

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

April 29, 2003

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the New York Office at 11:00 a.m.

Present: Louis P. Ciminelli, Chairman
Frank S. McCullough, Jr., Vice Chairman
Timothy S. Carey, Trustee
Gerard V. DiMarco, Trustee
Joseph J. Seymour, Trustee

Eugene W. Zeltmann	President and Chief Executive Officer
Robert A. Hiney	Executive Vice President – Power Generation
Vincent C. Vesce	Executive Vice President – Business Services and Administration
Peter A. Barden	Senior Vice President – Public and Government Affairs
Louise M. Morman	Senior Vice President – Marketing, Economic Development and Supply Planning
H. Kenneth Haase	Senior Vice President - Transmission
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Michael H. Urbach	Senior Vice President and Chief Financial Officer
Carmine J. Clemente	Deputy Secretary and Deputy General Counsel
Joseph J. Carline	Assistant General Counsel – Power and Transmission
Arnold M. Bellis	Vice President – Contoller
Thomas P. Antenucci	Vice President – Project Management
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President - Chief Engineer
Anne Wagner-Findeisen	Vice President – Ethics and Regulatory Compliance
Thomas H. Warmath	Vice President and Chief Risk Officer, Energy Risk Assessment and Control
James H. Yates	Vice President – Major Account Marketing and Economic Development
Dennis T. Eccleston	Chief Information Officer
Angela D. Graves	Deputy Secretary
Michael Brady	Acting Treasurer
Craig D. Banner	Director – Electric System Marketing and Customer Billing
Jordan Brandeis	Director – Supply Planning and Power Contracts
William Broderick	Director – Civil/Structural Engineering
Edward A. Welz	Director – Power System Equipment
Daniel Wiese	Director – Corporate Security/Inspector General
Shalom Zelingher	Director – Research and Technology Development
Randy D. Crissman	Regional Manager – Northern NY
Peter Scalici	Deputy Inspector General
Helen L. Eisenfeld	Manager – Cost Control
Michael P. Leonard	Manager – Security
James F. Pasquale	Manager – Business Power Allocations and Compliance
Roger W. Busha Jr.	Security Specialist
James Davis	Security Services Specialist
Diane Gil	Procurement Program Specialist
Michael A. Saltzman	Senior Information Specialist
Lorna M. Johnson	Assistant Secretary
Andrew J. McLaughlin	Assistant Secretary – Legal Affairs
Bonnie Fahey	Executive Assistant
Teresa M. Barrett	Law Assistant

Milagros Martinez
John Cashin
Kevin Brocks

Secretary to Vice President
Executive Administrator, Battery Park City Authority
Attorney, Read & Laniado LLP

Chairman Ciminelli presided over the meeting. Deputy Secretary and Deputy General Counsel Clemente kept the Minutes.

1. **Approval of the Minutes**

After a short delay, the meeting commenced at approximately 11:23 a.m.

The minutes of the regular meeting of March 20, 2003 were unanimously adopted.

2. **Financial Reports for Three Months Ended March 31, 2003**

Mr. Bellis provided the final Financial Reports for the three months ended March 31, 2003.

3. **Report from the President and Chief Executive Officer**

President Zeltmann introduced Mr. Hiney who reported that the Authority had once again earned the highest award for safety presented by the American Public Power Association (“APPA”). Mr. Hiney noted that the Authority achieved First Place in Group G, a group including organizations with 2 to 4 million reportable worker hours, marking the seventh consecutive year that NYPA has taken a top award for achieving safety in the work place among the nation’s public power organizations. Mr. Hiney reported that senior management and staff are happy to receive the recognition.

President Zeltmann thanked Mr. Hiney as well as the Trustees, senior management and all of the Authority’s employees for their individual contributions towards creating a safety-conscious workplace. President Zeltmann stressed that the Authority is deeply committed to maintaining safe operating practices and procedures and emphasized that staff thoroughly investigates all near-misses and potential accidents in order to preemptively correct problems before accidents occur.

4. Motion to Conduct Executive Session

Mr. Chairman, I move that the Authority conduct an executive session in connection with potential administrative litigation relating to particular persons and corporations.

On motion duly made and seconded, an Executive Session was held at approximately 11:28 a.m. in connection with potential administrative litigation relating to particular persons and corporations.

5. **Motion to Resume Meeting in Open Session**

Mr. Chairman, I move to resume the meeting in Open Session.

On motion duly made and seconded, the meeting resumed in open session at approximately 12:14 p.m.

6. Hydroelectric Preference Rates

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve revisions to the hydroelectric preference power rates initially proposed in January 2003. These revisions stem from commentary received by Authority staff from numerous customers and customer representatives. The revised rate plan includes a refund for the period from December 18, 2001 through April 30, 2003 and a four-year rate plan beginning on May 1, 2003. The Authority staff’s detailed analysis of the rate issues appears in the Staff Analysis of Public Comments and Recommendations, Rate Modification Plan, April 2003 (hereinafter, ‘Staff Analysis ’), which is included with this item as Appendix ‘6-A’.

BACKGROUND

“At their meeting of January 28, 2003, the Trustees authorized notice of a proposal to adjust the hydroelectric preference power rates. The proposed rate plan was prepared by the Authority staff and explained in its January 2003 Report on Hydroelectric Production Rates, Rate Modification Plan (hereinafter, ‘Rate Modification Plan’). A copy of the Rate Modification Plan is attached as Appendix ‘6-B’. The proposed plan consisted of new base rates for five periods. Consistent with the Trustees’ resolution of December 18, 2001, the rate for the first period would have been retroactive from that date to April 30, 2003 and be based on a cost-of-service test year from October 1, 2001 to September 30, 2002. This initial period was to have a reduced energy rate of \$4.59/MW-hour, and result in a refund of approximately \$4.4 million. For this period, the demand charge would have remained at \$1/kW-month.

“Starting with the 2003 rate year, the Authority staff proposed to implement a rate design change in which the total proposed rate increases for the 2003-2006 rate years would be recovered through increases to the demand charge rather than through increases in the energy charge. The energy charge was to remain at \$4.92/MW-hour throughout this period. As the Rate Modification Plan explained, the rate design change reflected the fact that cost of power produced at the Authority’s Niagara and St. Lawrence-FDR projects (‘Hydro Projects’) is comprised of fixed costs, which largely do not vary with the amount of energy produced.

“To set rates for the four future rate periods, Staff used projected calendar year data. The table below summarizes the staff’s January 2003 proposal:

12-Month Period Commencing	Demand Rate \$/kW-month	Energy Rate \$/MW-hour	Effective Rate (based on 70% load factor customer) \$/MW-hour	% Increase
5/1/2003	1.45	4.92	7.76	13
5/1/2004	1.71	4.92	8.27	7
5/1/2005	2.10	4.92	9.02	9
5/1/2006	2.39	4.92	9.59	6

“The Rate Modification Plan explained the costs of production of hydroelectricity at the Niagara and St. Lawrence projects. These costs include: (1) the Authority’s capital costs including upgrades and life extension and modernization costs at the Hydro Projects; (2) the Authority’s costs related to Federal Energy Regulatory Commission (‘FERC’) relicensing for the Hydro Projects; (3) Operation and maintenance (‘O&M’) costs for the Hydro Projects; (4) the Hydro Projects’ share of the Authority-wide switch to accrual accounting for post-employment benefits other than pensions (‘PBOPs’); and (5) indirect overhead costs. The Rate Modification Plan also included a cost-of-service study which set out the calculations supporting the proposed rates, designated as Exh. NYPA-1. (See Appendix ‘6-B’).

“Because it has a combination of older, equity-financed assets, and newer, debt-financed assets at the Hydro Projects, the Authority retained A. Lawrence Kolbe, Ph.D. of The Brattle Group to develop a report explaining the Authority’s hybrid capital cost recovery method. Dr. Kolbe’s report explaining this ‘hybrid’ capital cost recovery was included in the Rate Modification Plan.

“The Rate Modification Plan also described certain components that represented a decline in the cost of producing hydroelectricity: (1) the removal of the cost of producing certain ancillary services that could not be sold directly to preference customers under the prevailing market rules; and (2) the adoption of labor ratios for the allocation of the Authority’s indirect overhead costs. With respect to the removal of ancillary services costs, the Authority retained Frank C. Graves of The Brattle Group to calculate the total costs that were removed from the hydroelectric cost of service. Mr. Graves’ report was also included in the Rate Modification Plan.

“Written notice and a copy of the Rate Modification Plan were mailed to all affected customers on or about January 28, 2003. The written notice also stated that any person who so desired could contact the Authority to receive additional documentation concerning the rate proposal. The Authority published a news release on January 31, 2003 which described the proposed rate action. Notice of the proposed action was published in the New York State Register on February 19, 2003. Also on February 19th, the State Register published a notice that a public forum would be held on March 18, 2003 for the purpose of obtaining the views of interested persons.

DISCUSSION

Meetings with Customers and Public Comments

“Subsequent to the Trustees action on January 28, 2003, Authority staff met on numerous occasions with affected customers and customer organizations for the purpose of answering questions about the proposed rate revisions. The Authority staff held meetings with the following parties: the Municipal Electric Utilities Association (‘MEUA’), which represents 46 municipal utility systems in New York State; representatives from the rural electric cooperative systems of Delaware County, Oneida-Madison, Otsego and Steuben (‘Coop Systems’); the City of Jamestown Board of Public Utilities (‘Jamestown’). The Authority staff also had teleconferences with representatives of four of the seven neighboring states, namely Massachusetts, New Jersey, Ohio and Pennsylvania (‘Neighboring States’), and with New York State Electric & Gas Corporation (‘NYSEG’).

“Interested parties submitted numerous data requests concerning the Rate Modification Plan. Staff responded to 32 data requests from MEUA, 10 from the Coop Systems, 57 from Jamestown, 20 from the Neighboring States and 20 from NYSEG. Many of these data requests had multiple subparts, so these numbers understate the amount of material staff provided. Many data requests sought the workpapers in support of the calculations of the Authority staff and the Authority’s consultants. Such materials were provided to the parties.

“On March 18, 2003, the Public Forum was held in Syracuse. The Forum was conducted in accordance with the terms of the Policy and Procedures – Public Forums on Rate Proposals adopted by the Authority’s Trustees in November 1990. Such policy and procedures provides for the holding of public forums on all Authority production and transmission rate increase proposals of two percent or more.

“A panel of Authority representatives was available at the Public Forum to explain the basis for the proposed rate revisions and to listen to issues raised by concerned members of the public. Excluding Authority representatives, a total of 15 persons attended the Public Forum. Spoken comments presented at the Forum were transcribed and included as part of the record in this proceeding. Speakers included representatives from MEUA, Jamestown and the Neighboring States, all of whom expressed their appreciation to Authority staff for their cooperation and timely responses to data requests. A transcript of the Public Forum was made available for a fee payable to the court reporting company.

“The Authority had invited parties to submit written comments at the Public Forum. Only the MEUA and the Neighboring States submitted such comments. Authority representatives announced at the Forum that written comments would also be accepted and considered as part of the record if received by April 7, 2003. The April 7th

deadline was in accordance with the 45-day comment period required by the New York State Administrative Procedure Act.

“Written comments were subsequently submitted on or before April 7, 2003 from the following parties:

- Power for Economic Prosperity Group (‘PEP’), a group of industrial consumers that receive Authority hydropower.
- Jamestown.
- Neighboring States.
- New York State Electric & Gas Corporation.

“A copy of the record, which includes the transcript of the Public Forum and all written statements is found in Appendix ‘6-C’.

“All of the public comments received were evaluated by Authority staff. A detailed description of the issues raised and the proposed disposition of each are included in the Staff Analysis of Appendix ‘6-A’.

Staff Analysis of Public Comments

1. Ancillary Services: Cost versus Revenue Credits.

“The Neighboring States and NYSEG both propose that the Authority provide a credit which is based on revenues the Authority receives from the sales of ancillary services, rather than the costs incurred to produce such services. The cost-based credit proposed by the Authority staff is fair and reasonable. The Authority is not required to use ancillary services revenues or any other excess revenues from the Hydro Projects to reduce the R&D rates below cost. There is no applicable federal or state statutory or regulatory requirement to give the revenue credits requested. Moreover, to do so would be inconsistent with the Auer decisions and the resulting Auer Settlement and Judgment that are binding on the Authority and allow the use revenues from sales from the Hydro Projects for lawful corporate purposes once the cost-base rate has been established. The Trustees should reject these requests by the Neighboring States and NYSEG. The Trustees should, however, approve a modification of the cost of service to exclude O&M for Voltage Control and Black Start services, as requested by a number of customers.

2. Capital Cost Issues.

“The Neighboring States make several arguments concerning the capital cost recovery, but they do not challenge the soundness of the Authority’s hybrid recovery approach that reflects the two different types of capital owned by the Authority. While they state they are not now challenging the continued use of the Auer TOC method through the end of their current power contracts on October 31, 2003, they suggest that the issues they raise on this subject should be the basis of negotiations on new power contracts. They state that the Authority is not entitled to a return on equity in the Hydro Projects, claiming instead that the equity is customer contributed capital. They also allege that the Trended Original Cost (‘TOC’) methodology used by the Authority under the terms of the Auer Settlement is inconsistent with the methods employed by regulators and results in the collection of revenues in excess of costs. None of these arguments has merit because: 1) the Authority and not the customers owns the equity in the Hydro Projects and it is entitled to a return, albeit without the ‘real’ return component on account of the Auer Settlement; 2) the TOC method explained by Dr. Kolbe in Appendix ‘6-B’ and as employed by the Authority for over 20 years is an economically sound capital cost recovery method; 3) the inflation compensation component of the TOC cost recovery is designed to recover the Authority’s original investment in the Hydro Projects on an inflation-adjusted basis and not as the Neighboring States claim, to replace the production capacity as originally built; and 4) this is not the proper forum to address the Neighboring States’ desired agenda for contract negotiations. The capital cost recovery method used by the Authority for over 20 years as recommended in the Rate Modification Plan should be approved.

3. Rate Design.

“Several parties commented on the change in rate design. As explained in the Authority’s Rate Modification Plan, the rate structure had not changed from the inception of the Hydro Projects – all increases were recovered through the energy rate. Jamestown and PEP commented in support of recovering all cost increases in the demand charge. Only NYSEG recommended an alternative rate design, requesting that the Authority allocate the cost increases equally between the demand and energy charges. However, the cost structure of the Hydro Projects is largely fixed and most costs should be classified as demand-related. Over time, as costs rise, particularly the capital costs relating to the upgrades and modernization, it is no longer appropriate to recover these incremental costs through the energy rate. In consideration of the need to minimize adverse customer impacts, the staff did not propose a one step approach to purely demand-based rates, but struck a middle course. The compromise was to maintain the current energy rate and allocate costs increases to the demand charge. The proposed rate design should be approved.

4. Post-retirement Benefits Other than Pensions (‘PBOPs’).

“The Neighboring States recommend that the implementation of any accrual relating to PBOPs be deferred until such time as the Government Accounting Standards Board (‘GASB’) officially acts to require this method. They also recommend that the Authority extend the amortization period from 20 years to 30 years and request that the Authority perform quadrennial updates to the transition obligation and establish a formal process for customer review and input on any adjustments made. Jamestown also expressed this concern about the amortization period at the Public Forum but did not file any written comments on this issue. None of these arguments have merit. For accounting purposes, the Authority has already adopted the accrual method for PBOPs obligations for calendar year 2002. The rate treatment for PBOPs costs should be the same as the accounting treatment to the extent possible, unless there is a compelling reason not to do so. GASB has taken additional steps to encourage early implementation of accrual accounting. A 20-year amortization period was endorsed by FERC and the New York Public Service Commission. The recent GASB Exposure Draft sets out a 10-year minimum and 30-year maximum amortization period. A 20 year amortization period is reasonable and should be adopted. Finally, the Authority staff agrees that periodic review of the transition obligation is reasonable. GASB recommends an actuarial review no less than biennially, more frequently than requested by the Neighboring States. Any changes to the transition obligation that result from such reviews will be reported in the Authority’s financial reports, which are available to the public.

5. Benefits of Niagara and St. Lawrence-FDR Upgrades.

“The Neighboring States claim that the preference customers are not receiving the benefits of the increased capacity that the Hydro Project upgrades would produce. They recommend that the capital costs of the upgrades be capitalized during the entire upgrade process and that those costs only be included in the rates to the extent that additional capacity is made available to them. However, the increased reliability and efficiency becomes immediately available to all Hydro Project customers. Once an upgraded unit is placed back in service, all customers begin to immediately benefit from the increased reliability and reduced maintenance costs. To date, the capital cost of upgraded units that have been completed has been included in the annual hydroelectric cost of service and computation of the Rate Stabilization Reserve (‘RSR’). Likewise, all sales of energy, including any additional energy from the more efficient newer units are credited to the cost of service. The Authority will perform studies of the increased capacity that may be available from the Hydro Projects when the upgrades are completed. In the meantime, the Authority will also credit to the RSR short-term capacity sales, such as those to the NYISO in excess of the base capacity sales used to develop the preference rate. Any additional capacity will be made available to Preference customers in accordance with the Niagara Redevelopment Act and the Niagara Project license. The Neighboring States’ recommendation that they should not now bear their share of the costs of upgrades is without merit and should be rejected.

6. Commitment to Control Hydroelectric Project Costs.

“MEUA expresses concerns about cost control at the Hydro Projects, noting that NYPA has a public duty to control the cost of providing that power. The Authority strives to control its costs by balancing the need to maintain and upgrade its generating and transmission projects with the provision of power to its preference customers at the lowest possible rate. The Authority and customers have a mutual interest in cost containment. The

Authority's goal is a balanced approach that takes full account of its obligations to its bondholders and its concerns for the environment and the local communities, but also recognizes the significance of low-cost Niagara Project power to its customers. The Authority agrees with the position expressed by MEUA and will continue its efforts to control costs, wherever possible, while also maintaining and upgrading its generating and transmission assets. This will ensure that the Authority reliably and efficiently provides low-cost power to its preference customers.

7. Rate Stabilization Reserve Deadband.

"The Neighboring States and Jamestown recommend that the Authority maintain the current RSR deadband of +/- \$25 million, within which no credit or surcharge would be applied and not reduce it to +/- \$15 million as proposed in the Rate Modification Plan. These parties raise concerns that the narrower deadband would expose them to rate volatility. The Neighboring States also request that the RSR calculation be made available to customers for their review. The RSR was designed to capture over or under recovery of costs that arise from the difference between the billed charges and the actual costs of production which vary with water flow conditions. There is some merit to the contention that because low hydrologic flows continue to be forecasted, narrowing the RSR deadband would put the customers at risk of a surcharge. With respect to the Neighboring States' request for information regarding the RSR calculations, the annual Hydro Cost of Service is and will continue to be made available to customers upon request. Therefore, Staff recommends that the current deadband range of +/- \$25 million be retained.

8. Miscellaneous Capital Cost-Related Issues.

"NYSEG raises two separate but related questions on capital costs. The first issue relates to an incorrect notation in a response to a data request regarding an O&M increase at the St. Lawrence Project that led NYSEG to conclude that the Authority had failed to properly capitalize certain project labor costs relating to plant upgrade work. The labor costs relating to the upgrades are indeed capitalized. The data response notation was incorrect, and Authority staff provided the necessary clarification. The second issue concerns the inclusion of the principal payments on the debt for the White Plains office building in the hydro cost of service. NYSEG argues that including such debt principal payments in the cost of service is contrary to 'standard regulatory ratemaking principles' which would dictate that costs be recovered over the longer service life of the asset rather than over the period of debt repayments. However, this concern is misplaced because rate payers benefit from the Authority's methodology. First, unlike a private utility, the Authority does not include a profit component in its capital cost recovery. Second, the stream of debt payments in question arose from the Authority's debt refinancing that took advantage of low interest rates which reduced the total cost to the ratepayers. Finally, the approach used has the effect of changing only the timing of recovery. On a net present value basis, the capital costs recovered would be the same, whether it is recovered over a shorter period or a longer period. Therefore, it is appropriate that the actual out-of-pocket costs should be reflected in the rates. Authority staff recommends the continued recovery of these debt payments in the rates, as proposed.

9. Review and Comment Period for Proposed Rate Plan.

"MEUA and Jamestown express concerns over the time allotted for review of the Authority's proposal. The Neighboring States requested that NYPA distribute to all parties the comments it received and allow 10 business days for reply comments. As noted above, the time provided for customer review in this proceeding was adequate, as evidenced by the volume of data requests made and answered, and by the detailed comments received. Likewise, it was not necessary or appropriate to grant the Neighboring States' request to respond to other rate payers' comments. This is a legislative-type administrative rulemaking, not an adversarial proceeding. The purpose of seeking public comments is to inform the Trustees about the issues of concern. Another round of comments would be of limited use to the Trustees in rendering their final decision in this matter. Indeed, since the Neighboring States provided the most extensive comments received, no purpose would be served by allowing them to respond to the other comments.

10. Implementation of Authority Refund.

"No public comments were received on the method of distributing the refund and the Rate Modification Plan was silent on the subject. Authority staff intends to distribute to each of its preference customers their share of

the estimated \$4.5 million refund in lump sums. Staff has suggested this in informal meetings with customers, and has not received any objections. Staff recommends that the Authority distribute refunds to the preference customers in a lump sum and entertain reasonable requests from the full requirements systems for distribution of refunds to the end-users.

Summary of Final Rate Proposal

“For the reasons summarized above and set forth in detail in the Staff Analysis, the Authority staff recommends that the rates originally proposed in the January 2003 Rate Modification Plan be adjusted. The final rates recommended by the Authority staff are as follows:

12-Month Period Commencing	Demand Rate \$/kW-month	Energy Rate \$/MW-hour	Effective Rate (based on 70% load factor customer) \$/MW-hour	% Increase
5/1/2003	1.45	4.92	7.76	13
5/1/2004	1.71	4.92	8.27	7
5/1/2005	2.09	4.92	9.01	9
5/1/2006	2.38	4.92	9.58	6

“This table reflects a 1-cent/kW-month reduction in the demand rate for the 2005 and 2006 rate years. In addition, the Authority staff recommends that the energy rate for the retroactive rate period (December 18, 2001 through April 30, 2003) be lowered to \$4.58/MW-hour from the originally proposed \$4.59/MW-hour. Also, as noted above, Authority staff recommends that the RSR bandwidth remain at +/- \$25 million.

“With respect to the impact by customer class, the final proposed rates do not change the impact analysis included in Exh. NYPA-4 from the Rate Modification Plan. (See Appendix ‘6-B’).

FISCAL INFORMATION

“Implementation of the proposed adjusted schedule of rate increases would allow the Authority to recover its increased costs associated with preference hydroelectric sales. On an annual basis, the rates recover (in nominal dollars) cost increases of \$6.9 million, \$14.5 million, \$22.4 million and \$30.0 million for calendar years 2003, 2004, 2005 and 2006, respectively.

“For the retroactive rate period, the proposed reduced energy charge of \$4.58/MW-hour will yield a refund of \$4.5 million.

RECOMMENDATION

“The Director – Supply Planning, Pricing & Power Contracts recommends that the Trustees (1) adopt the conclusions of the Staff Analysis attached hereto as part of the record in these proceedings; and (2) approve the revised hydroelectric preference rates for the period December 18, 2001 through April 30, 2003 and for the four-year rate plan commencing May 1, 2003, as set forth above.

“It is also recommended that the Secretary be authorized to publish notice of this action in the New York State Register, including notice of the availability of the Final Rate Modification Plan and the other materials included in the record of these proceedings.

“It is also recommended that the Senior Vice President – Marketing, Economic Development and Supply Planning or her designee, be authorized to issue written notice of the final action, including a copy of the revised tariff leaves, as necessary, to the Authority’s affected customers.

“The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Marketing, Economic Development and Supply Planning, and the Vice President – Controller and I concur in the recommendation.”

Mr. Brandeis presented the highlights of staff's recommendations to the Trustees.

Chairman Ciminelli complemented Authority staff for their hard work on this rate revision. Vice Chairman McCullough noted that there was extensive documentation as well as public discussion and review of this rate action. Vice Chairman McCullough also concurred with Chairman Ciminelli and commended staff for the thorough and detailed job that was done, especially complementing staff's efforts to keep the Trustees individually informed concerning the status of the proposed rate action throughout the process. In closing, he noted his concurrence with staff's recommendation.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

WHEREAS, on January 28, 2003 the Authority authorized the Secretary to file notice of proposed action for publication in the New York State Register of its intention to adjust the hydroelectric preference power rates; and

WHEREAS, such notice was duly published in the State Register on February 19, 2003 and more than 45 days have elapsed since such publication; and

WHEREAS, a Public Forum was held on March 18, 2003 and staff has met with certain of the affected customers to receive and respond to comments and data requests as set forth in the attached Final Rate Modification Plan; and

WHEREAS, the proposed rate action should be modified, in accordance with the changes contained in the foregoing report of the President and Chief Executive Officer and as explained in detail in the Staff Analysis contained in Appendix '6-A';

NOW THEREFORE BE IT RESOLVED, That the rates for sale of power and energy to hydroelectric preference power customers, as recommended in the foregoing report of the President and Chief Executive Officer, are hereby approved effective May 1, 2003; and be it further

RESOLVED, That the Senior Vice President – Marketing, Economic Development and Supply Planning or her designee be, and hereby is, authorized to issue written notice as required by contract with respect to the modification in rates, including applicable tariff leaves; and be it further

RESOLVED, That the Vice President -- Controller of the Authority be, and hereby is, authorized to make refunds to the hydroelectric preference customers as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Secretary of the Authority be, and hereby is, directed to file notice of final action with the Secretary of State for publication in the State Register and to submit such other notice as may be required by statute or regulation.

7. Power Allocations under the Power for Jobs Program

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve 31 allocations of available power under the Power for Jobs (‘PFJ’) program to the businesses listed in Exhibits ‘7-A’ and ‘7-B’ which have been recommended for such allocations by the Economic Development Power Allocation Board (‘EDPAB’).

BACKGROUND

“In July 1997, Governor George E. Pataki and the New York State Legislature approved a program to provide low-cost power to businesses and not-for-profit corporations that agree to retain or create jobs in New York State. In return for commitments to create or retain jobs, successful applicants receive three-year contracts for PFJ electricity.

“The Power for Jobs program originally made available 400 megawatts (‘MW’) of power. The program was to be phased in over three years, with approximately 133 MW being made available each year. In July 1998, as a result of the initial success of the program, Governor Pataki and the Legislature amended the PFJ statute to accelerate the distribution of the power, making of total of 267 MW available in Year One. The 1998 amendments also increased the size of the program to 450 MW, with 50 MW to become available in Year Three.

“In May 2000, legislation was enacted which authorized another 300 MW of power to be allocated under the PFJ program. The additional MW were described in the statute as ‘phase four’ of the program. Customers who received allocations in Year One were authorized to apply for reallocations. Over 95% reapplied. The balance of the power was awarded to new applicants.

“In July 2002, legislation was signed into law by Governor Pataki, which authorized another 183 MW of power to be allocated under the program. The additional MW are described in the statute as ‘phase five’ of the program. Customers who received allocations in Year Two or Year Three will be given priority to reapply for the program. Any remaining power will be made available to new applicants.

“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 enterprises that are at risk of reducing or closing their operations, moving out of State, or are willing to expand job opportunities. Successful applicants are required to create or maintain a specific number of jobs in order to qualify for an allocation. At various meetings from December 1997 through March 2003, the Trustee’s approved allocations to 1,236 employers under the PFJ program. Currently, the program is linked to some 300,000 jobs at manufacturing facilities, small businesses, hospitals, colleges and cultural institutions across the state.

DISCUSSION

“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. Thirty one applications were deemed highly qualified and presented to the EDPAB for its review on April 22, 2003.

“As a result of its meeting, the EDPAB recommended that the Authority’s Trustees *{approve}* the allocations to the 31 businesses listed in Exhibits ‘7-A’ and ‘7-B’. Exhibit ‘7-A’ lists those businesses that were recommended to have their existing allocation extended under phase five of the program while those businesses listed in Exhibit ‘7-B’ are being recommended for new allocations. Collectively, these organizations have agreed to

create or retain over 17,000 jobs in New York State in exchange for allocations totaling 20.43 MW. The allocation contracts will be for a period of up to three years but not to extend beyond December 31, 2005. The power will be wheeled by the investor-owned utilities as indicated in the exhibits. The basis for EDPAB's recommendations is also included in the exhibits.

RECOMMENDATION

"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 Exhibits '7-A' and '7-B'.

"The Executive Vice President, Secretary and General Counsel, the Senior Vice President – Marketing, Economic Development and Supply Planning, the Vice President – Major Account Marketing and Economic Development and I concur in the recommendation."

Mr. Pasquale presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Trustee Seymour, Mr. Pasquale provided examples of the cost/kW for various service territories.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve an aggregate 20.43 MW of allocations of Power for Jobs power to the companies listed in Exhibits "7-A" and "7-B";

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 Exhibits "7-A" and "7-B" (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 20.43 MW of power purchased by the Authority for Power for Jobs be sold to the utilities that serve such Customers for resale to them for a period of up to three years, but not to extend beyond December 31, 2005, 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.

**New York Power Authority
Power for Jobs
Recommendations for Phase 5 New Allocations**

Exhibit "7-B"
April 29, 2003

Company	City	County	IOU	KW	Jobs			Jobs/ MW	Type	Description
					New	Retained	Total			
1 AT&T Corporation	White Plains	Westchester	Con Ed	650	-	600	600	923	Large	Voice, data, video and communications
2 Kips Bay Boys & Girls Club Inc.	Bronx	Bronx	Con Ed	150	19	152	171	1,140	NFP	Social Services & youth development
3 Memorial Sloan Kettering Cancer Center	New York	New York	Con Ed	5,000	551	7,549	8,100	1,620	NFP	Devoted to prevention, patient care, research and education in cancer
				3	5,800	570	8,301	8,871	1,529	
4 AccuMed Technologies, Inc	Buffalo	Erie	NIMO	125	136	88	224	1,792	Small	Supplier of contract sewing & ultrasonic welding textile products to various industries
5 Beaverite Corporation	Beaver Falls	Lewis	NIMO	250	-	60	60	240	Small	Manufacturers packaging & presentation products
6 Tartan Textile Services, Inc.	Utica	Oneida	NIMO	300	30	180	210	700	Small	Owns and operates commercial laundry operations and textile rental services
7 Thermold Corporation	Canastota	Madison	NIMO	250	6	58	64	256	Small	Complete thermoplastic molding services
				4	925	172	386	558	603	
8 Amphenol Corporation	Sidney	Delaware	NYSEG	2,000	-	1,230	1,230	615	Large	Manufacturer of electronic & fiber optic connectors
9 Schweizer Aircraft Corp	Horseheads	Chemung	NYSEG	700	-	340	340	486	Large	Producer of aircraft and subcontractor for airframe parts and assemblies
				2	2,700	-	1,570	1,570	581	
10 Rochester Institute of Technology	Rochester	Monroe	RG&E	2,000	40	2,722	2,762	1,381	NFP	University
				1	2,000	40	2,722	2,762	1,381	
		Totals		10	11,425	782	12,979	13,761	1,204	

**New York Power Authority
Power for Jobs
Recommendations for Phase 5 Re-allocations**

**Exhibit "7-A"
April 29, 2003**

<u>Company</u>	<u>City</u>	<u>County</u>	<u>IOU</u>	<u>KW</u>	<u>Jobs</u>	<u>Jobs/ MW</u>	<u>Business Type</u>	<u>Description</u>
1 Alex Meat Corp.	Brooklyn	Kings	Con Ed	40	7	175	Small	Wholesale meat distributor
2 Automatic Data Processing Financial Info Services	New York	New York	Con Ed	800	119	149	Large	Data processing and preparation
3 Bedford Stuyvesant Restoration Corp.	Brooklyn	Kings	Con Ed	150	70	467	NFP	Urban and community development
4 Chow Brothers	Brooklyn	Kings	Con Ed	30	9	300	Small	Wholesale meat distributor
5 Display Producers	Bronx	Bronx	Con Ed	375	395	1,053	Small	Manufactures and assembles display showcases
6 Educational Broadcasting Corporation (Thirteen WNET)	New York	New York	Con Ed	750	309	412	NFP	Television broadcasting
7 Jazzmobile	New York	New York	Con Ed	20	46	2,300	Small	Presents music and other social services
8 Kruysman	Long Island City	Queens	Con Ed	400	239	598	Large	Manufactures stationery products
9 Symphony Space	New York	New York	Con Ed	65	33	508	NFP	Performing arts theater
10 The Brooklyn Historical Society	Brooklyn	Kings	Con Ed	<u>30</u>	<u>16</u>	533	NFP	Social Services
			10	2,660	1,243	467		
11 Corning Inc. (Canton)	Canton	St. Lawrence	NIMO	1,500	272	181	Large	Pressed and blown glass
12 G.C. Hanford Manufacturing Co.	Syracuse	Onondaga	NIMO	750	210	280	Large	Manufactures pharmaceutical products
13 Oneida Container Company	Vernon	Oneida	NIMO	200	123	615	Small	Manufactures corrugated packaging and displays
14 Portola Packaging	Clifton Park	Saratoga	NIMO	400	78	195	Large	Manufactures plastic closures and bottles
15 School House Warehouse	Gloversville	Fulton	NIMO	<u>200</u>	<u>171</u>	855	Small	Trucking and warehousing
			5	3,050	854	280		
16 Caron Fine Woods Products	Champlain	Clinton	NYSEG	20	3	150	Small	Supplier of lumber and wood products
17 Hadco Corporation	Owego	Tioga	NYSEG	2,000	790	395	Large	Developer & supplier of interconnection products
18 Magnus Precision Manufacturing, Inc.	Phelps	Ontario	NYSEG	275	62	225	Small	Precision machine manufacturing
19 McGard, Inc.	Orchard Park	Erie	NYSEG	750	262	349	Large	Producer of automotive parts and supplies
20 Newcut	Newark	Wayne	NYSEG	<u>100</u>	<u>39</u>	390	Small	Metal coating and allied services
			5	3,145	1,156	368		
21 New Energy Works	Victor	Ontario	RGE	<u>150</u>	<u>67</u>	447	Small	Wood preserving services
			1	150	67			
		Totals	21	9,005	3,320	369		

8. 2002 Annual Report of Procurement Contracts and Annual Review of Open Procurement Service Contracts

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the 2002 Annual Report of Procurement Contracts (Exhibit ‘8A-4’), and the Guidelines for Procurement Contracts (Exhibit ‘8A-2’), and to review open service contracts exceeding a year as detailed in the Annual Report as well as pre-1990 service contracts which were active in 2002 (Exhibit ‘8A-3’ and ‘8A-4’). An Executive Summary is set forth in Exhibit ‘8A-1’.

BACKGROUND

“Section 2879 of the Public Authorities Law (‘PAL’) governs the administration and award of procurement contracts equal to or greater than \$5,000.00. Section 2879 of the PAL requires public authorities to adopt comprehensive guidelines detailing their operative policy and instructions concerning the use, awarding, monitoring and reporting of procurement contracts. The Authority’s current Guidelines were approved by the Trustees at their meeting of October 31, 1989 and were implemented as of January 1, 1990.

“Section 2879 of the PAL also requires authorities to review and approve such guidelines annually and to file a report regarding procurement contracts with the Division of the Budget; the Department of Audit and Control; the Department of Economic Development; the Senate Finance Committee; and the Assembly Ways and Means Committee. The annual report must include a copy of the Authority’s current Guidelines, details concerning any changes to the Guidelines during the year and particular information concerning procurement contracts. For each procurement contract included in the report, the following information must be identified:

[A] listing of all procurement contracts entered into [by the Authority], all contracts entered into with New York State business enterprises and the subject matter and value thereof, all contracts entered into with foreign business enterprises, and the subject matter and value thereof, the selection process used to select such contractors, all procurement contracts which were exempt from the publication requirements of article four-C of the economic development law, the basis for any such exemption and the status of existing procurement contracts.

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

DISCUSSION

“The 2002 Annual Report of Procurement Contracts is attached for review and the approval of the Trustees (Exhibit ‘8A-4’). This report reflects activity for all procurement contracts equal to or greater than \$5,000, as identified by the Authority’s SAP computer system, that were open, closed, or awarded in 2002, including contracts awarded in 1990 through 2002 that were completed in 2002, or were extended into 2003 and beyond. All additional information required by the statute is also included. The Trustees are requested to approve the attached Annual Report pursuant to Section 2879 of the PAL prior to submittal thereof to the Division of the Budget; the Department of Audit and Control; the Department of Economic Development; the Senate Finance Committee; and the Assembly Ways and Means Committee.

“A copy of the Guidelines for Procurement Contracts, effective April 22, 2003 (Exhibit ‘8A-2’), is attached to the Report. These Guidelines are substantively the same as the version approved last year with some revisions.

“Due to the increased security requirements at all New York Power Authority facilities, the Authority now requires background checks on all Contractor Personnel working within our facilities. Appendix ‘8-D’ was developed by the Office of the Inspector General, the Office of General Counsel, and the Procurement Division to notify suppliers of the requirements and procedures for on site Access to all Authority facilities. The Guidelines have been amended as follows:

“Section 7 ‘Contract Provisions’, Paragraph B listing of ‘Contract Attachments’

“6. Appendix ‘8-D’ (Background Security Screening for NYPA Contractors)’

“The Guidelines generally describe the Authority’s process for soliciting proposals and awarding contracts. Topics detailed in the Guidelines include solicitation requirements, evaluation criteria, contract award process, contract provisions, change orders, Minority/Women Business Enterprise (‘M/WBE’) requirements, and employment of former officers and reporting requirements. The Guidelines have been designed to be self-explanatory.

RECOMMENDATION

“The Vice President - Procurement and Real Estate recommends that the Trustees approve the 2002 Annual Report of Procurement Contracts, the Guidelines for Procurement Contracts, and the review of open service contracts as attached hereto in Exhibits ‘8A-1’ through ‘8A-4.’

“The Executive Vice President – Project Operations, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Business Services and Administration, the Senior Vice President – Chief Financial Officer and I concur in the recommendation.”

Mr. Hoff presented the highlights of the 2002 Annual Report of Procurement Contracts to the Trustees and thanked Ms. Diane Gil for putting together the report and making sure it is as accurate as possible.

Chairman Ciminelli thanked Mr. Hoff and Ms. Gil on behalf of the Trustees for their hard work and excellent report.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to Section 2879 of the Public Authorities Law and the Authority's Procurement Guidelines, the Annual Report of Procurement Contracts, as listed in Exhibit “8A-4”, and the Guidelines for the use, awarding, monitoring and reporting of Procurement Contracts (Exhibit “8A-2”) as amended below, be, and hereby are, approved as follows:

Section 7 ‘Contract Provisions’, Paragraph B ‘Contract Attachments’

“6. Appendix “8-D” (Background Security Screening for NYPA Contractors)”

AND BE IT FURTHER RESOLVED, That the open service contracts exceeding a year be, and hereby are, reviewed; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and other documents to effectuate the foregoing resolutions.

POWER AUTHORITY OF THE STATE OF NEW YORK
ANNUAL REPORT OF PROCUREMENT CONTRACTS

EXECUTIVE SUMMARY

The Power Authority of the State of New York ("Authority") is a diversified energy corporation committed to meeting the electrical needs and challenges of New York State (State) by providing lower cost electricity as well as being a leader in conservation, energy efficiency, electro-technologies and small scale renewable energy forms. A nonprofit, public energy corporation, the Authority does not use tax revenues or State funds or credit. It finances construction of its projects through bond and note sales to private investors and repays the debt holders with proceeds from operations.

A major achievement for the Authority during 2002 was the negotiation and award of the site preparation and general work construction contracts in support of the 500 MW Combined Cycle Project. Site preparation activities were substantially completed and the general work contractor mobilized and commenced initial construction activities in January, 2003.

In 2002, the Authority continued a major effort to install new energy efficient lighting fixtures and ballasts in State and city facilities, public schools throughout the State, and municipal and local governments in New York State.

Other Energy Efficiency efforts include the Non-Electric End Use Program and the Electrotechnologies Program in public facilities throughout New York State employing alternative fueled energy technologies; a Coal Conversion Program for New York City Schools and Buffalo Public Schools to replace obsolete coal boilers with modern boilers using optimized dual-fuel (gas or oil) technology and to replace the existing climate control distribution systems; a program for supplying super-efficient refrigerators for certain Authority Public Housing customers; an Electric Vehicle Program promoting the use of electric vehicles (cars, pick-ups and buses) throughout New York State; installation of Photovoltaic ("PV") Systems on several facilities throughout the State, and installation of fuel cell power plants ("FCPPs") at several locations throughout New York State.

In the course of constructing and operating its facilities, the Authority requires the services of outside firms for accounting, engineering, legal, public relations, surveying, and other work of a consulting, professional or technical nature to supplement its own staff, as well as to furnish varied goods and services, and perform construction work. Many of these contracts are associated with the construction, maintenance and operation of the Authority's electric generating facilities and transmission lines, and support of the Energy Efficiency Projects noted above.

PROCUREMENT GUIDELINES

In compliance with the applicable provisions of Section 2879 of the Public Authorities Law, as amended by the laws of 1988, the Authority has established comprehensive guidelines detailing its operative policy and instructions concerning the use, awarding, monitoring, and reporting of procurement contracts.

A copy of the Authority's current Guidelines for Procurement Contracts governing solicitations and evaluation of proposals for procurement contracts is attached hereto. These Guidelines, approved by the Authority's Trustees, were implemented as of January 1, 1990, and have been amended annually as necessary. A copy of the Guidelines for Procurement Contracts, effective April 22, 2003 (Exhibit "A-2"), is attached to the Report. These Guidelines are substantively the same as the version approved last year with some revisions as indicated below.

Due to the increased security requirements at all New York Power Authority facilities, the Authority now requires background checks on all Contractor Personnel working within our facilities. Appendix D was developed by the Office of the Inspector General, the Office of General Counsel, and the Procurement Division to notify suppliers of the requirements and procedures for on site Access to all Authority facilities. The Guidelines have been amended as follows:

Page 12, Section 7 "Contract Provisions", Paragraph B listing of "Contract Attachments" insert

"6. Appendix "D" (Access Authorization Site Security Procedures for Authority Contractors and Their Personnel)"

The Guidelines describe the Authority's process for soliciting proposals and awarding contracts. Topics detailed in the Guidelines include solicitation requirements, evaluation criteria, contract award process, contract provisions, change orders, Minority/Women Business Enterprise ("M/WBE") requirements, employment of former officers and reporting requirements. The Guidelines have been designed to be self-explanatory.

ACCOMPLISHMENTS

Major procurement efforts in 2002 included purchase of goods, services and construction work, in support of the Authority's operating projects, and headquarters' facilities, support of the 500 MW Combined Cycle Project, Life Extension and Modernization ("LEM") Programs at Niagara and St. Lawrence, the Energy Services and Technology ("EST") Programs (e.g., High Efficiency Lighting Program ("HELP"), the Refrigerator Program for the New York City Housing Authority, Energy Services Program ("ESP") and the Electric Transportation Program). Procurement is continuing efforts to optimize use of the Authority's credit card system for small dollar procurements, the SAP procurement and materials management system, as well as supporting the requirements of our operating

and capital projects, and headquarters operations.

(I) Credit Card Procurement System ("CCPS")

With the implementation of SAP, procurement credit card usage levels have declined. The decline is largely attributed to the placement of previously non-stock items into the SAP inventory system requiring the issuance of a formal purchase order regardless of dollar value. At the end of 2002, the number of cardholders was 163. Cardholders are located in headquarters and the operating facilities. Credit card transaction averaged 900 per month, with an average monthly value of \$450,000, totaling more than \$5,300,000 for the year 2002 compared to nearly \$5,700,000 in 2001.

(II) Negotiated Savings Program

The procurement staff at the Authority established a goal of achieving \$6,400,000 of additional savings through negotiation of improved pricing and other commercial terms with low recommended bidders and the resolution of back charges and claims with our outside Vendors and Contractors. In 2002, the actual value of such savings was \$6,900,000, ranging from improved pricing terms for the 500 MW Combined Cycle Plant at Poletti, contracts in support of Energy Efficiency Programs, and Niagara Life Extension Project.

(III) Supplier Diversity Program ("SDP")

In 2002, the Power Authority continued to optimize the utilization of M/WBE providing goods and services in support of the Authority's operations. As noted in Attachment I, the Authority awarded nearly \$13,000,000 for goods and services in 2002 to M/WBE firms. This included direct and indirect procurements of office supplies, computer equipment, chemicals, consulting services, temporary engineering personnel, and design and construction work.

Our M/WBE goal in 2002 was 6% of the total reportable procurement expenditures. The actual percentage attained for calendar year 2002 was 7.1%.

The Authority includes subcontracting goals to M/WBE firms in non-construction procurements over \$25,000 and construction procurements over \$100,000. This has been and will continue to be a major focus for the Energy Efficiency and Electrotechnologies Programs. We will continue to pursue other direct and indirect procurement opportunities wherever possible, including the 500 MW Combined Cycle Plant currently under construction. Significant goal attainment is expected to be achieved throughout the construction phase of this project.

The Authority has also focused on increasing opportunities for M/WBE firms to participate in investment banking activities, Treasury bill investments, as well as including an M/WBE firm as a

co-manager in the Tax Exempt Commercial Paper Program. In 2002, M/WBE investment banking firms purchased and sold over \$515,000,000 (in principal) of securities transactions for the Authority.

It should be noted that the Authority has included a substantial goal in the General Work Contract for the 500 MW Combined Cycle Project, for subcontracting by Slattery Skanska Inc. to certified M/WBE firms. This could equate to approximately \$40 million of subcontracting work over the next several years for M/WBE firms on this Project alone.

In June of 2002 the Authority hosted the 12th Annual Purchasing Exchange for Minority and Women Owned Businesses downstate in White Plains, New York. For the first time, the Authority hosted an upstate Purchasing Exchange in Utica, New York in October of 2002. The success of the event launched plans for annual upstate exchanges. Based on the successful attendance and interest generated, other upstate venues will be explored as the Authority's Supplier Diversity Program continues to gain positive statewide recognition.

Procurement representatives also worked closely with, and were members of, the National Minority Business Council ("NMBC"), the Association of Minority Enterprises of New York ("AMENY"), the New York/New Jersey Minority Purchasing Council, the Westchester and Long Island Hispanic Chamber of Commerce, and the African American Chamber of Commerce for Westchester and Rockland Counties.

(IV) Inventory Classification Program

The Authority currently has approximately \$46.86 Million of non-fuel inventory covering approximately 80,000 inventory items at our operating facilities. Inventory ranges from consumables to critical spare parts in support of plant operations. In 2002, the Authority embarked on a program to establish a common nomenclature for all of our inventory items, with an overall objective of standardizing the classification of these items at all of our facilities. This is a major effort requiring coordination with both plant material management and planning and maintenance personnel at all of our operating facilities. The effort is expected to be completed in 2003.

ANNUAL REPORT - 2002 PROCUREMENT CONTRACTS

The Annual Report includes specific details of procurements of \$5,000 or greater, awarded since January 1, 1990 and which were active in 2002. There were 2239 such contracts with an estimated value exceeding \$2,433,000,000, which also includes fossil fuel and Corporate Finance expenditures. Over \$514,000,000 was for the purchase of major equipment and construction in support of the 500 MW Combined Cycle Project, of which, approximately \$240,000,000 was for the purchase and furnishing of major equipment for the 500 MW Power Plant at Poletti.

Total procurement expenditures in 2002 exceeded \$548,900,000. This included over \$172,000,000 for the purchase of fossil fuels. Approximately 62% of the contracts active in 2002 were closed in 2002.

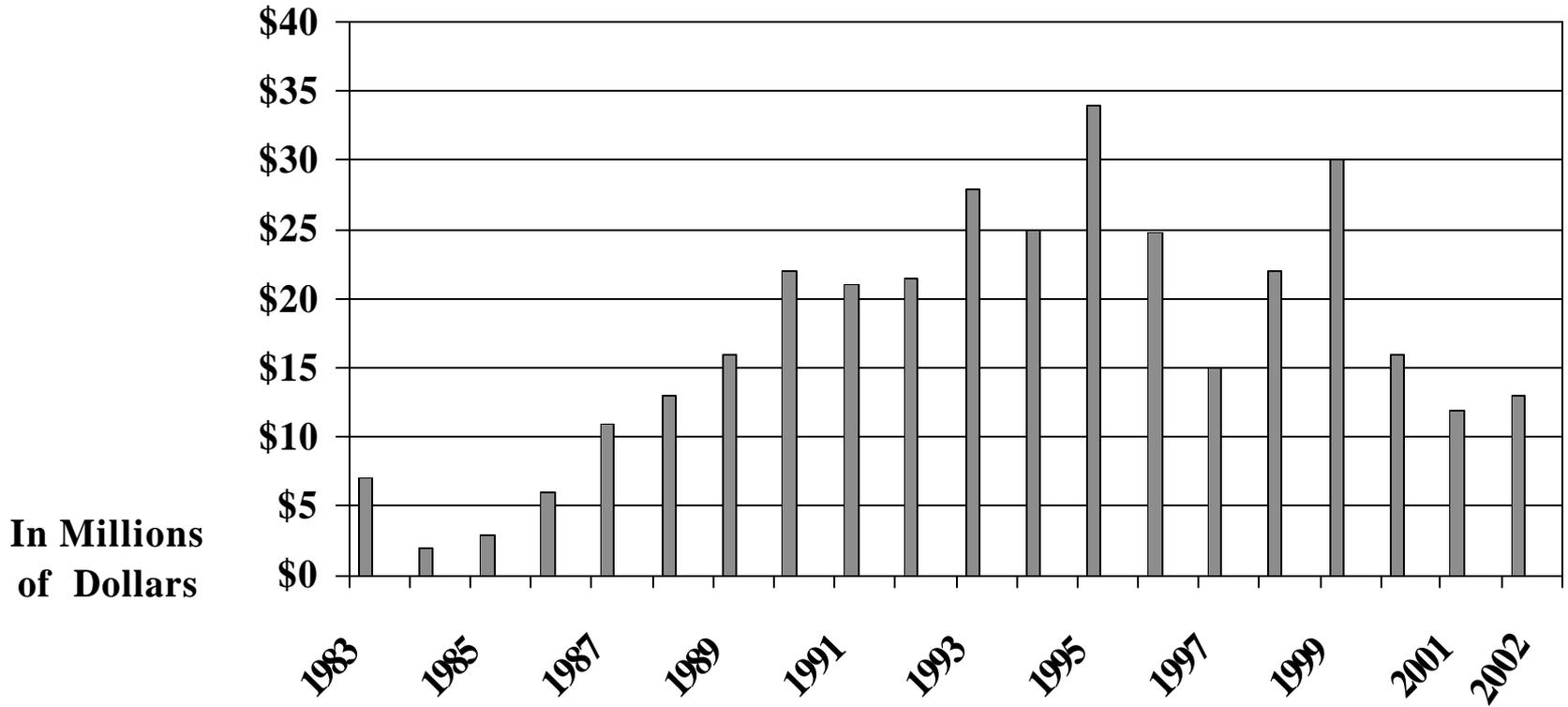
As noted in A1, Attachment I, approximately 9% of these contracts were for construction work; over 53% were for the purchase of equipment and commodities; over 9% were for consulting contracts (e.g., engineering, design, specialized analysis); with 23% for other services, such as technician work and contracted personnel; the remaining 6% was for non-procurement contracts such as payments for memberships, co-funding agreements with the Electric Power Research Institute ("EPRI") and Petroleum Overcharge Restitution ("POCR") grants. It should also be noted that while approximately 58% of the 2002 non-fuel contracts covered by the Report exceeded \$25,000, the total value of those contracts was approximately 99% of the total non-fuel expenditures.

A1, Attachment III indicates that based upon the total value of the contracts included in the Annual Report, approximately 94% of the total dollars expended (including fuels and corporate finance) were for contracts, which were competitively bid. In terms of the numbers of contracts processed (Attachment IV), approximately 66% were competitively bid and 34% were sole source awards. Major reasons for the sole source awards included the purchase of spare parts and services from original equipment manufacturers, and to procure services on an emergency basis and from proprietary sources.

Attachment I

2002 M/WBE Total

Procurement Dollars Spent

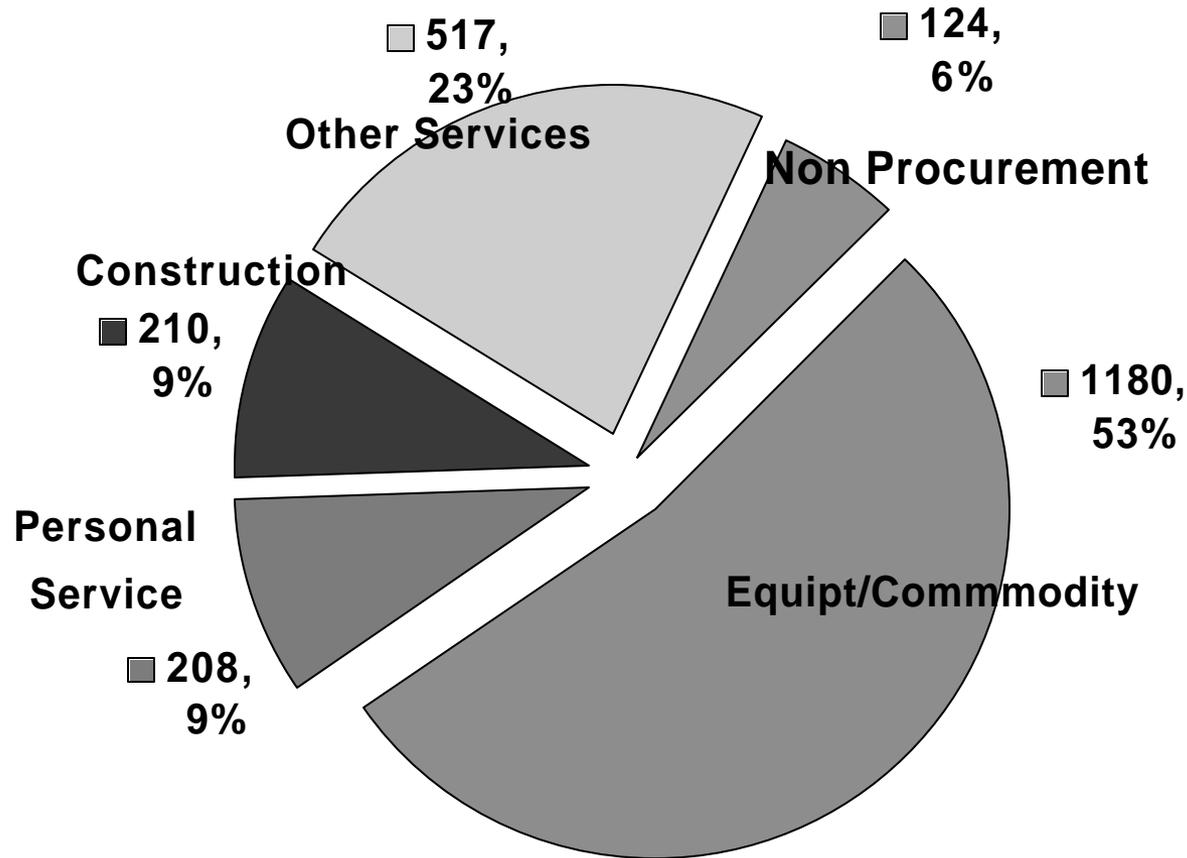


In Millions
of Dollars

Attachment II

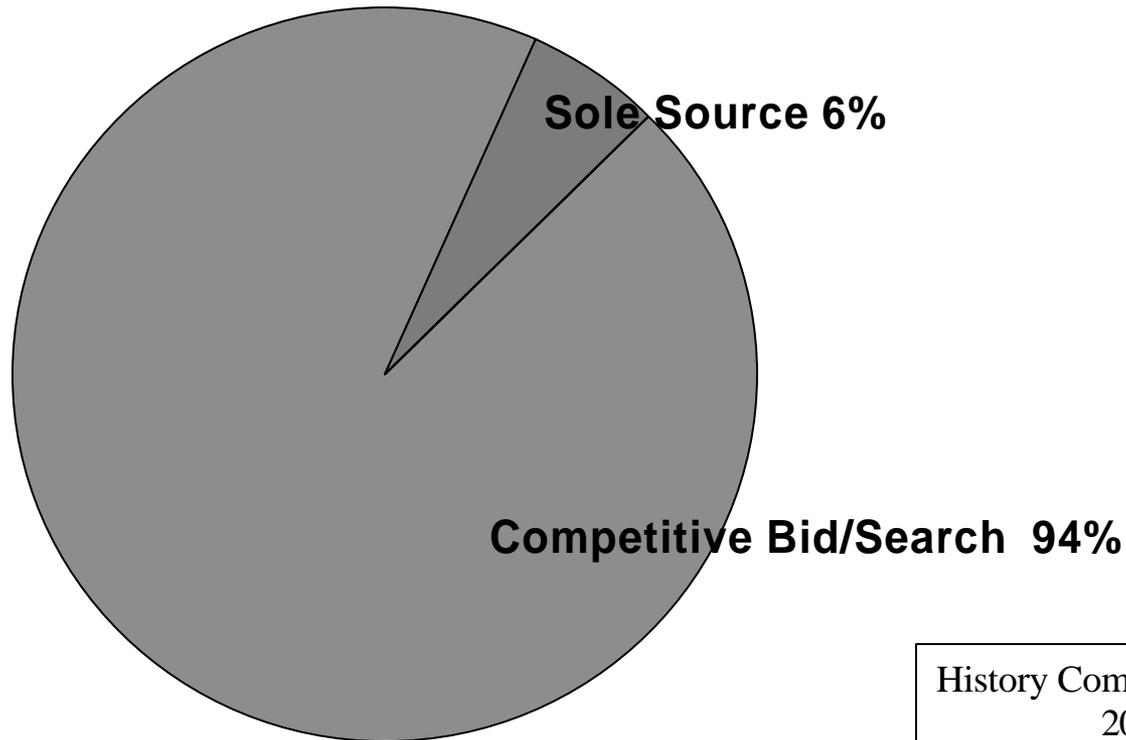
2002 Procurements

Type of Contract



2002 Total number of Contracts 2239

Attachment III 2002 Contracts Method of Award by Dollar Value



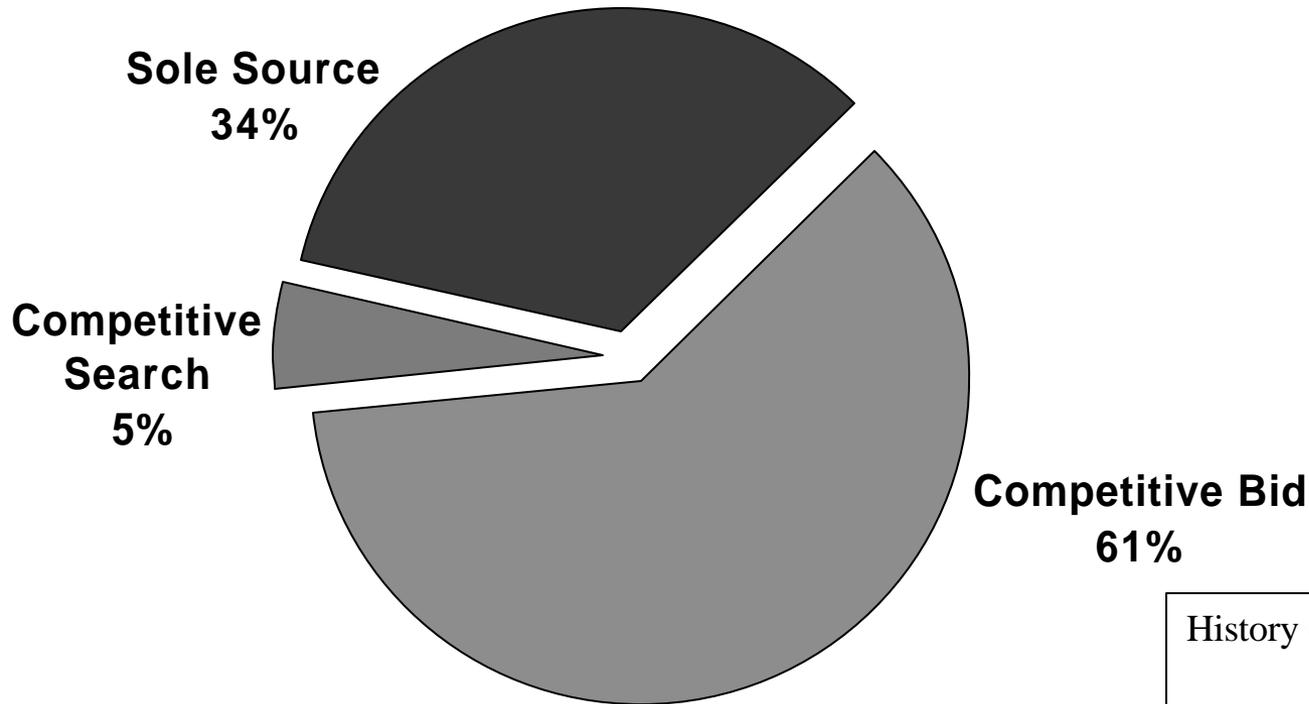
History Competitive Bid/Search	
2000	89%
2001	94%
2002	94%

2002 Total Contract Award Amount \$2,242,000,000

Attachment IV

2002 Procurements

Method of Award by Volume of Contracts



History Competitive Bid/Search	
2000	59%
2001	68%
2002	66%

2002 Total Number of Contract 2239

GUIDELINES FOR PROCUREMENT CONTRACTS

1. PURPOSE

The purpose of these Guidelines for Procurement Contracts ("Guidelines"), which comply with the applicable provisions of Article 4-C of the Economic Development Law and § 2879 of the Public Authorities Law, is to establish the basis for soliciting and evaluating proposals from individuals and/or firms providing goods and/or services as defined below in section 2. Consistent with these Guidelines individual facilities or headquarters departments may establish specific supplementary guidelines based on their own needs.

2. DEFINITIONS

- A. "Procurement Contracts" are all contracts for the acquisition of goods and/or services in the actual or estimated amount of five thousand dollars (\$5,000.00) or more. Such goods and/or services shall consist of all those necessary to support the Authority's Headquarters Facilities, Operating and Capital Construction Projects, including but not limited to: goods, such as office supplies, major electrical equipment; construction and maintenance work; and services as more fully described in section 2. B below. Procurement Contracts shall not include contracts for differences, contracts for energy, capacity, ancillary services, transmission, distribution or related services in support of the provision of service to Authority customers, financial hedge contracts, including, but not limited to: swaps, calls puts or swap options, and credit rating services. In addition, Procurement Contracts shall not include memberships in various industry groups, professional societies, and similar cooperative associations, nor any cooperative projects and procurement activities, conducted or sponsored by such organizations, in which the Authority participates; advertising agreements with radio, television, and print media shall also be excluded.
- B. "Services Contracts" are Procurement Contracts for services of a consulting, professional or technical nature provided by outside consultants/contractors (individuals, partnerships or firms not officers or employees of the Authority) for a fee or other compensation. Services Contracts are comprised of three specific types: Personal Services, Non-Personal Services, and Construction. Personal Services include, but are not limited to: accounting, architectural, engineering, financial advisory, legal, public relations, planning, management consulting, surveying, training (when provided on Authority property and/or exclusively for Authority employees), and construction management. Non-Personal Services include, but are not limited to: skilled or unskilled temporary personnel, including clerical office staff, technicians or engineers working under Authority supervision; maintenance; repairs; and printing services. Construction includes Procurement Contracts involving craft labor.

Note: Use of such services may be appropriate (1) when a consultant/contractor possesses special experience, background or expertise; (2) when there is

insufficient Authority staff and retention of a consultant/contractor is more appropriate or economical than hiring additional permanent staff; (3) to provide independent external review or a second opinion; (4) to meet unusual schedule requirements or emergencies; or (5) for a combination of these factors.

C. "Goods" include equipment, material and supplies of every kind.

3. SOLICITATION REQUIREMENTS

- A. Solicitation of proposals for Procurement Contracts is the joint responsibility of the Procurement Division at the Headquarters offices, or the Procurement Departments at the facilities, and the initiating unit. Except as otherwise authorized by these guidelines, a request for proposal ("RFP") shall be sought from a minimum of three providers and/or firms (if available) for purchases valued under \$25,000 and a minimum of five providers and/or firms (if available) for purchases valued at \$25,000 and greater commensurate with the magnitude and nature of the goods and/or services, and the schedule for performance. It is preferable that more than five proposals be requested whenever possible and practicable.
- B. Pre-qualification of prospective bidders may be employed for Procurement Contracts to be bid by invitation. In such cases, proposals will be requested only from those providers and/or firms whose pre-qualification submittals show sufficient ability and competence to supply the particular goods and/or perform the particular services required.
- C. The Authority shall, in order to promote the use of minority and women-owned business enterprises, ("M/WBE's") solicit offers from minority and women-owned business enterprises known to have experience in the area of the goods and/or services to be provided, regardless of the type of contract. For the purpose of these Guidelines, a minority or women-owned business enterprise shall be any business enterprise at least 51 percent owned by Blacks, Hispanics, Native Americans ("Indians"), Asians, Pacific Islanders, and Women, and as further described in the Authority's Minority and Women-Owned Business Enterprise Policy and Procedures, and Executive Law Article 15-A.
- D. In order to foster increased utilization of M/WBE's, a single proposal can be sought, negotiated, and accepted for purchases of goods or services not exceeding \$5,000 from an M/WBE certified by New York State offering a reasonable price for such items or services (not exceeding \$5,000).
- E. Pursuant to Public Authorities Law § 2879, it is the policy of New York State to promote the participation of and maximize the opportunities for New York State business enterprises and New York State residents in Procurement Contracts. The Authority shall use its best efforts to promote such participation and shall comply with the applicable provisions of the Act.

1. For the purpose of this section 3, a New York State business enterprise shall mean a business enterprise, including a sole proprietorship, partnership, or corporation which offers for sale or lease or other form of exchange, goods which are sought by the Authority and which are substantially manufactured, produced or assembled in New York State or services which are sought by the Authority and which are substantially performed within New York State and as further described in Public Authorities Law § 2879.
 2. For the purpose of this section 3, a New York State resident means a natural person who maintains a fixed, permanent and principal home located within New York State and to which such person, whenever temporarily located, always intends to return and as further described in Public Authorities Law § 2879.
 3. For the purpose of this section 3, a foreign business enterprise shall mean a business enterprise, including a sole proprietorship, partnership or corporation, which offers for sale, lease or other form of exchange, goods sought by the Authority and which are substantially produced outside New York State, or services sought by the Authority and which are substantially performed outside New York State, and as further described in Public Authorities Law § 2879.
- F. Pursuant to the Public Authorities Law § 2879, the Authority shall, where feasible, make use of the stock item specification forms of New York State manufacturers, producers and/or assemblers for any Procurement Contract for the purchase of goods when preparing a request for proposals, purchase order, price inquiry, technical specifications and the like. The Headquarters Procurement Group will develop a system for collecting such data and disseminating a listing of such New York State manufacturers for consultation by Authority employees preparing a specification or bill of materials for goods.
- G. Goods may be procured pursuant to Procurement Contracts let by any department, agency, officer, political subdivision or instrumentality of the state or federal government or any city or municipality where the Procurement Division at the Headquarters offices, or the Procurement Departments at the facilities, and the initiating unit determine that a reasonable potential exists for the savings of costs or other benefit to the Authority and have approved the specifications and proposed terms and conditions of such contract.
- H. An RFP will include a scope of work which defines the goods required and/or the services to be performed, the required completion of any "milestone" dates, the Authority's M/WBE Program requirements, if applicable, all other applicable Authority requirements, and any special methods or limitations which the Authority wishes to govern the work. Telephone solicitation, usually for those procurements valued at \$25,000 or less, may be used where time constraints do not permit issuance of an RFP, where issuance of an RFP is

otherwise impracticable, or for goods which are catalog items or do not require a detailed bill of materials or specification.

- I. For all Procurement Contracts with a value equal to or greater than \$15,000 (except for those contracts noted below) the Authority shall, prior to solicitation of proposals, submit the following information to the Commissioner of Economic Development to be included in a weekly Contract Reporter published by that department (unless such publication would serve no useful purpose): (1) the Authority's name and address; (2) the contract identification number; (3) a brief description of the goods and/or services sought, the location where goods are to be delivered and/or services provided and the contract term; (4) the address where bids or proposals are to be submitted; (5) the date when bids or proposals are due; (6) a description of any eligibility or qualification requirement or preference; (7) a statement as to whether the contract requirements may be fulfilled by a subcontracting, joint venture, or co-production arrangement; (8) any other information deemed useful to potential contractors; (9) the name, address, and telephone number of the person to be contacted for additional information; and (10) a statement as to whether the goods or services sought had, in the immediately preceding three year period, been supplied by a foreign business enterprise. Such information shall be submitted to the Commissioner of Economic Development in accordance with the schedule set forth by the Department of Economic Development, in order that the pertinent information may be published in the Procurement Opportunities Newsletter (also referred to as the "New York State Contract Reporter"). A minimum of fifteen business days shall be allowed between the publication of such notice by the Commissioner of Economic Development and the due date of the bid or proposal.

This provision shall not apply to Procurement Contracts awarded on an emergency basis as described below in section 3. L; Procurement Contracts being re-bid or re-solicited for substantially the same goods or services, within 45 business days after the date bids or proposals were originally due; Procurement Contracts awarded to not-for-profit providers of human services.

In addition, this provision shall not apply to contracts for differences, contracts for energy, capacity, ancillary services, transmission, distribution or related services in support of the provision of service to Authority customers, financial hedge contracts, including, but not limited to, swaps, calls, puts or swap options and credit rating services, and shall not include memberships in various industry groups, professional societies, and similar cooperative associations, nor any cooperative projects and procurement activities, conducted or sponsored by such organizations, in which the Authority participates; advertising agreements with radio, television, and print media shall also be excluded.

Certain Procurement Contracts may require: (1) purchase on the spot market; (2) purchases which require a completion time less than the time limits for noticing in the Contract Reporter; or (3) purchases that do not lend themselves to the solicitation for proposal process. In accordance with paragraph 3(h) of § 2879 of the Public Authorities Law, the Authority declares it to be the policy that such purchases, including, but not limited to: oil or gas purchases on the spot market, are exempted from the noticing requirements of Article 4-C of the Economic Development Law subject to the approval of the Vice President of Procurement and Real Estate and the head of the initiating unit. Where appropriate, generic ads may be included from time to time in the Contract Reporter notifying potential bidders of such opportunities and soliciting qualification statements from such firms for consideration by the Authority.

- J. Proposals for certain Services Contracts may also be solicited by competitive search, as follows:

For contracts where the scope of work cannot be well defined or quantified, or where selection requires evaluation of factors such as breadth and depth of experience in a unique or highly specialized field and suitability as an Authority representative, a "competitive search" shall be conducted to determine which consultants are most qualified, for reasonable compensation terms, to perform the work. Depending upon market conditions, at least five (5) potential sources should be evaluated. If there are less than five sources, all sources shall be evaluated. The Procurement Division shall interface with the initiating unit to gather information from potential sources, which should include a description of the qualifications of the consultant or firm, resumes of key personnel, past experience and proposed billing rates.

- K. A Procurement Contract may be awarded on a sole source basis where:

1. The compatibility of equipment, accessories, or spare or replacement parts is the paramount consideration.
2. Services are required to extend or complement a prior procurement and it is impracticable or uneconomic to have a source other than the original source continue the work.
3. A sole supplier's item is needed for trial use or testing, or a proprietary item is sought for which there is only one source.
4. Other circumstances or work requirements exist that cause only one source to be available to supply the required goods or services.
5. Award to certified M/WBE firms for purchases not exceeding \$5,000, pursuant to section 3. D.

- L. A Procurement Contract may be awarded without following the solicitation requirements that would ordinarily apply (but using such competitive selection

procedures as are practicable under the circumstances) where emergency conditions exist, such as:

1. A threat to the health or safety of the public or Authority employees or workers.
 2. The proper functioning of the Authority's offices or construction or operating projects require adherence to a schedule that does not permit the time for ordinary procurement solicitation.
- M. Whenever an initiating unit determines that a Procurement Contract should be awarded on either a sole source or emergency basis, the head of the unit shall provide to the Procurement Division at Headquarters or Procurement Departments at the Facilities, a written statement explaining the reasons therefor.

4. EVALUATION OF PROPOSALS

- A. Evaluation of proposals shall be made by a fair and equitable comparison of all aspects of the proposals against the specifics of the RFP and against each other, including an analytic study of each offer considering: the quality of the goods and/or the competence of the bidder, the technical merit of the proposals, and the price for which the goods and/or services are to be supplied.
- B. In the event that the price submitted by the bidder recommended to be awarded a contract exceeds the cost estimated on the contract requisition at the time of bidding, the initiating department shall prepare an explanation of any reasons why the initial cost estimate was incorrect or should be revised.

This will be reviewed by the Procurement Division at Headquarters and/or Procurement staffs at the Facilities and appropriate management levels for approval as stipulated in the Expenditure Authorization Procedures. Consideration will be given at that time for: 1) rejecting bids, re-soliciting proposals, and/or possibly modifying the scope of work; or 2) revising the cost estimate, and proceeding with the award of contract; or 3) negotiating with the low bidder(s), as determined by the Vice President - Procurement and Real Estate, to reduce the price quoted. Factors to be considered in reaching the proper course of action will include, but not be limited to, the effects (both schedule and cost) of a delay to the specific capital construction project or outage at an operating facility, the magnitude of the contract, available bidders, the ability to attract additional competition if proposals are re-solicited, and the accuracy of the original cost estimate. The recommended course of action and the reasons therefor will be fully documented in a memorandum for consideration by the appropriate level of management prior to approval.

- C. Important items to be considered in evaluating the goods to be supplied and/or competence of the bidder are: previous experience (including applicable experience within New York State and evaluations from other clients to whom the bidder has provided goods and/or services); the abilities and experience of the personnel to be assigned to the Authority's work; and the ability to provide any needed advanced techniques such as simulation and modeling. The approach proposed in meeting the exact requirements of the scope of work will be given consideration in evaluating the technical merit of proposals, together with a well-organized task structure, the ability to timely supply the goods and/or perform the proposed services, and the ability to meet M/WBE goals, if any. The need to purchase the goods from and the need to subcontract performance of services to others will be evaluated as to effect on cost, as well as quality, schedule, and overall performance.
- D. For Services Contracts, the technical merits of the proposals and the experience and capabilities of the bidders will be the primary factors in determining the individual or firm to be awarded the contract, provided that the price for performing such work is reasonable and competitive.
- E. For Procurement Contracts other than Personal Services (as defined in section 2. B of these Guidelines), award should usually be made to the bidder which is the lowest priced firm submitting a proposal which meets the commercial and technical requirements of the bid documents.
- F. Award to "other than low bidder" can be made only with the approval of the appropriate management level as stipulated in the Authority's Expenditure Authorization Procedures, and should be based upon such a proposal providing a clear advantage to the Authority over that of the lower-priced proposal. Such factors justifying an "other than low bidder" award may include, but are not necessarily limited to, improved delivery schedules which will reduce outages, longer warranty periods, improved efficiency over life of equipment use, reduced maintenance costs, financial resources of the bidders, or ability to meet or exceed M/WBE goals.

5. **RECOMMENDATION OF AWARD**

- A. A recommendation for approval of a proposed award of a Procurement Contract will usually be prepared by the unit requiring the goods and/or services in the form of a memorandum. The recommendation will include an evaluation of proposals as specified in section 4, above, as well as proposed compensation terms which are specific and provide a clear breakdown of cost factors and methods of calculation including, as applicable:
 - 1. Lump sum and/or unit prices for equipment and construction work.
 - 2. Hourly or daily rates for personnel.

3. Markups for payroll taxes, fringe benefits, overhead and fees if the proposal is based on reimbursement of actual payroll costs.
 4. Terms for reimbursement of direct out-of-pocket expenses, such as travel and living costs, telephone charges, services of others and computer services.
 5. Provisions, if any, for bonus/penalty arrangements based on target man-hours and/or target schedule.
- B. The recommendation shall also review any substantive exceptions to commercial and technical requirements of a price inquiry, RFP, or bidding documents, including, but not limited to payment terms, warranties, and bonds (if any) requirements.

6. AWARD OF CONTRACT

- A. Services Contracts to be performed over a period in excess of 12 months shall be approved and reviewed annually by the Trustees. Services Contracts covering less than a 12-month period shall be approved by authorized designees in accordance with existing Expenditure Authorization Procedures. The extension beyond 12 months of a contract for services with an initial duration of less than 12 months shall be approved by the Trustees at the request of the initiating department and shall be reviewed by the Trustees annually. The extension for a cumulative term exceeding 12 months of a contract for services, which has previously been approved by the Trustees requires further Trustees' approval. Extensions of 12 months or less of the term of a contract previously approved by the Trustees shall be approved by authorized designee in accordance with existing Expenditure Authorization Procedures ("EAP's").
- B. A contract or contract task shall be deemed to be for services in excess of 12 months where it does not specify a definite term and the work will not be completed within 12 months, and any "continuing services" type contract with no fixed term which provides for the periodic assignment of specific tasks or particular requests for services. This would include contracts for architect/engineering services with the original engineers of operating facilities, as well as the original supplier of steam supply systems or boilers and turbine generating equipment, which have been approved by the Trustees. Each task authorized under such contracts (which may be referred to as a "Change Order", "Purchase Order" or Task Number) will be considered a separate commitment and will be separately approved in accordance with the Expenditure Authorization Procedures.
- C. Where time constraints or emergency conditions require immediate commencement of services to be performed over a period in excess of one year, and the total estimated contract value does not exceed \$250,000, the Business unit Head, with the prior concurrence of the Vice President -

Procurement and Real Estate, may authorize the commencement/performance of such services, subject to Trustees' ratification of such as soon as practicable.

- D. Where time constraints or emergency conditions require the extension beyond a year of an existing contract with an initial duration of less than a year, and the incremental value of the short-term extension does not exceed \$100,000, the Business Unit Head, with the prior concurrence of the Vice President - Procurement and Real Estate, may authorize the extension of such contracts, subject to Trustees' ratification of such action as soon as practicable.
- E. In cases where the total estimated contract value or the value of the extension exceeds the aforementioned amounts, the President's interim approval will be required subject to Trustees' ratification of such as soon as practicable.
- F. The Procurement Division at the Headquarters offices, or the Procurement Departments at the project sites, will prepare the contract for execution by the Authority and the successful bidder to be awarded the purchase order/contract. No work shall commence by the selected contractor until the contract is executed by both parties, except that mutually signed letters of award or intent may initiate work prior to formal execution. The Authority signatories of such letters must be authorized to approve contract awards pursuant to existing Expenditure Authorization Procedures.
- G. Pursuant to Public Authorities Law § 2879, the Authority shall notify the Commissioner of Economic Development of the award of any Procurement Contract for the purchase of goods or services from a foreign business enterprise (as defined in section 3. .E. 3 of these Guidelines) in an amount equal to or greater than one million dollars (\$1,000,000) simultaneously with notifying the successful bidder therefor. The Authority shall not enter into the Procurement Contract for said goods until at least fifteen (15) days have elapsed, except for a Procurement Contract awarded on an emergency or critical basis. The notification to the Commissioner shall include the name, address, telephone and facsimile number of the foreign business enterprise, the amount of the proposed Procurement Contract, and the name of the individual at the foreign business enterprise or acting on behalf of the same who is principally responsible for the proposed Procurement Contract.

7. **CONTRACT PROVISIONS**

- A. Standard forms of contracts currently in use are available from the Procurement Division. They generally include: purchase order format for standard procurements of goods or services; furnish and deliver format for major equipment purchases; Letter Agreements and Agreement formats for consulting work; and contract work orders (for construction work of small magnitude), construction contracts (for major construction work), and furnish, deliver, and install contracts (for specialized major procurements where single responsibility is required for procurement and installation). These contract forms are intended to govern the purchase of goods and/or performance of the services. Authority units proposing to initiate a Procurement Contract should review these forms to suggest any modifications and additions, which may be required for the particular goods and/or services. Under no circumstances should contract forms be shown to proposed bidders without prior approval of the Procurement Division, which, along with Procurement Departments at operating facilities, is solely responsible for requesting proposals.
- B. The following types of provisions setting forth the responsibilities of contractors are to be contained in the standard forms of Procurement Contracts except that any of the provisions listed below which are inapplicable or unnecessary because of the nature or duration of the work to be performed, the location or locations where they are to be performed or the type of compensation being paid therefore need not be included. Other provisions may be added as the particular needs of the Authority may require.
1. Schedule of Services or Specifications
 2. Time of Completion
 3. Compensation or Itemized Proposals
 4. Relationship of Parties
 5. Delays
 6. Termination
 7. Changes in the Work
 8. Claims and Disputes
 9. Warranty
 10. Insurance
 11. Records, Accounts, Inspection and Audit
 12. Assignment
 13. Notices
 14. Indemnification
 15. Governing Law
 16. Proprietary Nature of Work
 17. Testimony
 18. Entire Agreement
 19. Minority and Women-Owned Business Enterprise Program Requirements
 20. Omnibus Procurement Act of 1992 Requirements

Contract Attachments

1. Compensation Schedule
2. Schedule of Services or Specifications
3. Appendix "A" (miscellaneous statutory provisions)
4. Appendix "B" (Prompt Payment Provisions)
5. Appendix "C" (Minority and Women-Owned Business Enterprises provisions)
6. Appendix "D" (Access Authorization Site Security Procedures for Authority Contractors and Their Personnel)
7. Appendix "E" (Omnibus Procurement Act of 1992 Requirements)
8. Appendix "G" (EEO Requirements)

8. CHANGE ORDERS

- A. Change Orders to existing contracts are justified in the following cases:
 1. To incorporate additional work related to the original scope, to delete work or otherwise modify original work scope
 2. To exercise options previously included in the original contract to perform additional work or to extend the contract term
 3. Emergency conditions, defined in section 3. L which requires the immediate performance of work by a firm already under contract;
 4. Re-bidding would not be practical or in the best interests of the Authority's customers; and
 5. Meet the Authority's M/WBE goals in accordance with Executive Law Article 15-A.
- B. All Change Orders must be approved in accordance with the Authority's Expenditure Authorization Procedures, and should include specific schedules for completion of work at the earliest possible time.

9. EMPLOYMENT OF FORMER OFFICERS AND EMPLOYEES

- A. Former Authority officers and employees are eligible to be considered for employment as contractors and/or consultants, provided that: they meet all criteria for contractors and/or consultants generally as specified in these Guidelines; their employment is not barred by N.Y. Public Officers Law § 73 (8); if requested, they obtain an opinion by the state Ethics Commission that such employment is permissible; and upon the approval of the President.
- B. Pursuant to the provisions of N.Y. Public Officers Law § 73 (8):

1. No Authority officer or employee is eligible, within a period of two years after the termination of Authority service, to appear or practice before the Authority or receive compensation for any services rendered on behalf of any person, firm, corporation or association, in relation to any case, proceeding or application or other matter before the Authority.
2. No Authority officer or employee is eligible, at any time after the termination of Authority service to appear, practice, communicate or otherwise render services before the Authority or any other state agency or receive compensation for any such services rendered on behalf of any person, firm, corporation or other entity in relation to any case, proceeding, application or transaction with respect to which such person was directly concerned and personally participated in during the period of service, or which was under his or her active consideration.

10. MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISE (M/WBE) REQUIREMENTS

It is the objective of the Authority to continue to foster the development of business opportunities on Authority contracts for M/WBE firms. Article 15-A of the Executive Law established a state-wide office of M/WBE development which is responsible for developing rules and regulations for implementation of this new statute, certification of M/WBE firms, reviewing and monitoring goal plans, compliance reports, as well as contract provisions to be included in all non-construction contracts over \$25,000 and construction contracts over \$100,000. The definition of an M/WBE firm is included in section 3. C. of these Guidelines. It is the Authority's objective to solicit proposals from certified M/WBE firms, which are qualified to perform the required work. In addition, specific goals may be included in certain contracts for consulting work, construction and procurement of goods and other services requiring the contractor/vendor to sub-contract a portion of the work to certified M/WBE firms, as required by law. Bidders' proposals shall include Preliminary Subcontracting Plans as part of their proposal, where required, for M/WBE firms and failure of such bidders to meet these requirements may be grounds for rejection of the proposal, or cancellation of the contract if a contractor did not make a good faith effort to meet its goals after contract award.

11. REPORTING REQUIREMENTS

- A. At the Headquarters offices, the Procurement Division shall maintain records of such Procurement Contracts including bidder's names, the selection processes used, and the status of existing contracts including goods provided and/or services performed and fees earned, billed and paid. At the project sites, such records shall be kept by the Procurement Departments. After the end of each calendar year, the Vice President - Procurement and Real Estate shall prepare and submit to the Trustees for their approval an annual report which shall include:

1. A copy of the Guidelines,

2. An explanation of the Guidelines and any amendments thereto since the last annual report,
 3. A list of all Procurement Contracts entered into since the last annual report, including all contracts entered into with New York State business enterprises and the subject matter and value thereof and all contracts entered into with foreign business enterprises, and the subject matter and value thereof,
 4. A list of fees, commissions or other charges paid
 5. A description of work performed, the date of the contract and its duration, the total amount of the contract, the amount spent on the contract during the reporting period and for the term of the contract to date and the status of the existing Procurement Contracts,
 6. Method of awarding the contract (e.g., competitive bidding, sole source or competitive search), and
 7. Reasons why any procurements over \$15,000 were not noticed in the Contract Reporter.
- B. Such annual report, as approved by the Trustees, shall be submitted to the Division of Budget within one hundred twenty (120) days after the end of such calendar year and copies shall be distributed to the Department of Audit and Control, the Department of Economic Development, the Senate Finance Committee, and the Assembly Ways and Means Committee. Copies shall be made available to the public upon reasonable written request therefor.

12. THIRD PARTY RIGHTS: VALIDITY OF CONTRACTS

- A. These Guidelines are intended for the guidance of officers and employees of the Authority only, and nothing contained herein is intended or shall be construed to confer upon any person, firm or corporation any right, remedy, claim or benefit under, or by reason, of any requirement or provision hereof.
- B. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract or agreement made or entered into in violation of, or without compliance with, the provisions of these Guidelines.

OPEN SERVICE CONTRACTS AWARDED PRIOR TO 1/1/90
POWER AUTHORITY OF THE STATE OF NEW YORK
2002 ANNUAL REPORT OF PROCUREMENT CONTRACTS
REQUIRED BY THE NY PUBLIC AUTHORITIES LAW, SECTION 2879

CONTRACT NUMBER	PROVIDER NAME	DESCRIPTION OF CONTRACT	T Y P E	M O A	R O A	O N P A	TOTAL CONTRACT AMOUNT	TOTAL AMT EXPENDED TO DATE	TOTAL AMT EXPENDED 2002	DATE OF TRUSTEE APPROVAL	DATE OF CONTRACT	PROJECTED COMPLETION DATE	COMPLETION DATE
CZ7116	HAWKINS/ DELAFIELD	LEGAL CONSULTING	P	S		8 N	\$5,832,000	\$4,386,049	\$413,306	12/19/00	04/01/86	12/31/03	
CZ9076	ROBERT J SURTEES	ST REGIS INDIAN LAND CLAIM	P	B		8 N	\$193,000	\$174,411		12/14/99	05/08/87		12/31/02
TOTALS							\$6,025,000	\$4,560,460	\$413,306				

**2002 Annual Report of Procurement Contracts and
Annual Review of Open Procurement Service Contracts**

VOLUMINOUS DOCUMENT NOT DISTRIBUTED

CONTACT SECRETARY'S OFFICE FOR COPY

9. Election of Authority Non-Statutory Officers

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to consider the election of certain non-statutory officers of the Authority.

BACKGROUND AND DISCUSSION

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

RECOMMENDATION

“The following non-statutory officers provided for in Article IV of the By-Laws, adopted December 18, 1984, and last amended on April 30, 2002, be elected by the Trustees to hold office for terms expiring at the next annual Meeting of the Trustees in April 2004, or until their successors are elected:”

Eugene W. Zeltmann	President and Chief Executive Officer
Robert A. Hiney	Executive Vice President – Power Generation
David E. Blabey	Executive Vice President, Secretary and General Counsel
Vincent C. Vesce	Executive Vice President – Business Services and Administration

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the following non-statutory officers of the Power Authority of the State of New York be, and each hereby is, elected pursuant to Section 2 of Article IV of the By-Laws, as adopted on December 18, 1984, and last amended on April 30, 2002, to hold office for terms expiring at the next annual Trustees’ meeting or until their successors are elected:

Eugene W. Zeltmann	President and Chief Executive Officer
Robert A. Hiney	Executive Vice President - Project Operations
David E. Blabey	Executive Vice President, Secretary and General Counsel
Vincent C. Vesce	Executive Vice President — Business Services and Administration

10. **Temporary Delegation of Authority by Vice President - Chief Risk Officer and Certain Other Officers and Employees**

Mr. Warmath presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Vice Chairman McCullough, Mr. Warmath noted that, while the proposed action was not previously discussed with the Trustees, it would serve to clarify the scope of the action taken by the Trustees at their meeting of October 29, 2002. Specifically, Mr. Warmath stated that this action would provide for additional clarity by granting those officers and employees previously authorized to enter into certain transactions the power to delegate such authority in their absence.

Responding to questions from Trustee Seymour, Mr. Warmath reported that the proposed delegation of authority could be made to any "appropriate officers or employees" and would not necessarily have to be to a more senior officer or employee. Responding to questions from Vice Chairman McCullough, Mr. Warmath stated that the proposed action is not time sensitive and could be amended and re-submitted to the Trustees if necessary.

Vice Chairman McCullough noted that the memorandum to the Trustees does not specify a time-frame for any such delegations thereby leaving the question of duration open-ended. Vice Chairman McCullough requested that the memorandum be amended and that the conditions and duration of any such delegation be more clearly delineated.

At this time, the Trustees unanimously agreed to "table" the proposed action until a later session.

11. Municipal and Rural Cooperative Economic Development Program Allocations to the Village of Green Island

The President and Chief Executive Officer 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 Green Island (‘Village’).

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 January 28, 2003, 31,850 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 (‘MW’). 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.

“The Village has submitted two applications for power under the Program for consideration by the Trustees.

DISCUSSION

“An application has been submitted by the Village on behalf of Silhouette Optical, Ltd. (‘Silhouette’). Silhouette is a subsidiary of Silhouette International Schmied AG, a privately held corporation. Silhouette has been in business since 1964. It began a pioneering approach to making eyewear a fashionable, stylish, day-to-day accessory as well as an implement for vision improvement. Silhouette manufactures and markets high-end eyewear for its own lines in addition to supplying products for Addidas sports glasses and Daniel Swarovski Crystal Eyewear, an ultra high-end eyeglass product. Silhouette’s collections are sold in the U.S. and are exported to over 90 countries, and represented by ten marketing subsidiaries that sell exclusive eyewear fashions on an international scale. Silhouette is considered a leader in high-end eyewear market.

“Silhouette proposes to re-locate its Northvale, N.J. manufacturing facility to the Village of Green Island Industrial Park (‘Green Island’) by acquiring 50,000 square feet of space. This will enable a doubling of capacity over its current New Jersey facility. Green Island is considered a preferred site for land, work force availability, and the availability of low cost electrical power. The space will be used for manufacturing with some office and call center support functions. Total investment is estimated to be \$6 million. The new facility will provide for approximately 110 new jobs over the next three years, adding revenue to the state and local economy. The estimated electrical load for the facility is approximately 450 kW. It is recommended that the Trustees approve an allocation of 450 kW to the Village on behalf of Silhouette Optical, Ltd.

“The Village has submitted a second application on behalf of The Case Group, LLC (‘Case’). Case is a manufacturer of high-end window and door systems. Case is a privately held corporation which began in 1993, with roots that trace back to the 1920s, including European and traditional American window systems on projects ranging from private residences to the White House. Today, Case serves the luxury residential markets as well as the high-end commercial and institutional markets. Production is on a per job basis with sizes and details dictated by the architect. Case products are of extremely high quality and performance, setting the standard for the industry.

“Case’s current objective is to propel the company into a more prominent domestic and international market position. To accomplish this goal, it has developed a comprehensive expansion and restructuring plan. The expansion involves re-locating from their current limited facility in Schenectady, NY, to a larger more efficient facility enabling them to increase production capacity, remain competitive, and keep up with growing customer demand. Locations in four other states were evaluated: New Hampshire, Connecticut, Pennsylvania, and Rhode Island. Green Island was selected due to the availability of Empire Zone benefits and the availability of low-cost electrical power. Case has represented to the Authority that the New York State Department of Taxation and Finance has issued an opinion stating that Case should be considered a new business and therefore eligible to receive Empire Zone benefits. The Empire State Development Corporation recently informed the Authority that it approves this allocation.

“The expansion project will include the construction of a 45,000 square foot manufacturing facility with room for manufacturing support operations. Total investment in the project is approximately \$3.6 million including the acquisition of machinery and equipment. The move and expansion will increase employment from 12 to 40, adding 28 new jobs over the next three years. The existing load is approximately 50 kW and is expected to increase to about 300 kW at the new facility. The original 50 kW of load will now be supplied by Green Island. An allocation of 250 kW under the Program represents new load to New York State that otherwise would not materialize. It is recommended that the Trustees approve an allocation of 250 kW to the Village on behalf of The Case Group, LLC.

“The Municipal Electric Utilities Association Executive Committee supports the recommended allocations to the Village.

“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. The hydropower earmarked for this Program is presently sold to the municipal and cooperative customers on a withdrawable basis. As a partial-requirements customer, the Village may purchase the incremental power from the Authority or an alternate supplier.

RECOMMENDATION

“The Senior Vice President – Marketing, Economic Development & Supply Planning recommends that the Trustees approve the allocations of power under the Municipal and Rural Cooperative Economic Development Program to the Village of Green Island in accordance with the above memorandum of the President and Chief Executive Officer.

“The Executive Vice President, Secretary and General Counsel, and I concur in the recommendation.”

Mr. Banner presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Trustee Seymour, Mr. Banner noted that, of the 108 mW of power reserved for economic development in the Municipal and Rural Cooperative Systems, approximately 76 mW are still available.

Responding to questions from Vice Chairman McCullough, Mr. Banner described when the proposed allocations would take effect.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the allocations of power to the Village of Green Island under the Municipal and Rural Cooperative Economic Development Program are hereby approved as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Senior Vice President – Marketing, Economic Development & Supply Planning or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and other documents to effectuate the foregoing resolutions.

12. Niagara and Jarvis Power Projects – Independent Consultant’s Review - PB Power, Inc. - Award of Contract

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the award of a Procurement (Services) Contract to the firm PB Power, Inc. (‘PB Power’) for inspection and consulting services in support of an independent consultant’s inspection, report and potential dam failure modes analysis for the Niagara and Jarvis Power Projects, as mandated by the Federal Energy Regulatory Commission (‘FERC’). The intended term of the contract is five years for the total projected amount of \$160,000.

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.

DISCUSSION

“FERC regulations require the Authority to hire an independent consultant to perform an independent dam safety inspection and review at licensed projects every five years. FERC issued letters in December 2002 and January 2003 to the Authority indicating that these reports were due for submittal in 2003. In February 2003, staff solicited bids from 20 consulting and engineering firms recognized for their experience in providing dam safety and inspection services at FERC licensed projects. Four additional bidders were added to the list as a result of the Authority’s notice in the Contract Reporter.

“Bidders were required to submit a detailed proposal in accordance with the request for proposal and scope of work. A total of eight bids were received and opened on March 11, 2003. These bids were analyzed and evaluated by a team of Authority staff members from the Power Generation’s Engineering Department and the Niagara Power Project.

“PB Power’s proposal is complete, competitive and is fully responsive to the scope of work. PB Power has allocated proper resources to complete this work thoroughly and on-time. FERC’s new failure modes analysis requires the degree of staffing allocated by PB Power and PB Power has the knowledge and expertise to perform this work.

“PB Power was the lowest evaluated bidder of the eight bids received and indicates a complete understanding of the FERC requirements for this work. Based on their qualifications and ability to perform such work, staff recommends awarding a contract to PB Power.

“FERC must approve the résumé of the specific independent consultants employed by PB Power to proceed with this work. Historically, FERC has required the Authority to utilize the FERC-approved independent consultant to conduct follow-up work; therefore, the intended term of the contract is five years. This contract will permit the Authority to comply with the FERC mandate that the Authority conduct independent consultant inspections of its licensed hydropower projects every five years.

FISCAL INFORMATION

“Funds required to support this contract are included in the 2003 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

“The Vice President and Chief Engineer – Power Generation, the Vice President – Procurement and Real Estate, the Regional Manager – Western New York and the Regional Manager – Central New York recommend that the Trustees’ approve the award of a multi-year to PB Power, Inc. for inspection and consulting services as discussed above.

“The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Business Services and Administration, and I concur in the recommendation.”

Mr. Lipsky presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Chairman Ciminelli, Mr. Lipsky reported that the low projected cost of the consultant's review was the result of competitive bidding among eight possible vendors. Responding to questions from Trustee Seymour, Mr. Lipsky further explained that PB Power, Inc. would primarily be reviewing the work of other consultants to ensure compliance with FERC requirements and that the work involved is largely documentary in nature.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the five-year procurement contract to PB Power, Inc., in the amount of \$160,000 are hereby approved, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and other documents to effectuate the foregoing resolutions.

13. Microturbine Project at the New York City Department of Environmental Protection - Owl's Head Wastewater Treatment Plant - Agreement and Expenditure Authorization

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize the permitting, design, engineering, equipment procurement, and installation of up to 250 kW of microturbine capacity powered by anaerobic digester gas (‘ADG’), and the expenditure of up to \$700,000 for such project. The microturbine power plant will be installed at the New York City Owl's Head wastewater treatment plant in Brooklyn. The Authority will own and operate the microturbine power plant.

BACKGROUND

“The New York City Department of Environmental Protection (‘DEP’) has requested the Authority’s assistance in applying distributed generation technology to reduce flaring of ADG at their wastewater treatment facilities. ADG is a renewable fuel generated as a byproduct of wastewater treatment. The Authority is presently completing the installation of eight ADG-based fuel cells at DEP wastewater treatment plants. The proposed microturbine project will add another cost effective technology for the Authority to use in meeting this customer's goals.

“The Authority is a national leader in the application of distributed generation technology at wastewater treatment plants. In 2001, the Authority installed New York State's first ADG powered microturbines at the Lewiston wastewater treatment plant. The Authority also installed the world’s first fuel cell powered directly by ADG at the Yonkers Joint Wastewater Treatment Plant in 1997.

DISCUSSION

Environmental Benefits

“This project will allow the DEP to reduce the amount of ADG presently being flared at the facility by 60%, resulting in a regulated emissions reduction of 3.5 tons per year, and a reduction in CO₂ emissions by 1,100 tons per year.

Operations

“The Authority will own, operate, and maintain the microturbine power plant. The electricity generated will be sold to DEP at the same rate it pays for conventional Authority power. This project will provide an additional 250 kW of clean power to the Authority’s in city generation.

Procurement

“This project will be competitively procured.

FISCAL INFORMATION

“Funding for the Owl's Head microturbine project will be made from the Capital Fund and/or through debt financing. The total cost to the Authority of the project is estimated to not exceed \$700,000. This will cover permitting, design, engineering, equipment procurement, installation, and Authority Direct/Indirect expenditures.

“The Authority expects to recover its capital investment, for both the capital expenditure, as well as ongoing operation and maintenance costs, over a ten-year period.

“In the past the Authority has obtained renewable energy production incentive payments from US Department of Energy (‘DOE’) for electricity generated by all the Authority’s renewable energy facilities. Authority staff will work with DOE to obtain these incentives for the Owl's Head project.

RECOMMENDATION

“The Senior Vice President – Energy Services and Technology, the Senior Vice President – Policy and Governmental Affairs and the Director - Research and Technology Development, recommend that the Trustees authorize the Owl's Head microturbine distributed generation project, and the expenditure of up to \$700,000 for such project, as described above.

“The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Senior Vice President - Marketing and Economic Development, and the Senior Vice President - Chief Financial Officer, and I concur in the recommendation.”

Mr. Zelingher presented the highlights of staff's recommendations to the Trustees.

After his presentation, President Zeltmann commended Messrs. Tscherne and Zelingher, along with their staff, for their excellent work on this project.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Trustees hereby authorize the construction of the Owl's Head Wastewater Treatment Plant Microturbine Project, as set forth in the foregoing report of the President and Chief Executive Officer, and capital expenditures are hereby approved to be committed in accordance with the Authority’s Expenditure Authorization Procedures in the amount and for the purposes listed below:

<u>Capital</u>	<u>Expenditure Authorization</u>
Equipment procurement, permitting, design, engineering, installation, and Authority direct/indirect expenditures:	\$700,000
TOTAL PROJECT COST	<u>\$700,000</u>

RESOLVED, That the issuance of the Authority’s Commercial Paper Notes, Series 1, Series 2, Series 3 and Series 4, and the Authority’s Series 1 Extendible Municipal Commercial Paper Notes, and the application of proceeds of the sale thereof, is hereby authorized for the purpose of financing costs related to the Owl's Head microturbine project.

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and other documents to effectuate the foregoing resolutions.

14. Fuel Cell Project - SUNY College of Environmental Science and Forestry - Agreement and Expenditure Authorization

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize the permitting, design, engineering, equipment procurement, and installation of one 250 kW molten carbonate fuel cell, and the expenditure of up to \$2,300,000 for such project. The fuel cell will be installed at the SUNY College of Environmental Science and Forestry (‘SUNY-ESF’) in Syracuse, New York. The Authority will serve as the implementation contractor. SUNY-ESF will own and operate the fuel cell when installation is completed.

BACKGROUND

“SUNY-ESF is the home of the SUNY Center for Sustainable and Renewable Energy. SUNY-ESF conducts advanced fuel cell research focusing on membrane technology, as well as on the development of renewable biogas as a fuel cell feedstock, making it an ideal location for the demonstration of advanced fuel cell technology.

“SUNY-ESF, working together with the Authority, determined that the recently commercialized molten carbonate fuel cell is among the most promising distributed generation technologies for combined heat and power applications. The demonstration of this emerging technology at SUNY-ESF will prove its suitability for campus and other agency use, and will demonstrate the effectiveness of fuel cell technology in meeting the renewable energy requirements set forth under Executive Order No. 111. The project will also foster competition among commercial fuel cell technologies, which is expected to produce much needed fuel cell price reductions.

DISCUSSION

Environmental Benefits

“Molten carbonate fuel cells in a combined heat and power application have operating efficiencies of close to 80%. Operation of this fuel cell is estimated to result in a regulated emissions reduction of 25 tons per year, and in a reduction of CO₂ emissions of 1,500 tons per year. Utilization of the thermal energy from the fuel cell will also offset the use of natural gas for heating and cooling purposes.

Operations

“The Authority will be responsible for permitting, design, engineering, equipment procurement, and installation as well as project financing. Upon completion of the installation, SUNY-ESF will take over the ownership of the equipment and be responsible for ongoing operations and maintenance of the fuel cell.

Procurement

“As part of the SUNY-ESF project development, the Authority issued a competitive bid for procurement of a 250 kW Molten Carbonate fuel cell in November, 2002. Fuel Cell Energy (‘FCE’), based in Danbury Connecticut, was the only respondent to this solicitation. FCE is the world’s leader in the development of molten carbonate fuel cells.

FISCAL INFORMATION

“Funding for the SUNY-ESF project will be made from the Capital Fund and/or through debt financing. The project will also receive a small amount of Petroleum Overcharge Restitution (‘POCR’) funds. The total cost to the Authority of \$2,300,000 will cover permitting, design, engineering, equipment procurement, installation, and Authority Direct/Indirect expenditures. The Authority expects to recover its capital investment over the 15 year life of this project.

“To date, Authority staff has secured co-funding commitments totaling \$1.1 million, which will reduce the project's capital costs. These funds are made up of \$1 million from the New York State Energy Research Development Authority (‘NYSERDA’) and \$100,000 from the Electric Power Research Institute (‘EPRI’). Staff is working to secure an additional \$250,000 in co-funding from the US Department of Energy (‘DOE’).

RECOMMENDATION

“The Senior Vice President – Energy Services and Technology, the Senior Vice President – Policy and Governmental Affairs and the Director - Research and Technology Development, recommend that the Trustees authorize the SUNY College of Environmental Science and Forestry fuel cell project, and the expenditure of up to \$2,300,000 for such project, as described above.

“The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Senior Vice President - Marketing, Economic Development & Supply Planning, and the Senior Vice President - Chief Financial Officer, and I concur in the recommendation.”

Mr. Zelingher presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Vice Chairman McCullough, Mr. Zelingher reported that the co-funding commitments from other organizations will reduce the cost to the Authority.

At the conclusion of his presentation, Trustee Carey commended President Zeltmann, senior management and Energy Services staff for their efforts in the field of fuel cell technology and, in particular, for their work on this interesting project.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Trustees hereby authorize the construction of the SUNY College of Environmental Science and Forestry 250 kW Fuel Cell Project as set forth in the foregoing report of the President and Chief Executive Officer, and capital expenditures are hereby approved to be committed in accordance with the Authority’s Expenditure Authorization Procedures for such projects in the amount and for the purposes listed below:

<u>Capital</u>	<u>Expenditure Authorization</u>
SUNY-ESF fuel cell equipment procurement, permitting, design, engineering, installation, and Authority direct/indirect expenditures:	\$2,300,000
TOTAL PROJECT COST	<u>\$2,300,000</u>

RESOLVED, That petroleum overcharge restitution ("POCR") funds in the amount of up to \$35,000 are hereby authorized to be utilized for the funding of the SUNY-ESF Project; and be it further

RESOLVED, That the issuance of the Authority’s Commercial Paper Notes, Series 1, Series 2, Series 3 and Series 4, and the Authority’s Series 1 Extendible Municipal Commercial Paper Notes, and the application of proceeds of the sale thereof, is hereby authorized for the purpose of financing costs related to the SUNY-ESF fuel cell project; and be it further

April 29, 2003

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and other documents to effectuate the foregoing resolutions.

15. Customer Facility Upgrades in Support of the Peak Load Management Program

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize funding of \$10,000,000 for participants in the Peak Load Management (‘PLM’) program. These funds will be used to upgrade generation equipment and related systems at facilities of customers participating in the PLM program. In addition, the Trustees are requested to authorize the Energy Services Division to perform such work as may be necessary to assist the Marketing Department in the implementation of projects furthering the goals of the PLM program.

BACKGROUND

“At their meeting of May 28, 2002, the Trustee approved to expand the PLM program by 50 MW to 100 MW in an effort to contribute to the larger effort initiated by the Governor’s office to reduce electric loads at critical times. The Trustees also approved an expansion of the funding for incentive payments up to \$4,000,000; new expenditures of \$50,000 for low sulfur diesel fuel mitigation measures; and expenditures of \$250,000 for permitting, testing and tuning of customer emergency back-up generations.

“During the past year, however, several of the Authority’s customers, including the New York City Department of Environmental Protection (‘DEP’) and the Metropolitan Transit Authority (‘MTA’), have requested assistance in performing upgrade work to their existing generator systems at various facilities so that these facilities may participate in the PLM Program. Funding for this work had not been contemplated at the May 2002 Trustee Meeting.

“The approval of additional funding for these customer projects would result in an estimated 18 MW of peak load demand reductions during the critical summer period. It will also help the Authority to meet our ‘in-City’ capacity requirements, a benefit that is an essential part of the PLM program.

DISCUSSION

“Some of the facilities to be upgraded include four DEP wastewater treatment plants (Red Hook, Wards Island, Hunts Point and 26 Ward), and one MTA office building (Two Broadway). The nature of the work to be implemented includes upgrades to existing generation equipment, replacement of key interlock systems, and additional corrective work for piping and electrical switches.

“At the Red Hook Wastewater Treatment Plant, the DEP has requested a complete evaluation and upgrade of two existing 1800 kW generators, including all associated auxiliaries and controls. In addition, the replacement of the existing inoperable key interlock system is required. This system would isolate the generator from the grid during operation. The estimated project cost for this work is \$3,000,000 including material, labor, design, construction management, financing costs and Authority overheads.

“At Ward’s Island, Hunts Point and 26 Ward Wastewater Treatment Plants, the DEP has requested the repair of the existing gas turbine generators. This repair, similar at all three facilities, would include the replacement of existing control system; correction of improperly installed piping; conversion to dual fuel operation; and investigation and repair of ASCO switches that are currently causing generators to unexpectedly trip. The estimated project cost for the work at all three facilities total \$3,000,000 dollars including material, labor, design, construction management, financing costs and Authority overheads.

“At Two Broadway, the MTA has requested the installation of switchgear, key interlock system and the required risers to connect the existing generators to their existing electric chillers. The estimated project cost for this work totals \$500,000 including material, labor, design, construction management, financing costs and Authority overheads.

“The funding will also be used for any additional projects that may be identified over the next year.

“The Authority is uniquely qualified to perform the necessary work and has visited and evaluated each of the identified facilities. Authority staff is prepared to move quickly on the engineering, design and construction of these and other projects.

FISCAL INFORMATION

“Funding for the upgrade of facilities participating in the PLM program will be made from the Operating Fund. The total cost to the Authority of the project is not to exceed \$10,000,000. The cost of implementing these projects, including financing costs and Authority overheads will be recovered directly from the participant. It is anticipated that a portion of the work will involve short-term financing of less than a year, with the remainder of the projects to be financed over a period of up to ten years.

RECOMMENDATION

“The Senior Vice President – Marketing, Economic Development and Supply Planning and the Senior Vice President – Energy Services and Technology recommend that the Trustees authorize the funding for the upgrade of customer facilities participating under the Peak Load Management program in the amount of \$10,000,000.

“The Executive Vice President – Power Generation, the Executive Vice President, Secretary, and General Counsel, the Senior Vice President and Chief Financial Officer and I concur in the recommendation.”

Ms. Eisenfeld presented the highlights of staff's recommendations to the Trustees.

Chairman Ciminelli concurred with staff's recommendations, noting that the Peak Load Management program is a win/win situation which provides material benefits to all parties.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Trustees hereby authorize funding for the upgrade of generation equipment and related systems at customer facilities participating in the Peak Load Management Incentive Program, as set forth in the foregoing report of the President and Chief Executive Officer, in an amount not to exceed \$10,000,000; and be it further

RESOLVED, That all officers of the Authority are authorized on behalf of the Authority to do any and all things and to take any and all actions and execute and deliver any and all certificates and agreements, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and other documents to effectuate the foregoing resolution.

16. St. Lawrence/F. D. Roosevelt Power Project -Life Extension and Modernization – Increase in Compensation Ceilings

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to increase the compensation ceilings for previously approved contracts to allow manufacturing of three additional turbine runners, to allow for the delivery of the last six sets of generator exciters and to allow for manufacturing, engineering, and design of the second set of four units for the Generation Control System as part of the St. Lawrence Life Extension and Modernization (‘LEM’) Program.

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 or equipment purchase 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.

“At their meeting of November 25, 1997, the Trustees approved the initiation of a program estimated to cost \$254,139,000 to renew the generation assets of St. Lawrence and also authorized capital expenditures of \$2,211,000 to support the engineering effort and to continue refurbishment tasks in progress. This authorization, together with an earlier authorization through the Expenditure Authorization Procedure (‘EAP’), brought the total authorization to \$2,670,000. The Trustees were informed that the LEM program would begin in 1998, and would require about 15 years to complete.

“At their meeting of July 28, 1998, the Trustees authorized additional expenditures in the amount of \$16.2 million for modernization of the first unit. At their meeting of March 27, 2001, an additional \$18.6 million for a second unit was authorized for a total authorization of \$38.2 million.

“At their meeting of January 29, 2002, the Trustees authorized additional expenditures in the amount of \$32.5 million for the third, fourth and fifth turbines and associated work bringing the total authorized amount to \$70.7 million, and at their June 25, 2002 meeting, the Trustees authorized an increase of \$10 million for the Generation Control System contract for a total current authorization of \$80.7 million. As of February 2003, the actual expenditures on LEM are \$59,100,000.

“In 2003, the second eight turbines will be competitively bid and later this year the Trustee will be requested to approve and award this contract as well as authorize expenditures for the prototype for the second set of turbines.

“The first LEM unit was commissioned on April 4, 2002, and the second LEM unit was commissioned on January 23, 2003. The third unit LEM effort commenced February 3, 2003 and is presently underway. Manufacturing of the fourth and fifth unit turbines is proceeding. The Generator Circuit Breaker and Excitation equipment is delivered for the fourth unit.

DISCUSSION

“In order to allow for the orderly prosecution of the LEM Program, it is necessary at this time to commit to additional procurement and engineering as detailed below.

Runner Replacement and Turbine Overhaul – Alstom Energy, Inc. (“Alstom”)

“At their meeting of July 28, 1998, the Trustees approved the award of a \$11.4 million contract to Alstom for replacement of the first eight turbine runners. The contract amount was subsequently increased by \$1.3 million through the EAP for a total current contract value of \$12.7 million. Of the authorized \$12.7 million, \$8.0 million has been released to date for the model, prototype and second through fifth units.

“It is now requested that the compensation ceiling be increased by \$4.7 million to allow for manufacturing of the next three turbine runners and associated work.

Generator Static Excitation Systems – ABB Power Generation, Inc. (“ABB”)

“At their meeting of January 26, 2000, the Trustees approved the award of a \$7.6 million contract to ABB for the delivery of 16 new Generator Static Excitation Systems. Of this amount, \$4,930,000 has been released to date for ten units.

“ABB’s bid proposal offered the Authority an option for staged early delivery of the excitation systems over a period of six years versus delivery over the base period of 13 years. This option selected by the Authority, results in consistency of equipment for site operations and maintenance for all sixteen (16) units.

“It is requested that compensation ceiling be increased by \$2,630,000 to allow for delivery of the last six excitation systems.

Generation Control System – Voith Siemens Hydro Power Generation (VSY)

“At their meeting of October 26, 1999, the Trustee’s approved the award of a contract in the amount of \$11,500,000 to Voith Siemens Hydro Power Generation.

“At their meeting of June 25, 2002, the Trustees authorized an increase of \$10,000,000 in contract value to Voith Siemens Hydro Power Generation for work associated with the delivery of the Generation Control System bring the total contract value to 21,500,000. The Trustees also authorized an increase in the expenditure authorization to \$9,900,000 for completion of the first and second LEM units and early delivery of components for the third and fourth units of the Generation Control System.

“It is requested that the compensation ceiling be increased by \$ 4,000,000 to allow for release of the engineering and design activities for the second set of four units, and for the completion of the integrated factory acceptance testing of the Voith Turbine Controller and Generation Control System.

FISCAL INFORMATION

“Payments will be made from the Capital Fund.

RECOMMENDATION

“The Vice President – Project Management, the Vice President – Procurement and Real Estate, the Vice President and Chief Engineer – Power Generation, the Regional Manager – Northern New York and the Project Manager recommend that the Trustees increase the compensation ceilings to Alstom Energy, Inc., for manufacturing of three additional turbine runners and associated work in the amount of \$4,700,000; to ABB Power Generation, Inc., for early delivery of the final six Generator Excitation Systems in the amount of \$2,630,000 and to Voith Siemens Hydro Power Generation for engineering and testing of the Generation Control System in the amount of \$4,000,000.00.

“The Executive Vice President, Secretary and General Counsel, the Executive Vice President – Business Services and Administration, the Senior Vice President and Chief Financial Officer and I concur in the recommendation.”

Mr. Welz presented the highlights of staff's recommendations to the Trustees.

Responding to questions from Trustee Seymour, Mr. Welz noted that proposed increase in the compensation ceilings of contracts related to the Life Extension and Modernization ("LEM") program would fall within the previously-authorized \$254 million budget for the program. Mr. Antenucci acknowledged, however, that staff expects a need for some adjustments and anticipates the need to request a modest increase to the overall budget for the LEM program.

Responding to questions from Vice Chairman McCullough, Messrs. Hiney and Antenucci reported that the appropriate time for staff to report back to the Trustees will likely be after bids for the second set of eight new turbines are received and evaluated at the end of the summer.

Trustee Seymour requested that staff continue to keep the Trustees regularly posted on developments with the LEM program. The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That approval is hereby granted under the existing contract with Alstom Energy, Inc. to commit funds for three additional turbines and associated work for the Life Extension and Modernization of the St. Lawrence/FDR Power Project, in the amount and for the purposes listed below:

<u>Capital</u>	<u>Contract Approval</u>
Alstom Energy, Inc. (Contract No. C98 Z0045)	
Current Contract Award Amount	\$12,700,000
Value of Releases Authorized to Date	\$ 8,000,000
Current Release Authorization Request	\$ 4,700,000
Balance of Contract Not Yet Released	\$ 0

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with ABB Power Generation, Inc. to commit funds for the manufacturing and delivery of six Generator Excitation Systems and associated work for the Life Extension and Modernization of the St. Lawrence/FDR Power Project in the amount and for the purposes listed below:

<u>Capital</u>	<u>Contract Approval</u>
ABB Power Generation, Inc. (Contract No. 460000363)	
Current Contract Amount	\$ 7,600,000
Value of Releases Authorized to Date	\$ 4,930,000
Current Release Authorization Request	\$ 2,630,000
Balance of Contract Not Yet Released	\$ 0

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with Voith Siemens Hydro Power Generation, Inc. to commit funds for the integrated factory acceptance test and engineering and design of the second set of four units of the Generation Control System for the Life Extension and Modernization of the St. Lawrence/FDR Power Project in the amount and for the purposes listed below:

<u>Capital</u>	<u>Contract Approval</u>
Voith Siemens Power Generation, Inc. (Contract No. 45000016211)	
Current Contract Amount	\$ 21,500,000
Value of Releases Authorized to Date	\$ 9,900,100
Current Release Authorization Request	\$ 4,000,000
Balance of Contract Not Yet Released	\$ 7,600,000

17. Next Meeting

The Annual Meeting of the Trustees will be held on Tuesday, May 20, 2003, at 11:00 a.m., at the Albany Office, unless otherwise designated by the Chairman with the concurrence of the Trustees.

18. Closing

Upon motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 12:54 p.m

A handwritten signature in black ink that reads "David E. Blabey". The signature is written in a cursive style with a long, sweeping tail on the letter "y".

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