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

**November 25, 2003**

**Table of Contents**

Minutes of the Regular Meeting of the Power Authority of the State of New York held at the New York Office at 11:05 a.m.

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

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|---|---|
| Eugene W. Zeltmann | President and Chief Executive Officer |
| David E. Blabey | Executive Vice President, Secretary and General Counsel |
| Robert A. Hiney | Executive Vice President – Power Generation |
| Vincent C. Vesce | Executive Vice President – Corporate Services and Administration |
| Peter A. Barden | Senior Vice President – Public and Governmental Affairs |
| H. Kenneth Haase | Senior Vice President – Transmission |
| Louise M. Morman | Senior Vice President – Marketing, Economic Development and Supply Planning |
| Robert L. Tscherne | Senior Vice President – Energy Services and Technology |
| Carmine J. Clemente | Deputy Secretary and Deputy General Counsel |
| Thomas P. Antenucci | Vice President – Project Management |
| Arnold M. Bellis | Vice President – Controller and Acting Chief Financial Officer |
| Charles I. Lipsky | Vice President and Chief Engineer |
| Donald A. Russak | Vice President – Finance |
| Anne Wagner-Findeisen | Vice President – Ethics & Regulatory Compliance |
| James H. Yates | Vice President – Major Accounts Marketing and Economic Development |
| William Ernsthaft | Assistant General Counsel – Finance |
| Michael E. Brady | Acting Treasurer |
| Dennis T. Eccleston | Chief Information Officer |
| Angela D. Graves | Deputy Secretary |
| John J. Suloway | Executive Director – Licensing Compliance and Implementation |
| Angelo S. Esposito | Director – Energy Services |
| William V. Slade | Director – Environmental Division |
| Daniel Wiese | Director – Corporate Security, Inspector General |
| Steven DeCarlo | Regional Manager – Blenheim-Gilboa |
| James F. Pasquale | Manager – Business Power Allocations and Compliance |
| Peter Scalici | Deputy Inspector General – Security |
| Mary Jean Frank | Associate Secretary |
| Lorna M. Johnson | Assistant Secretary |
| Roger W. Busha, Jr. | Security Specialist |
| Bonnie Fahey | Executive Administrative Assistant |
| Richard J. Prise | Administrative Services Specialist |
| Norman G. Stessing | Operation Superintendent |
| Peter W. Ludewig | Principal Engineer |
| John Cashin | Executive Administrator, Battery Park City Authority |
| Thorne Clark | Hawkins Delafield & Wood |
| John Connorton | Hawkins Delafield & Wood |

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

**1. Announcements**

***Chairman Ciminelli announced the following promotions: Arnie Bellis to Vice President - Controller and Acting Chief Financial Officer; Don Russak to Vice President – Finance and Mike Brady to Treasurer. He congratulated all three individuals and wished them well in their new responsibilities.***

**2. Approval of the Minutes of the Meeting held on October 28, 2003**

***The minutes of the meeting of October 28, 2003 were unanimously adopted.***

**3. <u>Financial Reports for the Ten Months Ended October 31, 2003</u>**

***Mr. Bellis provided the Financial Reports for the ten months ended October 31, 2003. In response to a question from Trustee Seymour, Mr. Bellis said that the adjustment for the Power Now! units did not reflect accelerated depreciation, but rather the present value of the dismantling costs for the potential early retirement of the Vernon Avenue unit.***

**4. <u>Report from the President and Chief Executive Officer</u>**

*President Zeltmann introduced Mr. Hiney and asked him to report on the progress of the 500 MW project. Mr. Hiney asked Tom Antenucci to provide an update on the project's construction. Mr. Antenucci began by stating that he would focus his report on schedule, cost, safety and quality issues. He went on to say that the primary critical path for the construction schedule, the installation of plant piping, is approximately nine days behind schedule, while the secondary and tertiary critical paths are essentially on schedule. The steam turbine is expected to arrive on site in the first week of December and the turbine building steel and siding are projected to be substantially completed by the end of the year. He reported that the earned-values curve, which integrates the schedule with the contractor's resource usage, is at 32%, as compared to the contractor's planned earned-values curve of 35%.*

*Mr. Antenucci said that with support from Procurement and guidance from Law, a number of discussions have been held with the contractor on commercial issues. If these discussions are fruitful, they will yield an agreement on a recovery schedule that will put the contractor back on track and extinguish any potential claims it may have up to this point. In exchange, the Authority will adjust the substantial completion date.*

*He reported that up to now the Authority has committed about 3% of the contingency fund. Since the spring, the Authority has been processing and negotiating various scope changes to cover City code and design integrity issues. The Trustees will be asked in January or February 2004 to approve the use of more of the contingency fund for this expanded scope. By the spring of 2004, it is anticipated that 30% of the contingency fund will be drawn down, and the project at that time should be approximately 75% complete.*

*Mr. Antenucci reported that Liberty Mutual had conducted a safety audit about three weeks ago that noted a large number of deficiencies. However, since then, the Authority instituted an all-out effort with the contractors and through them the union and craft to improve the safety situation, with President Zeltmann using his influence with the chairman of Slattery Skanska to make sure that no resources were spared. As a result, all of the deficiencies had been corrected by the time Liberty Mutual did a follow-up audit last week.*

*He said that with respect to quality, Authority staff continues to engage the contractor on a daily basis to make certain that applicable requirements are adhered to. While this is an ongoing process, there are some encouraging signs, including the fact that there are now about 40 fully qualified welders on site, which augurs well for implementation of the piping plan.*

*In response to a question from Trustee DiMarco, Mr. Antenucci said that the claims submitted by Slattery Skanska were based on Slattery's contention that the site was "encumbered" by the presence of the piling contractor, as well as some smaller issues.*

*In response to a question from Chairman Ciminelli, Mr. Antenucci said that the Authority's ability to pursue relief from the site work contractor was limited, since North Star Contracting was in severe financial trouble. North Star's work is bonded, however, and resolution is now in the hands of its surety.*

*Chairman Ciminelli then complimented Authority staff on the job they are doing with the 500 MW project.*

*In response to questions from Chairman Ciminelli, Mr. Antenucci said that misfabrications in GE's structural steel needed to be corrected and that the Authority was likely to get some value from GE for this. He also said that there are encouraging signs about the piping situation, one of which is that the contractor will be finishing up Ravenswood this month and devoting additional resources to the 500 MW project.*

*President Zeltmann then asked Mr. Haase to report on the recently issued interim report on the August 14 blackout. Mr. Haase said that the joint U.S./Canadian task force issued the interim report on November 19. Their major findings included:*

- *The blackout was preventable, with three root causes:*

  *1 - First Energy's system operators' inability to see what was happening.*

  *2 - Inadequate tree trimming on First Energy's transmission rights-of-way.*

  *3 - Inadequate reliability coordination and diagnostic support by the Midwest Independent System Operator (MISO).*

- *Other factors that played a role included poor communication, human error, and inadequate training.*

- *First Energy also violated four North American Electric Reliability Council (NERC) reliability standards and MISO violated two NERC reliability standards.*

*Phase II of the blackout study will include three public forums to be held in early December in Cleveland, New York City, and Toronto. The final report, which is to be released in mid to late January, will include recommendations on how to minimize the occurrence of similar blackouts in the future. The New York State Public Service Commission is doing a parallel investigation, NERC will also issue a technical report, and the NYISO will prepare a Compliance Report for the New York State Reliability Council (NYSRC).*

*In response to questions from Trustee Carey, President Zeltmann and Mr. Hiney stated that the New York Independent System Operator is serious about complying with NERC standards, but that the power swing was so severe on August 14, that there was no way New York State could have avoided being affected by the blackout. Mr. Haase also pointed out that the primary way for New York State to avoid being affected by similar external incidents in the future is for the root causes of the blackout to be corrected by the external systems. President Zeltmann said that the Authority is looking hard at its own line maintenance and tree-trimming programs. Mr. Haase noted that much of upstate New York was unaffected by the blackout due to the output of the Niagara, St. Lawrence and Beck and Saunders large hydro projects, but that the continuation of these plants in service was due to pure luck and the physical characteristics of large hydro units. He also pointed out that First Energy's EMS had not been upgraded in the past five years, while ours was entirely replaced in 1999 and upgraded in 2002.*

**5. Information Item – Quarterly Review of PFJ Employment Commitments**

The President and Chief Executive Officer submitted the following report:

SUMMARY

"At their meeting of January 28, 2003, the Trustees approved a one-year extension to the moratorium against taking enforcement action against customers when their actual employment levels fall short of their agreed-upon employment commitments. Customers are having difficulty meeting their commitments as a result of the national economic downturn. The Trustees approved the moratorium extension retroactive to January 1, 2003. As a result, the following discussion of Power For Jobs ('PFJ') customers is for informational purposes only. A summary of all contracts discussed in this memorandum is provided as Exhibit '4-A'.

BACKGROUND

"All of the PFJ contracts contain a customer commitment to retain or add a specific number of jobs. If the actual job level falls below 90% of that commitment, the Authority may reduce that customer's power allocation proportionately.

"In order to ensure compliance with agreed-upon job commitments, Authority staff initiates a review of all PFJ power allocations that have an 'anniversary date' within the quarter being reported. This quarterly review covers companies that began receiving power during the fourth quarters of 1998, 1999, 2000 and 2001. The Authority had 53 customers with 58 contracts first receiving power in the fourth quarter of 1998, 33 customers with 33 contracts first receiving power in the fourth quarter of 1999, eight customers with eight contracts first receiving power in the fourth quarter of 2000 and 22 customers with 23 contracts first receiving power in the fourth quarter of 2001.

DISCUSSION

"Staff reviewed a total of 116 customers with 122 contracts. The 122 contracts reviewed represent overall power allocations of 77.279 MW and total employment commitments of 63,754 jobs. In the aggregate, these customers reported actual employment of 61,853 positions, which represents some 97.02% of the total job commitments for PFJ customers reporting on their anniversary dates. Notwithstanding, there are 32 customers whose actual job levels are below the minimum threshold. They are discussed below and summarized in Exhibit '4-A'."

**Allocations to Continue with No Change**

**A.T. Reynolds & Sons, Inc.**, Kiamesha Lake, Sullivan County
**Allocation:** 500 kW of Power for Jobs Power
**Jobs Commitment:** 116 jobs
**Background:** A.T. Reynolds & Sons, Inc. ('A.T. Reynolds') is a fourth-generation family-owned business which began in 1885, originally as a manufacturer of ice products. The company has since expanded to producing bottled water and making the containers for the water. For the past year, A. T. Reynolds averaged 102.33 jobs, i.e., 88.21% of its employment commitment. However, A.T. Reynolds is currently growing and meeting its employment commitment.

**Alken Industries Inc.**, Ronkonkoma, Suffolk County
**Allocation:** 125 kW of Power for Jobs Power
**Jobs Commitment:** 57 jobs
**Background:** Alken Industries Inc. ('Alken'), founded in 1964, is a small machine shop that manufactures many parts, such as fittings and assemblies, for the aerospace industry. For the past year, Alken averaged 45.58 jobs, i.e., 79.97% of its employment commitment. Alken has upgraded to less labor-intensive machinery. Although Alken just received two new defense contracts, the company has no plans to increase employment. Alken currently has 46 employees.

<u>**Asia Society**</u>, Manhattan, New York County
**Allocation:** 225 kW of Power for Jobs Power
**Jobs Commitment:** 120 jobs
**Background:** The Asia Society ('Asia Society'), founded in 1956, is a non-profit organization dedicated to increasing American understanding of the culture, history and contemporary affairs of Asia, as well as fostering communication between Asians and Americans. For the past year, Asia Society averaged 106.42 jobs, i.e., 88.68% of its commitment. Asia Society downsized in 2002 due to a lack of contributions despite its fundraising efforts, but it is hopeful that fundraising will improve in the next year.

<u>**Bank of New York**</u>, Manhattan, New York County
**Allocation:** 4,700 kW of Power for Jobs Power
**Jobs Commitment:** 6,831 jobs
**Background:** The Bank of New York ('BNY'), founded in 1784 by Alexander Hamilton, offers competitive financial services to businesses and individuals. The location receiving power houses loan administration, securities processing, international banking administration and data center operations. For the past year, BNY averaged 4,406.25 jobs, i.e., 64.50% of its contractual commitment. BNY was repairing this location due to damage from September 11$^{th}$. Repairs have been completed and BNY is now meeting its commitment. In the last quarter reported, BNY averaged 6,714.33 jobs, i.e., 98.29% of its contractual commitment.

<u>**BSU, Inc.**</u>, Ithaca, Tompkins County
**Allocation:** 100 kW of Power for Jobs Power
**Jobs Commitment:** 50 base jobs
**Background:** BSU, Inc. ('BSU'), in business since 1989, designs and manufactures electronic assemblies for the electric industry. For the past year, BSU averaged 32.33 jobs, i.e., 64.66% of its contractual commitment. BSU downsized due to a sluggish economy but has increased employment to its current level of 41 workers. BSU has no further growth plans.

<u>**Carrier Corporation**</u>, Syracuse, Onondaga County
**Allocation:** 1,500 kW of Power for Jobs Power
**Jobs Commitment:** 948 jobs
**Background:** Carrier Corporation ('Carrier') has been operating for more than 85 years. Carrier manufactures air-conditioning, industrial refrigeration and transport refrigeration products, as well as air conditioner and refrigerator compressors. For the past year, Carrier averaged 816.92 jobs, i.e., 86.17% of its contractual commitment. Carrier's organizational restructuring this past year resulted in a layoff of employees.

<u>**Catholic Medical Center Holy Family Home**</u>, Brooklyn, Kings County
**Allocation:** 200 kW of Power for Jobs Power
**Jobs Commitment:** 256 jobs
**Background:** CMC Holy Family Home ('Holy Family') is a 200-bed long-term-care facility located in Bensonhurst. For the past year, Holy Family averaged 196.50 jobs, i.e., 76.76% of its contractual commitment. The organization's major financial difficulty required restructuring and downsizing. The employment level is now stabilized. However, growth is unlikely as the company has severe Medicare and Medicaid reimbursement issues.

<u>**CEN Electronics Inc.**</u>, Caledonia, Livingston County
**Allocation:** 300 kW of Power for Jobs Power
**Jobs Commitment:** 121 jobs
**Background:** CEN Electronics Inc./Applied Energy Solutions ('CEN/Applied') began in 1949 as a magnetics, coils and transformer manufacturer. Today, the company produces industrial battery chargers, high-tech magnetics for both commercial and military use and electronic assemblies. For the past year, CEN/Applied averaged 73.25 jobs, i.e., 60.54% of its commitment. The company foresees slow economic growth; it anticipates adding an additional six jobs next year.

**Chapin Watermatics Inc.**, Watertown, Jefferson County
**Allocation:** 400 kW of Power for Jobs Power
**Jobs Commitment:** 82 jobs
**Background:** Chapin Watermatics Inc. ('Chapin'), a family-owned business, pioneered drip irrigation. The company designs and manufactures row-crop drip irrigation hoses and specialty items from its Watertown facility and distributes them worldwide. For the past year, Chapin averaged 61.66 jobs, i.e., 75.19% of its employment commitment. Chapin's sales volume has decreased and the company is struggling due to a strong dollar overseas and a poor economy. This reduced sales volume has forced the company to downsize. Chapin has no plans for growth at this time.

**Cherry Creek Woodcraft, Inc.**, South Dayton, Cattaraugus County
**Allocation:** 500 kW of Power for Jobs Power
**Jobs Commitment:** 115 jobs
**Background:** Cherry Creek Woodcraft, Inc. ('Cherry Creek'), founded in 1976, was a wooden giftware and trophy component manufacturer that has since changed to a fiberboard product manufacturer. For the past year, Cherry Creek averaged 85.33 jobs, i.e., 74.20% of its commitment. The company installed new equipment, which has helped it secure a significant share of the awards industry; however, that industry is very dependent on the state of the general economy. Cherry Creek's sales force is actively marketing its new products and it expects a growth in sales by more than 10% this coming year.

**Cooper Industries**, Syracuse, Onondaga County
**Allocation:** 3,000 kW of Power for Jobs Power
**Jobs Commitment:** 958 jobs
**Background:** Cooper Industries ('Cooper'), founded in 1897, began as an electrical switch manufacturer. Today, the company does machining, metal forming, iron casting and finishing operations to manufacture electrical power distribution products and lighting systems. For the past year, Cooper averaged 771.25 jobs, i.e., 80.51% of its contractual commitment. A slow economy reduced demand for electrical construction projects, which has forced the company to reduce its number of jobs. The employment level has now stabilized and the company sees some growth potential starting in the new year.

**Dielectric Laboratories, Inc.**, Canastota, Madison County
**Allocation:** 400 kW of Power for Jobs Power
**Jobs Commitment:** 248 jobs
**Background:** Dielectric Laboratories, Inc. ('Dielectric'), a family-owned business founded in 1920, manufactures molded, assembled and machined plastic products for the automotive and medical industries. For the past year, Dielectric averaged 193.00 jobs, i.e., 77.82% of its contractual commitment. Although Dielectric laid off 30 people, it has recently hired 12 employees and invested $5 million to expand its laboratory. The company has also recently acquired new customers and expects sales and employment to increase soon.

**F.P. Pla Tool & Manufacturing Co.**, Buffalo, Erie County
**Allocation:** 100 kW of Power for Jobs Power
**Jobs Commitment:** 40 jobs
**Background:** F.P. Pla Tool & Manufacturing Co. ('F.P. Pla'), founded in 1944, is a machine shop functioning on a job-order basis, machining miscellaneous details on small-volume lots. For the past year, F.P. Pla averaged 27.67 jobs, i.e., 69.17% of its employment commitment. F.P. Pla's sales have diminished and it is not optimistic about the coming year. The company currently has no growth plans.

**Fermer Precision**, Ilion, Herkimer County
**Allocation:** 200 kW of Power for Jobs Power
**Jobs Commitment:** 80 jobs
**Background:** Fermer Precision ('Fermer'), in business for more than 15 years, provides machining applications for the metal and plastics industry, specializing in parts for firearms, brakes and gears. For the past year, Fermer averaged 53.83 jobs, i.e., 67.29% of its commitment. Fermer laid off workers due to the economic downturn. The company is growing and interviewing people, although it is having trouble finding qualified applicants.. Several new orders have come in, which will result in people being called back to work.

**<u>H & E Machinery, Inc.</u>**, Ithaca, Tompkins County
**Allocation:** 350 kW of Power for Jobs Power
**Jobs Commitment:** 116 jobs
**Background:** H & E Machinery, Inc. ('H & E'), originally named H & E Turbo Blading, manufactures turbine blades. For the past year, H & E averaged 91.33 jobs, i.e., 78.74% of its contractual commitment. H & E had to downsize due to poor economic conditions. However, the company is actively searching for new business and is trying to grow. H & E cannot predict what its employment level will be in the coming year.

**<u>The Harlem School of the Arts, Inc.</u>**, Manhattan, New York County
**Allocation:** 50 kW of Power for Jobs Power
**Jobs Commitment:** 76 jobs
**Background:** The Harlem School of the Arts, Inc. (' HSA') provides training in the visual and performing arts (music, dance and theater) for children ages 4 to 21. HSA has more than 3,000 students, the largest segment of whom are in the after-school and Saturday program. The school offers on-site arts training to PS District 5 for grades 1 through 3, as well as college prep for conservatory and arts college-bound students. For the past year, HSA averaged 53.50 jobs, i.e., 70.39% of its employment commitment. The school's programs are semester based. In December or January, the school will start four new programs, which will increase employment.

**<u>Higbee Inc.</u>,** Syracuse, Onondaga County
**Allocation:** 100 kW of Power for Jobs Power
**Jobs Commitment:** 61 jobs
**Background:** Higbee Inc. ('Higbee') founded in 1932, makes gaskets and sealing products using a die-cutting process, and also distributes o-rings and extruded and molded parts. For the past year, Higbee averaged 48.58 jobs, i.e., 79.64% of its commitment. Higbee laid off workers due to a drop in demand for its products as a result of the poor economy. The company recently landed a large new customer that will require it to rehire five workers. Furthermore, the company is in serious negotiations that it expects to turn into a new contract that would require hiring a few additional workers. Higbee expects to be back in compliance, provided the contract being negotiated gets awarded to it.

**<u>Indian Country Inc.</u>**, Deposit, Delaware County
**Allocation:** 450 kW of Power for Jobs Power
**Jobs Commitment:** 182 jobs
**Background:** Indian Country Inc. ('Indian Country'), a family-owned business operating since 1972, makes wood components. For the past year, Indian Country averaged 95.75 jobs, i.e. 52.61% of its employment commitment. In January 2001, the company sold off an unprofitable division, resulting in a reduction of 40 employees. Also, due to strong foreign competition and lowered sales, the company reduced employment. Indian Country hired a new President, Vice President and Manager about four months ago to work on turning the company around. The company also hired three sales representatives to solicit sales in the Northeast, which is yielding results. The company hit bottom already but is close to hiring a second shift if sales continue that the way they have been going. Indian Country is hopeful that it will be growing in this coming year.

**<u>Levonian Brothers, Inc.</u>**, Troy, Rensselaer County
**Allocation:** 350 kW of Power for Jobs Power
**Jobs Commitment:** 121 jobs
**Background:** Levonian Brothers, Inc. ('Levonian') has been in business since 1947 and is a meat manufacturer and distributor. For the past year, Levonian averaged 68.92 jobs, i.e., 56.96% of its commitment. Levonian was never able to attain job growth of 50 additional jobs from the original commitment due to difficult economic conditions. The company maintains its base of 75 jobs from the original contract and it adds workers beyond that to handle the busy seasons for meat processing – December and the summer. However, these additional workers are laid off once the busy times are over.

**<u>Lydall Manning Corporation</u>**, Green Island, Albany County
**Allocation:** 1,200 kW of Power for Jobs Power
**Jobs Commitment:** 133 jobs
**Background:** Lydall Manning Corporation ('Lydall'), founded in 1846, is the world leader in manufacturing technical and non-woven paper. For the past year, Lydall averaged 111.00 jobs, i.e., 83.46% of its contractual commitment. A slow economy forced Lydall to reduce jobs through attrition. However, the company is strategizing for future growth and is considering transferring out-of-state employees to this site.

**<u>MGI Products, Inc.</u>**, East Syracuse, Onondaga County
**Allocation:** 180 kW of Power for Jobs Power
**Jobs Commitment:** 70 jobs
**Background:** MGI Products, Inc. ('MGI'), founded in 1967, fabricates quartz products for use in the semiconductor industry. For the past year, MGI averaged 55.33 jobs, i.e., 79.05% of its contractual commitment. MGI, as well as the rest of the semiconductor industry, has been hurt by the slow economy. The company is hopeful that the economy will improve and help revive business.

**<u>New York Blood Center</u>**, Manhattan, New York County
**Allocation:** 600 kW of Power for Jobs Power
**Jobs Commitment:** 343 jobs
**Background:** New York Blood Center ('NYBC') has been operating for more than 30 years and is the largest blood bank in the world. The company provides blood and blood products to many New York City area hospitals. The Center also conducts research in transfusion medicine, including viral research on AIDS and hepatitis. For the past year, NYBC averaged 288.70 jobs, i.e., 84.17% of its employment commitment. While NYBC is below its employment commitment due to lower donations this past year, it currently has plans to hire more people, since it will be opening a research and development center this coming year.

**<u>Oak-Mitsui, Inc.</u>**, Hoosick Falls, Rensselaer County
**Allocation:** 500 kW of Power for Jobs Power
**Jobs Commitment:** 140 jobs
**Background:** Oak-Mitsui, Inc. ('Oak-Mitsui'), founded in 1976, produces electro-deposited copper foil for use in printed wire board applications. For the past year, Oak-Mitsui averaged 46.67 jobs, i.e., 33.34% of its employment commitment. Oak-Mitsui temporarily reduced its workforce and ceased production due to a sudden drop in demand for its product, which was caused by the downturn in the economy. The company plans to bring a research and development lab to the Hoosick Falls location for product development. Oak-Mitsui is trying to create a market for a new copper solution for impregnating pressure-treated wood. The company is hopeful that these new initiatives will create business growth.

**<u>Oehler Industries Inc.</u>**, Buffalo, Erie County
**Allocation:** 150 kW of Power for Jobs Power
**Jobs Commitment:** 41 jobs
**Background:** Oehler Industries Inc. ('Oehler'), founded in 1949, fabricates steel for manufacturing pressure vessels. For the past year, Oehler averaged 33.58 jobs, i.e., 81.91% of its contractual commitment. Oehler has struggled to survive in the poor economy. The company depends heavily on electricity. To stay competitive, Oehler laid off workers. However, the company is trying hard to expand its work and rehire, as well as bring on new workers.

**<u>Oneida Container Co., Inc.</u>**, Vernon, Oneida County
**Allocation:** 200 kW of Power for Jobs Power
**Jobs Commitment:** 123 jobs
**Background:** Oneida Container Co., Inc. ('Oneida'), in business for 38 years, manufactures corrugated packaging and corrugated packaging displays. For the past year, Oneida averaged 83.08 jobs, i.e., 68.10% of its employment commitment. The downturn in the economy hit Oneida hard. Although the company invested millions of dollars in new equipment, it lost business due to the strong dollar overseas. In turn, Oneida had to reduce employment. Due to the poor economy, the company has no plans for growth at this time.

**Polymer Conversions**, Orchard Park, Erie County
**Allocation:** 325 kW of Power for Jobs Power
**Jobs Commitment:** 89 jobs
**Background:** Polymer Conversions ('Polymer'), in business since 1979, designs plastic products from inception, including mold design and plastic injection molding of parts. For the past year, Polymer averaged 73.33 jobs, i.e., 82.40% of its contractual commitment. Due to the poor economy, Polymer's customers have cut back orders and some have gone out of business. Polymer has no plans for growth right now.

**Richards Machine Tool Co., Inc.**, Lancaster, Erie County
**Allocation:** 60 kW of Power for Jobs Power
**Jobs Commitment:** 24 jobs
**Background:** Richards Machine Tool Co., Inc. ('Richards') was founded in 1973 and is a precision machine shop that manufactures many items out of various materials. For the past year, Richards averaged 16.96 jobs, i.e., 70.66% of its employment commitment. Many of Richards' customers have gone out of business, which forced the company to reduce employment and search for new out-of-state customers. Richards just signed two new big contracts that will guarantee that the company hires again soon.

**Soucy USA Inc.**, Champlain, Clinton County
**Allocation:** 400 kW of Power for Jobs Power
**Jobs Commitment:** 203 jobs
**Background:** Soucy USA Inc. ('Soucy'), in business for 16 years, provides storage, shipping and handling for Canadian businesses. For the past year, Soucy averaged 170.08 jobs, i.e., 83.78% of its contractual commitment. Soucy was forced to reduce its workforce due to the poor economy. The company's employment level has stabilized but it does not foresee growth in the near future.

**St. Mary Manufacturing Corp.**, North Tonawanda, Niagara County
**Allocation:** 300 kW of Power for Jobs Power
**Jobs Commitment:** 79 jobs; **Phase 5 – 60 jobs, 230 kW**
**Background:** St. Mary Manufacturing Corporation ('St. Mary'), in business since 1958, provides precision metalworking contract manufacturing from small machined parts to large-sized machined vessels up to 20 tons. Additionally, the company has state-of-the-art laser cutting, milling, drilling and boring capabilities. For the past year, St. Mary averaged 50.25 jobs, i.e., 63.61% of its contractual commitment. Poor economic conditions in the manufacturing sector resulted in employment reduction. However, St. Mary has since rebounded and currently employs more than 100.00% of its Phase 5 jobs commitment.

**Stature Electric Inc.**, Watertown, Jefferson County
**Allocation:** 400 kW of Power for Jobs Power
**Jobs Commitment:** 417 jobs; **Phase 5 – 222 jobs, 200 kW**
**Background:** Stature Electric Inc. ('Stature'), founded in 1974 as a manufacturer of motor parts sets, now has a complete line of universal and permanent magnet motors and gear motors. Stature also produces brakes for some applications. For the past year, Stature averaged 193.00 jobs, i.e., 46.28% of its original employment commitment but 86.94% of its Phase 5 employment commitment. The company had a difficult year in 2003. It laid off 40 people due to economic distress. However, the company is in the midst of launching several new products and has re-hired all available employees. Stature is very optimistic about increased sales and job growth in the coming year.

**UJA Federation of New York**, Manhattan, New York County
**Allocation:** 650 kW of Power for Jobs Power
**Jobs Commitment:** 547 jobs
**Background:** UJA Federation of New York ('UJA') is the largest umbrella philanthropic organization in the world. The UJA funds hospitals, senior centers, mental health agencies, educational facilities, child care organizations, cultural organizations and much more. For the past year, UJA averaged 486.67 jobs, i.e., 88.97% of its contractual commitment. The UJA relies on donations for operations. Donations were down this past year, which in turn forced a reduction in employment. The organization is hopeful that the economy will improve so that donations will increase and help bring back employees.

**<u>Vesuvius USA Corp.</u>** , Buffalo, Erie County
**Allocation:** 750 kW of Power for Jobs Power
**Jobs Commitment:** 133 jobs
**Background:** Vesuvius USA Corp. ('Vesuvius') purchased the site from Ferro Corp. in 1992. The company manufactures refractory cements, crucibles and retorts, kiln furniture, wear-resistant shapes, pressure-pour refractories, investment casting and refractory tubes. For the past year, Vesuvius averaged 102.83 jobs, i.e., 77.32% of its employment commitment. The company lost a significant amount of business this past year due to the slowing economy and the strong dollar, as more than 10% of its business is for export. Many of Vesuvius' customers have gone out of business. Vesuvius plans to maintain only its current job level.

***Mr. Pasquale presented the highlights of staff's report to the Trustees, stating that in total the companies receiving power are meeting 97% of their job commitments, with 32 companies below 90% of their commitments. He said that the majority are still claiming shortfalls due to the recession. He also stated that it's not clear what effect Carrier's move out of state will have on its existing allocations, as the job reporting for these allocations will be reviewed in 2004.***

***In response to a question from Vice Chairman McCullough, Mr. Pasquale said that the review presented to the Trustees was for the 12-month period ending with the first quarter of 2003.***

***Trustee Carey mentioned a recent report from the Governor's office showing that manufacturing in New York State, particularly upstate, had grown quite substantially in the past quarter. He pointed out the need to look more closely at the three companies that had met less than 60% of their job commitments.***

***A discussion ensued on the need to take the current job commitment level into consideration before agreeing to any extensions and the fact that the Power for Jobs power cannot be reallocated to other companies. Mr. Pasquale said that a report for the 12-month period ending with the second quarter of 2003 would be presented at the December Trustees' meeting and indicated that the results for that period were even less optimistic than the ones for the first period. Trustee Seymour suggested that some alternative ways of extending the program be looked at and Chairman Ciminelli stated that the Authority needs to develop a comprehensive strategy and policy for dealing with the Power for Jobs program in light of the current economic downturn and the legislative constraints on allocating the power.***

**Exhibit "5-A"**
**November 25, 2003**

# I. ALLOCATIONS TO CONTINUE WITH NO CHANGE

| Company | Date of Trustee Approval | Type of Power | Allocation kW | Employment Commitment | Average '01-'02 Jobs | Average Annual % Achieved |
|---|---|---|---|---|---|---|
| A. T. Reynolds & Sons, Inc. | 9/28/98 | PFJ | 500 | 116 | 102.33 | 88.21 |
| Alken Industries Inc. | 9/28/98 | PFJ | 125 | 57 | 45.58 | 79.97 |
| Asia Society | 4/28/98 | PFJ | 225 | 120 | 106.42 | 88.68 |
| Bank of New York | 6/29/99 | PFJ | 4,700 | 6,831 | 4,406.25 | 64.50 |
| BSU, Inc. | 6/26/01 | PFJ | 100 | 50 | 32.33 | 64.66 |
| Carrier Corporation | 10/27/98 | PFJ | 1,500 | 948 | 816.92 | 86.17 |
| Catholic Medical Center (Holy Family) | 4/27/99 | PFJ | 200 | 256 | 196.50 | 76.76 |
| CEN Electronics | 9/28/98 | PFJ | 300 | 121 | 73.25 | 60.54 |
| Chapin Watermatics Inc. | 9/28/98 | PFJ | 400 | 82 | 61.66 | 75.19 |
| Cherry Creek Woodcraft Inc. | 9/28/98 | PFJ | 500 | 115 | 85.33 | 74.20 |
| Cooper Industries | 9/28/98 | PFJ | 3,000 | 958 | 771.25 | 80.51 |
| Dielectric Laboratories, Inc. | 9/28/98 | PFJ | 400 | 248 | 193.00 | 77.82 |
| F. P. Pla Tool & Manufacturing Co., | 9/28/98 | PFJ | 100 | 40 | 27.67 | 69.17 |
| Fermer Precision | 9/28/98 | PFJ | 200 | 80 | 53.83 | 67.29 |
| H & E Machinery, Inc. | 4/27/99 | PFJ | 350 | 116 | 91.33 | 78.74 |
| Harlem School of the Arts, Inc., The | 5/25/99 | PFJ | 50 | 76 | 53.50 | 70.39 |
| Higbee Inc. | 9/28/98 | PFJ | 100 | 61 | 48.58 | 79.64 |
| Indian Country Inc. | 9/28/98 | PFJ | 450 | 182 | 95.75 | 52.61 |
| Levonian Brothers, Inc. | 9/28/98 | PFJ | 350 | 121 | 68.92 | 56.96 |
| Lydall Manning | 9/28/98 | PFJ | 1,200 | 133 | 111.00 | 83.46 |
| MGI Products, Inc. | 9/28/98 | PFJ | 180 | 70 | 55.33 | 79.05 |
| New York Blood Center | 5/25/99 | PFJ | 600 | 343 | 288.70 | 84.17 |
| Oak-Mitsui, Inc. | 9/28/98 | PFJ | 500 | 140 | 46.67 | 33.34 |
| Oehler Industries Inc. | 6/29/99 | PFJ | 150 | 41 | 33.58 | 81.91 |
| Oneida Container Co., Inc. | 5/25/99 | PFJ | 200 | 123 | 83.08 | 68.10 |
| Polymer Conversions | 4/27/99 | PFJ | 325 | 89 | 73.33 | 82.40 |
| Richards Machine Tool Co., Inc. | 9/28/98 | PFJ | 60 | 24 | 16.96 | 70.66 |
| Soucy USA | 9/28/98 | PFJ | 400 | 203 | 170.08 | 83.78 |
| St. Mary Manufacturing Corp. | 4/27/99 | PFJ | 300 | 79 | 50.25 | 63.61 |
| Stature Electric | 6/29/99 | PFJ | 400 | 417 | 193.00 | 46.28 |
| UJA Federation of New York | 4/28/98 | PFJ | 650 | 547 | 486.67 | 88.97 |
| Vesuvius USA Corp. | 9/28/98 | PFJ | 750 | 133 | 102.83 | 77.32 |

**6. Issuance of the Series 2003A Revenue Bonds**

***Mr. Brady presented the highlights of staff's recommendations to the Trustees. In response to a question from Chairman Ciminelli, Mr. Brady explained that the bonds are taxable because 95% of the power produced will go to private industry. Responding to a question from Trustee Seymour, Mr. Brady said that the recommendation was to finance anticipated expenditures for the five-year period 2003 through 2007 at this time, as it was most economical. He explained that the balance of the expenditures would likely be financed in 2007 or 2008 and may possibly be combined with bonds issued to finance the Niagara modernization and licensing.***

**7. Agreement for Access to and Use of Sound Cable for Fiber Optic Strands with Cablevision Lightpath**

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve an agreement ('Agreement') for a period of ten years for access to and use of two Sound Cable Project ('SCP') fiber optic strands with Cablevision Lightpath ('Lightpath'), a Competitive Local Exchange Carrier certified by the New York State Public Service Commission ('PSC'), for $375,000 on consummation of the Agreement, plus ten annual payments of $125,000. The annual payments will be adjusted for inflation.

BACKGROUND

"Fiber optic cable was installed, in two conduits, as part of the SCP. Each of the conduits contains 12 fiber optic strands ('FOS') for a total of 24 FOS. The Authority currently uses 16 of the 24 strands to meet the relay and communications requirements of the SCP. Since the original design for using fiber optics as a means for protecting the SCP was implemented, major technology advances have resulted in increased capacity of the individual fibers, making it unlikely that the Authority will need the unused eight strands. As a consequence of this technology advancement, the Authority leased four strands to Long Island Power Authority ('LIPA') to protect Y50 for a period of 30 years. The Authority proposes to allow Lightpath access to, and use of, the other two strands for a period of ten years.

DISCUSSION

"After completion of the SCP, the Authority entered into discussions with a telecommunications company that expressed interest in gaining access to some of the fiber optic strands. Those discussions concluded without an agreement. Subsequently, on March 8, 1993, the Authority advertised in *The New York Times* for companies interested in bidding on access to and use of eight fiber optic strands. Also, a notice of solicitation was placed in the New York State Contract Reporter in March 1993. Concurrently, bid packages were sent to six selected companies, including the company with which the Authority first held negotiations. Two proposals were received and the Authority entered into negotiations with the high bidder, another telecommunications company. The high bidder encountered financial difficulties and advised the Authority, in April 1994, that it was withdrawing its offer.

"During August 1994, Metropolitan Fiber Systems of New York, Inc. ('MFS') contacted the Authority regarding the availability of access to eight of the SCP fiber optic strands. MFS had not previously approached the Authority or submitted a bid for the fiber capacity. The Authority and MFS entered into an agreement that was terminated approximately three years after execution. During that period, the Authority collected more than $1,200,000 in rental fees for the eight strands, which MFS never used. No subsequent requests for use of the SCP fiber optic strands were received until LIPA's request in December 2001.

"The proposed Agreement, which resulted fromAuthority staff's negotiations with Lightpath following a solicitation by Lightpath, does not contravene any applicable Authority policy or procedure. Also, the Agreement terms are financially equitable in light of the fact that it equals or exceeds any competing requests for use of the cable and the Agreement with Lightpath enables Lightpath to operate a high-density communication path to connect Long Island and Westchester County with the advantages of diversity of routing and avoiding the need to pass through New York City.

"As a result of these negotiations and the proposed Agreement, Lightpath will also be responsible for repairing the land portion of the cable on an emergency basis at no additional cost to the Authority.

"Lightpath will have the right to terminate the Agreement upon six months' written notice to the Authority.

FISCAL INFORMATION

"The proposed Agreement will yield $1,625,000 over the ten-year period, plus the adjustment for escalation. Funds received under this Agreement will be deposited in the Operating Fund.

RECOMMENDATION

"The Vice President and Chief Engineer – Power Generation and the Vice President – Procurement and Real Estate recommend that the Trustees approve the proposed Agreement allowing Lightpath access to, and use of, two Sound Cable Project fiber optic strands on the terms and conditions set forth in this memorandum of the President and Chief Executive Officer.

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

***Mr. Lipsky presented the highlights of staff's recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Lipsky said that Cablevision Lightpath wanted to use the fiber optic strands running from Long Island to Westchester County in order to avoid New York City and that it was better under the circumstances to negotiate pricing rather than to do an RFP.***

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

**RESOLVED, That the Agreement between the Authority and Lightpath whereby Lightpath shall have access to, and use of, two Sound Cable Project fiber optic strands on the terms and conditions, including repair obligations, set forth in the foregoing resolution of the President and Chief Executive Officer be, and hereby is, approved; and be it further**

**RESOLVED, That the Vice President and Chief Engineer – Power Generation, or his designee be, and hereby is, authorized to execute the aforesaid Agreement and to execute such other documents as may be necessary or desirable to implement the foregoing; subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel; 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.**

**8. Blenheim-Gilboa Power Project – Life Extension and Modernization – Initiation of Program and Award of Turbine Replacement Contracts to Hitachi America, Ltd.**

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the initiation of a program, estimated to cost $135.5 million, to renovate and modernize the Blenheim-Gilboa Power Project's ('B-G') generating equipment to enhance performance in the New York Independent System Operator ('NYISO') market and maintain a reliable and competitive power production facility. The Trustees are further requested to authorize capital expenditures of $26.3 million to begin engineering, procurement, construction and delivery of long-lead-time components and to approve the award of a $19.8 million contract to Hitachi America, Ltd. ('Hitachi') to replace four turbine runners, which includes model development, testing, manufacturing and overhaul of four turbines.

BACKGROUND

"Power Generation staff has conducted an analysis of the condition of B-G, which entered service in 1973 and is one of only two pumped-storage projects in New York State. Staff concludes that a Life Extension and Modernization ('LEM') Program should be undertaken.

"A principal component of the LEM Program would be to replace the four pump turbines with modern designs. Staff estimates that improvements in cycle efficiency, pumping flows and range of operation would be achieved, which would allow the project to be more competitive in today's energy markets, thereby providing greater benefits to the citizens of New York State.

"Staff has also investigated all other systems at B-G for potential performance improvements and major rehabilitative requirements. The proposed program would involve the rehabilitation and modernization of numerous systems, including structural rehabilitation of the motor-generators, replacement of the main power transformers, rehabilitation of the spherical valves that seal the units from the upper reservoir, as well as other systems.

"Work on the first unit to undergo an overhaul under this LEM Program would begin in the fall of 2006 and be completed in the spring of 2007. The second unit would be overhauled beginning in the fall of 2007, with the fourth and last unit completed in the spring of 2010.

"Rehabilitation of the spherical valves requires that the upper reservoir be drained, as there are no head works to close off the vertical shaft. This will be done during each unit outage, with the Project being unavailable for approximately six weeks during October and November each year, timed to coincide with the period of least demand to minimize overall economic impact. Draining the reservoir requires consulting with and possibly obtaining permits from several regulatory agencies. The Authority's Environmental staff anticipates no problems securing the necessary approvals within the required timeframe.

"The increase in plant capacity as a result of the new pump turbines also requires the Authority to file an application with the Federal Energy Regulatory Commission ('FERC') for a non-capacity amendment. Licensing staff has been in contact with FERC and foresees no issues that will prevent the issuance of the amendment within the next year.

"The Trustees are requested to approve initiation of a LEM Program that will begin immediately. The program schedule calls for the award of a contract to Hitachi in December 2003 for the design, fabrication and installation of four pump turbine runners, along with ancillary equipment. The capital expenditures requested are projected to carry the B-G LEM Program to mid-2006, at which time approval for full release of construction funds for the first and second units will be requested.

DISCUSSION

Turbine Replacement

"A request for proposals ('RFP') was issued on March 31, 2003 describing the scope of design, testing, fabrication, unit disassembly, field machining and unit reassembly for the new pump turbine runners and associated equipment. Bids were solicited prior to approval of the program so that guaranteed performance could replace performance estimates and firm pricing could be established. The guaranteed performance and operating range achievable also determined other equipment that would be affected. The RFP limited the replacement runner to the existing seven blades for environmental reasons, but allowed considerable latitude in the modification of embedded components.

"On July 24, 2003, proposals were received from six bidders in response to public advertisement. The six prices received are summarized below:

| Description | American Hydro | GE Hydro | Hitachi America | Toshiba NAIC | V A Tech Hydro | Voith Seimens |
|---|---|---|---|---|---|---|
| Total Bid Price for Equipment and Services | $28,638,400 | $20,544,729 | $20,127,184 | $29,884,000 | $22,829,740 | $29,244,109 |
| Incremental Performance Value (per spec. formula) | $19,580,800 | $32,063,000 | $33,222,200 | $28,538,240 | $26,261,320 | $29,674,700 |
| Schedule Evaluation (per spec parameters) | $0 | $0 | $640,000 | $0 | $1,000,000 | $0 |
| Net Evaluated Price | $9,057,600 | -$11,518,271 | -$13,735,016 | $1,345,760 | -$4,431,580 | -$430,591 |

"The increased efficiency of the new turbines will result in more energy being produced using the same amount of water. In a like manner, more water can be pumped using the same energy. The new turbines will also be able to provide higher operating capacity (approximately 30 MW per unit) and will have a greater operating range. All of these performance improvements that each bidder proposed were evaluated based on additional energy generated, saved or made available in 2003 dollars. The results are listed above as 'Incremental Performance Value' for each bidder. For evaluation, each bidder's schedule was evaluated based on their being able to meet or improve on the required outage duration for a unit. Each working-day improvement on the schedule was valued at $10,000. The summation of 'Total Bid Price for Equipment and Services,' the 'Incremental Performance Value' and 'Schedule Evaluation' is the 'Net Evaluated Price'.

"An Evaluation Committee ('Committee') with representatives from B-G, Procurement, Engineering, Quality Assurance and Project Management analyzed the bids and met with the lowest three bidders, based on bid price, to obtain additional information and to review all the pertinent factors to determine the lowest evaluated and technically qualified proposal. Only the three low bidders were extensively evaluated due to the significant spread, greater than $6 million, that existed between the three low and the three high bidders.

"All three low bidders were determined to have submitted technically compliant bids. All of the bidders recommended similar modifications to the units to improve efficiency. The performance improvements guaranteed by all the vendors were significant; however, Hitachi's guarantees were the highest. Based on Hitachi's guarantees, the following efficiency improvements could be expected:

| | Existing | Upgraded |
|---|---|---|
| Pump Turbine in Turbine Mode | 89% | 91.5% |
| Pump Turbine in Pump Mode | 85% | 91.5% |
| Overall Plant Cycle Effieiency | 66% | 73% |

"In addition to proposing the highest performance guarantees, Hitachi also proposed the best outage schedule, with a 16-day improvement for each unit over the baseline schedule. The Committee pursued resolution with Hitachi of issues on runner balancing, field machining, site supervision and several administrative issues. The Committee determined that potential changes to resolve these issues would result in an expenditure of $287,500 above Hitachi's base proposal. Even with this additional expenditure, Hitachi's proposal was approximately $417, 545 lower than GE Hydro for the Total Bid Price and approximately $2.2 million lower for the Net Evaluated Price.

"It should also be noted that Hitachi is the original equipment manufacturer for the pump turbine runners and generators at B-G. Performance of the original equipment has been very good and site personnel are pleased with the support Hitachi has offered over the past 30 years.

"Accordingly, based on Hitachi's low price, superior performance, guarantees and technically acceptable proposal, the Trustees are requested to approve award of the contract for furnishing and installing the four pump turbines and associated work to Hitachi. The Trustees are also requested to authorize expenditures of $6,370,000 for work under the Hitachi contract for the first two turbines.

Engineering, Procurement, Construction, Direct and Indirect Costs

"The Trustees are also requested to approve expenditures for additional engineering, procurement, construction and Authority direct and indirect costs to continue the orderly planning, design and implementation of the work as follows:

| | |
|---|---|
| Engineering and Design | $ 6,000,000 |
| Procurement/Materials | $ 2,500,000 |
| Construction | $13,370,000 |
| Authority Direct/Indirect | $ 4,450,000 |

"The procurement will include generator circuit breakers, excitation equipment and generator step-up transformers. Construction funds provide for work on the pump turbines, spherical valves and generator equipment.

"Under separate cover, the Trustees have been provided with copies of the reports analyzing the technical and economic aspects of the LEM Program.

FISCAL INFORMATION

"Payments will be made from the Capital Fund.

RECOMMENDATION

"The Vice President and Chief Engineer – Power Generation, the Vice President – Procurement, the Vice President – Project Management and the Regional Manager – Central New York recommend that the Trustees approve the capital estimate of $135.5 million for the Blenheim-Gilboa Life Extension and Modernization Program, authorize capital expenditure of $26.3 million and approve the award of a contract in the amount of $19,758,388 to Hitachi for fabricating and installing four pump turbine runners.

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

***Before Mr. Stessing presented the highlights of staff's recommendations to the Trustees, he thanked Mr. Hiney and Mr. Antenucci for the chance to work on this project. In response to questions from Chairman Ciminelli, Mr. Stessing said that the power produced by each unit at B-G was peaking power and Mr. Hiney noted that the cost of the outage necessitated by the turbine replacement had not yet been factored into the Authority's long-range financial plan. Mr. Bellis added that the outage was not expected to have a major impact on earnings. In response to another question from Chairman Ciminelli, Mr. Stessing said that Hitachi would be building a turbine model that will be tested in a laboratory to back up the performance enhancement claim based on demonstrations with other clients. In response to a question from Trustee Seymour, Mr. Bellis said that subsequent Trustee authorization would be required for the $135 million being allocated to the project at this meeting. Mr. McCullough abstained on this matter due to certain legal work he is providing Hitachi.***

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

**RESOLVED, That capital expenditures are hereby approved to be committed in accordance with the Authority's Expenditure Authorization Procedures for the Life Extension and Modernization of the Blenheim-Gilboa Power Project in the amounts and for the purposed listed below:**

| Description | Current Estimate | Previous Authorization | Current Request |
|---|---|---|---|
| | | | |
| Preliminary Engineering | $500,000 | $500,000 | |
| | | | |
| Engineering & Design | $13,305,000 | $0 | $6,000,000 |
| | | | |
| Procurement | $15,044,000 | $0 | $2,500,000 |
| | | | |
| Construction | $89,094,000 | $0 | $13,370,000 |
| | | | |
| Authority Direct /Indirect | $17,552,000 | $500,000 | $4,450,000 |
| | $135,495,000 | $1,000,000 | $26,320,000 |

**AND BE IT FURTHER RESOLVED, That approval is hereby granted to award a contract to Hitachi America, Ltd. in the amount listed below and to commit funds for the turbine runners and associated work for the Life Extension and Modernization of the Blenheim-Gilboa Power Project, in the amount listed below:**

| Capital | Contract Approval |
|---|---|
| | |
| Hitachi Contract No. | |
| | |
| Total Contract Award Amount | $19,758,388 |
| | |
| Current Expenditure Authorization Request | $ 6,370,000 |

**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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.**

**9. St. Lawrence/FDR Power Project Relicensing – Authorization to Accept New FERC License**

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize acceptance of the new license issued by the Federal Energy Regulatory Commission ('FERC') for the St. Lawrence/FDR Power Project ('Project').

BACKGROUND

"At their meeting of October 30, 2001, the Trustees approved the filing of the application for a new FERC license for the Project. Based on the Trustees' actions of October 2001, the Authority entered into settlement agreements with local governments, federal and state resource agencies and several other non-governmental entities. On February 6, 2003, the Authority filed an Offer of Settlement with FERC which included these agreements ('Comprehensive Relicensing Settlement Accord,' or 'Accord').

"Based on the Trustees' actions of October 2001, the Authority signed a Settlement Agreement ('Agreement') with the states of New Jersey, Connecticut, Rhode Island, Pennsylvania, Ohio and Vermont ('Out-of-State Allotees'). This Agreement provided for the allocation of Project power to six of the seven states that received an allocation of power under the initial Project license; the Massachusetts Municipal Wholesale Electric Company ('MMWEC'), the bargaining agent for the Commonwealth of Massachusetts, declined to sign the Agreement. Pursuant to this Agreement, the signatories will continue to receive an allocation of Project power that equals approximately half of the current allocation. On September 30, 2003, the Authority filed this Agreement with FERC as an Offer of Settlement ('OSA Accord').

"FERC issued the Final Environmental Impact Statement ('FEIS') for the Project for comment on September 18, 2003. In the FEIS, FERC staff recommended issuing the Authority a new license based on the license application, as supplemented and revised by the Accord, with several additional measures recommended by staff to address issues raised by parties that have not signed the Accord. The issue of power allocation was not addressed in the FEIS because the OSA Accord was filed after issuance of the FEIS and because application of FERC's policy on issues related to power allocation is a matter for FERC consideration in the order acting on the license application.

DISCUSSION

"On October 22, 2003, the FERC Commissioners approved the issuance of a 50-year license for the Project. Following approval by the Commissioners, FERC issued the Order for the New License on October 23, 2003. Staff has reviewed all of the conditions of the Order and has concluded that the Order is generally consistent with the license application, the Accord, and the OSA Accord. The Order includes the additional measures recommended by FERC staff in the FEIS; these additional measures are minor.

"The Accord and the OSA Accord involve almost all parties to the relicensing process. The MMWEC received Project power under the initial license, but has declined to sign the OSA Accord. The Niagara Power Coalition ('NPC'), a group of governmental entities in the Niagara Falls area, has requested an allocation of Project power and has raised a number of issues related to a new license. The St. Regis Mohawks Tribe, the Mohawks government recognized by the United States government, as well as the Mohawk Council of Akwesasne and the Mohawk Nation Council of Chiefs ('Mohawks'), have not signed a settlement agreement and have indicated the license application and Accord do not address their concerns. The Bureau of Indian Affairs ('BIA') has supported the Mohawk entities in their positions.

"The Order resolves the issues raised by the State of Massachusetts, the NPC, the Mohawks, and the BIA. The Order concludes that concerns raised by the Mohawks and the BIA were adequately addressed by FERC in the FEIS and that these concerns are unfounded. The Order found that the issues and concerns of the NPC were without merit and its request for an allocation of Project power was denied. Concerning the request of MMWEC, FERC ordered the Authority to provide the State of Massachusetts with an allocation of Project power proportionate to the allocation that will be provided to the other states pursuant to the OSA Accord. Finally, while it is possible that some or all of these parties may appeal the license, it is unlikely that such appeals will significantly affect the license.

"On November 24, 2003, the Authority filed a Request for Rehearing and Clarification of the Order with FERC relating primarily to FERC's allocation of Project power to MMWEC. Because the Order is very favorable to the Authority overall (as discussed above), it is recommended that the Authority, while continuing to pursue its rehearing, accept the license as issued on October 23, 2003 or as it may be amended pursuant to the Authority's Request for Rehearing. It is further recommended that the Authority reserve the right to reconsider its acceptance should the license, as issued on October 23, 2003, be amended pursuant to another party's rehearing request in a fashion unacceptable to the Authority.

FISCAL INFORMATION

"The cost of complying with the new license and implementing the provisions of the Accord is estimated to be $171 million. A request for approval of these expenditures will be made to the Trustees in December. Since these expenditures are related to implementing commitments in the new license and the settlement agreements, payments will be made from the Capital Fund.

RECOMMENDATION

"The Senior Vice President – Public and Governmental Affairs recommends that the Authority accept the license issued by the Federal Energy Regulatory Commission for the St. Lawrence/FDR Power Project.

"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."

***Mr. Suloway presented the highlights of staff's recommendations to the Trustees. In response to a question from Vice Chairman McCullough, Mr. Suloway said that the payments made as a result of the Settlement Agreements would be paid out over a period of years through 2015. In response to a question from Trustee DiMarco, Mr. Suloway said that the Trustees' authorization to accept the new license was partly conditional. Responding to a question from Trustee Seymour, Mr. Suloway said that Massachusetts was given 4.8 MW of St. Lawrence power under the new license. In response to a question from Vice Chairman McCullough, Mr. Suloway said that the Authority had not reached an agreement with Massachusetts on the amount of power to be allocated to that state.***

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

**RESOLVED, That the Trustees authorize acceptance of the license for the St. Lawrence/FDR Power Project as issued by the Federal Energy Regulatory Commission on October 23, 2003, or as it may be amended pursuant to the Authority's request for rehearing; and be it further**

**RESOLVED, That the Authority reserves the right to reconsider its acceptance should the license, as issued on October 23, 2003, be amended pursuant to any other party's rehearing request in a fashion unacceptable to the Authority; and be it further**

**RESOLVED, That the President and Chief Executive Officer and the Executive Vice President, Secretary and General Counsel of the Authority each hereby is authorized to accept this license on behalf of the Authority, and to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates, and other documents to effectuate the foregoing resolution; 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.**

**10. <u>Next Meeting</u>**

The next Regular Meeting of the Trustees will be held on **Tuesday, December 16, 2003, at 11:30 a.m., at the Albany Office**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

**11. <u>Closing</u>**

Upon motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 12:20 p.m.

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