

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.