed concern as to the progress of joint efforts with the IOUs, noting that he has always been concerned about NYPA’s interdependency, and inquired as to the level of Canadian utility involvement. Mr. Krauss reported he was cautiously optimistic as to the joint efforts and Mr. Hiney explained that Ontario Hydro and Hydro Quebec are participants in both the NERC and the NPPC. Chairman Rappleyea added that there is also a heightened focus on inter-utility coordination of Y2K efforts at the NYPP.

In response to questions from Trustee Miller, Mr. Krauss explained that the classification of computer systems into critical, severe and high rankings is based both on the perceived business impact of a particular system and the level of safety affected by that system, so that, for example, a critical system is one which involves in excess of \$750,000 or significantly can affect safety.

4. Power Allocations Under the Power for Jobs Program

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve 61 allocations of available power under the Power for Jobs program to the businesses listed in Exhibit ‘4-A’ 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 Power for Jobs program originally made available 400 megawatts of power; 200 provided from the Authority’s James A. FitzPatrick Nuclear Power Project and 200 purchased by the Authority through a competitive bid process. The program was to be phased in over three years, with approximately 133 megawatts being made available each year. In July 1998, as a result of the initial success of the program, Governor Pataki and the Legislature have made an additional 50 megawatts of power available and have accelerated the distribution of the power. 267 megawatts are now available in Year 1.

“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 its December 1997 and January, March, April and September 1998 meetings the Trustee’s approved allocations to 253 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 2,600 inquires have been received and over 1,150 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. 61 applications were deemed highly qualified and presented to the EDPAB for its review on October 26, 1998. All remaining applications are still under review and will be considered at a later date.

“As a result of its meeting, the EDPAB recommended that the Authority’s Trustees approved the allocations to the 40 businesses, 15 small businesses and six not-for-profit corporations listed in Exhibit ‘4-A’. Collectively, these organizations have agreed to create or retain over 37,000 jobs in New York State in exchange for allocations totaling 52.410 megawatts (MW). The allocation contracts will be for a period of three years.

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The power will be wheeled by the investor-owned utilities as indicated in Exhibit '4-A'. The basis for EDPAB's recommendations is also included in Exhibit '4-A'.

RECOMMENDATION

"The Director – Business Marketing and Economic Development and the Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocations of power under the Power for Jobs program to the companies listed in Exhibit '4-A'.

"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 in the recommendation."

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 52.410 MW of allocations of Power for Jobs power to the companies listed in Exhibit "4-A";

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves allocations of Power for Jobs power to the companies listed in Exhibit "4-A" (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 52.410 MW 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, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel, to execute any and all documents necessary or desirable to effectuate the foregoing.

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5. Municipal and Rural Cooperative Economic Development Program – Allocations to the Village of Solvay and the Delaware County Electric Cooperative

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve allocations of power under the Municipal and Rural Cooperative Economic Development Program (‘Program’) to the Village of Solvay (‘Solvay’) and the Delaware County Electric Cooperative (‘Delaware’).

BACKGROUND

“The 1991 amendment to the power sales agreement between the Authority and the Municipal and Rural Cooperative Systems reserved 108,000 kW of power for economic development in the systems. As of May 27, 1998, 27,750 kW have been allocated.

“Power from this block can be allocated to individual systems to meet the increased electric load resulting from eligible new or expanding businesses in their service area. Under the guidelines established for the program, an allocation to a system should meet a target number of new jobs per megawatt. The guidelines provide that for businesses new to a system, the jobs per megawatt ratio is considered on a case-by-case basis. For projects involving existing businesses, the number of jobs per megawatt is the number of new jobs as compared to the level of employment prior to the expansion. Specifically, for companies employing 100 or less, the target ratio is 25 jobs per megawatt; for companies employing between 101 and 250, the ratio is 50; for companies employing between 251 and 500, the ratio is 75; and for companies employing over 500, the ratio is 100 jobs per megawatt.

“Solvay and Delaware have submitted applications for power under the program for consideration by the Trustees.

DISCUSSION

“The first application has been submitted by the Village of Solvay on behalf of Solvay Paperboard. Solvay Paperboard is a state-of-the-art manufacturer of 100%-recycled linerboard for the corrugated packaging industry. The company invested approximately \$75 million in building the plant and began operations in August 1994. Solvay Paperboard has grown from the original design of 275 tons per day to over 450 tons per day. The original staffing level was 74 and it has grown to 91 since 1994. Solvay Paperboard’s raw material is recycled paper collected from residential, commercial, and industrial sources across New York State and New England. The finished product is shipped to corrugated box manufacturers within New York State and New England.

“Solvay Paperboard is planning an expansion of its manufacturing facilities including a second paper machine, expanded recycling/ stock preparation equipment and infrastructure facilities. The total investment is budgeted at \$125 million and is driven by increased demand for environmentally responsible packaging. The expansion will provide for approximately 70 new jobs and millions of dollars in additional revenue to the local and state economy for related supporting materials, services and taxes. It is recommended that up to 3,000 kW be approved for this allocation.

“The second application has been submitted by the Delaware County Electric Cooperative on behalf of DMV International Nutritionals. DMV International is a manufacturer of hydrolyzed proteins for use in

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diagnostic, infant nutritional, and health and sport applications. The company started in the early 1970's as a subsidiary of Dellwood Foods. In 1985, it became an independent company and began production at its current facility in Fraser, N.Y. In 1991, DMV International purchased the company. Through internal reorganization, it became the nutritional unit for DMV in 1993.

"The expansion project will double the production capacity of the existing facilities from approximately 3,500,000 pounds to 7,000,000 pounds in five years. It will also focus on the installation of additional production equipment. Estimated cost of the expansion project is \$15 million. The expansion is necessary to meet the projected sales in the next five years. It will provide for approximately 20 new jobs and add significant revenue to the local and state economy. The existing load at DMV is 900 kW. This expansion is expected to be 800 kW and also represents load growth and is not a transfer or relocation of load within New York State. Construction is scheduled to begin later this year and the expansion will be fully operational 2002. It is recommended that up to 800 kW be approved for this allocation.

"The Municipal Electric Utilities Association Executive Committee supports the recommended allocations to Solvay and Delaware.

"The recommended allocations under the program comprise half hydropower and half incremental power. In accordance with the Authority's marketing arrangement with the municipal and cooperative customers, the hydropower will be added to the recipient system's contract demand at the time a project becomes operational, and the incremental power will be sold on an as-used basis. The hydropower earmarked for this program is presently sold to the municipal and cooperative customers on a withdrawable basis.

RECOMMENDATION

"The Senior Vice President – Marketing and Economic Development recommends that the Trustees approve the allocations of power under the Municipal and Rural Cooperative Economic Development Program to the Village of Solvay and the Delaware County Electric Cooperative in accordance with the foregoing report of the President.

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

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

RESOLVED, That allocations of power to the Village of Solvay and the Delaware County Electric Cooperative under the Municipal and Rural Cooperative Economic Development Program are hereby approved as set forth in the foregoing report of the President; 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, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel, to effectuate the aforesaid allocations.

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6. Longer-Term Contractual Arrangements for Power Authority Business Customers - Emergency Action to Adopt Tariff Riders

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve new longer-term contractual arrangements for Authority business customers in the Economic Development Power Program, High Load Factor Power Program, Municipal Distribution Agency Industrial Power Program and other power sales programs, to be implemented through the adoption of tariff riders to certain direct sale tariffs and the execution of letter agreements with certain business customers. Because the proposed action, if promptly implemented, would result in rate reductions for certain customers and would assist them in maintaining and expanding jobs, thus promoting the general welfare, the Trustees are requested to determine that the tariffs be adopted under the emergency provisions of Section 202(6) of the State Administrative Procedure Act (‘SAPA’).

BACKGROUND

“The Authority sells electricity to businesses under several State authorized economic development programs. These power sales are made through the Economic Development Power Program, High Load Factor Manufacturer Program, Municipal Distribution Agency Industrial Power Program and other power sales programs (collectively, the ‘Programs’). The generating capacity and energy for these sales are provided by the FitzPatrick Plant and supported by other Authority resources and purchases as needed. In some instances, these customers are served directly by the Authority (‘Direct Sale Customers’); in other cases, the customers receive Authority power through resale arrangements with municipal distribution agencies or investor-owned utilities (the ‘Resale Customers’).

“The Authority makes power sales to over 100 businesses under the Programs. In the past, the Authority was precluded from entering into longer-term contracts with these business customers because of IRS rules affecting Authority facilities financed with tax-exempt debt. The recently completed debt restructuring of the Authority has made it possible to have contracts with these business customers that contain multi-year fixed terms.

DISCUSSION

“Changes now occurring in the electric utility industry may lead to increased price risk for businesses that depend on lower priced electricity for competitive operations. This is the case for Authority business customers participating in the Programs. These uncertainties of electric supply and pricing have become the most often raised issue from Authority business customers.

“To address these business customer concerns, on July 7, 1998, the Governor announced the Authority’s long-term contract proposal which includes electric rate reductions designed to protect jobs. The Authority is now proceeding to structure the Governor’s proposal to all its business customers that buy electricity under the Programs. The Power for Jobs customers were not included in this group as contracts with those customers are limited to three year terms by statute. The proposal, which included several options, will help to provide real certainty of supply and stable prices for the electric power needs of business customers of the Authority.

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“The basic elements of the longer-term contract proposal involve the following:

- An extension of the existing contract or power allocation with the Authority;
- A price freeze for three years for the Authority electricity production price;
- A near-term price reduction for the Authority electric production price based on an agreement concerning the contract term;
- Agreement by the Authority to absorb a portion of future price increases related to increases in delivery charges (transmission and distribution).

“The Authority proposal was presented to all eligible business customers with six distinct options to provide customers with the greatest flexibility of choice. The options are summarized in Exhibit ‘6-A’.

“In mid-June 1998, eligible customers received information concerning the options available. Throughout July and August, individual and group meetings were held to answer customer questions. Customers were requested to make a selection of one of the available options through a Memorandum of Agreement. In total there were 100 business customers eligible for the options. In all, 87% of the eligible customers selected to have a long-term contract and business relationship with the Authority; 45 customers selected Option 3 (seven-year term); 42 customers selected Option 5 (nine-year term); and 13 customers selected Option 6 (status quo).

“Implementation of the options would be accomplished as follows:

(a) For Direct Sale Customers: Tariff Riders to Tariffs 1, 1B and 1S would be adopted by the Authority on an emergency basis. The form of the Tariff Rider is set forth in Exhibit ‘6-B’ hereto. The Tariff Riders provide that by mutual agreement between the Direct Sale Customer and the Authority, one of the options would be implemented. The option selected would govern pricing and the term of the service, with the remaining aspects of the underlying Tariff remaining unaffected. In the case of certain Direct Sale Customers, the extension of the term of the service must follow the procedures prescribed by Section 1009 of the Public Authorities Law, including a public hearing and contract approval by the Governor.

(b) For Resale Customers: For Resale Customers receiving Authority power and energy through resale arrangements with a municipal distribution agency or an investor-owned utility (whereby such entity buys power and energy from the Authority and resells such power and energy to a Resale Customer), the option selected by the Resale Customer would be implemented by means of a letter agreement between the Authority and the Resale Customer. The form of such letter agreement is set forth in Exhibit ‘6-C’ hereto. The letter agreement would ensure that the Resale Customer continues purchasing Authority power and energy through the term of the option, and would provide the Resale Customer with periodic rebates to implement any price reductions and specified price increase limitations offered by the option chosen.

“In the case of Direct Sale and Resale Customers purchasing electricity under the Economic Development Power Program, implementation of an option would require EDPAB approval, if the term of their existing power allocation is shorter than the long-term contract option they selected.

Emergency Adoption

“Immediate implementation of the proposed Tariff Riders affecting certain Authority customers would allow such customers to promptly receive the benefit of these reductions and would assist them in maintaining and expanding jobs, thus promoting the general welfare. Accordingly, it is recommended that the Trustees grant the reduction immediately on an emergency basis pursuant to Section 202(6) of SAPA, since immediate action is necessary for the preservation of the general welfare and compliance with the notice and comment requirements of Section 202(1) of SAPA would be contrary to the public interest.

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FISCAL INFORMATION

“The eligible customers provide roughly \$85 million to the Authority annually from electric production rates. Based on the selections made in the individual Memorandums of Agreement, the Authority would provide additional savings of approximately \$8.4 million per year to 87 business customers. These customers are estimated to save an additional \$54 million over the seven to nine year contracts helping to support the retention of more than 90,000 jobs at these companies.

“As a result of these contracts, the Authority would retain approximately \$650 million in revenues through the next seven to nine years as the electric marketplace deregulates.

RECOMMENDATION

“The Director - Business Marketing & Economic Development recommends that the Trustees approve the proposed longer-term contractual arrangements discussed above, including approval of the attached Tariff Rider to Service Tariffs 1, 1B and 1S on an emergency basis. To ensure that Authority customers promptly receive the benefit of these rate reductions which will assist them in maintaining and creating jobs, it is further recommended that the Trustees authorize the Executive Vice President, Secretary and General Counsel to file notice with the Secretary of State for publication in the State Register of the emergency adoption and notice of proposed pricing terms, and to file such other notice as may be required by statute or regulation to maintain these pricing terms until they can be adopted by the Trustees on a permanent basis. It is further recommended that the Trustees authorize the execution of letter agreements relating to Resale Customers to implement the longer-term contractual arrangements discussed above.

“The Senior Vice President - Marketing and Economic Development, 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 recommendations.”

Chairman Rappleyea noted that the proposed action underscores the importance of the Authority’s long-term customers and the intensive work efforts of the Authority Marketing staff to better serve them. In response to questions from Trustee Miller, Mr. Yates explained that the Authority would recover at least its own cost of power on all of the proposed transactions. President Zeltmann added that the reference to absorbing future increases means that NYPA will not be out of pocket in the event prices increase. The Chairman underscored that NYPA had been rated among the top five of Praxair’s list of 60 “best vendors” in North America. President Zeltmann stated that it is significant that when the Authority does well, its customers also do well.

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

RESOLVED, That the Tariff Rider set forth in Exhibit “6-B” (the “Tariff Rider”) hereto to Service Tariffs No. 1, 1B, and 1S “Direct Firm Power Service,” shall become effective on an emergency basis as soon as accepted for filing with the Secretary of State for publication in the State Register; and be it further

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RESOLVED, That the foregoing action must, in the judgement of the Authority, be taken immediately on an emergency basis pursuant to Section 202(6) of the State Administrative Procedure Act to ensure that Authority business customers promptly receive the benefit of these reductions which will assist them in maintaining and expanding jobs, thus promoting the general welfare: and be it further

RESOLVED, That compliance with the notice and comment requirements of Section 202(1) of the State Administrative Procedure Act would be contrary to the public interest; 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 with the Secretary of State for publication in the State Register of the Authority's emergency adoption and notice of proposed action to adopt permanently the Tariff Rider, and to file such other notice as may be required by statute or regulation to maintain the Tariff Rider, until it can be adopted by the Trustees on a permanent basis, as set forth in the foregoing report of the President; and be it further

RESOLVED, That the proposed pricing terms for the long-term agreements relating to Authority business customers served through resale arrangements with investor-owned electric utilities and municipal distribution agencies under the Programs, as described in the foregoing report of the President, are hereby approved; and the Senior Vice President-Marketing and Economic Development, or her designee, is hereby authorized to enter into such letter agreements, substantially in the form attached hereto as Exhibit "6-C", with such modifications and inserts as the Executive Vice President, Secretary and General Counsel may approve, and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, the Senior Vice President-Marketing and Development, the Treasurer, and the Director-Business Marketing and Economic Development are, and each hereby is, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, demands, directions, consents, approvals, orders, applications, agreements, certificates, supplements, and further documents or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effectuate the intent of the foregoing resolutions.

Long Term Contract Options

Option 1: Five-year contract/allocation term extension through October 31, 2003. Production prices frozen at current Authority prices for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ('Index'), with Index-based increases not to exceed 3% but not less than 1% per year.

Option 2: Six-year contract/allocation term extension through October 31, 2004. Current Authority production prices will be reduced by 5% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ('Index'), with Index-based increases not to exceed 3% but not less than 1% per year.

Option 3: Seven-year contract/allocation term extension through October 31, 2005. Current Authority production prices will be reduced by 10% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ('Index'), with Index-based increases not to exceed 3% but not less than 1% per year.

Option 4: Eight-year contract/allocation term extension through October 31, 2006. Current Authority production prices will be reduced by 5% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ('Index'), with Index-based increases not to exceed 3% but not less than 1% per year. Should the delivery portion of the total electric price increase at any time over the option term, the Authority will absorb one-half of the non-Authority portion of the price increase up to a maximum of 5% of the Authority's production price.

Option 5: Nine-year contract/allocation term extension through October 31, 2007. Current Authority production prices will be reduced by 10% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ('Index'), with Index-based increases not to exceed 3% but not less than 1% per year. Should the delivery portion of the total electric price increase at any time over the option term, the Authority will absorb one-half of the non-Authority portion of the price increase up to a maximum of 5% of the Authority's production price.

Option 6: Continuation of existing terms and conditions of the customer's contract.

TARIFF RIDER MODIFYING SERVICE TARIFF

The Customer and the Authority may by mutual agreement select one of the following Options to become effective, the terms of which shall modify those aspects of this Tariff affected by the Option selected, with the remaining provisions of this Tariff being unmodified and effective.

Option 1:

Term: Through and including October 31, 2003.

Capacity and Energy Charge: Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002 the Capacity and Energy Charge shall be \$8.16 per month per kilowatt of billing demand and 23.00 mills per kilowatt-hour, respectively (the 'Base Rates'). Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2001, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled 'Provisions Common to All Options.'

Option 2:

Term: Through and including October 31, 2004.

Capacity and Energy Charge: Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.75 per month per kilowatt of billing demand and 21.85 mills per kilowatt-hour, respectively (the 'Base Rates'). Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2002, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled 'Provisions Common to All Options.'

Option 3:

Term: Through and including October 31, 2005.

Capacity and Energy Charge: Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.34 per month per kilowatt of billing demand and 20.70 mills per kilowatt-hour, respectively (the 'Base Rates'). Subject to paragraph (2) of

the 'Provisions Common to All Options,' prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2003, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled 'Provisions Common to All Options.'

Option 4:

Term: Through and including October 31, 2006.

Capacity and Energy Charge: Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.75 per month per kilowatt of billing demand and 21.85 mills per kilowatt-hour, respectively (the 'Base Rates'). Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2003, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Delivery Charge Discount: If during the term of this Tariff Rider, the Delivery Charges, as described below, paid by the Customer attributable to non-Authority entities increase over those in effect on August 31, 1998, then the Authority shall provide the Customer with a credit on each monthly bill of an amount equal to one-half of the amount of the difference between (a) the aggregate non-Authority Delivery Charges paid by the Customer during the immediately preceding billing period to which such bill relates, and (2) those Delivery Charges that would have been paid by the Customer in connection with the power and energy purchased by the Customer during such billing period had the non-Authority delivery rates in effect on August 31, 1998 been applicable, provided, however, that in no event shall such amount to be credited by the Authority be in excess of 5% of the aggregate capacity and energy charges that the Customer would have paid for service hereunder during such billing period had the capacity and energy rates in effect on October 1, 1998, under the Tariff to which this Tariff Rider relates, been applicable. For those customers executing this Tariff Rider after December 1, 1998, credit shall be given, if necessary, on the first monthly bill rendered after the date of execution to account for the period after November 1, 1998, subject to the same methodology and limitations set forth in the preceding sentence. For the purposes of this paragraph, 'Delivery Charges' shall mean those payments by the Customer, and/or by Authority on behalf of the Customer, to New York transmission and distribution providers, including investor-owned utilities or their successors, the Long Island Power Authority and the New York Independent System Operator ('ISO') associated with the delivery of Authority power sold to the Customer pursuant to this Tariff Rider. Such charges shall include, as applicable, base transmission and distribution charges, ancillary service charges and any other applicable transmission or distribution-related charges. Charges for losses associated with the transmission, distribution and transformation of the subject power and the 'NYPA Transmission Adjustment Charge' to be imposed by the ISO shall not be included in the term 'Delivery Charges'.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled 'Provisions Common to All Options.'

Option 5:

Term: Through and including October 31, 2007.

Capacity and Energy Charge: Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.34 per month per kilowatt of billing demand and 20.70 mills per kilowatt-hour, respectively (the 'Base Rates'). Subject to paragraph (2) of the 'Provisions Common to All Options,' prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2004, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Delivery Charge Discount: If during the term of this Tariff Rider, the Delivery Charges, as described below, paid by the Customer attributable to non-Authority entities increase over those in effect on August 31, 1998, then the Authority shall provide the Customer with a credit on each monthly bill of an amount equal to one-half of the amount of the difference between (a) the aggregate non-Authority Delivery Charges paid by the Customer during the immediately preceding billing period to which such bill relates, and (2) those Delivery Charges that would have been paid by the Customer in connection with the power and energy purchased by the Customer during such billing period had the non-Authority delivery rates in effect on August 31, 1998 been applicable, provided, however, that in no event shall such amount to be credited by the Authority be in excess of 5% of the aggregate capacity and energy charges that the Customer would have paid for service hereunder during such billing period had the capacity and energy rates in effect on October 1, 1998, under the Tariff to which this Tariff Rider relates, been applicable. For those customers executing this Tariff Rider after December 1, 1998, credit shall be given, if necessary, on the first monthly bill rendered after the date of execution to account for the period after November 1, 1998, subject to the same methodology and limitations set forth in the preceding sentence. For the purposes of this paragraph, 'Delivery Charges' shall mean those payments by the Customer, and/or by Authority on behalf of the Customer, to New York transmission and distribution providers, including investor-owned utilities or their successors, the Long Island Power Authority and the New York Independent System Operator ('ISO') associated with the delivery of Authority power sold to the Customer pursuant to this Tariff Rider. Such charges shall include, as applicable, base transmission and distribution charges, ancillary service charges and any other applicable transmission or distribution-related charges. Charges for losses associated with the transmission, distribution and transformation of the subject power and the 'NYPA Transmission Adjustment Charge' to be imposed by the ISO shall not be included in the term 'Delivery Charges'.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled 'Provisions Common to All Options.'

Provisions Common to All Options

(1) Subject to paragraph (2) hereof, on and after January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses, except for Index Increases. For the purposes of this paragraph, an 'Index Increase' means for any January 1 date of determination, as described below, the higher of (i) one percent or (ii) the percentage increase in the average annual Bureau of Labor Statistics Producer Price Index for electric sales to industrial power users for the second preceding calendar year as compared to the third preceding calendar year (the first such comparison being of the calendar years 2000 and 1999), with such increase to go into effect on January 1, 2002, and each succeeding January 1, provided, however, that in no event shall such increase be more than 3% in any year, and provided further, that in no event shall the increased Base Rates be greater than the rates effective under the Tariff to which this Tariff Rider relates.

(2) (a) The Base Rates, or any increased Base Rates, shall be subject to increase by the Authority at any time, upon sixty (60) days' prior written notice to the Customer, upon a determination by the Authority that such increase is necessary (i) to permit the Authority to meet its obligations to the holders of its bonds, notes or other instruments of indebtedness or (ii) to recover increases in costs to the Authority resulting from actions of the New York Independent System Operator or a similar organization responsible for the reliable operation of the New York State electricity generation and transmission system, including, but not limited to, the implementation of local or regional installed capacity requirements or reliability rules.

(b) With respect to a rate increase pursuant to clause (i) or (ii) of paragraph (a) above, the Authority shall forward to the Customer an explanation of the reasons for the increase, which explanation shall accompany the notice of increase referenced in paragraph (a) above.

(c) With respect to a rate increase pursuant to clause (i) or (ii) of paragraph (a) above, the Customer shall have the right, in its sole discretion, to terminate this Tariff Rider without further liability to the Authority, except for outstanding payments to be made by the Customer under the terms of this Tariff Rider, by giving written notice of termination to the Authority within sixty (60) days of receipt of the Authority's notice pursuant to paragraph (a) above. Such termination shall become effective upon the Authority's receipt of the Customer's notice.

(3) Upon the termination of this Tariff Rider, service to the Customer shall revert to service under the terms and conditions of the Tariff to which this Tariff Rider relates, including any modifications of such terms and conditions which become effective during the term of this Tariff Rider. In the period following the termination of this Tariff Rider, termination of service under the Tariff shall be conditioned upon the Customer providing the notice required by the Tariff, which notice may be given prior to the termination of this Tariff Rider.

Nothing in this Tariff Rider shall affect the Authority's rights under its contract with the Customer to reduce or terminate Customer's power allocation for failure to meet the job and power usage requirements set forth in such contract. In the event and as of the date the allocation is so terminated, this Tariff Rider shall terminate.

LONG TERM CONTRACT-OPTION 5

Agreement, dated as of _____, 1998, between Power Authority of the State of New York (the 'Authority') and [Name of Customer] (the 'Customer') (collectively, the 'Parties').

WHEREAS, the Customer and the Authority have entered into an agreement dated [] (the 'Allocation Agreement'), pursuant to which Authority power and energy have been allocated to the Customer ('Allocated Power and Energy');

WHEREAS, the Customer and [Name of IOU] (the 'Seller') have entered into a contractual or tariff-based service arrangement (the 'Power Sales Arrangement'), whereby the Seller is providing the Customer with Allocated Power and Energy which the Seller has purchased from the Authority;

WHEREAS, the Customer and the Authority desire to enter into an agreement whereby, among other things, the Customer will commit to continue to purchase such Allocated Power and Energy from the Seller for a specified term in return for receiving certain consideration;

NOW, THEREFORE, the Parties agree as follows:

- (1)
 - (a) Prior to November 1, 2007, the Customer shall not exercise any right it may have under the Power Sales Arrangement or the Allocation Agreement to terminate the Power Sales Arrangement or the Allocation Agreement nor agree with the Seller to terminate the Power Sales Arrangement.
 - (b) Notwithstanding paragraph (a) above, the Customer may at any time exercise any such Power Sales Arrangement termination right if (1) the Seller fails to provide the Customer with Allocated Power and Energy pursuant to the Power Sales Arrangement and such failure constitutes a breach of the terms and conditions of the Power Sales Arrangement, or (2) the Seller is otherwise in material breach of any of the terms and conditions of the Power Sales Arrangement.
- (2) Subject to Section (3) hereof, prior to January 1, 2002, the Authority shall provide the Customer with payments constituting rebates of amounts paid by the Customer to the Seller for Allocated Power and Energy, which rebate payments shall be calculated and paid as follows: On February 15, 1999, and each succeeding February 15, May 15, August 15, and November 15, and on December 31, 2001, or such

other dates as may be mutually agreed upon by the Authority and the Customer, a payment shall be made to the Customer in an amount representing 10% of the aggregate amount of Authority Capacity and Energy Charges in the prior Quarterly Period. For the purposes of this Agreement, 'Authority Capacity and Energy Charges' shall mean an amount equal to the aggregate amount the Customer would have paid the Authority for capacity and energy charges, based on rates in effect on October 1, 1998, under Service Tariff No. 1 of the Authority, had the Customer been receiving service from the Authority under such Tariff. 'Quarterly Period' shall mean each three month period commencing in January, April, July, and October of each year.

- (3) (a) Prior to January 1, 2002, if the Authority increases or decreases the capacity and energy charges for the power and energy sold to the Seller which constitutes Allocated Power and Energy resold to the Customer, other than those increases permitted by Section (5) hereof, the rebates provided to the Customer pursuant to Section (2) hereof shall be increased or decreased to the extent necessary so that the Customer shall be paying the same net amount for capacity and energy charges related to Allocated Power and Energy as it would have paid had no such increase or decrease taken place.
- (b) On and after January 1, 2002, the Authority shall provide the Customer with payments constituting rebates of amounts paid by the Customer to the Seller for capacity and energy charges related to Allocated Power and Energy, which rebate payments shall be calculated and paid as follows: On May 15, 2002, and each succeeding February 15, May 15, August 15, and November 15, until August 15, 2007, and on October 31, 2007, or such other dates as may be mutually agreed upon by the Authority and the Customer, a payment shall be made to the Customer in an amount representing the difference between (a) the aggregate amount of capacity and energy charges paid by the Seller to the Authority for Allocated Power and Energy in the prior Quarterly Period, excluding amounts attributable to increases specified in clauses (i) or (ii) of Section (5) hereof, and (b) the aggregate amount of Increased Base Rate Charges, as described below, for the prior Quarterly Period. For the purposes of this Agreement, 'Increased Base Rate Charges' shall mean an amount equal to the amount the Customer would have paid the Authority under Option 5 of the Tariff Rider to Service Tariff No. 1 for service based on the increased Base Rates, as defined in such Tariff Rider, had the Customer been receiving service from the

Authority under such Tariff Rider. For purposes of the calculation specified in the preceding sentence, the methodology set forth in Option 5 as of November 1, 1998 for determining increased Base Rates shall be deemed applicable notwithstanding any subsequent modifications to such methodology.

- (4) If during the term of this Agreement, the Delivery Charges, as described below, that are incorporated in the rate paid by the Customer under the Power Sales Arrangement attributable to non-Authority entities increase over those Delivery Charges incorporated in the Seller's rate in effect on August 31, 1998, then the Authority shall make payment to the Customer on February 15, May 15, August 15, and November 15 of each year, with a final payment on the termination date of this Agreement, of an amount equal to one-half of the amount of the difference between (a) the aggregate non-Authority Delivery Charges paid by the Customer during the prior Quarterly Period, and (2) those Delivery Charges that would have been paid by the Customer for Allocated Power and Energy purchased by the Customer during such prior Quarterly Period had the non-Authority delivery rates in effect on August 31, 1998 been applicable, provided, however, that in no event shall such amount to be paid by the Authority be in excess of 5% of the aggregate Authority Capacity and Energy Charges based on the Quarterly Period in question. For the purposes of this Agreement, 'Delivery Charges' shall mean those payments by the Customer, and/or by Seller on behalf of the Customer, to New York transmission and distribution providers, including the Seller, investor-owned utilities or their successors, the Long Island Power Authority and the New York Independent System Operator ('ISO') associated with the delivery of Allocated Power and Energy. Such charges shall include, as applicable, base transmission and distribution charges, ancillary service charges and any other applicable transmission or distribution-related charges. Charges for losses associated with the transmission, distribution and transformation of the subject power and the 'NYPA Transmission Adjustment Charge' to be imposed by the ISO shall not be included in the term 'Delivery Charges.'
- (5) If the rates set for power and energy sold to the Seller which is resold to the Customer pursuant to the Power Sales Arrangement are increased by the Authority (i) to permit the Authority to meet its obligations to the holders of its bonds, notes or other instruments of indebtedness or (ii) to recover increases in costs to the Authority resulting from actions of the ISO or a similar organization responsible for the reliable operation of the New York State electricity generation and transmission system,

including, but not limited to, the implementation of local or regional installed capacity requirements or reliability rules, then (a) with respect to any such rate increase, the Authority shall forward to the Customer at least sixty (60) days prior to the effective date of such increase, a notice of such increase, along with an explanation of the reasons for the increase, and (b) the Customer shall have the right, in its sole discretion, to terminate this Agreement without further liability to the Authority by giving written notice of termination to the Authority within sixty (60) days of receipt of the Authority's notice pursuant to clause (a) above. Such termination shall become effective immediately upon the Authority's receipt of the Customer's notice.

- (6) If, during the term of this Agreement, the Power Sales Arrangement terminates for any reason other than a violation of the terms of such Arrangement by the Customer, the Authority and the Customer agree to negotiate in good faith, to the extent permitted by law, a direct service agreement or such other appropriate arrangement which will have terms and conditions and provide economic benefits to the Customer and the Authority comparable to those provided by this Agreement, with such substitute agreement or arrangement superceding this Agreement.
- (7) On or prior to October 31, 2004, the Customer shall provide the Authority with its notice of whether or not it intends to negotiate a new power service agreement with the Authority.
- (8) This Agreement, along with the Allocation Agreement and the Power Sales Arrangement, embodies the entire agreement and understanding between the Parties with respect to the subject matter of this Agreement and supersedes any and all other agreements and understandings between the Parties prior to this Agreement relating to the subject matter of this Agreement. No modification of this Agreement shall be binding upon the Parties or either of them unless such modification shall be in writing, duly executed by the Parties.
- (9) This Agreement shall be governed by the laws of the State of New York, without regard to conflict-of-laws principles.
- (10) This Agreement shall terminate (a) on October 31, 2007, or such earlier date as permitted by the terms of this Agreement, or (b) upon the termination of the Allocation Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement.
POWER AUTHORITY OF [NAME OF CUSTOMER]
THE STATE OF NEW YORK

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

7. Amendment to the 1997 Revolving Credit Agreement

The President submitted the following report:

SUMMARY

“The Trustees are requested to authorize the amendment of the 1997 Revolving Credit Agreement so as to (1) increase the fee paid to participating banks to 8 basis points from the present 7 basis points; and (2) allow for two additional 364-day extensions under existing terms.

BACKGROUND

“The 1997 Revolving Credit Agreement with Morgan Guaranty Trust Company, an agent, and a syndicate of banks, which provides liquidity support for the Authority’s Series 2 and Series 3 Commercial Paper Notes, will expire on December 3, 1998. While the agreement allows for a 364-day extension under the current terms, the participating banks are unwilling to grant such extension at the current fee of 7 basis points. The banks have advised that market conditions, along with the increasing cost of capital, now require that pricing be increased to 8 basis points.

DISCUSSION

“Since the participating banks were unwilling to grant the Authority an extension at the current fee, the Authority prepared, and distributed to various banks, a Request for Quote (‘RFQ’) for a bank line of credit. The RFQ has failed to produce any banks willing to provide a line of credit for less than 8 basis points. Consequently, it is recommended that the 1997 Revolving Credit Agreement be continued in amended form to provide for the increased fee, and new renewal periods.

RECOMMENDATION

“The Treasurer recommends that the Trustees approved the extension of the existing 1997 Revolving Credit Agreement, with amendments to increase the fee, and extend the term of the Agreement.

“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 a question from Trustee McCullough, Mr. Brady explained that the rate held during the terms of the two extensions. Mr. Delaney added that even with the higher rate, the Authority was saving significant dollars by maintaining line and that no financial institution had offered a better rate.

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

RESOLVED, That the Trustees authorize the execution by the Treasurer, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel, on behalf of the Authority, of an amendment to the 1997 Revolving Credit Agreement between the Authority and Morgan Guaranty Trust Company of New York, as Agent, and the banks listed in such Agreement, to extend such Agreement until December 3, 1999, and to amend such Agreement to increase the fees paid under such Agreement by the

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Authority to eight basis points, to incorporate two one-year renewals of such Agreement, with such amendment having such terms and conditions as the Treasurer deems necessary or advisable to effectuate the intent of this Resolution; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, the Treasurer, and the Deputy Treasurer, are, and each hereby is, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, directions, consents, approvals, orders, applications, agreements, certificates, and further documents or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolutions.

8. Purchase of Series 1998 Revenue Bonds and Retirement of Commercial Paper Notes

The President submitted the following report:

SUMMARY

“The Trustees are requested to authorize the withdrawal of monies from the Operating Fund for the purchase or redemption of up to \$200 million of the Authority’s Series 1998 Revenue Bonds or Commercial Paper Notes.

BACKGROUND

“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 Revenue Bonds and for the payment of the Authority’s Commercial Paper Notes. At their meeting of April 28, 1998, the Trustees, pursuant to Section 503 of the 1998 Bond Resolution (the ‘Resolution’), determined that the appropriate operating reserve should be \$150 million before monies could be withdrawn under Section 503 1(e) to purchase the Series 1998 Revenue Bonds or to retire Commercial Paper Notes.

“Based upon the Trustees’ approval and pursuant to Section 503 of the Resolution, the Authority has retired \$12 million of the Series 1998 Revenue Bonds and \$88 million of its Commercial Paper Notes through the end of September, exhausting the Authority’s ability to retire additional debt under the February 1998 authorization. Under the Resolution, the Trustees must authorize the withdrawal of any additional funds from the Operating Fund for additional debt retirement.

DISCUSSION

“Current projections indicate that the Authority will generate sufficient cash flows to repay an additional \$200 million of debt between now and December 31, 1999. During this period, the Authority would at all times maintain the \$150 million operating reserve level in the Operating Fund. Also, prior to the purchase or redemption of Series 1998 Revenue Bonds or Commercial Paper Notes of the Authority pursuant to Section 503 (1)(e), the staff will have determined that the funds to be so withdrawn are not needed for any of the other purposes specified in Resolution.

“Operating reserves in the Operating Fund at the end of September were \$266 million, well above the \$150 million requirement established by the Trustees in April 1998. Moreover, the purchase or redemption of debt will first be targeted towards retirement of debt associated with the nuclear facilities, and then directed toward debt associated with other generating facilities.

RECOMMENDATION

“The Treasurer recommends that the Trustees authorize the withdrawal of up to \$200 million from the Operating Fund to purchase or redeem Series 1998 Revenue Bonds or Commercial Paper Notes of the Authority, provided that prior to any withdrawal pursuant to Section 503(1)(e) the Authority shall have determined that the funds to be so withdrawn are not needed for any of the other purposes specified in Section 503(1)(a)–(c) of the Resolution.

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“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.”

Trustee Miller expressed agreement with the concept of reducing NYPA debt, but questioned the extent to which the yield versus cost computation supports the proposed course of action, and whether it meets the complex requirements of the arbitrage rules. Mr. Collins responded in the affirmative and, along with Mr. Delaney, explained that what the Authority would acquire is the future choice as to a line of credit, whereas simply holding the money would produce a yield limited 4%; the staff feels it makes sense to maximize future flexibility. Trustee Miller noted his agreement with the proposed approach.

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

RESOLVED, That it is hereby authorized that an additional amount up to \$200 million of Operating Fund monies be used in 1998 and 1999 for the purpose of purchasing or redeeming Series 1998 Revenue Bonds or Commercial Paper Notes of the Authority; 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.

9. Adjustable Rate Tender Note Resolution Amendment

The President submitted the following report:

SUMMARY

“The Trustees are requested to adopt an amendment to the Adjustable Rate Tender Note Resolution to allow for the liquidity line in support of the Authority’s Adjustable Rate Tender Notes (the ‘Notes’) to be eliminated if the necessary consent of Noteholders can be obtained.

BACKGROUND

“The Notes were issued pursuant to a resolution adopted by the Trustees at their meeting of April 30, 1985, and amended at their meeting of August 27, 1985 (as amended, the ‘Resolution’). The Resolution currently provides that the Authority shall maintain a Line of Credit, and shall draw on the Line of Credit to the extent no other moneys are available therefor to pay the principal amount of the Notes which have been tendered but not re-marketed. The Resolution further provides that if the Line of Credit expires by lapse of term, the Notes are subject to mandatory redemption in whole at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

“Currently, there are \$191,455,000 of the Notes outstanding, with a final maturity date of March 1, 2020. The Notes were last re-marketed on September 1, 1998 at a 3.45% rate for six months. The Resolution provides that the Notes may be re-marketed with rate periods of six months to five years. The Notes may next be tendered for payment and re-marketing on March 1, 1999, with the rate period of six months likely to be chosen.

DISCUSSION

“The Authority is proposing to amend the Resolution to eliminate the covenant requiring the Authority to maintain a Line of Credit, to delete the corresponding mandatory redemption provision described above, and to make certain conforming changes to the Resolution. The amendment would, however, permit the Authority to reinstate a line of credit if the Authority believed it necessary or desirable to remarket the notes. Following its adoption, to become effective the proposed amendment would require the written consent of the owners of at least two-thirds in principal amount of the Notes outstanding at the time.

“Currently, approximately 25%, in principal amount, of the Noteholders have consented to the amendment, and the staff will continue to solicit the consents of the remaining Noteholders. The staff is optimistic that by the planned termination of the line of credit in September 1999, the bulk of the Noteholders will have consented to the amendment. In the case of those Noteholders that have not consented to the amendment, the Authority would be required by the indenture to redeem those Notes. The staff recommends that it not be authorized to proceed with the termination of the line of credit if more than 10%, in principal amount, of the Noteholders (i.e., more than \$20 million) need to be redeemed. Consequently, consummation of the transaction may require the payment of up to \$20 million for such redemption.

“The staff is proposing this change for a number of reasons. First, the Authority’s re-marketing agent for the Notes has advised the staff that it can re-market the Notes with or without a line of credit at the same interest rates. In the opinion of the Remarketing Agent then, the Authority would not suffer any interest rate penalty for not supporting the Notes with a line of credit. Second, the Authority has over \$300 million of internal liquidity to

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support the Notes, and if the amount of internal liquidity were to diminish, under the proposed amendment the Authority could reinstate a line of credit.

“Third, the number of banks that now offer lines of credit that are acceptable to the investors buying the Notes has been greatly reduced with the problems in the Japanese banking system. This has caused the pricing on lines of over 364 days in duration to go from less than 10 basis points to closer to 20 basis points in cost per year. The Authority’s current line in support of the Notes, which expires September 5, 2001, is priced at 9.5 basis points, and costs the Authority approximately \$180,000 per year. The cost of this line would double in the current market. The adoption of the proposed amendment to eliminate the requirement of a line of credit would save the Authority over \$3.5 million over the life of the Notes.

“The staff is also discussing with the Rating Agencies the question of whether the elimination of the line will have an adverse effect on the credit rating of the Notes. If the elimination would have a significant adverse effect, the staff would not proceed with the transaction.

“The Treasurer would be authorized to terminate the line of credit only if the consents of 90% or more in principal amount, of Noteholders are obtained.

RECOMMENDATION

“The Treasurer recommends that the Trustees adopt the attached supplemental resolution to the Adjustable Rate Tender Note Resolution.

“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 McCullough concerning applicable requirements governing bondholder consent to the amendment, Messrs. Delaney and Collins explained that consent of 2/3 of the bondholders is necessary, and that due to a specific provision to that effect which was included as part of the remarketing transaction, the Authority has already obtained consent from approximately 35% of the bondholders. Mr. Collins further explained that a 90% consent rate will be sought by staff so as to ensure that the rating agencies do not downgrade the Authority’s bond rating.

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

RESOLVED, That the proposed “Second Amendatory Adjustment Rate Tender Note Resolution,” as set forth in Exhibit “9-A” hereto, is hereby adopted; and be it further

RESOLVED, That the Treasurer is hereby authorized to terminate the line of credit supporting the Adjustable Rate Tender Notes only if (1) the conditions established by the Resolution for the adoption of the attached Supplemental Resolution have been satisfied, (2) the holders of more than 90% in principal amount of the Adjustable Rate Tender Notes outstanding have consented to such Amendatory Resolution; and (3) such termination will not have a significant adverse effect on the credit rating of the Notes; and be it further

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RESOLVED, That the Chairman, the President and Chief Operating Officer, the Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, and the Treasurer are, and each hereby is, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, demands, directions, consents, approvals, orders, applications, agreements, certificates, supplements, and further documents or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effect the intent of the foregoing resolutions, and all actions taken by such officers to effectuate the obtaining of the consents of the holders of the Adjustable Rate Tender Notes to the proposed amendment are hereby approved and ratified.

Additional Comments of Trustee Ciminelli

Trustee Ciminelli noted that although he supports the concept underlying the Authority's debt reduction effort, he believes that liquidity is an important objective to be kept in mind, and that the optimal time for establishing a credit line may be when it is actually the least needed. Messrs. Delaney and Collins explained that the \$150 million operating reserve is only one of several reserves which, when aggregated, provide liquidity of some \$300 million, and that there are also commercial paper credit lines that can be increased by NYPA from \$400 to \$650 million. Trustee Ciminelli inquired whether there is any fee for the unused portion of the credit line. Mr. Collins responded in the negative, explaining that the Authority pays for the line at its current level, not the level up to which it can be bumped. Mr. Bellis added that operationally, the biggest liquidity risk would be unanticipated expenditures at the nuclear facilities.

In response to questions from Trustee Ciminelli concerning the future prediction of Great Lakes water flows, Mr. Hiney explained that water flows at our plants are affected primarily by the water levels of the Upper Great Lakes where most of the water is stored. We would have the ability to adjust our production forecast downward prior to experiencing severe drought conditions at our hydro plants. Trustee Ciminelli noted that he believes that the credit line issue is under control, and further suggested that the monthly financial reports to the Trustees reflect specific tracking of liquidity. Messrs. Collins and Bellis responded that such information will be included.

10. Procurement (Services) Contract - St. Lawrence/FDR Power Project Relicensing – Third Party Contractor for the Federal Energy Regulatory Commission and Department of Environmental Conservation – Additional Funding

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve additional funding of \$975,000 to contract C96Z0018 awarded to Environmental Resources Management, Inc. (‘ERM’). At their meeting of April 30, 1996, the Trustees approved the award of a multi-year procurement (services) contract to ERM in support of the St. Lawrence/FDR Power Project (‘Project’) relicensing effort. The contract provides for ERM to furnish services as an independent Third Party Contractor (‘TPC’) to assist the Federal Energy Regulatory Commission (‘FERC’) and the New York State Department of Environmental Conservation (‘DEC’) in their environmental reviews of the Authority’s application for a new license and a Water Quality Certificate for the Project. The contract period was from May 1, 1996 through December 31, 2003. The Trustees authorized \$800,000 for the overall contract period. The DEC’s and FERC’s use of ERM has exceeded the original projection, and an additional \$975,000 will be needed to complete the TPC’s work under this contract.

BACKGROUND

“Section 2879 of the Public Authorities Law and the Authority’s Guidelines for Procurement Contracts require Trustees’ approval of the award of procurement contracts involving services to be rendered for a period in excess of one year. The Authority’s Expenditure Authorization Procedures require Trustees’ approval when a personal services contract exceeds a cumulative change order value of \$500,000.

“The Authority’s existing FERC license for the Project expires in October 2003. In accordance with FERC regulations, the Authority’s application for a new license must be filed by October 2001. Before filing this application, the Authority must consult with the public and regulatory agencies concerning issues to be addressed in the license application and associated studies conducted in advance of the application. In addition to the new FERC license, the Authority must obtain a Water Quality Certification from the DEC.

“In 1996, the Authority developed the Cooperative Consultation Process (‘CCP’) in conjunction with FERC and DEC to relicense the Project. A total of 48 issues have been identified by the CCP Team for resolution prior to license application and/or evaluation in the Environmental Impact Statement (‘EIS’). Unanticipated developments, which are described below, have increased the number of meetings necessary to complete scoping of the studies as well as settlement negotiations. In addition, FERC and DEC have made more use of the TPC as their representative than anticipated in the CCP and settlement negotiation meetings.

DISCUSSION

“To facilitate the relicensing of the Project, the Authority entered into a Memorandum of Understanding (‘MOU’) in 1996 with FERC and DEC pursuant to which the FERC and DEC would conduct an integrated environmental review of the Authority’s applications for both a new FERC license and a DEC Water Quality Certification. The MOU provides for the Authority to select a TPC to assist FERC and DEC staffs in their environmental review. The TPC would be also responsible for holding public meetings, preparing Scoping Documents, reviewing environmental and engineering studies as well as the applications to FERC and DEC, and

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providing post-application assistance to FERC and DEC. The Authority would fund the TPC, although the TPC would take its direction and assignments from FERC and DEC. ERM was selected from a list of firms qualified by FERC to prepare EISs for hydroelectric projects. Following a competitive bidding process, the Trustees approved the award of a contract to ERM. The \$800,000 contract award was based on the number of hours suggested by FERC for the anticipated work.

“Currently, the Authority has completed the scoping phase, is well into the study phase, and is negotiating a comprehensive settlement agreement with the CCP Team members. Based on a comprehensive settlement agreement by mid-1999, a license application and supporting EIS based on this agreement could be filed in 2000. FERC could issue a new license as early as 2001.

“It is anticipated that the authorized funding will be exhausted by the end of 1998. Expenditures will exceed the funds authorized primarily because DEC’s and FERC’s use of ERM has exceeded the original projection of the number of hours required. This underestimate stems from an extended scoping period, an increased ERM role in scoping, and reliance upon ERM to support DEC and FERC staff during settlement discussions.

“The significant increase in the scoping period resulted in more than twice as many meetings than anticipated. In addition, DEC and FERC used ERM in substantial efforts to reach out to the Mohawks of Akwesasne and encourage them to articulate their issues to the scoping process. ERM staff was relied upon to meet with and work with the Mohawks in bringing their issues to the CCP. This extended effort resulted in the Mohawks presenting written statements of their issues which were included in Scoping Document 1 (‘SD1’).

“In the past 12 months, FERC has become increasingly more reliant on ERM staff due to an almost complete turnover of FERC staff involved in the CCP. FERC has replaced its Project Manager and numerous technical staff with individuals without the technical background to many of the previous CCP issues and discussions. ERM staff, particularly its senior staff members, has helped FERC provide continuity to the process. ERM staff has fulfilled this role successfully, but it has increased the number of hours estimated in its involvement.

“ERM has performed very well in the last 27 months. ERM has provided FERC and DEC staffs with experienced personnel who have made significant contributions to the CCP. These contributions have been both in the anticipated direct support to FERC and DEC as well as serving, at FERC’s direction, as an independent source of information to members of the CCP Team.

“The TPC’s tasks for the remainder of the contract will include: (1) preparing revised Scoping Document 1 (Scoping Document 2); (2) reviewing the Authority’s Water Quality Certification Application (‘WQCA’); (3) reviewing the Authority’s draft and final license application; (4) conducting additional research and analyses as directed by FERC and DEC; (5) holding public comment meeting for DEIS and draft WQCA, completing the final EIS; and (6) assisting FERC in drafting license conditions (if required).

“The projected expenditures associated to these tasks total \$975,000. This figure appears to be reasonable given FERC’s use of ERM since 1996 and the additional tasks ERM will perform.

FISCAL INFORMATION

“Funds required for 1998 have been included in the 1998 Approved O&M Budget. Funds required for 1999 have been included in the proposed 1999 budget. Funds required after 1999 will be included in future budget submittals. Payment will be made from the Authority’s Capital Fund.

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RECOMMENDATION

“The Director - Licensing, the Director – Environmental Programs, the Vice President - Policy & Government Affairs, and the Vice President - Procurement and Real Estate recommend that the Trustees approve additional funding of \$975,000 for contract C96Z0018 with Environmental Resource Management, Inc. for Third Party Contractor Services for the FERC and DEC.

“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 Chairman Rappleyea, Mr. Blabey explained that at this point in the relicensing process, it is advisable to defer to the FERC and DEC’s stated need for these contractual services, and that the proposed expenditures are essentially a front-loading of costs which the Authority has agreed to assume. In response to questions from Trustee McCullough concerning the Authority’s ability to monitor the usage of contractor services, Mr. Blabey explained that although we have the option to terminate the contract outright, our ability to control usage is more limited; Mr. Berical stressed, however, that in addition to routine monitoring of all invoices submitted by the contractor, he has asked for an additional audit of all services performed and charges incurred.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts and the Expenditure Authorization Procedures adopted by the Authority, additional funds for Contract C96Z0018 with Environmental Resources Management, Inc., for Third Party Contractor Services for the Federal Energy Regulatory Commission and the New York State Department of Environmental Conservation are approved as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

<u>O & M</u>	<u>Contract Approval</u>	<u>Projected Completion Date</u>
St. Lawrence/FDR Relicensing/ Third Party Contractor Services Environmental Resources Management, Inc.		
Original Contract Approval	\$ 800,000	
Current Authorization Request	\$ 975,000	
TOTAL CONTRACT AMOUNT	<u>\$1,775,000</u>	12/31/03

11. Proposed Schedule of Trustees' Meetings in 1999

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

“The following schedule of regular meetings for the Authority for 1999 is recommended:

<u>Date</u>	<u>Location</u>	<u>Time</u>
January 26, 1998 (Tuesday)	NYO	11:00 a.m.
February 24, 1998 (Wednesday)	NYO	11:00 a.m.
March 30, 1998 (Tuesday)	NYO	11:00 a.m.
April 27, 1998 (Tuesday)(Annual)	NYO	11:00 a.m.
May 25, 1998 (Tuesday)	FLYNN	11:00 a.m.
June 29, 1998 (Tuesday)	JAF	11:00 a.m.
July 27, 1998 (Tuesday)	NIAGARA	11:00 a.m.
August 24, 1998 (Tuesday)	St. LAWRENCE	11:00 a.m.
September 28, 1998 (Tuesday)	CLARK	11:00 a.m.
October 26, 1998 (Tuesday)	WPO	11:00 a.m.
November 30, 1998 (Tuesday)	NYO	11:00 a.m.
December 14, 1998 (Tuesday)	NYO	11:00 a.m.

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12. Next Meeting

The Regular meeting of the Trustees will be held on **Tuesday, November 24, 1998, at the New York City Office at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

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Closing

Upon motion made and seconded, the meeting was closed at 12:10 p.m.

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