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

May 25, 2004

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the Charles Poletti Power Plant at 10:28 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

Eugene W. Zeltmann	President and Chief Executive Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President – Power Generation
Vincent C. Vesce	Executive Vice President – Corporate Services and Administration
Peter A. Barden	Senior Vice President – Public and Governmental Affairs
Joseph Del Sindaco	Senior Vice President and Chief Financial Officer
H. Kenneth Haase	Senior Vice President – Transmission
Louise M. Morman	Senior Vice President – Marketing, Economic Development and Supply Planning
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Carmine J. Clemente	Deputy Secretary and Deputy General Counsel
Gerald C. Goldstein	Assistant General Counsel – Regulatory & Contracts
Thomas P. Antenucci	Vice President – Project Management
Arnold M. Bellis	Vice President – Controller and Acting Chief Financial Officer
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
Michael E. Brady	Treasurer
Dennis T. Eccleston	Chief Information Officer
Angela D. Graves	Deputy Secretary
John J. Suloway	Executive Director – Licensing Compliance and Implementation
Jordan Brandeis	Director – Supply Planning, Pricing and Power Contracts
Helen L. Eisenfeld	Director – Cost Control and Electric Transportation
Angelo S. Esposito	Director – Energy Services
Paul F. Finnegan	Director – Upstate Public and Governmental Affairs
Luis A. Rodriguez	Director – SENY Public and Governmental Affairs
Daniel Wiese	Director – Corporate Security/Inspector General
Richarcd E. Kuntz	Regional Manager – SENY
Daniel J. Cappiello	Manager – Performance Planning
Henry D. Herzberg	Manager – Finance and Administration
James F. Pasquale	Manager – Business Power Allocations and Compliance
John Grzan	Senior Project Manager – Project Management
Richard J. Ardolino	Project Manager
Edward A. Welz	Project Manager
Philip S. Astuto	Senior Business Planner
Anne B. Cahill	Senior Attorney II – Regulatory and Contracts
Mary Jean Frank	Associate Secretary
Lorna M. Johnson	Assistant Secretary
Noelle M. Zandri	Secretary to General Counsel
Edward J. Birdie	SENY Public and Governmental Affairs Representative
Joseph Leary	Senior Intergovernment Relations Specialist
Joann M. Duffy	Strategic Change Consultant

Thomas Tyrrell	Maintenance Superintendent
Paul Tartaglia	Operations Superintendent
John Cashin	Executive Administrator, Battery Park City Authority
Kent Gardner	Center for Governmental Research
Azi Paybarah	Queens Tribune

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 April 27, 2004</u>

The minutes of the Annual meeting of April 27, 2004 were unanimously adopted.

2. Financial Reports for the Four Months Ended April 30, 2004

Mr. Bellis provided the Financial Report for the four months ended April 30, 2004. Mr. Bellis presented an overview of the Financial Reports to the Trustees. In response to a question from Chairman Ciminelli, Mr. Bellis confirmed that the cash reserve for margin accounts was still on the balance sheets.

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

President Zeltmann introduced Dan Cappiello, the Authority's Manager of Performance Planning, and Dr. Kent Gardner, Director of Economic Analysis at the Center for Governmental Research, and asked them to provide the Trustees with an overview of the Authority's 2004 Strategic Planning Conference.

Dr. Gardner said that the conference's goals were to identify key issues facing the Authority, facilitate discussions among key stakeholders and Authority senior staff, resolve pending issues that affect the Authority's future and establish a "game plan" for the Authority's 2004 strategic planning effort.

Among the stakeholders participating in the conference were representatives of the Governor's Office, the New York State Senate, the Public Service Commission, the Department of Environmental Conservation, the State Office of Public Security, the Energy Research and Development Authority, Empire State Development, the New York Independent System Operator, the Electric Power Research Institute, National Grid/Niagara Mohawk Power Corporation and Independent Power Producers of New York.

The strategic initiatives for 2004 that were developed at the conference are clarifying the Authority's mission (which has already resulted in a new corporate mission statement); revising the Authority's debt/cash management plan to reflect changing market conditions, debt retirement and the approaching end of Entergy payments; revisiting the Southeastern New York governmental customers' business plan; continuing to pursue rate cases; and developing and then implementing a succession management plan.

Vice Chairman McCullough thanked Dr. Gardner for his presentation to the Trustees.

Mr. Hiney introduced Thomas Tyrrell, Maintenance Superintendent at the Poletti plant, and asked him to provide the Trustees with an overview of the recent outage. Mr. Tyrrell explained that the outage was the existing Poletti plant's last planned major outage and that its goal was to carry the plant through until 2008-2010, when it is scheduled to be shut down. The three maintenance/repair projects undertaken during the outage included: (1) pumping mud from the East River intakes, separating the solid components of the mud from the water and then disposing of the resulting 200 cubic yards of "mud cake" in a landfill; (2) replacing 12 tubes of various lengths in the boiler division wall, as well as completing many other boiler repairs; and (3) replacing/repairing blades in the low-pressure turbine.

In response to questions from Chairman Ciminelli, Mr. Tyrrell said that the secondary treatment plant built to deal with the mud was a temporary one and it had been 10 years since the mud was last pumped out of the intakes.

Responding to a question from Chairman Ciminelli, Mr. Tyrrell said that the replacement tubes in the boiler division wall would also warp, but there were other reasons for replacing them other than the warping.

In response to a question from Chairman Ciminelli, Mr. Tyrrell explained that the low-pressure turbine blades needed repairs due to cracks found in the blades most likely caused by the summer 2003 blackout, when they vibrated in a way they were not designed to vibrate because of the low frequency at which the generator was operating.

President Zeltmann complimented the Poletti staff on the superb work they had done to analyze the problems that needed to be addressed during the outage and then working with the vendors to ensure that everything was accomplished that needed to be.

Mr. Hiney mentioned that the Authority is going to install off-frequency protection for the turbine blades to prevent such damage in the future.

4. Allocation of 14,000 kW of Hydro Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve two allocations of available Replacement Power ('RP') or Expansion Power ('EP') totaling 14,000 kW to two industrial companies.

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. The entities noted above have formed the Western New York Advisory Group ('Group') with the intent of better using 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.

"Based on the Group's discussions, staff recommends that the available power be allocated among two 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 capital investment information. 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 139 jobs.

"These RP contracts will be for a term expiring August 31, 2007, subject to legislation being passed that authorizes extension of the RP program.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocations of 13,000 kW of Replacement Power and 1,000 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 13,000 kW of Replacement Power and 1,000 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 resolution, 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"
May 25, 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	NFB Carbon Products, LLC	Niagara Falls	Niagara	13,000	132	$3,700,000	$46,000	**13,000**	Until 8/31/07
	Total RP Recommended			13,000	132	3,700,000	46,000	**13,000**	

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

Exhibit "4-A1"
May 25, 2004

APPLICATION SUMMARY

Replacement Power

Company:	NFB Carbon Products, LLC
Location:	Niagara Falls, New York
County:	Niagara
IOU:	Niagara Mohawk Power Corporation
Business Activity:	Manufacturer of silicon carbide
Project Description:	The project intends to use acheson furnaces at the site for the production of silicon carbide. Silicon carbide is an industrial commodity that is widely used in abrasives, ceramics, foundry and steel-making applications. The company plans to upgrade its existing facilities with an investment of $3,700,000. The upgrade will include various repairs and improvements, including upgrades of the acheson furnaces and related transformers and controls, including material handling and storage equipment.
Prior Application:	No
Existing Allocations:	None
Power Request:	13,000 kW
Power Recommended:	13,000 kW
Job Commitment:	
Existing	0 jobs
New	132 jobs
New Jobs/Power Ratio:	10 jobs/MW
New Jobs - Avg. Wage and Benefits	$46,000
Capital Investment:	$3,700,000
Capital Investment Per MW	$285,000/MW
Summary:	The company was formed in 2004 to acquire a portion of the former SGL Carbon facility and related equipment in Niagara Falls. The company intends to manufacture crude silicon carbide for use in metallurgical applications. Electricity costs will be 27% of operating expenses. The company has received a proposal from a Pennsylvania firm to buy substantially all of the future production of the plant.

New York Power Authority
Expansion Power
Recommendations for Allocations

Exhibit "4-B"
May 25, 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	Upstate Farms Cooperative, Inc.	West Seneca	Erie	1,000	7	$27,000,000	$55,000	**1,000**	5 years
	Total EP Recommended			1,000	7	$27,000,000	$55,000	**1,000**	

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

Exhibit "4-B1"
May 25, 2004

APPLICATION SUMMARY

Expansion Power

Company:	Upstate Farms Cooperative, Inc.
Location:	West Seneca, New York
County:	Erie
IOU:	New York State Electric and Gas Corporation (relocating from Niagara Mohawk Power Corporation service area)
Business Activity:	Milk producers' cooperative – supplier of cultured dairy products
Project Description:	The proposed new 165,000-square-foot facility will be built on a 19.9-acre site in West Seneca. The project cost is estimated to be $27,000,000, which includes land, equipment, production area and dry, refrigerated and frozen storage space. The machinery and equipment at this site will be used for warehousing, receipt, processing and distribution of milk and other dairy products. The new facility is being built because the company has outgrown its current facility.
Prior Application:	Yes
Existing Allocations:	600 kW PFJ (expiration date 12/31/05) at Buffalo site
Power Request:	1,000 kW
Power Recommended:	1,000 kW
Job Commitment:	
Existing	127 jobs (transferred from Buffalo site, which will be closed)
New	7 jobs
New Jobs/Power Ratio:	7 jobs/MW
New Jobs - Avg. Wage and Benefits	$55,000
Capital Investment:	$27,000,000
Capital Investment Per MW	$13,500,000/MW
Summary:	Upstate Farms Cooperative, Inc., a milk-producers' cooperative owned by more than 330 dairy farmers in central and western New York, is a premier supplier of high-quality cultured dairy products, including cottage cheese, sour cream-based dips, yogurt, buttermilk and specialty kosher products. The cooperative needs low-cost electricity to continue to compete with out-of-state companies.

5. Transfers of Industrial Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the transfer of power allocations for five existing customers that have either changed their names for various business reasons and/or moved the location of their business.

BACKGROUND

"Five companies have requested that the Authority grant approval of their requests for the continued delivery of Authority power allocations to facilities that have all gained prior approval for an allocation with pre-existing company names and ownership. The present owners of these same facilities are now requesting that the Authority authorize the continuation of the power allocations granted to the previous company names and ownership associated with these facilities.

"The Trustees have approved transfers of this nature at past meetings.

DISCUSSION

"The proposed transferees are as follows:

"Alex Meat Corporation ('AMC') is a Brooklyn cold storage facility for the meat packing industry. The company was approved for a 40 kW Power for Jobs ('PFJ') allocation for seven jobs by the Trustees at their meeting of June 29, 1999. In March 2004, AMC was sold and the new owner officially changed the name to Alex's Meat Distributors. The company will continue to operate out of its Brooklyn location and honor the existing job commitments.

"Automotive Corporation ('Automotive Corp.') is a manufacturer of automobile and light truck spindles and knickers that attach the wheel to the vehicle axle. The company was allocated 425 kW of Economic Development Power ('EDP') for 100 jobs by the Trustees at their meeting of March 28, 2000. Automotive Corp. moved from its facility in LeRoy to a new facility in Batavia. The company has requested the transfer of its EDP allocation to its new facility. The company will honor the employment commitments made in the past for the former site.

"Graphic Controls LP, A Tyco Int. LT ('GCLP') designs, manufactures and distributes industrial and medical recording charts. The company was initially approved for a 300 kW Replacement Power ('RP') allocation for 672 jobs by the Trustees at their January 31, 1989 meeting. On September 26, 2000, the Trustees reduced this allocation to 250 kW for 408 jobs. In addition, a 600 kW PFJ allocation for 300 jobs was approved by the Trustees at their January 26, 2000 meeting. The company has sold all of its assets to a new company led by the current management group. The new entity, which will be called Graphic Controls, LLC, will commit to retain 265 jobs in return for the allocations..

"Joyco USA Confectionery, Inc. ('Joyco') makes candy and other confectionery products at its facility in Canajoharie. The company was initially approved for a 700 kW PFJ allocation for 147 jobs by the Trustees at their April 27, 1999 meeting under the company name Richardson Brands Company. On September 23, 2003, the Trustees transferred this allocation and job commitment to the new company name, Joyco USA Confectionery, Inc. In April 2004, Canajo Manufacturing Company, Inc. acquired from Joyco goods, marketable and transferable title for certain assets including real estate, and all equipment, machinery, furniture, raw and package materials free and clear of pledges, security interest, liens, changes, mortgages, leases or encumbrances of any kind. The new company will continue to operate at the Canajoharie site and will honor the contract terms and conditions made by Joyco.

"Republic Engineered Products, LLC ('REP') manufactures cold-finished steel bars for companies in the automobile industry. The company has a 7,400 kW EP allocation and a 2,000 kW RP allocation for 276 jobs. These allocations were transferred to REP from Republic Technologies by the Trustees at their meeting of September 17, 2002. REP was acquired by Perry Strategic Capital to form a new company, Republic Engineered Products, Inc. This new company will honor the employment commitments made in the past under the former name.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance recommends that the Trustees approve the transfers of Authority power allocations to the five companies described herein.

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

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

RESOLVED, That the Authority hereby authorizes the transfers of industrial power allocations in accordance with the terms described 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.

6. Procurement (Services) Contract – Robert Moses Niagara Power Project – Voith Siemens Hydro Power Generation Inc. – Award, Replacement of Stator Iron Laminations on 12 Generators Stators – Capital Expenditure Authorization

The Executive Vice President – Power Generation submitted the following report:

SUMMARY

"The Trustees are requested to authorize total capital expenditures of $12,000,000 for the replacement of the stator iron laminations on five generator stators at the Robert Moses Niagara Power Project ('Niagara Project').

"The Trustees are also requested to approve the award of a contract to Voith Siemens Hydro Power Generation, Inc. ('Voith Siemens') in an amount of $23.3 million for the fabrication, delivery and installation of the stator iron laminations for up to 12 generator stators at the Niagara 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, requires Trustees' approval.

"The Authority's Niagara Project operates 13 hydroelectric generating units and maintains one generator stator as a spare. These generators were placed in service in the early 1960s.

"On September 24, 2001, an electrical failure occurred in Niagara Power Project Unit No. 11 ('Unit No 11'), which resulted in severe damage to the generator stator. A generator stator is composed of two components, the stator winding and the stator iron laminations.

"At their meeting of June 25, 2002, the Trustees approved the award of a multiyear contract to Voith Siemens for the stator winding replacement of 14 Niagara Project generator stators (13 in service and one spare). This contract included fabricating and installing only one set of stator iron laminations. The initial work under the contract with Voith Siemens was for the stator winding replacement, as well as the stator iron lamination replacement for the failed Unit No. 11 generator stator.

"The rehabilitated Unit No. 11 generator stator was placed into the Niagara Power Project's Unit No. 7 ('Unit No. 7'). The second generator stator to have the winding replaced was Unit No. 7.

"As part of the stator winding replacement contract, Voith Siemens is responsible for removing the old winding and performing an Electromagnetic Core Imperfection Detector ('ELCID') test, which indicates the condition of the stator iron laminations. The ELCID test data taken on Unit No. 7 indicated that the iron laminations showed signs of insulation deterioration. Additional testing indicated that three of the four quadrants of the stator had iron lamination problems necessitating replacement of the stator iron laminations.

"To expedite the stator iron lamination replacement, the Authority issued a change order to the stator winding contract with Voith Siemens in the amount of $1,910,000 for the second stator iron lamination replacement.

DISCUSSION

"The generator stator iron laminations at the Niagara Power Project are approximately 45 years old. The design life span of stator iron is approximately 70 years. However, the life span is shortened due to heating and electrical stator winding failures, requiring stator iron repairs. Five of the remaining 12 stators have had stator iron repairs.

"Staff recommends that the Authority replace the stator iron laminations in the five generator stators that have had stator iron repairs. Based upon results of the ELCID tests, the stator iron laminations of up to seven additional stators may also be replaced under the proposed contract.

"A Request for Proposal ('RFP') was issued on January 19, 2004, for the design, fabrication, delivery and installation of stator iron laminations for the remaining 12 generator stators at the Niagara Project. The bid document requires that the existing stator iron be evaluated prior to the Authority releasing the funding for the complete replacement of the stator iron laminations.

"On February 23, 2004, proposals were received from three of the 15 firms that had received bid packages, including any that may have responded to a notice in the New York State Contract Reporter. The prices are summarized below:

Bidder	Bid Price (2004 $)	Optional Bid Price
Voith Siemens	$24,896,727	$21,440,886
General Electric	$24,621,622	
National Electric Coil	$25,907,900	

"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 with representatives from Procurement, Engineering, Quality Assurance and Project Management analyzed the bids, met with the bidders to obtain additional information and reviewed all the pertinent factors to determine the lowest evaluated and technically qualified proposal.

"The lower optional bid price submitted by Voith Siemens as part of its original proposal is based upon a manufacturing process that maintains fabrication tolerances, during the lamination cutting, by controlling the cutting die tolerances. This process is acceptable to the Authority and is used in the industry. Subsequent to receipt of bids, General Electric was requested to evaluate the feasibility of using this process, and concluded that they could not implement this process cost effectively.

"Westinghouse, the original manufacturer of the existing generators, was acquired by Siemens. Subsequently, Siemens merged with Voith, forming Voith Siemens. Voith Siemens owns the design drawings and the dies to cut the stator iron laminations. Voith Siemens plans to cut the stator iron laminations in Hamburg, New York. These new iron laminations will be of low-loss design and the stator iron losses will be reduced by 150 kW.

"The results of this evaluation indicate that Voith Siemens' optional proposal is the lowest in price and meets all the technical and commercial requirements of the inquiry.

"The current schedule and the existing contract provide for the release of one or two generator stators per year starting in 2004 for stator winding replacement. The proposed contract establishes a mechanism for implementing stator iron lamination replacement as deemed necessary. The Authority is under no obligation to release the stator iron lamination replacement and/or award any of the remaining 12 generator stators. The estimated term of this contract is seven years through completion of work on all stators (projected to be December 31, 2011). Accordingly, based on Voith Siemens' low price and technically acceptable proposal, the Trustees are requested to approve the award of a contract to Voith Siemens in an amount of $23,300,000, including escalation, for a term of seven years.

"The estimated total Capital Expenditures for the stator iron lamination replacement program for five generator stators, including escalation, is $12,000,000. The monies to perform the work in 2004 are included in the Capital Budget submittal for 2004. The Trustees are requested to authorize a Capital Expenditure of $12,000,000 for the stator iron lamination replacement in five generator stators at the Niagara Project. At their meeting of March 20, 2003, the Trustees authorized a Capital Expenditure of $28,000,000 for the Niagara Power Project Stator Winding Replacement Program. The Capital Expenditure for the Stator Iron Replacement Program will be combined with this existing Capital Expenditure for the Niagara Power Project Stator Winding Replacement Program. If testing determines that more than five stators require stator iron laminations replacement, additional Trustees authorization will be obtained.

FISCAL INFORMATION

"Payments will be made from the Capital Fund.

RECOMMENDATION

"The Vice President – Project Management, the Vice President – Procurement and Real Estate, the Vice President and Chief Engineer – Power Generation, the Regional Manager – Western New York and the Project Manager recommend that the Trustees approve the award of a seven-year contract to Voith Siemens Hydro Power Generation, Inc. in the amount of $23,300,000 for the replacement of the stator iron at the Robert Moses Niagara Power Project, and authorize a Capital Expenditure of $12,000,000 for the stator iron lamination replacement program.

"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 the highlights of staff's recommendations to the Trustees. In response to a question from Vice Chairman McCullough, Mr. Ardolino confirmed that staff is recommending that iron on units with previous iron failure be replaced.

The following resolution, as submitted by the Executive Vice President – Power Generation, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to award a multiyear contract to Voith Siemens Hydro Power Generation, Inc., as recommended in the foregoing report of the Executive Vice President – Power Generation, in the amount and for the purpose listed below:

Contract Award	Award Amount	Projected Completion
Voith Siemens Hydro Power Generation, Inc. for the Replacement of Stator Iron Laminations at Robert Moses Niagara Power Project	**$23,300,000**	**December 31, 2011**

AND BE IT FURTHER RESOLVED, That approval is hereby granted for Capital Funding to be committed in accordance with the Authority's Expenditures Procedures for the Capital Projects set forth below as recommended in the foregoing report of the Executive Vice President – Power Generation in the amounts and for the purposes listed below:

Capital Expenditure Authorization	Previously Authorized	Current Request	Total Authorized Amount
Robert Moses Niagara Power Project – Stator Iron Lamination and Stator Winding Replacement Program	**$28,000,000**	**$12,000,000**	**$40,000,000**

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.

7. Procurement (Services) Contract – St. Lawrence/FDR Power Project – H. Schickel General Contracting Inc. – Construction of the Visitors Center at Hawkins Point – Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize the award of a construction contract in the amount of $3,514,000 to H. Schickel General Contracting Inc. for the construction of a new visitors' center and recreational facility improvements at Hawkins Point, Massena, New York, across the South Channel from the St. Lawrence/FDR Power Project ('Project').

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.

"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, requires Trustees' approval.

"Following the events of September 11, 2001, the Visitors Center at the Robert Moses Power Dam was temporarily closed for security reasons. A thorough security analysis of all Authority facilities led to the decision to permanently close the Visitors Center. The decision was made public in May 2002, at which time it was announced that a new Visitors Center would be built at Hawkins Point across from the Project's tailrace with a view of the Moses-Saunders Power Dam. The Visitors Center has long been a major tourism attraction in the North Country and its presence has been missed in the region since its closing.

"In January 2003, staff authorized Acres International Corporation ('Acres') in Buffalo, New York to develop a conceptual design and preliminary cost estimates (Phase I) for a new Visitors Center at Hawkins Point. Acres completed its work in June 2003. The preliminary designs for the new building incorporate all of the exhibits from the current Visitors Center, provide a magnificent view of the entire Moses-Saunders Power Dam and include an outdoor area to host community events.

"In October 2003, after a competitive bid process, staff authorized Bernier Carr and Associates, PC ('Bernier Carr') of Watertown, New York to develop a final detailed design (Phase II) for a new Visitors Center. At their meeting of January 27, 2004, the Trustees approved the expenditure of up to $5,160,000 for the design and construction of the new Visitors Center. Bernier Carr completed its work in February 2004 and a public bidding process was initiated for construction of the proposed facility.

"The final design for the new Visitors Center is approximately 14,000 square feet, roughly the same size as the present Center. It allows visitors to learn about the Authority, the Project and environmentally acceptable energy use and conservation. The new Visitors Center will be a partial two-story building, with the main floor dedicated to public displays, as well as a theater and a community room. The basement will house staff offices, storage and the mechanical and utility rooms. Also, as part of the relicensing commitments for the Project, the Hawkins Point area is to be enhanced with an improved boat ramp and parking and construction of a handicapped-accessible fishing pier. The estimated cost of the improvements is approximately $350,000, which will be provided under the Recreational Plan previously authorized by the Trustees at their meeting of December 16, 2003. The Recreational Plan improvement and Visitors Center projects will be constructed at the same time.

DISCUSSION

"The bid document was advertised in the New York State Contract Reporter on March 5, 2004, and issued to a total of 30 potential bidders. On March 17, 2004, a site visit to Hawkins Point was conducted with 15 potential bidders for a question-and-answer session. A total of seven addenda with several relicensing commitments were issued, including modification of a boat ramp, a new parking lot and a handicapped-accessible fishing pier. Two post-bid addenda were issued to incorporate additional work on the fire protection water intake and substitution of stone on the building facade.

"On April 7, 2004, five proposals were received. Their as-received total lump sum amounts and the revised amount, including post-bid addenda, for the two low bidders, were as follows:

	Bidders	Total Bid Prices	Revised Prices
1.	H. Schickel General Contracting, Inc. Malone, NY 12953	$3,454,000	$3,514,000
2.	J.E. Sheehan Contracting Corp. Potsdam, NY 13676	$3,510,180	$3,576,173
3.	Bette & Cring Construction Group Watertown, NY 13601	$4,053,800	
4.	Murnane Building Contractors, Inc. Plattsburgh, NY 12901	$4,175,440	
5.	Tuscarora Construction Co., Inc. Pulaski, NY 13142	$4,600,200	

"An Evaluation Committee with representatives from St. Lawrence Community Relations, Procurement and Project Management reviewed the bids, analyzed their costs, schedules, construction methods, negotiated terms and conditions and met with the two low bidders on April 26, 2004, to obtain additional information and clarifications. The Authority's engineer, Bernier Carr, conducted an independent evaluation of the bids.

"Based on the meeting and review of the proposals, it was agreed that both of the companies with the lowest evaluated bid prices have the capability to construct the Visitors Center within the schedule.

"A detailed analysis follows:

1. **H. Schickel General Contracting, Inc. ('Schickel')**

"Schickel has adequate staff and the necessary construction equipment. The company's annual business volume is approximately $10 million, including bridge and prison construction in the current year. The proposed organization chart and résumés of key personnel were reviewed and found to be acceptable. A financial review was performed and the results were favorable. The company's Dun & Bradstreet rating is 3A2, with '3A' indicating $1-10 million/year in strength and a 'good' for composite credit appraisal. The review concluded that Schickel is dedicated to quality performance. Schickel and J. Sheehan Contracting Corp. proposed essentially the same vendors and subcontractors for mechanical and electrical work. The Authority's St. Lawrence Construction Superintendent visited Schickel's office and found an organization capable of completing this project. The Authority's engineer, Bernier Carr, contacted several clients of Schickel and was informed that they had a good working relationship with Schickel. The responses indicated that Schickel performed satisfactorily. No exceptions in terms and conditions were taken by Schickel.

2. **J. Sheehan Contracting Corp. ('Sheehan')**

"The proposed organization and résumés of key personnel were reviewed and found to be acceptable. The company's annual business volume is about $15 million. It is anticipated that Sheehan would have several other major projects running concurrently this summer with construction of the Visitors Center. Sheehan has adequate resources to fulfill its obligations for this contract. Sheehan's Dun & Bradstreet rating is 2R3, indicating a composite credit rating of 'fair.' Sheehan has been used by the Authority on several projects, namely the Life Extension and Modernization Office Building at the Project, the Massena Line Crew Facility Building and, currently, repairs on the Long Sault Dike at the Project. Sheehan's performance has been acceptable. No exceptions in terms and conditions were taken by Sheehan.

FISCAL INFORMATION

"Payments will be made from the Capital Fund. The award amount of this contract is within the CEAR total of $5, 160,000.

RECOMMENDATION

"The Vice President – Project Management, the Vice President – Procurement and Real Estate, the Regional Manager – Northern New York and the Project Manager recommend that the Trustees approve the award of a construction contract to H. Schickel General Contracting, Inc. for the Visitors Center at Hawkins Point.

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

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, approval is hereby granted to award a contract to H. Schickel General Contracting, Inc. for $ 3,514,000 to construct the St. Lawrence Power Project Visitors Center and Community Improvements at Hawkins Point;

Contract Award	**Award Amount**
H. Schickel General Contracting, Inc.	**$3,514,000**

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.

8. Procurement (Services) Contract – St. Lawrence/FDR Power Project Relicensing – Eel Ladder Design Services – Award

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement contract to C&S Engineers, Inc. for design services for an eel ladder at the St. Lawrence/FDR Power Project ('Project'). The term of the contract will be from June 1, 2004, through December 31, 2006. The total cost of the contract is $125,000.

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 Federal Energy Regulatory Commission ('FERC') issued the New License for the Project on October 23, 2003. The Trustees accepted the New License at their meeting of November 25, 2003. As part of the new license, the Authority is required to install an upstream passage facility (ladder) at the Robert Moses Power Dam ('Power Dam') to facilitate the upstream migration of juvenile American eel. The license requires that the ladder be constructed within two years of the effective date of the new license, i.e., by November 1, 2005. At their meeting of December 16, 2003, the Trustees authorized a total of $169 million for expenditures related to compliance with the new license, including the costs of designing an eel ladder at the Power Dam.

DISCUSSION

"To meet the requirements of the new license, the Authority needs to hire an engineering design firm to develop a detailed design for the eel ladder in 2004. The duration of the contract is through 2006 to allow for the Design Engineer's support services during ladder installation and any necessary support through the first year of operation.

"On March 22, 2004, the Authority issued a Request for Proposal ('RFP') for the above services, including a notice in the New York State Contract Reporter. Proposals were received from: (1) Acres International Corporation in association with The Louis Berger Group ('Acres'); (2) Alden Research Laboratory, Inc. ('Alden'); (3) C&S Engineers, Inc. in association with Milieu, Inc. ('C&S'); (4) Kleinschmidt Associates, PA, PC ('Kleinschmidt') and (5) PB Power in association with Normandeau Associates ('PB Power').

"Staff from the Authority's Licensing, Environmental and Procurement divisions and the Project evaluated the proposals for technical qualifications and pricing. The initial review focused on technical qualifications and proposed lump-sum prices. Based on their technical qualifications and prices, the proposals from Acres, Alden and PB Power were not given further consideration. The Kleinschmidt and C&S price proposals were significantly lower than the other three proposals.

"It is recommended that the contract be awarded to the lowest priced qualified bidder, C&S. C&S will team with Milieu, Inc. ('Milieu') of LaPrairie, Quebec, Canada. C&S has successfully completed engineering design work for the Project. Milieu successfully completed a variety of studies at the Project related to eel behavior and design of eel passage facilities, and has acted as a consultant in the design of eel ladders at other hydropower projects on the St. Lawrence River and elsewhere. Milieu provides the necessary practical biological expertise to complement C&S' engineering capabilities. The term of the contract would be from June 1, 2004, through December 31, 2006; the award amount is $125,000.

FISCAL INFORMATION

"Since these expenditures are related to implementing commitments in the New License and the settlement agreements, payments will be made from the Capital Fund.

RECOMMENDATION

"The Senior Vice President – Public and Governmental Affairs, the Deputy Secretary and Deputy General Counsel, the Vice President – Procurement and Real Estate, the Director – Environmental Programs and the Regional Manager – Northern New York recommend that the Trustees authorize award of a contract to C&S Engineers, Inc. for $125,000 for design services for an upstream passage facility for American eel (eel ladder) at the Robert Moses Power Dam at the St. Lawrence/FDR Power Project.

"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. Suloway presented an overview of staff's recommendation to the Trustees. In response to a question from Vice Chairman McCullough, Mr. Suloway said that the contract is for design services only. Chairman Ciminelli commented that the budget for the project seems fairly low for a two-year project and Mr. Suloway explained that the design of the eel ladder is a relatively simple design, but that staff wants to have the contractor available for the construction phase of the project. In response to a question from Trustee Seymour, Mr. Suloway said that the total cost of the eel ladder will be approximately $1.5 million, including design and monitoring.

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, approval is hereby granted to award a contract to C&S Engineers, Inc. for a period commencing on June 1, 2004, and ending on December 31, 2006, in an amount not to exceed $125,000 for design services for an upstream passage facility for American eel (eel ladder) at the Robert Moses Power Dam in compliance with the New License for the St. Lawrence/FDR Power Project, as recommended in the foregoing report of the President and Chief Executive Officer;

Contractor	**Contract Approval**
C&S Engineers, Inc.	**$125,000**

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

9. 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.

10. <u>Motion to Resume Meeting in Open Session</u>

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

On motion duly made and seconded, the meeting resumed in open session.

11. Flynn Capacity Supply Agreement – Energy Pricing Modification, Extension of Term and Acquisition of Leasehold Premises

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize the Vice President – Energy Resource Management to execute an amendment to the Capacity Supply Agreement ('CSA') between the Authority and Long Island Lighting Company (a subsidiary of the Long Island Power Authority, d/b/a 'LIPA,' hereinafter referred to as 'LIPA') providing for, among other things: (1) new energy pricing terms and conditions associated with the sale of electricity from the Richard M. Flynn Power Plant ('Flynn'); and (2) an extension of the term of the CSA to 2020. The new energy pricing arrangements would ensure savings to Long Island ratepayers and provide the Authority with the opportunity to fully recover Flynn gas costs.

"The Trustees are also requested to authorize, upon the execution of the amendment discussed above, the acquisition by purchase or appropriation of approximately six acres of property, in addition to any areas, easements and/or other property interests necessary or convenient for the full enjoyment of the fee acquisition, from KeySpan Gas East Corporation ('KeySpan GE') for the premises upon which the Flynn plant ('Flynn Property') is located.

BACKGROUND

"On May 10, 1991, the Trustees approved a lease ('Lease') with the Long Island Lighting Company ('LILCO'). The Lease premises consisted of approximately six acres of land for construction and operation of the Flynn plant. The Lease expiration date of April 30, 2014 is co-terminus with the expiration date of the CSA. On May 28, 1998: (1) the LIPA acquired LILCO, along with its electric transmission and distribution system, as well as other assets associated with electric operations; and (2) MarketSpan Corporation (subsequently renamed KeySpan Corporation) became the parent holding company of various subsidiaries, including KeySpan GE, which now own the electric generation, gas transmission, supply and distribution and other assets formerly owned by LILCO, including the Lease and the Flynn Property. For purposes of the Lease, the Authority now transacts with KeySpan GE. For purposes of the CSA, the Authority now transacts with LIPA.

"Pursuant to the CSA, the Authority sells the full output of Flynn to LIPA. Due to the relatively high cost of gas reflected in the pricing provisions of the CSA, Flynn would have operated at a very low capacity factor when it began service in 1994. As this was not in the interest of the Authority nor the ratepayers of Long Island, the Authority and LILCO negotiated amendments to the CSA in 1994 and 1997 ('Amendment No. 1 and No. 2') that ensured that: (1) Flynn would operate at a high capacity factor; and (2) the Authority would recover a greater portion of its gas costs than would have been realized under the CSA. Both amendments were approved by the Trustees.

"Amendment No. 3, which was signed in September 1998, addressed price adjustments to account for the gas compressors installed as a result of Amendment No. 2. Amendment No. 4 modified the CSA to recognize the transfers of the LILCO transmission and distribution systems to LIPA and of the LILCO gas system to the KeySpan Corporation.

"Amendment No. 5, which was approved by the Trustees at their meeting of December 19, 2000, specified that the daily energy price for all Flynn energy would be the lesser of: (1) the market gas price as defined therein (which is essentially the equivalent of the Authority's gas costs); or (2) 95% of the 24-hour average of the day-ahead market ('DAM') price for the New York Independent System Operator's ('NYISO') Long Island zone. To the extent that 95% of DAM price applied for any day, the Authority under-recovered its gas cost. Amendment No. 5 also provided for a monthly shared-savings arrangement that provided the Authority with the opportunity to recover all or a portion of its uncollected gas costs to the extent that LIPA's energy cost savings from Flynn were above 20% for a month. Amendment No. 5 became effective on January 1, 2001, and was scheduled to expire December 31, 2002, but was extended by the Authority and LIPA pending finalization of the proposed amendment.

"The Authority had entered into an agreement (the 'Enron contract') with Enron Gas Marketing, Inc., a subsidiary of the Enron Corporation ('Enron') on October 24, 1990 for supply of firm gas at a fixed price for operation of the Flynn plant. This agreement was subsequently modified on April 1, 1994. As explained above, the Authority has not always been able to recover all the costs associated with the Enron contract. A portion of these losses have been offset by the fixed capacity payments made by LIPA under the CSA. The shared-savings arrangement under Amendment No. 5 provided additional revenues to help offset the gas-related losses. As a result of the financial difficulties of Enron and its subsidiaries, and pursuant to the provisions of the Enron contract, the Enron contract was terminated by the Authority in December 2001.

DISCUSSION

"Authority staff has been negotiating a successor agreement to Amendment No. 5 with LIPA for capacity and energy from the Flynn plant. Due to the significant payments made by LIPA to the Authority for 2002 under Amendment No. 5, LIPA made it clear that it did not wish to extend the terms of that amendment. In addition, LIPA is aware of the Authority's senior bond restructuring resulting from the 1998 refunding of the Authority's General Purpose Bonds and the additional savings that flowed from that restructuring through lower debt service costs and the elimination of the bond reserve requirement.

"A proposed amendment of the CSA was approved by the Trustees at their meeting of March 20, 2003, but subsequent to such authorization, additional issues arose relating to the proposed amendment that necessitated further negotiation with LIPA. The proposed amendment now before the Trustees (hereinafter referred to as 'Amendment No. 6') is the product of these negotiations.

"The major terms of Amendment No. 6 are set forth in Exhibit '11-A,' attached hereto. The following is a brief summary of key elements of these terms.

"Under Amendment No. 6, the Monthly Capacity Payment to be paid by LIPA to the Authority under the CSA would be reduced by $250,000 each month, or $3 million on an annual basis. The Authority would continue to be bound by the performance requirements contained in the CSA (which may increase or decrease the Monthly Fixed Payment payable to the Authority).

"Half of the amount of aggregate annual capital expenditures greater than $10 million incurred by the Authority at Flynn would be repaid by LIPA, with interest, in equal monthly installments over a period ending April 30, 2020, provided, however, that if LIPA has not consented to a particular capital expenditure, then LIPA would not be required to reimburse the Authority for such expenditure. If the pricing structure of Amendment No. 6 is terminated, repayment of the remaining capital expenditure amounts owed by LIPA would be limited to those amounts in each year due from LIPA that are greater than $3 million, plus interest. If the CSA is terminated by either party on April 30, 2014, the remaining capital expenditure amounts owed by LIPA would be paid upon termination.

"While the Authority would continue to bear the risks associated with natural gas purchasing under Amendment No. 6, the Authority would be paid compensation for its gas costs based on a comparison of: (1) a market-based gas cost, as translated into a dollars-per-megawatt-hour ('$/MWH') figure derived from the Flynn plant's operating characteristics; and (2) the 24-hour average NYISO DAM price for the Long Island zone (the 'Daily Average NYISO Price'). The market-based gas cost for a particular month would be equal to an average of certain specified gas market prices, plus a 10% markup (the 'Marked-Up Gas Price'). The Marked-Up Gas Price would then be translated into a $/MWH amount, and a surcharge of $0.80 per MWH would be added to produce the NYPA Locational Based Marginal Pricing ('LBMP') Bid Price. If, on a particular day, the NYPA LBMP Bid Price is lower than the Daily Average NYISO Price, then the Authority would receive the NYPA LBMP Bid Price. If, however, the NYPA LBMP Bid Price is greater than the Daily Average NYISO Price, the Authority would receive 95% of the Daily Average NYISO Price.

"LIPA would be obligated to assure that the Flynn plant is bid into the NYISO market as a 'must-run' unit for all hours of the day. Also, certain gas balancing expenses that were previously not recoverable under the CSA and prior amendments would now be recoverable from LIPA under Amendment No. 6. The Authority is currently paying $ 1.5 million (excluding taxes) annually to KeySpan Energy Services for such gas balancing services. Under

Amendment No. 6, LIPA would pay half of such gas balancing costs up to a maximum per year of $750,000 plus applicable taxes.

"Another issue addressed by Amendment No. 6 concerns the Enron contract. Although the Enron contract has been terminated by the Authority, it is now part of the Enron bankruptcy proceeding. Moreover, assertions have been made that the Authority owes payments to an Enron subsidiary as a result of such termination. Staff believes that it has meritorious defenses against any attempt in the bankruptcy proceeding or otherwise to declare the termination invalid or to require the Authority to make payments related to the terminated contract. However, the Authority staff believes that the 10% markup, discussed above, provides reasonable protection against the Enron contract exposure posed by the bankruptcy proceeding.

"The shared-savings arrangement under Amendment No. 5 would continue under Amendment No. 6 with two changes. First, the shared savings that the Authority could realize would be capped at $5 million per year. Authority shared-savings revenue in 2002 was $2.8 million and in 2003 was $800,000. Second, the shared-savings methodology would operate on a daily basis instead of a monthly basis.

"The pricing provisions of Amendment No. 6 would be effective from January 1, 2004 to December 31, 2008, and would then continue unless terminated by either party on January 1, 2009 upon at least six months' prior notice.

"Amendment No. 6 would also extend the CSA from April 30, 2014 to April 30, 2020, provided, however, that either party could terminate the extension upon notice given no later that April 30, 2012.

"The extension would bring the effective date of the CSA beyond the expiration date of the Lease. Since the Authority's rights as lessee under the Lease would be terminated on April 30, 2014 and under the terms of the Lease, the Flynn plant would have to be dismantled upon Lease termination, all debris removed and the site restored to its original condition, the Authority staff recommends, upon execution of Amendment No. 6, that the Flynn Property be acquired and, in addition, that any easements, areas and/or other property interests necessary or convenient for full enjoyment of the fee acquisition.

FISCAL INFORMATION

"The changes to the pricing arrangements embodied in Amendment No. 6 are designed to provide continued savings to Long Island ratepayers and to provide the Authority with positive net revenues from operation of the Flynn plant.

"Payment for any acquisition of the Flynn property will be made from the Authority's Capital Fund or from the proceeds of debt issued for such purpose.

RECOMMENDATION

"The Manager – Fuel Planning and the Senior Business Planner recommend that the Trustees authorize the Vice President – Energy Resource Management to execute an amendment to the Capacity Supply Agreement having such terms and conditions as he deems necessary or advisable and as are consistent with the terms set forth in Exhibit '11-A,' attached hereto, provided that any such terms and conditions be subject to the approval as to the form thereof by the Executive Vice President, Secretary and General Counsel or his designee.

"The Vice President – Energy Resource Management, the Vice President – Contracts and Real Estate and the Flynn Project Manager recommend the Trustees authorize, upon execution of Amendment No. 6, the Vice President – Contracts and Real Estate or his designee to take all steps necessary to acquire by purchase or appropriation the fee area of approximately six acres upon which the Flynn plant is located and, in addition, to acquire any easements, areas and/or other property interests necessary or convenient for the full enjoyment of the fee acquisition; and to further delegate to the Chairman and/or the President and Chief Executive Officer the authority to approve the payments to be made for the acquisition of the Flynn Property and associated easements, areas and/or other property interests.

"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 – Finance and I concur in the recommendation."

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

RESOLVED, That the Vice President – Energy Resource Management be, and hereby is, authorized to execute an amendment to the Capacity Supply Agreement ("Amendment No. 6") between the Authority and the Long Island Lighting Company, Inc., d/b/a "LIPA," having such terms and conditions as he deems necessary or advisable and as are consistent with terms set forth in Exhibit "11-A" hereto, subject to the approval as to the form thereof by the Executive Vice President, Secretary and General Counsel or his designee; and be it further

RESOLVED, That pursuant to the provisions of Article 5, Title 1 of the Public Authorities Law, the Authority hereby finds that upon execution of Amendment No. 6, it is necessary or convenient to acquire in fee simple or leasehold, by purchase, appropriation, or transfer of jurisdiction the real property on which the Flynn plant is located, including any permanent or temporary easements, areas or other interests that are necessary or convenient for the full enjoyment of the Flynn plant property, and hereby finds and determines that such real property is required for public use; and hereby determines that such real property is reasonably necessary for the maintenance, operation, repair or renovation of the Flynn plant; and be it further

RESOLVED, That the Vice President – Contracts and Real Estate or his designee be, and hereby is, authorized to take all steps necessary or convenient to acquire by purchase, appropriation, or transfer of jurisdiction the fee area upon which the Flynn plant is located, including areas, easements, and/or other interests necessary or convenient for the full enjoyment of the Flynn plant property (collectively, the "Flynn Property"), in the event that Amendment No. 6 is executed, 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 and the President and Chief Executive Officer be, and each hereby is, authorized to approve the payments to be made for the acquisition of the Flynn Property; and be it further

RESOLVED, That the Authority's Series 1, Series 2 or Series 3 Commercial Paper Notes or the Authority's Series 1 Extendible Municipal Commercial Paper Notes may be issued to finance the Flynn Property acquisition costs discussed in the foregoing Resolution; and be it further

RESOLVED, That the foregoing resolutions supercede the resolutions adopted by the Trustees on this matter on March 20, 2003; 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 "11-A"
May 25, 2004

Exhibit "A"

February 24, 2004

Amendment No. 6 to Capacity Supply Agreement
Term Sheet

- The current Capacity Supply Agreement ("CSA") will be extended to April 30, 2020. Both the Authority and LIPA will have the option of terminating the extended CSA effective April 30, 2014, upon prior written notice, with such notice to be given no later than April 30, 2012.

- The Amendment No. 6 pricing provisions, described below, will be in effect from January 1, 2004 to and including December 31, 2008, with either party having the right to terminate such pricing provisions on January 1, 2009 upon at least six months' prior notice. If such termination notice is given and no alternative pricing structure has been agreed to, the pricing structure set forth in Appendices D and E of the CSA will apply.

- During the term of Amendment No. 6, the pricing provisions are as follows:

(a) The Monthly Capacity Payment related to debt service set forth in Appendix D (Section B, Paragraph 1) of the CSA will be reduced $3 million per year ($250,000 per month).

(b) Certain capital expenditures incurred by the Authority at the Flynn plant shall be repaid by LIPA as follows:

(1) Half of the amount of aggregate annual capital expenditures incurred by the Authority greater than $10 million shall be repaid, with interest, in equal monthly installments over a period ending April 30, 2020, provided, however, that if LIPA has not consented to a particular capital expenditure, no reimbursement from LIPA shall be required relating to such expenditure.

(2) The interest rate used shall be 5.1%, unless the capital expenditure is funded by debt, whereupon the interest rate shall be at the rate of the new debt issue.

(3) If the pricing structure of this Amendment No. 6 is terminated, repayment of the remaining capital expenditure amounts as set forth above shall be limited to those amounts in each year due from LIPA that are greater than $3 million, plus interest. If the CSA is terminated by either party on April 30, 2014, the remaining capital expenditure amounts owing from LIPA shall be paid upon such termination in a lump sum payment.

(4) If during the period through April 30, 2020 the Flynn plant is derated, the installment payments for capital expenditures referenced above will be pro-rated based on the level of the derate.

(c) (i) The Gas Price Formula set forth in Appendix D (Section C, Paragraph 1) of the CSA, as previously amended by Amendment No. 5, will be modified so that the tiered pricing structure will be replaced with a fixed 10% markup to the Commodity Price, as defined below. Other provisions of the pricing formula set forth in Amendment No. 5, which include fuel retention, variable transportation, tariff surcharges and local transportations, will remain in effect in order to develop the Authority Market-Based Gas Cost. "Commodity Price" means the per dekatherm price equal to the simple arithmetic average of the following two amounts: (1) the simple arithmetic average of the New York Mercantile Exchange ("NYMEX") settlement price for the prompt month contract on the last three trading days prior to the month of delivery; and (2) the price reported for Transcontinental Gas Pipe Line Corporation Zone 3 pooling points in the first issue of *Inside FERC's Gas Market Report* for the month of delivery in the table entitled "Prices of Spot Gas Delivered to Pipelines" under the column labeled "Index"

(ii) Once the Authority Market-Based Gas Cost is converted to a cost per MWH, there will be added to such converted Gas Cost 80 cents per MWH to produce the NYPA LBMP Bid Price.

(iii) If the monthly NYPA LBMP Bid Price is less than or equal to the NYISO 24-hour average DAM price for the Long Island zone for a particular day, the Authority will receive the NYPA LBMP Bid Price for that day.

(iv) If the monthly NYPA LBMP Bid Price is greater than the NYISO 24-hour average DAM price for the Long Island zone for a particular day, the Authority will receive 95% of the DAM price for that day.

(d) LIPA will pay one-half of all gas balancing expenses for the Flynn plant, up to a maximum per year of $750,000 plus applicable taxes.

(e) All performance incentives and penalties relating to Flynn’s availability factor will remain at the levels currently specified in the CSA.

(f) The shared-savings provision of Amendment No. 5, as modified below, will remain in place. The shared-savings calculation will be done on a daily basis. LIPA would keep the first 20% of the monthly savings, and the remaining savings would be split equally. The annual shared savings paid to the Authority would be capped at $5 million per year. The shared-savings calculation would be based on the NYPA LBMP Bid Price, and the 24-hour average DAM price discussed above. At no time when developing the shared-savings number will there be a negative shared-savings number incorporated into the daily calculation.

(g) The Authority staff shall purchase the natural gas for LIPA for the Flynn plant. The Authority will have the option of executing its own hedging strategies based on Authority financial strategies and parameters. If both parties agree, joint gas purchasing or hedging strategies can be implemented.

(h) LIPA will ensure that the Flynn plant is bid into the NYISO-administered markets so as to have the facility dispatched as a “must run” unit for all available hours every day, in accordance with NYISO rules. The bidding strategy will make every attempt to minimize the number of starts and stops that the plant will experience.

12. Next Meeting

The next Regular Meeting of the Trustees will be held on **Tuesday, June 29, 2004, at 11:00 a.m., at the Clark Energy Center**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

13. <u>Closing</u>

Upon motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 12:00 noon.

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