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

April 27, 2004

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the White Plains Office at 11:14 a.m.

Present:	Louis P. Ciminelli, Chairman
	Frank S. McCullough, Jr., Vice Chairman
	Timothy S. Carey, Trustee
	Joseph J. Seymour, Trustee
	Michael J. Townsend, Trustee – Excused

Eugene W. Zeltmann	President and Chief Executive Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
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
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Carmine J. Clemente	Deputy Secretary and Deputy General Counsel
Joseph J. Carline	Assistant General Counsel – Power and Transmission
William Ernsthaft	Assistant General Counsel – Finance and Risk Management / Ethics and Regulatory Compliance
Thomas P. Antenucci	Vice President – Project Management
Arnold M. Bellis	Vice President – Controller and Acting Chief Financial Officer
Robert J. Deasy	Vice President – Energy Resources Management and Fuels Operations
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President and Chief Engineer
Donald A. Russak	Vice President – Finance
Thomas Warmath	Vice President and Chief Risk Officer
James H. Yates	Vice President – Major Accounts Marketing and Economic Development
Stephen P. Shoenholz	Deputy Vice President – Public Affairs
Michael E. Brady	Treasurer
Dennis T. Eccleston	Chief Information Officer
Angela D. Graves	Deputy Secretary
Janis E. Archer	Director – Production Design and Development
Craig D. Banner	Director – Electrical System Marketing and Customer Billing
Jordan Brandeis	Director – Supply Planning, Pricing and Power Contracts
Thomas J. Concadoro	Director – Accounting
Helen L. Eisenfeld	Director – Cost Control and Electric Transportation
Angelo S. Esposito	Director – Energy Services
Paul F. Finnegan	Director – Upstate Public and Governmental Affairs
John L. Murphy	Director – Public Relations
William V. Slade	Director – Environmental Programs
Daniel Wiese	Director – Corporate Security/Inspector General
Edward Hubert	General Manager Transmission Maintenance – CEC / STL
Peter Scalici	Deputy Inspector General – Investigations
Albert Swansen	Deputy Inspector General – Security
Daniel J. Cappiello	Manager – Performance Planning
Gerard R. Mullin	Manager – Fuel Planning
Roger W. Busha, Jr.	Investigator
Mary Jean Frank	Associate Secretary
Lorna M. Johnson	Assistant Secretary
Bonnie Fahey	Executive Administrative Assistant
Philip S. Astuto	Senior Business Planner
Lynnette J. Taylor	Senior Legal Secretary

Brian G. Warner	Senior Policy Specialist
Diane Gil	Procurement Program Specialist
Joann M. Duffy	Strategic Change Consultant
Felix E. DeJesus	Consultant
Anthony C. Savino	Marketing Consultant
Richard J. Ardolino	Project Manager
John Cashin	Executive Administrator, Battery Park City Authority
Kent Gardner	Center for Governmental Research
Michael Gettings	Executive Vice President, Pace Global

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

1. <u>Approval of the Minutes of the Meeting held on March 30, 2004</u>

The minutes of the meeting of March 30, 2004 were unanimously adopted.

2. <u>Financial Reports for the Three Months Ended March 31, 2004</u>

Mr. Bellis provided the Financial Report for the three months ended March 31, 2004.

3. Report from the President and Chief Executive Officer

President Zeltmann stated that the recent Authority-wide Culture Committee meeting was one of the best meetings of that committee in its four-year history. He cited the excellent presentation given by Mr. Edward Hubert, General Manager – Transmission Maintenance on the Transmission Maintenance Organization's ("TMO") Culture/Productivity Initiative. President Zeltmann then asked Mr. Hubert to give an abbreviated version of his presentation to the Trustees.

Mr. Hubert began by discussing the Authority-wide June 2003 Culture Survey, in which 61% of the Clark Energy Center employees and Blenheim-Gilboa linemen participated. TMO management followed up by meeting with all TMO employees to share the survey results and by making a commitment to address the major issues raised in the survey. A union/management cooperative committee was established to address these issues. In the six months since this follow-up process started, noteworthy improvements have been made in complying with weekly schedules, estimating monthly labor needs and meeting preventive maintenance targets. In addition, strides have been made to confront nonperformance and increase accountability in the areas of safety, metrics, sick leave and start/stop/break times. Improved communication is being accomplished by including planners at department meetings, posting all schedules, increasing supervisors' availability, improving feedback from the crafts and holding quarterly union/management cooperative meetings. Enhanced recognition of employee accomplishments is evidenced by the TMO's Employee Recognition Committee, "BRAVO" cards and an accounting audit that resulted in no reportable deficiencies.

4. Allocation of 3,700 kW of Hydro Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve one allocation of available Replacement Power ('RP') and two allocations of available Expansion Power ('EP'), totaling 3,700 kW.

BACKGROUND

"Under the RP Settlement Agreement, Niagara Mohawk Power Corporation ('NiMo'), with the approval of the Authority, identifies and selects certain qualified industrial companies to receive delivery of RP. Qualified companies are current or future industrial customers of NiMo that have or propose to have manufacturing facilities for the receipt of RP within 30 miles of the Authority's Niagara Switchyard. RP is the 445,000 kW of firm hydro power generated by the Authority at its Niagara Power Project ('Project') that has been made available to NiMo pursuant to the Niagara Redevelopment Act.

"Under Section 1005 (13) of the Power Authority Act, the Authority may contract to allocate or reallocate directly, or by sale for resale, 250 MW of firm hydroelectric power as EP to businesses in the state located within 30 miles of the Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

DISCUSSION

"On October 22, 2003, the Authority, NiMo, Empire State Development Corporation and the Buffalo Niagara Enterprise signed a Memorandum of Understanding ('MOU') that outlines the process to coordinate marketing and allocating Authority hydro power. Its intent is to better use the value of this resource to improve the economy of Western New York and the State of New York. Nothing in the MOU changes the legal requirements applicable to the allocation of hydro power. The entities noted above have formed the Western New York Advisory Group ('Group').

"The Group recommends that the available power be allocated among three companies, as set forth in Exhibits '4-A' and '4-B.' The exhibits show, among other things, the amount of power requested by each company, the recommended allocation and additional employment and/or capital investment, payroll information and contract term. These projects will help maintain and diversify Western New York's industrial base and provide new employment opportunities. They are projected to result in the creation of 899 jobs.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocation of 600 kW Replacement Power and 3,100 kW of Expansion Power to the companies listed in Exhibits '4-A' and '4-B.'

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

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

RESOLVED, That the allocation of 600 kW of Replacement Power and 3,100 kW of Expansion Power, as detailed in Exhibits "4-A" and "4-B" be, and hereby is, approved on the terms set forth 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 agreements, certificates and other documents to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

New York Power Authority
Replacement Power
Recommendations for Allocations

Exhibit "4-A"
April 27, 2004

Exhibit Number	Company Name	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage Benefits	Power Recommended (kW)	Contract Term (1)
A-1	Time Release Sciences, Inc.	Buffalo	Erie	600	206	$3,600,000	$22,000	**600**	Until 8/31/07
	Total RP Recommended			600	206	$3,600,000	$22,000	**600**	

(1) The Niagara Project license and the resale agreement with Niagara Mohawk (NS-1) expires on August 31, 2007.

Exhibit “4-A1”
April 27, 2004

APPLICATION SUMMARY

Replacement Power

Company:	Time Release Sciences, Inc.
Location:	Buffalo, New York
County:	Erie
IOU:	Niagara Mohawk Power Corporation
Business Activity:	Manufacturer of consumer cleaning products
Project Description:	The company plans to add five to eight new packaging lines for the Magic Eraser, which is a foam sponge product Included in each line will be die-cutting and debasing operations. The company is currently using 53,000 sq. ft. and will be moving to a new 90,000-sq.-ft. facility. The total project cost is $3,600,000, including building improvements and new equipment.
Prior Application:	No
Existing Allocations:	None
Power Request:	600 kW
Power Recommended:	600 kW
Job Commitment:	
Existing	108 jobs
New	206 jobs
New Jobs/Power Ratio:	343 jobs/MW
New Jobs – Avg. Wage and Benefits:	$22,000
Capital Investment:	$3,600,000
Capital Investment Per MW:	$6,000,000/MW
Summary:	Time Release Sciences, Inc. is a leading producer of custom-blended foam formulations and material used in a wide variety of industries, from automotive and health care to industrial and electronics. The company’s customers meet the requirements of a broad range of applications, such as cushion pads, shock insulation, medical devices and consumer products. The company provides turnkey solutions for custom-blended foam formulations.

New York Power Authority
Expansion Power
Recommendations for Allocations

Exhibit "4-B"
April 27, 2004

Exhibit Number	Company Name	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage & Benefits	Power Recommended (kW)	Contract Term (1)
B-1	GEICO	Amherst	Erie	1,600	650	$40,000,000	$39,000	**1,600**	5 years
B-2	Wilson Greatbatch Technologies, Inc.	Clarence	Erie	1,500	43	$40,000,000	$28,000	**1,500**	5 years
	Total EP Recommended			3,100	693	$80,000,000	$67,000	**3,100**	

(1) Expansion Power resale agreements with NYSEG and NIMO have automatic extension provisions until 2013 should the Niagara Project license be extended.

APPLICATION SUMMARY

Expansion Power

Company:	Government Employees Insurance Company (GEICO)
Location:	Amherst, New York
County:	Erie
IOU:	Niagara Mohawk Power Corporation
Business Activity:	Automobile insurance company
Project Description:	The nation's fifth largest auto insurer is setting up a new national service center in Amherst that will ultimately house up to 2,500 employees in customer, sales and claims positions. The 250,000-square-foot building, which will be leased for 20 years, is expected to be completed within 18 months.
Prior Application:	None
Existing Allocations:	None
Power Request:	1,600 kW
Power Recommended:	1,600 kW
Job Commitment:	
Existing	86 jobs
New	650 over three years (2,500 jobs once at full capacity)
New Jobs/Power Ratio:	406 jobs/MW
New Jobs – Avg. Wage and Benefits:	$39,000
Capital Investment:	$40,000,000
Capital Investment Per MW:	$25,000,000/MW
Summary:	Incorporated in 1937, GEICO is the largest direct marketer and the fifth largest private passenger auto insurance company in the United Stated, based on direct written premiums. GEICO is a wholly owned subsidiary of Berkshire Hathaway, Inc. The company is requesting power for two locations: John Muir Drive, which is a temporary site, and Crosspoint Parkway, the company's main site. Once the Crosspoint Parkway site is fully occupied, the company's allocation will be used solely at that site.

Exhibit "4-B2"
April 27, 2004

APPLICATION SUMMARY

Expansion Power

Company:	Wilson Greatbatch Technologies, Inc.
Location:	Alden, New York
County:	Erie
IOU:	New York State Electric and Gas Corporation
Business Activity:	Developer and manufacturer of batteries used in medical devices
Project Description:	The company is purchasing and expanding a building that will be used to manufacture medical-grade implantable batteries. The investment in the facility is expected to be nearly $40 million. The investment includes property acquisition, construction, manufacturing equipment and other miscellaneous expenses.
Prior Application:	Yes
Existing Allocations:	PFJ - 1,200 kW (expires 12/31/05)
Power Request:	1,500 kW
Power Recommended:	1,500 kW
Job Commitment:	
Existing	325 jobs
New	43 jobs
New Jobs/Power Ratio:	29 jobs/MW
New Jobs – Avg. Wage and Benefits:	$28,000
Capital Investment:	$40,000,000
Capital Investment Per MW:	$26,666,666/MW
Summary:	Wilson Greatbatch is a leading developer and manufacturer of power-source wet tantalum capacitors and precision-engineered components and sub-assemblies used in implantable medical devices, as well as for demanding commercial applications. Additionally, the company provides the power to meet the rigorous demands of aerospace, military, oil and gas exploration/extraction and oceanographic applications.

5. 2003 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 2003 Annual Report of Procurement Contracts (Exhibit '5-A3') and the Guidelines for Procurement Contracts (Exhibit '5-A2'), and to review open service contracts exceeding one year that were active in 2003 (Exhibit '5-A3'). An Executive Summary of the Annual Report is attached as Exhibit '5-A1.'.

BACKGROUND

"Section 2879 of the Public Authorities Law ('PAL') governs the administration and award of procurement contracts equal to or greater than $5,000. 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 Guidelines were approved by the Trustees at their meeting of October 31, 1989 and were implemented on January 1, 1990 and have been amended annually as necessary.

"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 on any changes to the Guidelines during the year and specific information regarding procurement contracts. The following information must be provided:

> *[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 one year and awarded after January 1, 1990, are also included in the Annual Report.

DISCUSSION

"The 2003 Annual Report of Procurement Contracts is attached for review and approval by the Trustees (Exhibit '5-A3'). 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 2003, including contracts awarded from 1990 through 2003 that were completed in 2003 or were extended into 2004 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 27, 2004 (Exhibit '5-A2'), is attached to the Report. These Guidelines have been amended with two substantive changes to the version approved last year. The revisions are indicated below.

"In response to Executive Order 127, the Authority has adopted a policy (the 'Policy') consistent with New York State policy providing for increased disclosure in the public procurement process through identification of persons or organizations whose function is to influence procurement contracts, public works agreements and real property transactions. The Guidelines have been amended as follows:

Page 10, Section 7 'Contract Provisions,' Paragraph B listing of 'Contract Attachments,' insert:

> '9. Appendix 'J' (Bidder/Contractor Compliance with Authority Policy Providing for Certain Procurement Disclosures)' (see Exhibit '5-B').

"Also, to further define the category of non-procurement contracts, funding agreements, co-funding agreements and grants have been included in the definition as follows:

Page 1, Section 2 DEFINITIONS, Paragraph A, fourth sentence shall be amended to read:

> 'In addition, Procurement Contracts shall not include funding agreements, co-funding agreements, grants or 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.'

"The Guidelines generally describe the Authority's process for soliciting proposals and awarding contracts. Topics detailed in the Guidelines include solicitation requirements, evaluation criteria, the 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 2003 Annual Report of Procurement Contracts, the Guidelines for Procurement Contracts and the review of open service contracts as attached hereto in Exhibits '5-A2' and '5-A3.'

"The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Corporate Services and Administration, the Vice President – Controller and Acting Chief Financial Officer and I concur in the recommendation."

Mr. Hoff presented an overview of staff's recommendations to the Trustees and recognized Ms. Gil for her work on the annual report. On behalf of the Trustees, Chairman Ciminelli thanked Mr. Hoff and Ms. Gil for their efforts.

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 (Exhibit "5-A3") and the Guidelines for the use, awarding, monitoring and reporting of Procurement Contracts (Exhibit "5-A2"), as amended below, be, and hereby are, approved as follows:

> **Page 10, Section 7 "Contract Provisions", Paragraph B listing of "Contract Attachments," insert:**
>
> > **"9. Appendix "J" (Bidder/Contractor Compliance with Authority Policy Providing for Certain Procurement Disclosures)" (see Exhibit "5-B")**

Page 1, Section 2 <u>DEFINITIONS ,</u> Paragraph A, fourth sentence shall be amended to read:

> **"In addition, Procurement Contracts shall not include <u>funding agreements, co-funding agreements, grants or</u> 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."**

AND BE IT FURTHER RESOLVED, That the open service contracts exceeding one year (Exhibit "5-A3") 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 agreements, certificates and other documents to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

Exhibit "5-A1"
April 27, 2004

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 by being a leader in conservation, energy efficiency, electrotechnologies 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.

In 2003, the Authority solicited proposals for new turbine runners for the St. Lawrence LEM Project, as well as for other major equipment in support of the Niagara upgrade. The Procurement and Real Estate Division also continued to provide significant support to the 500 MW Combined Cycle Project.

The Authority also continued a major effort to install new energy-efficient lighting fixtures and ballasts in State, local, and municipal government facilities and public schools throughout the State.

Other energy efficiency efforts include the Non-Electric End Use Program and the Electrotechnologies Program in public facilities that uses alternative-fuel energy technologies; a Coal Conversion Program for New York City 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-up trucks and buses) throughout the 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, as well as with 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 on January 1, 1990, and have been amended annually as necessary. A copy of the Guidelines for Procurement Contracts, effective April 27, 2004 (Exhibit "A-2"), is attached to the Report. These Guidelines have been amended with two substantive changes to the version approved last year. The revisions are indicated below.

In response to Executive Order 127, the Authority has adopted a policy ("Policy") consistent with New York State policy providing for increased disclosure in the public procurement process through identification of persons or organizations whose function is to influence procurement contracts, public works agreements and real property transactions. The Guidelines have been amended as follows:

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

> "9. Appendix "J" (Bidder/Contractor Compliance with NYPA Policy Providing for Certain Procurement Disclosures)"

Also, to further define the category of non-procurement contracts, funding agreements, co-funding agreements and grants have been included in the definition as follows:

Page 1, Section 2 DEFINITIONS , Paragraph A, fourth sentence shall read:

> "In addition, Procurement Contracts shall not include funding agreements, co-funding agreements, grants or 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."

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 2003 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 procurements under $5,000, the SAP procurement and materials management system, as well as supporting the requirements of our operating and capital projects and headquarters operations.

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

The Credit Card Procurement System is used to procure goods and services valued under $5,000. At the end of 2003, the Authority had 150 cardholders in both headquarters and operating facilities. Credit card transactions averaged 900 per month, with an average monthly value of $430,000, totaling more than $5,100,000 (compared to nearly $5,300,000 in 2002).

(2) Negotiated Savings Program

The procurement staff at the Authority established a goal of achieving $6,500,000 in additional savings by negotiating improved pricing and other commercial terms with recommended low bidders and resolving back charges and claims with the Authority's outside vendors and contractors. In 2003, the actual value of such savings was $6,400,000, ranging from improved pricing terms for the 500 MW Combined Cycle Plant at Poletti, contracts in support of Energy Efficiency Programs, and the Niagara LEM Project.

(3) Supplier Diversity Program ("SDP")

In 2003, the Power Authority continued to optimize the use of M/WBEs providing goods and services in support of Authority operations. As noted in Attachment I, in 2003, the Authority awarded nearly $23,000,000 for goods and services to M/WBE firms. This included direct and indirect procurements of office supplies, computer equipment, chemicals, consulting services, temporary engineering personnel and design. A large percentage of the 2003 M/WBE expenditures were in support of the 500 MW project.

In 2003, 9.4% of total reportable procurement expenditures were for M/WBEs, exceeding the Authority's 7% goal.

The Authority includes subcontracting goals for M/WBE firms in nonconstruction procurements of more than $25,000 and construction procurements of more than $100,000. Staff will continue to pursue other direct and indirect procurement opportunities wherever possible, including the 500 MW Combined Cycle Plant, as previously mentioned. 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. Significant goals have already been reached on this project and staff expects to achieve even higher goals going forward.

The Authority has also focused on increasing opportunities for M/WBE firms to participate in investment banking activities and Treasury bill investments, as well as including an M/WBE firm as a co-manager in the Tax-Exempt Commercial Paper Program. In 2003, M/WBE investment banking firms purchased and sold more than $518,000,000 (in principal) of securities transactions for the Authority.

In June 2003, the Authority hosted its 13th Annual Purchasing Exchange for Minority and Women-Owned Businesses in White Plains. For the second time, the Authority hosted an upstate Purchasing Exchange in Buffalo in October 2003. The success of the event launched plans for annual upstate exchanges. Based on the substantial 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, the Association of Minority Enterprises of New York, the New York/New Jersey Minority Purchasing Council, the Westchester and Long Island Hispanic Chamber of Commerce, Professional Women in Construction and the African American Chamber of Commerce for Westchester and Rockland Counties.

(4) Inventory Classification Program; Kitting and Staging of Material

In 2003, the Authority completed reclassification of approximately 80,000 inventory items at its operating facilities, using a common nomenclature for all inventory items, with an overall objective of standardizing classification of these items at all Authority facilities. This was a major effort requiring coordination with both plant material management and planning and maintenance personnel. The intent is to expand the classification system to Maximo users in 2004.

In addition, material management and Procurement personnel worked closely with operating facilities staff to explore opportunities for kitting and staging materials to support specific work orders issued by Materials Resource Management (MRM) planners at the facilities. By optimizing kitting and staging of materials, the efficiency of the Authority's craft personnel should also be increased. This will continue to be a major effort in 2004, with a pilot program beginning at St. Lawrence for preventive maintenance tasks eventually expanded to LEM work orders.

ANNUAL REPORT - 2003 PROCUREMENT CONTRACTS

The Annual Report includes specific details of procurements of $5,000 or greater awarded since January 1, 1990 that were active in 2003. There were 2151 such contracts with an estimated value of more than $2.2 billion, which also includes fossil fuel and corporate finance expenditures. More than $514 million was for the purchase of major equipment and construction of the 500 MW Combined Cycle Project, of which approximately $240 million was for the purchase of major equipment.

Total procurement expenditures in 2003 exceeded $640 million. This included more than $277 million for the purchase of fossil fuels.

Approximately 62% of the contracts active in 2003 were closed in 2003.

As noted in Attachment II:

- Approximately 9% of these contracts were for construction work;
- More than 58% were for the purchase of equipment and commodities;
- More than 9% were for consulting contracts (e.g., engineering, design, specialized analysis);
- Other services, such as technician work and contracted personnel, accounted for 24%;

It should also be noted that while approximately 51% of the 2003 nonfuel contracts covered by the Report exceeded $25,000, the total value of those contracts was approximately 99% of the total nonfuel expenditures.

Attachment III indicates that, based on the total value of the contracts included in the Annual Report, approximately 95% of the total dollars expended (including fuels and corporate finance) were for contracts that were competitively bid. In terms of the numbers of contracts processed (Attachment IV), approximately 73% were competitively bid and 27% were sole-source awards. Major reasons for the sole-source awards included the purchase of spare parts and services from original equipment manufacturers and procurement of services on an emergency basis and from proprietary sources.

Exhibit 5-A1

April 29, 2004

Attachment I
2003 M/WBE Total Procurement Dollars Spent

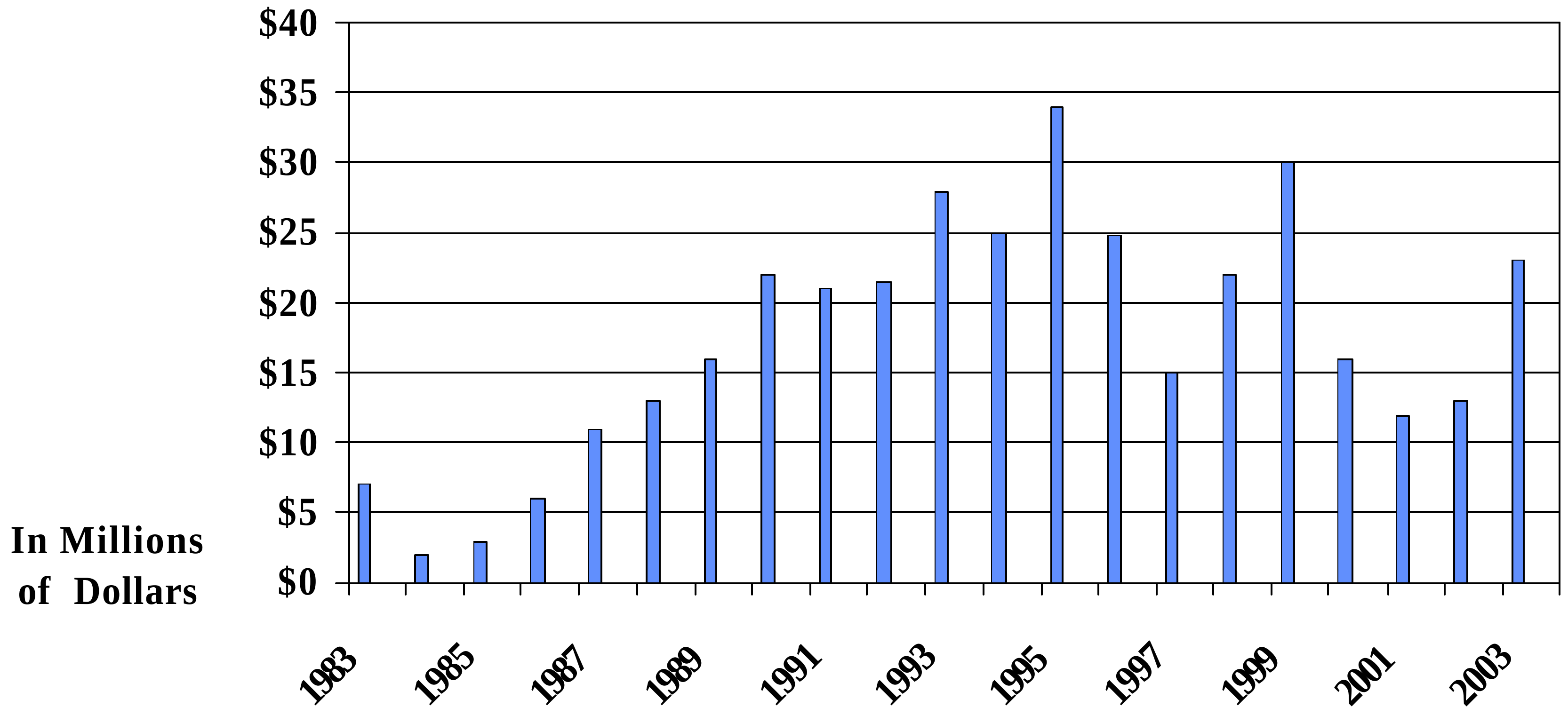
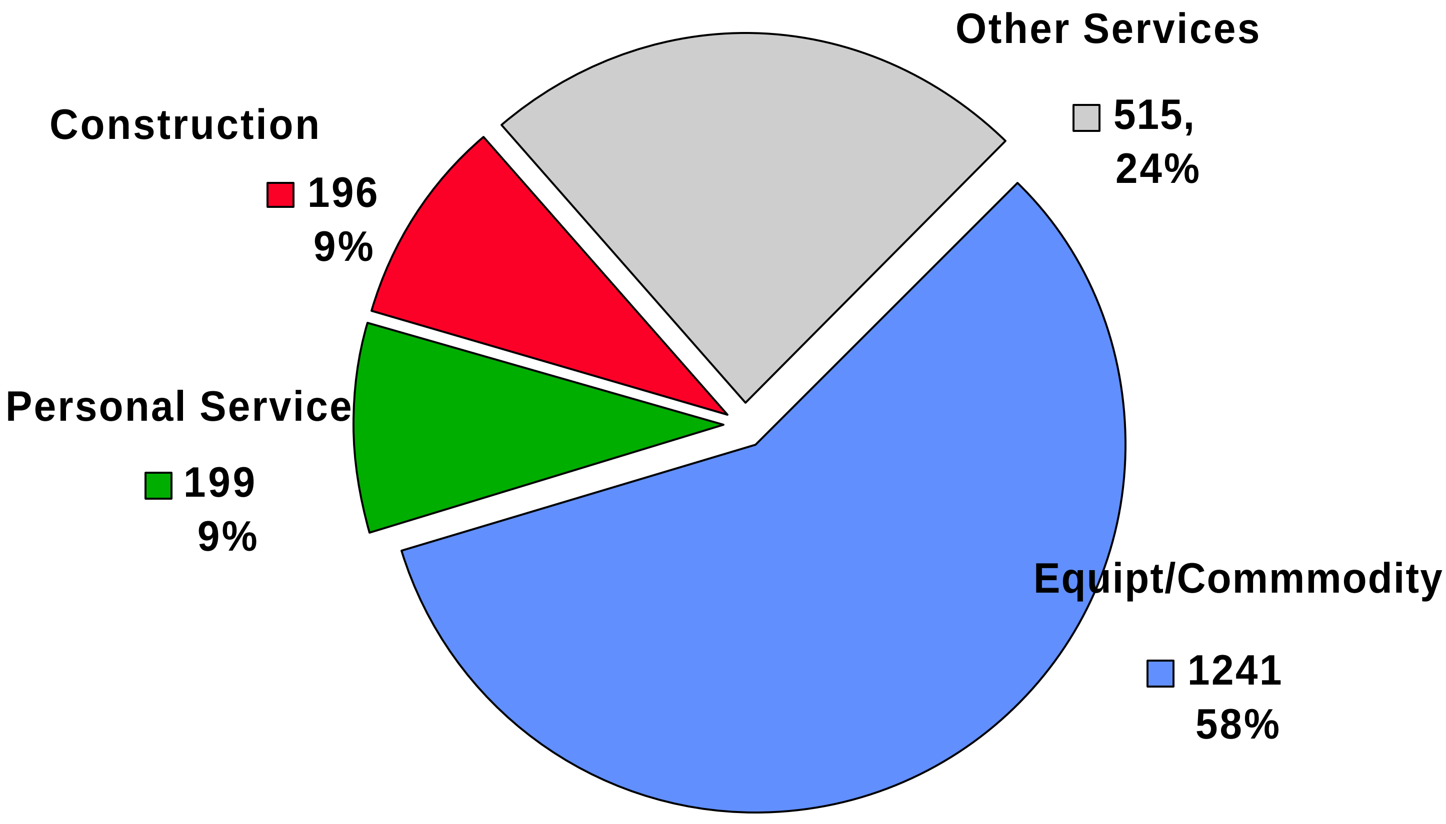


Exhibit 5-A1
April 29, 2004

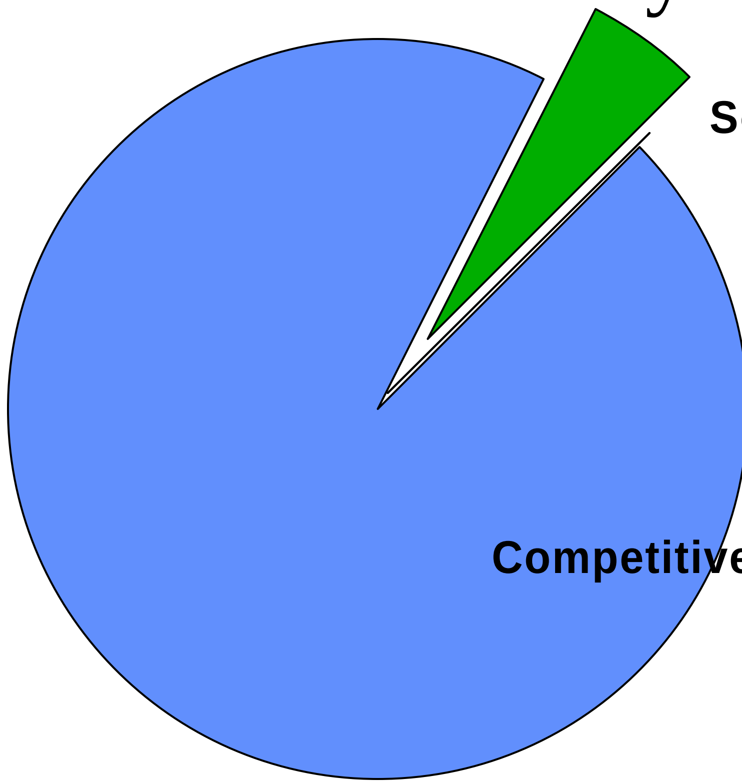
Attachment II
2003 Procurements
Type of Contract



2003 Total number of Contracts 2151

Exhibit 5-A1
April 29, 2004

Attachment III
2003 Procurements
Method of Award by Dollar Value



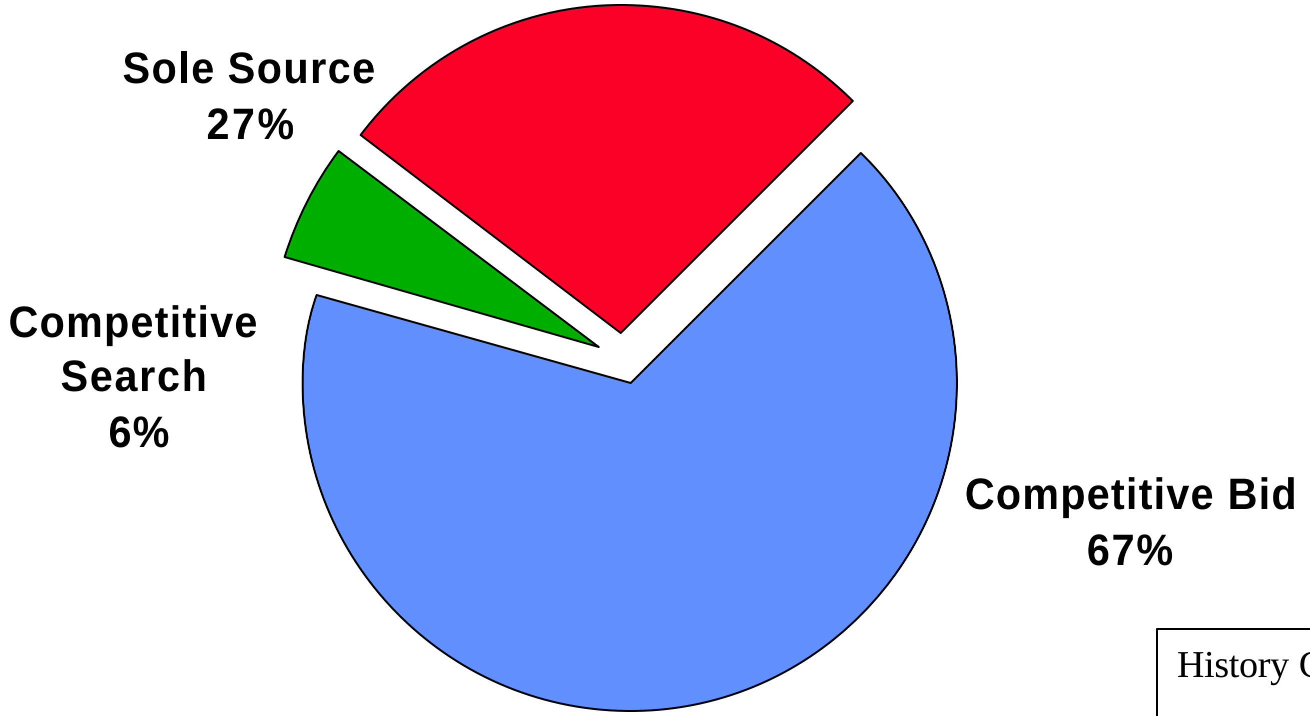
History Competitive Bid/Search

2001	96%
2002	97%
2003	95%

2003 Total Contract Award Amount $2,245,000,000

Exhibit 5-A1
April 29, 2004

Attachment IV
2003 Procurements
Method of Award by Volume of Contracts



History Competitive Bid/Search
2001 71%
2002 70%
2003 73%

2003 Total Number of Contract 2151

Exhibit "5-A2"
April 27, 2004

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 in Section 2 below. 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 $5,000 or more. Such goods and/or services shall consist of all those necessary to support the Authority's Headquarters Facilities and 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, 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 funding agreements, co-funding agreements, grants or 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 who are not officers or employees of the Authority) for a fee or other compensation. Services Contracts comprise 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. Prospective bidders on Procurement Contracts may be prequalified by invitation. In such cases, proposals will be requested only from those providers and/or firms whose prequalification 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/WBEs"), solicit offers from M/WBEs known to have experience in the area of goods and/or services to be provided, regardless of the type of contract. For the purpose of these Guidelines, an M/WBE shall be any business enterprise at least 51% of which is owned by blacks, Hispanics, Native Americans ("Indians"), Asians, Pacific Islanders and/or 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. To foster increased use of M/WBEs, a single proposal may be sought, negotiated and accepted for purchases of goods or services not exceeding $5,000 from a New York State-certified M/WBE that offers a reasonable price for such goods 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, a New York State business enterprise shall mean a business enterprise, including a sole proprietorship, partnership or corporation that offers for sale or lease or other form of exchange, goods sought by the Authority that are substantially manufactured, produced or assembled in New York State or services sought by the Authority that are substantially performed within New York State as further described in Public Authorities Law §2879.

2. For the purpose of this section, a New York State resident means a person who maintains a fixed, permanent and principal home in New York State to which such person, whenever temporarily located, always intends to return as further described in Public Authorities Law §2879.

3. For the purpose of this section, a foreign business enterprise shall mean a business enterprise, including a sole proprietorship, partnership or corporation, that offers for sale, lease or other form of exchange, goods sought by the Authority that are substantially produced outside New York State, or services sought by the Authority that are substantially performed outside New York State 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 list 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 cost savings 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 that 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 that 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 that 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 the New York State Department of Economic Development to be included in the weekly New York State 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 requirements or preferences; (7) a statement as to whether the contract requirements may be fulfilled by a subcontracting, joint venture, or coproduction 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 the New York State Department 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 New York State Contract Reporter. A minimum of 15 business days shall be allowed between the date of publication of such notice 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 rebid or resolicited for substantially the same goods or services, within 45 business days after the date bids or proposals were originally due; and/or Procurement Contracts awarded to not-for-profit providers of human services.

In addition, this provision shall not apply to contracts for differences, 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 purchases: (1) on the spot market; (2) that require a completion time less than the time limits for noticing in the Contract Reporter; or (3) 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 its policy to be 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 – 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 on market conditions, at least five 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, résumés 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 time for an 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, resoliciting proposals and/or possibly modifying the scope of work; (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 resolicited 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 lowest-priced firm submitting a proposal that 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 ("EAPs"), and should be based on 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 that 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 in the form of a memorandum by the unit requiring the goods and/or services. The recommendation will include an evaluation of proposals as specified in Section 4, above, as well as proposed specific compensation terms that 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 person-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 bond (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 EAPs. Extending a contract for services with an initial duration of less than 12 months beyond 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 that 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 an authorized designee in accordance with existing EAPs.

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" contract with no fixed term that 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, that 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") shall be considered a separate commitment and be separately approved in accordance with the EAPs.

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 and/or 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. Authority signatories of such letters must be authorized to approve contract awards pursuant to existing EAPs.

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 $1,000,000 simultaneous with notifying the successful bidder therefor. The Authority shall not enter into the Procurement Contract for said goods until at least 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 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 that 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 <u>solely</u> 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 that 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 therefor 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

<u>Contract Attachments</u>

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" (Background Security Screening for Authority Contractors)
7. Appendix "E" (Omnibus Procurement Act of 1992 Requirements)
8. Appendix "G" (EEO Requirements)
9. Appendix "J" (Bidder/Contractor Compliance with Authority Policy Providing for Certain Procurement Disclosures)

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, that require the immediate performance of work by a firm already under contract;

4. Rebidding would not be practical or in the best interests of the Authority's customers; and

5. To 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 EAPs, 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 that such person was directly concerned with and personally participated in during his or her 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 statewide office of M/WBE development that is responsible for developing rules and regulations for implementation of this statute, certifying M/WBE firms and reviewing and monitoring goal plans, compliance reports, and contract provisions to be included in all nonconstruction contracts for more than $25,000 and construction contracts for more than $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 that 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 subcontract a portion of the work to certified M/WBE firms, as required by law. Bidders' proposals shall include Preliminary Subcontracting Plans for M/WBE firms, where required, as part of their proposal, 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 an annual report to the Trustees for their approval that shall include:

1. Copy of the Guidelines;
2. Explanation of the Guidelines and any amendments thereto since the last annual report;
3. 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. List of fees, commissions or other charges paid;
5. 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 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 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.

VOLUMINOUS DOCUMENT

COPIES CAN BE OBTAINED FROM THE SECRETARY’S OFFICE

APPENDIX J

BIDDER/CONTRACTOR COMPLIANCE WITH

NEW YORK POWER AUTHORITY POLICY

PROVIDING FOR CERTAIN PROCUREMENT

DISCLOSURES

I. Disclosure of Persons or Organizations

The New York Power Authority has adopted a policy (the “Policy”) which is consistent with New York State policy providing for increased disclosure in the public procurement process through identification of persons or organizations whose function is to influence procurement contracts, public works agreements and real property transactions.

The Authority has determined that this bid document, and any resulting contract, shall be subject to this Policy.

The Policy requires the Authority to obtain identifying information on every person or organization retained, employed or designated by or on behalf of the bidder to attempt to influence the procurement process. The Authority is also obligated to collect information on whether such person or organization has a financial interest in the procurement.

Thereafter, the Policy also requires the Authority to obtain such identifying information on every person or organization subsequently retained, employed or designated by or on behalf of the contractor to attempt to influence the procurement process. A covered agency or authority shall ensure that a contractor informs such agency or authority of persons or organizations subsequently retained, employed or designated by or on behalf of the contractor before the agency or authority is contacted.

In order to comply with these requirements, the bidder/contractor shall provide the Authority, as part of its proposal, with the names, addresses and other pertinent information as shown on the attached Form “J-1”, of all employees, outside firms, or other entities retained, employed, or designated by or on behalf of the contractor to attempt to influence the procurement process including, but not limited to, negotiation of any contract arising from the bid solicitation.

II. Bidder/Contractor Disclosure of Prior Non-Responsibility Determinations

The Policy requires the Authority to make a determination of responsibility of the proposed awardee for a procurement contract. It also mandates consideration of whether a contractor has intentionally provided false or incomplete information under such Policy within the last five years, and whether a contractor has failed to timely disclose accurate and complete information or otherwise cooperate in the implementation of the Policy.

In order to assess this information, Bidder/Contractor shall complete the attached form "J-2".

III. Bidder/Contractor Certification of Compliance with the Policy

The Policy requires that every procurement contract subject to its provisions contain a certification that all information provided to the Authority, as required by this Appendix J, is complete, true and accurate.

Bidder/Contractor shall complete the attached Form "J-3".

Form J-1 **BIDDER/CONTRACTOR DISCLOSURE OF CONTACTS FORM**

Procurement ID Number (RFP or Q No.):______________________________

Bidder/Contractor Name:____

Address:____

Person submitting this form:

Name: __________________________________
Title: __________________________________
Phone: __________________________________

(A) Bidder/Contractor Personnel (***Include company officers, sales or marketing personnel, engineers, lawyers, insurance specialists and other personnel***)

NAME	LOCATION	TITLE	TELEPHONE NO.	FINANCIAL INTEREST in the PROCUREMENT? YES (check one) NO

BIDDER/CONTRACTOR DISCLOSURE OF CONTACTS FORM

Procurement ID Number (RFP or Q No.):______________________________________

Bidder/Contractor Name:____

(B) Outside Person or Organization

NAME & COMPANY	ADDRESS	TITLE (*If applicable*)	TELEPHONE NO.	FINANCIAL INTEREST in the PROCUREMENT? YES (check one) NO

Contractor Disclosure of Prior Non-Responsibility Determinations

Name of Contractor: ______________________________

Address: ______________________________

____

Name and Title of Person Submitting this Form: ______________________________

____

Has any covered agency or authority made a finding of non-responsibility regarding the Contractor in the last five years? (Please circle):

No **Yes**

If yes, was the basis for the finding of the Contractor's non-responsibility due to the intentional provision of false or incomplete information required by New York Power Authority policy or that of another state agency regarding certain procurement disclosures? (Please circle):

No **Yes**

Covered Agency or Authority: ______________________________

Year of Finding of Non-Responsibility: ______________________________

Basis of Finding of Non-Responsibility: ______________________________

____

____

____

____

____

Contractor Certification of Compliance

Contractor certifies that all information provided to the Authority with respect to the Authority's Policy, consistent with New York State policy, providing for Certain Disclosures is complete, true and accurate.

Bid/Contract Number______________________

Contractor Certification:
I certify that all information provided to the Authority with respect to the Authority's Policy providing for certain disclosures is complete, true and accurate.

By (signature):____

Date:____

Name (printed/typed):______________________________________

Title:____

Contractor:____

Address:____

____

6. 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 2005, or until their successors are elected:

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

Mr. Clemente presented an overview of staff's recommendations to the Trustees as to the election of four non-statutory officers for the Authority. Following the election of such officers, Trustee Carey and Vice Chairman McCullough thanked President Zeltmann, Mr. Blabey, Mr. Hiney and Mr. Vesce for a job well done.

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**
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**

7. Municipal and Rural Cooperative Economic Development Program – Allocation to the Delaware County Electric Cooperative

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve an allocation of power under the Municipal and Rural Cooperative Economic Development Program ('Program') to the Delaware County Electric Cooperative ('Cooperative').

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 April 22, 2003, 32,550 kW has 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-MW ratio is considered on a case-by-case basis. For projects involving existing businesses, the number of jobs per MW is the number of new jobs compared to the level of employment prior to the expansion. Specifically, for companies employing 100 or less, the target ratio is 25 jobs per MW; for companies employing 101 to 250, the ratio is 50 jobs per MW; for companies employing 251 to 500, the ratio is 75 jobs per MW; and for companies employing more than 500, the ratio is 100 jobs per MW.

"The Cooperative has submitted an application for Program power for the Trustees' consideration.

DISCUSSION

"An application has been submitted by the Cooperative on behalf of Sportsfield Specialties, Inc. ('Sportsfield'). Sportsfield, a privately-held corporation formed in 1998 as a marketing company, is a subsidiary of Clark Companies ('Clark'). The company markets sports construction-related products such as long-jump pits, foul poles, vault boxes, press boxes, lane gates, football goalposts, soccer goals and various other track and field equipment. Until now, all marketed products were manufactured by other companies, but Sportsfield is now venturing into the manufacture of those products. Its objectives are to increase market penetration, enter new markets and introduce new products.

"Sportsfield will be moving into a new 16,400-square-foot building attached to an existing 6,000-square-foot storage building on State Highway 10 in Delhi. The total investment in this project is approximately $1.5 million, $750,000 for the building and $750,000 for manufacturing and fabrication equipment. The new facility will create 25 new jobs in the first year, adding revenue to the state and local economy. The estimated electrical load for the new facility is 400 kW. It is recommended that the Trustees approve an allocation of 400 kW to the Cooperative, on behalf of Sportsfield.

"The Municipal Electric Utilities Association Executive Committee supports the recommended allocation to the Cooperative.

"The recommended allocation under the Program comprises half hydro power and half incremental power. In accordance with the Authority's marketing arrangement with the municipal and cooperative customers, the hydro power will be added to the recipient system's contract demand at the time a project becomes operational. The hydro power earmarked for this Program is presently sold to the municipal and cooperative customers on a withdrawable basis. Since the Cooperative is a full-requirements customer, the incremental power will also be purchased from the Authority.

<u>RECOMMENDATION</u>

"The Senior Vice President – Marketing, Economic Development and Supply Planning recommends that the Trustees approve the allocations of power under the Municipal and Rural Cooperative Economic Development Program to the Delaware County Cooperative, Inc. 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 an overview of staff's recommendations to the Trustees. In response to a question from Chairman Ciminelli, Mr. Banner said that half of the 400 kW being allocated is part of the 752 MW of hydro power assigned to the State's 51 electricity cooperatives and municipal utilities and that the other half is non-hydro incremental power. Vice Chairman McCullough said that it was gratifying to see the allocation tied into capital improvements.

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

RESOLVED, That the allocation of power to the Delaware County Electric Cooperative, Inc. under the Municipal and Rural Cooperative Economic Development Program is 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 and Supply Planning or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable, subject to the 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 certificates, agreements 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. Oneida-Madison Electric Cooperative, Inc. – Increase in Retail Rates
Notice of Adoption

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Board of the Oneida-Madison Electric Cooperative ('Cooperative Board') has requested the Trustees to approve revisions in the Oneida-Madison Electric Cooperative's ('Cooperative') retail rates for each customer service classification. These revisions will result in additional total annual revenues for the Cooperative of about $224,000, or 13.9%.

BACKGROUND

"The Cooperative Board has requested the proposed rate increase primarily to provide revenues to allow for sufficient working funds to meet significant forecasted increases in operation and maintenance expenses, meet debt service for current and planned debt, allow for sufficient working capital funds, build cash reserves to maintain Federal Government Regulatory financial ratio level requirements and for Coop Members' Patronage Capital distribution. The last time the Cooperative's electric system revenues were increased was in 1988.

"The Cooperative Board has planned additions to plant-in-service amounting to $1,070,000, to upgrade and expand its electric system. The capital program includes $860,000 for upgrades to its extensive distribution system and to accommodate future growth. The remaining $210,000 is planned for the purchase of three trucks, one Bucket truck and two Pick-up trucks. The Cooperative Board plans to debt-finance all new expenditures by issuing a 30-year, $1,070,000 Serial Bond.

"Under the Cooperative's new rate structure, a new class for seasonal customers ('Seasonal') has been created. These customers currently pay 11.3 cents per kWh and will pay 12.9 cents per kWh under the new class and after the rate increase. The residential class rate increases from 8.5 cents per kWh to 9.7 cents per kWh, and the commercial class from 10.4 cents per kWh to 12.0 cents per kWh after the rate increase.

"The proposed rate revisions are based on a cost-of-service study prepared by the Cooperative and reviewed by Authority staff. Pursuant to the approved procedures, the Senior Vice President – Marketing, Economic Development and Supply Planning requested the Secretary to file a notice for publication in the New York State Register of the Cooperative's proposed revisions in retail rates. Such notice was published on March 10, 2004. A public hearing was held by the Electric Cooperative on February 10, 2004.

DISCUSSION

"No comments from the rate payers were received at the public hearing held by the Oneida-Madison Electric Cooperative on February 10, 2004. In addition, no comments concerning the proposed action have been received by the Authority's Secretary. Therefore, the Cooperative Board is requesting that the proposed rates be approved.

"An expense and revenue summary, comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits '8-A,' '8-B' and '8-C,' respectively.

RECOMMENDATION

"The Director – Electric Systems Marketing and Customer Billing recommends that the attached schedule of rates for the Oneida-Madison Electric Cooperative be approved as requested by the Cooperative Board, to take effect beginning with the first full billing period following the date this resolution is adopted.

"It is also recommended that the Trustees authorize the Secretary to file notice of adoption with the Secretary of State for publication in the New York State Register and to file such other notice as may be required by statute or regulation.

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

Mr. Banner presented an overview of staff's recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Banner said that the relatively high cost per kilowatt-hour (average of 9.9 cents) for the co-op was due to the fact that the co-op has more than 200 miles of distribution line to serve its rural customers, while municipal utilities generally have only 20-25 miles of distribution line.

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

RESOLVED, That the proposed rates for electric service for the Oneida-Madison Electric Cooperative, New York, as requested by such Cooperative Board, be approved, to take effect with the first full billing period following this date, 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, authorized to file a notice of final adoption with the Secretary of State for publication in the New York State Register and to file any other notice required by statute or regulation; 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.

Exhibit "8-A"
April 27, 2004

Oneida-Madison Electric Cooperative, Inc.
Expense and Revenue Summary

	Five-Year Average	Proposed[1]
Purchase Power Expense (NYPA hydro and incremental)	$ 410,593	$ 524,594
Distribution Expense (Coop-owned facilities)	295,009	306,950
Depreciation Expense (on all capital facilities and equipment)	148,755	196,091
General, Administrative & Others (Salary, Insurance, Management services and Administrative expenses)	329,099	331,867
Rate of Return – (average 6.8%, proposed 7.7%) (Includes debt service on current and planned debt, Federal Government Regulatory financial ratio level requirement, Coop Members' Patronage Capital distribution and cash reserves for contingencies)	290,190	482,213
Total Cost of Service	$1,473,646	$1,841,715
Revenue at Present Rates		1,617,676
Deficiency at Current Rates		224,039
Revenue at Proposed Rates		$1,841,715
Increase % at Proposed Rates		**13.9%**

[1]Based on five years of historical and projected data.

Exhibit "8-B"
April 27, 2004

Oneida-Madison Electric Cooperative
Comparison of Present and Proposed Annual Total Revenues

SERVICE CLASSIFICATION	PRESENT REVENUE	PROPOSED REVENUE	% INCREASE
Residential SC1	$1,476,849	$1,679,889	13.8
Seasonal SC2	$71,810	$82,401	14.8
Commercial SC3	$42,305	$49,026	15.9
Security Lighting SC4	$26,712	$30,398	13.8
Total	$1,617,676	$1,841,715	13.9

Exhibit "8-C"
April 27, 2004

Oneida-Madison Electric Cooperative
Comparison of Present and Proposed Net Monthly Rates

Present[1] Rates		Proposed[1] Rates
	Residential SC1	
$6.80	Customer Charge	$10.00
$ .07848	Energy Charge, per kWh	$ .08700
	Seasonal SC2	
$6.80	Customer Charge	$10.00
$ .07716	Energy Charge, per kWh	$ .07700
	Commercial SC3	
$6.00	Demand Charge, per kW	$9.00
$ .08448	Energy Charge, per kWh	$ .09128
	Security Lighting SC4 (Charge per lamp, per month)	
$7.00	175 Mercury Vapor	$ 7.97

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[1]Average annual purchase power adjustment (PPA) reflected in present and proposed rates.

9. Authorization of Commodity Broker Agreements for Hedging Purposes, Additional NYMEX Transaction Authorizations and Creation of Marginal Reserve Fund

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize: (a) the selection of commodity brokers and the execution of commodity broker agreements by the Vice President – Energy Resource Management to allow the effectuation of gas and oil price hedging strategies; (b) providing collateral pursuant to such commodity broker agreements; (c) the President and Chief Executive Officer, the Executive Vice President – Power Generation and the Vice President – Energy Resource Management to approve hedging transactions of up to 36 months in duration on the New York Mercantile Exchange ('NYMEX'), with the aggregate value of such outstanding NYMEX transactions not to exceed $90 million at any one time; (d) the Vice President – Energy Resource Management to take such actions relating to such NYMEX hedging transactions as he deems necessary or advisable; and (e) the creation in the Authority's Operating Fund of a NYMEX Margin Reserve Fund.

DISCUSSION

"The Authority's customer electric rates are specified by contract, but the Authority's fuel costs are variable and often volatile. To implement effective gas or oil price hedging strategies, staff intends, subject to Trustee approval of this approach, to execute transactions on NYMEX. The use of NYMEX futures and options contracts would reduce or eliminate revenue uncertainty related to fuel price volatility. Examples of the use of such a transaction for hedging purposes are the purchase of natural gas futures contracts and the purchase or sale of options on natural gas futures contracts to lock in a 'spark spread.' A 'spark spread' is a measure of the difference between fuel costs and electric market clearing prices. Other transactions could involve the purchase of futures contracts relating to fuel oil or the purchase or sale of options relating to fuel oil contracts. Appendix 9-1 provides more detail concerning the mechanics and advantages of the use of futures and options contracts.

"Transactions on the NYMEX have the advantage of eliminating counterparty credit risk for the Authority since the NYMEX stands behind all transactions conducted on the exchange.

"Transactions on the NYMEX are executed through commodity brokers licensed to conduct such transactions. The Trustees are requested to authorize the selection of one or more of such brokers by the Vice President – Energy Resource Management and the execution of commodity broker agreements with such brokers selected by the Vice President – Energy Resource Management, including any collateral requirements of such agreements.

"In order to participate in such transactions, the Authority would be required to post collateral, called 'margin,' pursuant to these commodity broker agreements. These margin deposits are in amounts determined in accordance with NYMEX rules, and the deposited monies or securities are kept in segregated depositories.

"To accommodate possible calls for increased margin to be provided by the Authority under the commodity broker agreements due to price volatility (discussed in more detail in Appendix 9-1), staff requests that up to an aggregate of $25 million in collateral be authorized, with additional collateral aggregating up to $10 million in such amounts authorized upon the approval of the President and Chief Executive Officer or, in his absence, the Executive Vice President – Power Generation, and either the Vice President – Energy Resource Management or the Vice President – Chief Risk Officer.

"The Trustees are also requested to allow withdrawal of monies or securities from the Operating Fund to meet these margin requirements even in instances where the Operating Reserve Fund is below $150 million.

"To effectuate these NYMEX transactions, it may become necessary for the Authority to enter into NYMEX contracts of up to 36 months in duration, provided that the aggregate value of such outstanding NYMEX transactions are not to exceed $90 million at any one time. Consequently, in addition to the authority granted by the Trustees to employees and officers under their October 2002 resolution relating to hedge contracts, the Trustees are requested to grant authority to the President and Chief Executive Officer, the Executive Vice President – Power Generation and the Vice President – Energy Resource Management to enter into NYMEX contracts of up to 36 months, subject to the $90 million restriction discussed above.

"In addition, it may be necessary or advisable to terminate these NYMEX contracts prior to their normal expiration, which, in the case of a futures contract, would entail either a payment to the Authority (if market prices have risen) or a payment by the Authority (if market prices have fallen). Consequently, the Trustees are requested to authorize the Vice President – Energy Resource Management or, in his absence, his designee, to take such actions relating to NYMEX contracts as he deems necessary or advisable, including, but not limited to, termination of such contracts and a determination in the case of a futures contract, of whether to financially settle or take physical delivery under the contract.

"The Trustees are also requested to authorize the creation of a NYMEX margin reserve fund (the 'NYMEX Margin Reserve Fund') in the Operating Fund, from which monies or securities may be drawn to pay margin requirements, as described above. The NYMEX Margin Reserve Fund will be funded from monies or securities in the Operating Fund in such amounts as deemed advisable by the Treasurer, up to a maximum at any one time of $35 million, and any margin requirements will be satisfied first by monies or securities drawn from such Fund and then from other monies or securities in the Operating Fund, if necessary. The Treasurer would have the discretion as he deems advisable to transfer monies or securities from the NYMEX Margin Reserve Fund to the Operating Reserve Fund in the Operating Fund.

<u>FISCAL INFORMATION</u>

"Staff estimates that the aggregate cost of such broker services would not exceed $40,000 annually.

"Any payments to be made under NYMEX contracts will be treated as fuel payments to be paid from the Operating Fund.

<u>RECOMMENDATION</u>

"The Vice President – Energy Resource Management recommends that the Trustees: (1) authorize the selection by the Vice President – Energy Resource Management of one or more commodity brokers and the execution by the Vice President – Energy Resource Management of broker agreements with such brokers that have such terms and conditions as he deems necessary or advisable, subject to the approval of the Vice President – Chief Risk Officer and further subject to the approval of the form of such agreement by the Executive Vice President, Secretary and General Counsel or his designee; (2) authorize providing collateral pursuant to such contracts within the above-described limitations; (3) authorize the Vice President – Energy Resource Management to take such actions relating to such NYMEX hedging transactions as he deems necessary or advisable; (4) grant the additional authorizations to the President and Chief Executive Officer, the Executive Vice President – Power Generation, and the Vice President –Energy Resource Management specified above relating to New York Mercantile Exchange contracts; and (5) authorize the creation of the NYMEX Margin Reserve Fund, as described above.

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

Mr. Deasy presented an overview of staff's recommendations to the Trustees. In response to a question from Trustee Carey, President Zeltmann said that the Trustees would be provided with a monthly update on this matter as part of the financial report.

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

RESOLVED, That the Vice President – Energy Resource Management is hereby authorized to select one or more commodity brokers to effectuate transactions on the New York Mercantile Exchange ("NYMEX"); and be it further

RESOLVED, That the Vice President – Energy Resource Management is hereby authorized to execute commodity broker agreements with brokers selected by such officer pursuant to the foregoing resolution, having such terms and conditions as such officer may deem necessary or advisable, subject to the approval of the Vice President – Chief Risk Officer and further subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee; and be it further

RESOLVED, That it is hereby authorized that Authority monies or securities may be used as collateral for such commodity broker agreements, if the terms of such agreements require such collateral, and monies or securities may be transferred from the Operating Fund for such purpose, notwithstanding the fact that at the time of withdrawal the Operating Reserve Fund is below $150 million, provided that:

(1) if a proposed transfer of monies or securities for margin purposes would result in the aggregate amount of such collateral outstanding after such proposed transfer exceeding $25 million, such transfer shall not occur unless the transfer is approved by the President and Chief Executive Officer or, in his absence, the Executive Vice President – Power Generation, and either the Vice President – Energy Resource Management or the Vice President – Chief Risk Officer, and provided further that the aggregate amount of all collateral for margin purposes outstanding at any one time shall not exceed $35 million, and

(2) that prior to any withdrawal for such collateral purpose the Treasurer or the Vice President – Finance shall certify that such amount to be withdrawn is not then needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations; and be it further

RESOLVED, that the creation of a NYMEX margin reserve fund (the "NYMEX Margin Reserve Fund") in the Operating Fund, from which monies or securities may be drawn to pay margin requirements, as described in the foregoing report of the President and Chief Executive Officer, is hereby authorized; that the NYMEX Margin Reserve Fund shall be funded from monies or securities in the Operating Fund in such amounts as deemed advisable by the Treasurer, up to a maximum amount in such Fund at any one time of $35 million; that any margin requirements will be satisfied first by monies or securities drawn from such Fund and then from other monies or securities in the Operating Fund, if necessary; and that the Treasurer shall have the discretion as he deems advisable to transfer monies or securities from the NYMEX Margin Reserve Fund to the Operating Reserve Fund in the Operating Fund; and be it further.

RESOLVED, That the President and Chief Executive Officer, the Executive Vice President – Power Generation and the Vice President – Energy Resource Management are, and each hereby is, in addition to authority granted to them and other employees and officers by the Trustees in their October 2002 resolution, authorized to approve the entry into contracts on the New York Mercantile Exchange relating to the hedging of natural gas and fuel oil prices, of up to 36 months in duration, having such terms and conditions as the approving officer deems necessary or advisable, subject to the approval of the form of such contracts by the Executive Vice President, Secretary and General Counsel or his designee, provided that the aggregate value of such outstanding NYMEX transactions are not to exceed $90 million at any one time; and be it further

RESOLVED, That the Vice President – Energy Resource Management or in his absence, his designee, is authorized to take such actions relating to New York Mercantile Exchange contracts as he deems necessary or advisable, including, but not limited to: (1) approval of the termination of NYMEX contracts prior to their expiration; and (2) the determination of whether to financially settle futures contracts or take physical delivery of such contracts; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, and all other Authority officers 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 resolutions, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

Futures Contracts, Options, Margin Requirements

Futures Contracts

A futures contract is a standardized NYMEX-traded contract purchased by the Authority through a broker. The futures contract would allow the Authority to purchase a specified amount of gas (or fuel oil) in a given time period at a fixed price. Under the futures contract, the Authority could accept delivery or, alternatively, opt for a financial settlement of the contract instead of actual physical delivery. Under a financial settlement, which is the predominant and preferred means of settlement, the Authority would either (1) receive the difference between the futures contract price and the market price, if the market price is higher than the contract price at the time of settlement; or (2) pay the difference, if the market price is lower than the futures contract price.

The financial settlement of a futures contract can be used to fix the price paid by the Authority for natural gas it purchases on the spot market. For example, if the Authority bought a futures contract at the beginning of 2005 for 100,000 MMBtus of natural gas for delivery in July 2005 at $5 per MMBtu, and then at the time of financial settlement at the end of June 2005 (or some earlier time, prior to contract expiration, should the Vice President – Energy Resource Management determine it advantageous to settle at the earlier time), the market price had increased to $6 per MMBtu, the Authority would receive $100,000 in settlement. This $100,000 would, in turn, be used by the Authority to offset the price paid by the Authority on the spot market at the time of settlement (i.e., $6 per MMBtu) for the purchase of 100,000 MMBtus of natural gas.

Purchases of these futures contracts on a periodic basis would serve to mitigate the price volatility in natural gas and fuel oil prices arising from changing market conditions.

Options

The Authority may choose to buy a call option on the NYMEX. A call option on a futures contract would permit the Authority to buy the futures contract if the market price went above a specified, or "strike," price, with such option having a premium associated with it to be paid by the Authority. In effect, it would give the Authority the option to buy at a given time a specified amount of gas at a given price, or benefit from the financial equivalent of such purchase.

The Authority may also buy a put option, which would obligate the counterparty to make payments to the Authority if the market price of gas falls below a specified strike price, the payments to the Authority being equal to the difference between the strike price and the market price. This put option would protect the Authority against a drop in the price of gas, which would result in the sale of its power being uncompetitive.

The Authority may also opt to sell a put option, which would obligate it to pay the difference between a specified, or "strike," price and the market price, if the market price dropped below the "strike" price. As a seller of a put option, the Authority would receive a premium. The put option would only be done in conjunction with a call option to offset the cost of the premium on the call option.

Margin Requirements

In the case of both futures and options, the Authority would be required to post collateral, or “margin,” with the broker. The margin would consist of an initial margin deposit and any additional margin deposit required thereafter due to fluctuations in the market price, each as determined in accordance with NYMEX rules. For example, if the Authority purchased a natural gas futures contract, an initial margin would have to be deposited on the day of execution of the contract. However, if the market price of the natural gas decreased on a given day below a specified point, additional margin (also called a “variation” or “maintenance” margin) would have to be deposited by the Authority the next day to compensate for the drop in price of the natural gas.

Portions of margin deposits may also be returned to the Authority under certain circumstances specified in the NYMEX rules if an Authority’s futures contract has sufficiently increased in value.

10. Procurement (Services) Contract – Robert Moses Niagara Power Project – Dam Face Rehabilitation – Crane-Hogan, Inc. – Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a three-year contract in the amount of $13,400,000 to Crane-Hogan, Inc. ('Crane-Hogan') for the refurbishment of the dam face of the Robert Moses Niagara Power Project ('Niagara Power Project').

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services 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.

DISCUSSION

"The Niagara Power Project was designed and constructed in the late 1950s. Over the years, normal aging has deteriorated the dam face as a result of water leaking through the concrete from the dam interior, road salts, deterioration of the expansion joint seals and weathering.

"This dam face deterioration is apparent in the form of spalling and delaminated concrete. The spalling and delaminated concrete is exposing the reinforcing steel to corrosion, which in turn accelerates the deterioration of the concrete. This condition has not been cited as a structural deficiency, but if left untreated, it could become a safety issue. An inspection of the dam face performed in 1996 showed that approximately 7% of the dam face concrete was delaminated or spalled. Based on subsequent visual inspections, this spalled area is increasing annually.

"To remediate this condition, Authority staff prepared a bid specification to rehabilitate the dam face over a three-year period.

"On March 15, 2004, proposals were received from four bidders in response to a public bid process. The bid prices are summarized below:

Bidders	Bid Prices
Abhe & Suoboda Inc.	$9,990,093
Crane-Hogan, Inc.	$13,348,178
Scrufari Construction	$15,685,360
Oakgrove Construction	$15,836,274

"Consistent with the Authority's bid evaluation procedure, the two lowest bid price proposals were evaluated on the basis of cost, completeness, schedule, warranty, exceptions taken to the bidding documents, experience, quality control, safety and adherence to the Authority's M/WBE participation goals and Equal Employment Opportunity requirement.

"An Evaluation Committee comprising representatives from Procurement, Engineering and Project Management analyzed the bids, met with the bidders to obtain additional information and reviewed all pertinent factors to determine the lowest evaluated and technically qualified proposal. The lowest bidder, Abhe & Suoboda Inc., was disqualified because its construction methodology did not meet the Authority's specification. Abhe &

Suoboda Inc. proposed using an alternative methodology which was used by the Authority in the past and found to be inadequate. The next lowest bidder, Crane-Hogan, was then evaluated. The results of the evaluation indicated that Crane-Hogan's proposal was the lowest qualified bid in terms of price and that it met all the technical and commercial requirements of the bid inquiry. Accordingly, based on Crane-Hogan's low price and technically acceptable proposal, the Trustees are requested to approve the award of a contract to Crane-Hogan for a term of three years.

FISCAL INFORMATION

"Payment will be made from the Operating 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 – Western New York and the Project Manager recommend that the Trustees approve the award of a three-year contract to Crane-Hogan, Inc. in the amount of $13,400,000 for the refurbishment of the Dam Face at the Robert Moses Niagara Power Project.

"The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Corporate Services and Administration, the Vice President – Controller and Acting Chief Financial Officer and I concur in the recommendation."

Mr. Ardolino presented an overview of staff's recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Ardolino said that the process the low bidder proposed to use was unacceptable, since it had been used by the Authority in the past and found to be ineffective. Responding to a question from Chairman Ciminelli, Mr. Ardolino said that the budget for the process had originally been $12 million, but the price of the project was now estimated to be $13.4 million. In response to a question from Trustee Seymour, Mr. Ardolino responded in the affirmative that the price was a lump sum for the work.

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

RESOLVED, That approval is hereby granted to award a multiyear contract to Crane-Hogan, Inc. in the amount and for the purpose listed below:

Contract Award	**Award Amount**	**Projected Completion**
Crane-Hogan, Inc. for Refurbishment of RMNPP Dam Face	**$13,400,000**	**Dec. 30, 2006**

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.

11. Procurement (Services) Contract – St. Lawrence/FDR Power Project – Federal Energy Regulatory Commission – Approved Independent Consultant's Inspection and Analysis

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 and report for the St. Lawrence/FDR Power Project ('Project'), as mandated by the Federal Energy Regulatory Commission ('FERC'). The intended term of the contract is five years for a total projected amount of $190,000.

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 sent a letter to the Authority in November 2003 indicating that these reports were due for submittal in 2004. In February 2004, staff solicited bids from 14 consulting and engineering firms recognized for their experience in providing dam safety and inspection services at FERC-licensed projects. One additional bidder was added to the list as a result of the Authority's notice in the New York State Contract Reporter.

"Bidders were required to submit a detailed proposal in accordance with the request for proposal and scope of work. The five bids received were opened on March 11, 2004. These bids were analyzed and evaluated by a team of staff members from the Power Generation's Engineering Division and the Project.

"PB Power's proposal is complete, competitive and 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 the company has the knowledge and expertise to perform this work.

"PB Power was the lowest evaluated bidder of the five bids received and demonstrates a complete understanding of FERC's requirements for this work. Based on its 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 use 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 FERC's 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 2004 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 and the Regional Manager – Northern New York recommend that the Trustees approve the award of a multiyear contract to PB Power 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 – Corporate Services and Administration and I concur in the recommendation."

Mr. Lipsky presented an overview of staff's recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Lipsky said that the relatively low price for the project had to do with the fact that the inspection and analysis involved documentation review, modeling and a walk-through. He also noted that the Authority previously completed a dam failure analysis for the Project. Vice Chairman McCullough thanked Ms. Lipsky for his efforts on this project.

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 a five-year procurement contract to PB Power in the amount of $190,000 is 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 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.

12. Procurement (Services) Contract – Short-Term Load Forecasting – Nexus Energy Software, formerly ICF Energy Solutions, Inc. – Increase in Compensation Ceiling

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve an increase in the compensation ceiling of the contract with Nexus Energy Software, formerly ICF Energy Solutions, Inc. ('Nexus/ICF'; Contract 4600000906) in the amount of $1,500,000 for a revised total contract value of $3,000,000. A detailed explanation of the nature of services provided by Nexus/ICF under this contract and the reason for the increase are set forth below.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"The Authority's Expenditure Authorization Procedures require Trustees' approval when a personal services contract exceeds a cumulative change order value of $500,000, or when a non-personal services or equipment purchase contract exceeds a cumulative change order limit of $3,000,000.

DISCUSSION

"At their meeting of September 17, 2002, the Trustees approved the award of a three-year contract totaling $1,500,000 to ICF Energy Solutions, Inc., now Nexus Energy Software, for design and implementation of a software solution for Short-Term Load Forecasting. This award was made after careful evaluation of the 11 bids received in response to the Request for Proposals. Nexus/ICF was found to have a superior software product suite, as well as deep technical expertise in load forecasting methodologies.

"In October 2002, the Authority and Nexus/ICF began work on Phase I of the Short-Term Load Forecasting project. Four phases of Short-Term Load Forecasting were envisioned, but approval of anticipated costs for only the first two phases was sought. This conservative approach was taken because, while the scope and value of the first two phases were known at that time, the remaining two phases were not clearly defined.

"The first phase of Short-Term Load Forecasting included the purchase and installation of Nexus/ICF's Energy Vision Enterprise ('EVE') suite of software, which was to be used to produce an automated 10-day load forecast on an hourly basis. On December 17, 2002, automated forecasting was implemented for eight sub zone buses, with 13 additional sub zone buses implemented by April 30, 2003.

"In April 2003, the second phase of Short-Term Load Forecasting began. The goal of Phase II was to develop 'bottom-up' profiles for more than 260 interval-metered and 12,000 non-interval-metered customers within Con Edison's service territory. The system developed under Phase II is slated to go into production in June 2004.

"Since Phase I, the Authority has entered into fixed-price agreements with Nexus/ICF based on a well-defined scope of work. These fixed pricing agreements have protected the Authority from incurring any additional cost from poor estimation or project management on ICF's part. True changes in scope, such as developing load split capability, have warranted valid change orders. Initial agreements and change orders for work to date have committed funds up to $1,461,900.

"On April 8, 2004 Nexus Energy Software purchased ICF Energy Solutions, Inc. The Authority and Nexus/ICF have worked together and identified the scope and implementation plan for Phase III and IV efforts. The following tasks are planned, for which staff is requesting approval of the increase in contract ceiling:

Phase	Description
Phase III	• Long-Term Load Forecasting • Capacity Analysis • Risk Management • Peak Load Management • Niagara Mohawk Service Territory Bottom-Up Forecasting • Load Research • Additional Reporting
Phase IV	• Development of a Graphic User Interface (GUI) Environment for Management of Customer Account Information • Addition of 'Bottom-Up' Forecasting for Other Transmission Owners and Full-Requirement Munis • Potential Enhancements Related to Data Validation, Ad Hoc Reporting, Load Research, Capacity Calculation and Financial Shadow Settlement

FISCAL INFORMATION

"This project was identified and approved in the annual IT Initiatives Capital Budget. Payments associated with this project will be made from the Capital Fund.

RECOMMENDATION

"The Senior Vice President – Marketing, Economic Development and Supply Planning and the Chief Information Officer – Information Technology recommend that the Trustees approve the increase in the compensation ceiling for Nexus/ICF Energy Solutions, Inc. for Short-Term Load Forecasting from $1,500,000 to $3,000,000.

"The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Corporate Services and Administration, the Vice President – Controller and Acting Chief Financial Officer and I concur in the recommendation."

Ms. Archer presented an overview of staff's recommendations to the Trustees. In response to a question from Trustee Carey, Ms. Archer said that all of the Phase I goals of the project have been accomplished and that Phase II was nearly complete. Responding to questions from Trustee Seymour, Ms. Archer said that the original contract for $1.5 million did not include all phases of the project and Mr. Hoff said that increasing the compensation ceiling as proposed was in accordance with the Authority's procurement procedures. In response to a question from Chairman

Ciminelli, Ms. Archer said that the total contract amount of $3 million is part of Information Technology's capital budget.

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

RESOLVED, That pursuant to the Expenditure Authorization Procedures adopted by the Authority, the contract with Nexus Energy Software ("Nexus"; Contract 4600000906) is hereby increased by $1,500,000 to $3,000,000; 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.

13. New York State 2004 "Stay Cool!" Program, ENERGY STAR® and New York Energy $mart℠ Public Awareness Programs

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize the President and Chief Executive Officer to enter into an agreement with the New York State Energy Research and Development Authority ('NYSERDA') to support the coordinated 2004 statewide 'Stay Cool!' program to promote the use of energy-efficient ENERGY STAR® products and increase public awareness of the need for energy conservation through New York Energy $mart℠.

BACKGROUND

"To address the urgent energy challenges facing New York State in the summer of 2001, Governor George E. Pataki directed state agencies to engage in a variety of energy demand reduction initiatives. Among those efforts was a coordinated campaign involving NYSERDA, the New York Power Authority ('Authority') and the Long Island Power Authority ('LIPA') in cooperation with the New York State Public Service Commission ('PSC') to promote more prudent use of electricity in New York State with an ENERGY STAR® awareness campaign and an air conditioner bounty program for the purchase of residential ENERGY STAR® room air-conditioning equipment and the return of old, inefficient units.

DISCUSSION

"The focus of the public awareness campaign is to educate consumers on the value of energy efficiency, providing advice on ways to stay cool during the summer months while controlling energy costs. The public appeal highlights the need to use power sensibly, coupled with ways to be more energy efficient. The program has used assorted communications media, including television, radio, newspapers and direct mail. Promotional material directs consumers to ENERGY STAR® retailer partners, participating state government web sites and the toll-free consumer hotline: 1-877-NYSMART. It is noteworthy that more than three-quarters of New York State consumers recognize the ENERGY STAR® label, compared to one-third in 1999.

"The 'Keep Cool' Air Conditioner Replacement Bounty Program was designed to ensure that old, inefficient air conditioners were taken out of circulation, recycled and replaced with highly efficient ENERGY STAR® models. In 2001 and 2002, state residents could receive a $75 bounty when they turned in their old, working room air conditioners and purchased an ENERGY STAR® model. The bounty was reduced to $35 in 2003. Market share of ENERGY STAR® room air conditioners has increased to approximately 70%, compared to 14% in 1999. More than 200,000 older units were removed from operation, reducing residential peak demand by 83 megawatts statewide. Authority participation in the program specifically enabled residential customers of municipal electric systems and rural electric cooperatives to become eligible for the bounty program. From 2001 through 2003, municipal and cooperative customers turned in more than 4,500 units.

"Given the significant market penetration achieved by ENERGY STAR® room air conditioners, the bounty is no longer viewed as a necessary component of the program. The new 'Stay Cool!' program will work to sustain public awareness of energy-efficient products and focus on energy conservation during the summer peak demand period through New York Energy $mart℠, a statewide program to promote 'clean, energy-efficient products and solutions'.

FISCAL INFORMATION

"In 2001, the Trustees authorized a contribution of up to $2 million for the 'Keep Cool' program, of which $1.097 million was transferred to NYSERDA for the program. In 2002, the Trustees authorized a contribution of up to $2 million, of which $1.47 million was transferred to NYSERDA for the program. In 2003, the Trustees authorized a contribution of up to $1.25 million, of which $1.05 million was transferred to NYSERDA for the program. In 2004, the Trustees are requested to authorize a contribution of up to $750,000, which would be withdrawn from the Authority's Operating Fund.

RECOMMENDATION

"The Senior Vice President – Public and Governmental Affairs and the Senior Vice President – Energy Services and Technology recommend that the Trustees authorize the President and Chief Executive Officer to enter into an agreement with the New York State Energy Research and Development Authority for the purpose of providing New York Power Authority support to New York State's 2004 'Stay Cool!' and New York Energy $mart℠ summer energy conservation awareness programs.

"The, Executive Vice President, Secretary and General Counsel, the Executive Vice President – Corporate Services and Administration and I concur in the recommendation."

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

RESOLVED, That the energy challenges facing New York State require sustained public attention to the need for energy efficiency; and be it further

RESOLVED, That Section 1001 of the Power Authority Act states "that it is desirable that the authority give its fullest cooperation to the energy research and development authority in advancing and promoting the development and implementation of new energy technologies…"; and be it further

RESOLVED, That Section 1854(3) of the Public Authorities Law empowers the New York State Energy Research and Development Authority to contract with the New York Power Authority with respect to "the construction and operation of experimental or developmental facilities which implement new energy technologies which have prospects of reducing the economic, environmental and social costs of energy production and utilization"; and be it further

RESOLVED, That such energy technologies as are referred to in the foregoing statutory provisions include advanced high-efficiency products promoted under the ENERGY STAR® program; and be it further

RESOLVED, That a coordinated effort directed by the Governor of the State of New York among and between New York State agencies and authorities is a proven effective means of educating consumers about the value of energy efficiency, raising public awareness of the availability of high-efficiency ENERGY STAR® products; and be it further

RESOLVED, That the President and Chief Executive Officer of the Authority be, and hereby is, authorized to execute, on behalf of the Authority with the New York State Energy Research and Development Authority, an agreement to provide support by the Authority, including a contribution of up to $750,000 for the New York State 2004 "Stay Cool!" and New York Energy $mart℠ summer energy conservation awareness programs, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

14. Bond Purchases to Satisfy Internal Revenue Service Private Use Requirements Relating to White Plains Office Building Leasing

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the purchase of up to $10 million in par amount of New York Power Authority Revenue Bonds, Series 2001A ('2001A Bonds'), to satisfy the private use requirements of the Internal Revenue Service ('IRS') relating to the leasing of White Plains Office ('WPO') building space.

BACKGROUND

"In 1991, the Authority purchased the building it currently occupies at 123 Main Street in White Plains, New York. The portion of the building occupied by the Authority was financed using tax-exempt bond proceeds, and the portion occupied by private businesses was financed with Authority equity. Under IRS regulations (the 'Regulations'), if the percentage of the building occupied for private use increases, the Authority must purchase, either in the open market or through a tender offer, a sufficient amount of the Series 2001A bonds to comply with the Regulations.

DISCUSSION

"Staff requests Trustee authorization to purchase 2001A Bonds to comply with IRS requirements relating to the WPO building rental space, up to a maximum aggregate par amount of $10 million. Such purchases of bonds will be made from amounts in the Operating Fund, and will be in addition to bonds and notes purchased under other authorizations for purchases granted by the Trustees in the past.

FISCAL INFORMATION

"Payment for the bond purchases will be from the Operating Fund, and staff has determined that sufficient monies are available for this purpose.

RECOMMENDATION

"The Treasurer recommends that the Trustees authorize the purchase of New York Power Authority Revenue Bonds, Series 2001A from Operating Fund monies in order to comply with the Regulations, up to a maximum aggregate par amount of $10 million.

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

Mr. Brady presented an overview of staff's recommendations to the Trustees. In response to a question from Chairman Ciminelli, Mr. Brady said that, if the Trustees approved, the Authority would be making open-market purchases of the tax-exempt bonds issued to pay for a portion of the White Plains office building. Responding to a question from Trustee Seymour, Mr. Brady explained that the Authority used square footage costs and the revenues from its private entity tenants to determine how much of the White Plains building is taxable. In response to a question from Vice Chairman McCullough, Mr. Brady said that the Trustees would be notified of the total amount of bonds purchased. Mr. Vesce pointed out that the Authority would be able to offset a portion of the tax-exempt bonds that

need to be purchased by accounting for the space previously used by private companies that is now being used by the Authority.

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

RESOLVED, That the Trustees of the Authority hereby authorize the payment of funds available in the Operating Fund for the purchase of up to $10 million in aggregate principal amount of the Authority's Series 2001A Revenue Bonds for the purposes discussed in the foregoing memorandum of the President and Chief Executive Officer. The Treasurer may in his discretion select the method by which to effectuate the purposes discussed in the foregoing memorandum of the President and Chief Executive Officer, provided, however, that as a condition to each such payment of monies from the Operating Fund for such purpose, the Treasurer or the Deputy Treasurer shall certify that such amounts to be withdrawn for such purpose are not needed for the purposes specified in Section 503(1) (a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented; 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.

15. Motion to Conduct an Executive Session

"Mr. Chairman, I move that the Authority conduct an executive session to discuss matters leading to the award of a contract to a particular corporation."

On motion duly made and seconded, an Executive Session was held for the purpose of discussing matters leading to the award of a contract to a particular corporation.

16. 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.

17. Procurement (Services) Contract – Independent Accounting Services

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve a procurement contract to provide independent accounting services, including the annual audit of the Authority's financial records and other services, as may be required, for a five-year period (2004-2008). The audit services shall include preparation of the following reports: (1) opinion on the Authority's financial statements; (2) review of the Authority's system of internal accounting controls; (3) review of the Authority's compliance with its Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law; and (4) review of the Authority's compliance with OMB Circular A-133 Requirements. The Authority may request the successful bidder to perform other services, primarily relating to process and system controls and reviews of debt-offering statements, as may be required. The contract shall provide for a limit of $3,000,000 for the five- year period.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Guidelines for Procurement Contracts require Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"At their meeting of June 25, 2002, the Trustees approved the award of a contract to PricewaterhouseCoopers ('PwC'), for auditing and other services, for five years (2002 through 2006) in the amount of $ 1,620,000. In January 2004, PwC indicated that it would not perform the audit for the year 2004 without a significant increase in fees (beyond the maximum annual amount provided for in the contract). The Authority declined to approve the fee increase and PwC, subsequently and without cause, refused to meet its contractual obligations. By letter dated February 10, 2004, PwC submitted what it termed its written 'resignation' as the Authority's Independent Auditor effective with the completion of the audit of the Authority's 2003 financial statements. At its meeting of February 24, 2004, the Audit Committee requested staff to consider its contract options, as well as to solicit competitive bids from other accounting firms.

DISCUSSION

a. Bid Evaluation

"In accord with state law and Authority Procurement Guidelines, the Authority published a request for competitive bids in the New York State Contract Reporter on March 8, 2004 for independent accounting and auditing services covering a five-year period (2004-2008). The Authority received requests for bid documents from five accounting firms. Bids were ultimately submitted by two firms – Ernst & Young LLP ('E&Y') and KPMG LLP.

"The criteria considered by staff in evaluating bids included cost, technical expertise and utility and governmental experience (of the firm and personnel assigned to the engagement). A summary of the bids received follows:

Bidder	**Average Annual # of Hrs.**	**Total ($000)**
Ernst & Young		
Audit services	1,250	$1,576.4
Other services:		
Debt offer.	300	481.5
Process, control reviews & tax	375	557.1
	1,925	$2,615.0
KPMG		
Audit services	2,450	$2,551.0
Other services:		
Debt offer.	300	465.0
Process, control reviews & tax	375	513.5
	3,125	$3,529.5

"KPMG's total price for audit and other services of $3,529,500 over the five-year period is 35% higher than E&Y's price of $2,615,000. E&Y has also provided a written guarantee that the cost of audit services are the maximum amount to be charged to the Authority, even if the actual staff hours exceed the average annual hours noted above.

"Based on their bids, both firms have the technical expertise necessary to perform the audit. E&Y's utility audit clients include Memphis Light Gas & Water, the Platte River Power Authority and Oklahoma Gas & Electric, among others. Both E&Y and KPMG have extensive government auditing practices. E&Y's clients include the NYC Housing Authority, the NYC Transit Authority and the Triborough Bridge & Tunnel Authority. KPMG is the primary auditor for the State of New York and audits many state agencies and authorities.

b. Subsequent Events

"Subsequent to the Authority staff completing its bid evaluation, the Chief Administrative Law Judge ('ALJ') for the U. S. Securities and Exchange Commission ('SEC') issued her Initial Decision in the *Matter of Ernst & Young LLP* (File No. 3-10933) on April 16, 2004. The ALJ determined that, contrary to SEC regulations, E&Y was not independent when it audited the financial statements of an audit client as E&Y had a direct business relationship with that audit client. The ALJ ordered, among other actions, that E&Y be suspended from accepting audit engagements for new SEC registrant audit clients for a period of six months and that E&Y disgorge, with interest, the amount of the auditing fees for the fiscal years in question.

"Notwithstanding E&Y's position that the SEC's allegations are without merit, E&Y has indicated in a letter to Authority staff that it will not appeal the ALJ's Initial Decision. Given these developments, staff will recommend the approval of this contract subject to E&Y agreeing to work under specific protocols to ensure that similar violations do not occur on work performed for the Authority.

FISCAL INFORMATION

"Payments over the term of any contract to be awarded will be made from the Operating Fund.

RECOMMENDATION

"The Vice President – Controller and Acting Chief Financial Officer, the Vice President – Procurement and Real Estate and the Director – Corporate Accounting, recommend that the Trustees approve the award of a five year contract to Ernst & Young LLP to perform the annual audit of the Authority's financial records for the years 2004 through 2008 and perform other services in an amount not to exceed $3,000,000 subject to Ernst & Young LLP agreeing to work under specific protocols developed by Authority staff."

Mr. Concadoro presented an overview of staff's recommendation to the Trustees. Vice Chairman McCullough stated that he wished to add language to the resolution stipulating that Ernst & Young agree to work within specific protocols established by Authority staff concerning the work they do under the proposed contract.

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 a multiyear procurement contract to Ernst & Young LLP that includes specific independence and conduct protocols established by Authority staff is hereby approved for the period of time indicated, as recommended in the foregoing report of the President and Chief Executive Officer in the amount and for the purpose listed below:

O&M	**Projected Closing Date**	**Contract Approval**
Independent Accounting Services		
Ernst & Young LLP	**06/30/09**	**Not to exceed 3,000,000**

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.

18. Next Meeting

The next Regular Meeting of the Trustees will be held on **Tuesday, May 25, 2004, at 11:00 a.m., at the Charles Poletti Power Project**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

19. Closing

Upon motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 1:15 p.m.

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