LONG ISLAND POWER AUTHORITY

MINUTES OF THE 243rd MEETING

HELD ON JULY 25, 2013

The Long Island Power Authority (the “Authority”) was convened for the two-
hundred-and-forty third time at 11:04 a.m. at LIPA’s Headquarters, Uniondale, NY,
pursuant to legal notice given on July 22, 2013; and electronic notice posted on the
Authority’s website.

The following Trustees of the Authority were present:

Lawrence Waldman, Chair
Laurence Belinsky
Matthew Cordaro
Gemma deLeon
John Fabio
Jeffrey Greenfield
Neal Lewis
Susan Gordon Ryan
Michael Maturo
Suzette Smookler
Peter Tully

Representing the Authority were John McMahon, Chief Operating Officer; Michael
Taunton, Chief Financial Officer; Lynda Nicolino, General Counsel and Secretary; Paul
DeCotis, Vice President - Power Markets; and Michael Deering, Vice President -
Environmental Affairs.

Chairman Waldman welcomed everyone to the 243rd meeting of the Long Island Power
Authority Board of Trustees and led the Pledge of Allegiance.

Chairman Waldman called for a motion to accept the minutes of the June 27, 2013
meeting of the Board of Trustees, which was seconded. He asked if there were any changes or
deletions.

After a discussion by the Trustees and the opportunity for the public to be heard, the
followed resolution was then adopted with Trustees Susan Gordon Ryan and Gemma de Leon abstaining.

Upon motion duly made and seconded, the following motion was approved:


RESOLVED, that the Minutes of the meeting of the Authority held on June 27, 2013 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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Chairman Waldman then remarked on the following items:

- The LIPA Reform Act, including the related securitization of certain LIPA debt and modification to the Operating Services Agreement between LIPA and PSEG Long Island LLC (“PSEG-LI”);
- The 2014 budget and rate setting process;
- The Board’s response to the Moreland Commission Report, including the creation of a Special Committee to address the Report;
- The performance of the electric transmission and distribution system during the recent heat wave;
- LIPA’s resource planning and decision making process; and
- An overview of actions taken by Staff and the Special Committee created to address findings in the Moreland Commission Report.

Chairman Waldman then turned the meeting over to Mr. McMahon for the COO’s Report.

Mr. McMahon reported on the following items:

- LIPA’s customer satisfaction survey results, including LIPA’s plans to improve customer service.

satisfaction;

- The transition to PSEG-LI, and LIPA’s role and responsibilities after transition;
- LIPA’s communication campaign regarding the coming storm season; and
- LIPA’s Solar Pioneer Program.

The Chair stated that the next item on the agenda is the Operating Report, to be presented by Mr. McMahon.

Mr. McMahon reported on the monthly Operating Report and took questions from the Trustees.

The Chairman stated that the next item on the agenda is the Financial Report, to be presented by Mr. Taunton.

Mr. Taunton then presented the Financial Report, which included the financial results for the six months ended June 30, 2013.

Mr. Taunton concluded his report and took questions from the Trustees.

The Chair stated that the next item is the Heat Wave Report to be presented by Mr. McMahon.

Mr. McMahon made a presentation on the effects of the recent heat wave on the LIPA system with the assistance of Tom Beisner and Ted Pappas from National Grid. He concluded his report and took questions from the Trustees.

The Chair stated that the next item on the agenda is a presentation related to the Generation and Transmission RFP and other resource related planning initiatives, to be reported by Mr. McMahon.

Mr. McMahon presented the following material:

Summary

On October 25, 2012, the Trustees adopted a resolution authorizing the Chief Operating Officer or his designee to conduct negotiations for a 20-year power purchase agreement (“PPA”) with: (1) J-
Power USA Development Co., Inc. ("J-Power") for a new 377 MW natural gas-fired, combined cycle power plant in Shoreham, New York in the Town of Brookhaven, and (2) Caithness Long Island II, LLC ("Caithness") for a new 706 MW natural gas-fired combined cycle power plant in Yaphank, New York in the Town of Brookhaven to determine which proposal could best meet the Authority’s capacity and energy needs and provide the greatest value to its customers. Based on the evaluation of proposals received in response to the Authority’s Request for Proposals to Provide Electric Capacity, Energy and Ancillary Services (“RFP”) which was issued on August 20, 2010, it was determined that the two projects were ranked the highest. This determination was made after very extensive analysis and modeling of the 45 potential projects offered by 16 entities that responded to the RFP. Of the 45 projects, 29 were on-Island generating projects and 16 were off-Island generation and transmission projects. The proposed J-Power and Caithness projects are both on-Island generating facilities.

At the same meeting, the Trustees authorized Staff to undertake additional actions related to implementing the Authority’s future resource plan, which included efforts to provide up to an additional 400 MW of renewable energy generation to the Authority’s resource portfolio by 2018 through an expanded feed-in-tariff program and a competitive procurement. More specifically, the Trustees directed Staff to: (1) issue a notice no later than July 1, 2013 for another 100 MW of solar renewable resources under the existing Clean Solar Initiative feed-in tariff at a price to be determined after assessment of market conditions at that time; (2) expand the feed-in-tariff to allow wind, fuel cells and other renewable resources to fill an additional 20 MW resource block; (3) modify the Solar Pioneer program to provide rebates to residential customers who lease qualifying solar PV systems; and (4) contemplate a competitive procurement for additional renewable energy resources of up to 280 MW of capacity to be in-service by 2018, and a second competitive procurement for renewable resources between 2018 and 2022. And, as part of the effort to modernize the aged generation fleet on Long Island, the Trustees further directed Staff to initiate a competitive procurement for new peaking and storage generation resources to start the process of replacing existing inefficient peaking units under contract to the Authority.

Based on the additional due diligence and negotiations that Staff has undertaken since the October 25, 2013 Trustee meeting, the RFP Selection Committee has recommended the selection of the proposed Caithness project and the Authority’s Executive Committee concurs. This memorandum, while notifying the Trustees of the Authority’s selection of Caithness for further PPA negotiations, puts the selection in the broader context of the Authority’s resource planning efforts. These efforts are being taken to ensure that the Authority has the necessary resources to meet future customer electricity demand through the decade ahead in a reliable, environmentally sound, and cost-effective manner. Authority Staff expects to provide the Trustees with a PPA for execution in fall 2014, following the completion of PPA negotiations and Caithness completing the necessary environmental review being conducted by the Town of Brookhaven. As currently planned, Caithness is expected to achieve a commercial operation date ("COD") in 2018.

Background

The Authority’s 2010-2020 Electric Resource Plan (the “Resource Plan”) approved by the Trustees in February 2010, identified a significant need for additional electrical resources in the 2016-2020 timeframe based on existing and projected generation requirements established by the New York Independent System Operator (“NYISO”) and the New York State Reliability Council (“NYSRC”). To ensure continued reliable electric service to its customers, the Authority is obligated to maintain
generation resources on or connected to Long Island in satisfaction of its Locational Capacity Requirement ("LCR") established by the NYISO upon the recommendation of the NYSRC. The extent of the Authority’s need is determined by various factors in addition to meeting capacity need requirements. These include, among other things, the desire to repower and/or retire existing older inefficient generation to improve system efficiency and reduce costs and air pollutant emissions and to prepare the electric system on Long Island for greater penetrations of renewable energy resources.

Currently, the Authority projects a need for 900 to 1,200 MW of new generating resources by 2022. With the increase in the LCR from 99% to 105%, which was promulgated by the NYISO in 2013, 105% of the Authority’s peak load is now required to be met with on-Island or equivalent resources (e.g., off-Island generation and cable connecting to the Authority’s system with firm contracts for both generation capacity and transmission rights over the cable). The increase in LCR was due largely to the closing of the 537 MW Danskammer plant owned by Dynergy in Newburgh, NY which sustained heavy damage caused by Superstorm Sandy and subsequently closed. The higher LCR moves the Authority’s need date for new capacity to 2015, from 2016 originally projected in the 2010 Electric Resource Plan. By current estimates we project a capacity shortfall of 22 MW in 2015, 190 MW in 2016, and between 250 MW and 670 MW in 2017 (depending on the timing of retirements and repowering of other on-island power plants), with Caithness then expected to be in-service in 2018. Capacity shortfalls prior to 2018 are expected to be met through additional capacity purchases from regional wholesale electricity markets and resources able to be secured through the proposed Peaking and Storage RFP and potential repowering of peaking generation at the National Grid-owned E.F. Barrett power station. More aggressive investment in energy efficiency and demand response could also contribute to meeting the projected shortfalls; we believe these measures can address nearer-term capacity shortfalls but that firm, base-load commitments are essential to the system’s long-term adequacy.

The hot summer we are experiencing to date and the resultant demands it places on our generation and transmission and distribution systems underscores the need to plan responsibly to meet future loads. The Long Island system is able to meet the high demands on the system today because of past planning efforts and investments made to ensure the continued reliability of the system under potentially very stressful circumstances. The decisions being made today, including the selection of the proposed Caithness project and the other resource initiatives underway, will position the Authority to meet future electric load with the same degree of efficacy and reliability.

Issuance of the RFP

In light of the need, on August 20, 2010, the Authority issued a Request for Proposals to Provide Electric Capacity, Energy, & Ancillary Services to the Long Island Power Authority ("RFP") seeking proposals from qualified entities ("Proposers") to provide up to 2,500 MW of capacity, energy, and ancillary services from new or repowered on-Island generation, or off-Island generation with transmission to allow it to be delivered to the Authority’s electric system. Each proposal submitted was required to propose a commercial operation date of May 1, 2016, May 1, 2017, or May 1, 2018 and include prices, terms, and conditions of for the Authority to elect an option to delay the proposed COD by one and two years.

The RFP was distributed to 116 firms; advertised in the New York State Contract Reporter; and posted on both the Authority’s Web site and a Web site set up specifically for the RFP. Prior to
proposal submittal, the Authority held a proposers’ conference attended by 74 individuals in September 2010, where Staff provided details of the RFP and answered questions and also provided prospective Proposers the opportunity to submit written questions to which written responses were provided via the RFP Web site. A transcribed record of the Proposers’ Conference was posted on the RFP Web site. In addition, other RFP materials were made available to all potential proposers, and there was an opportunity to submit additional questions prior to the proposal due date. The Authority received 45 Proposals from 16 entities on March 31, 2011 in response to the RFP. The Authority released the names of each proposer’s parent and/or consortium members on its web site in April 2011.

The Evaluation Process

In accordance with Section 2879 of the Public Authorities Law, Long Island Power Authority and certain other public authorities are required to adopt and periodically review and approve procurement guidelines which set forth the operative policy and instructions regarding the use, awarding, monitoring and reporting of procurement contracts.

Consistent with procurement guidelines, the Authority conducted a procurement evaluation process that was similar to that used in prior solicitations for generation and transmission projects. Prior to receipt of proposals, a Selection Committee was designated to conduct the evaluation. The Section Committee consists of an interdisciplinary group of experts from the Authority’s staff in the areas of Power Markets, Environmental Affairs, and Legal. The Selection Committee was assisted by retained expert resources from outside the Authority who provided advice and technical and administrative support throughout the RFP development and the evaluation process. All work was overseen and validated by Authority Staff and no one outside the Authority had a vote on any Selection Committee decisions. Among others, Authority Staff has discussed its planning and RFP processes with the New York Power Authority (“NYPA”), and NYPA has indicated its agreement with the process followed and conclusions reached by Staff.

In that regard, the Selection Committee designed a multi-phase evaluation process prior to the receipt of Proposals that focused on selecting a Proposal that would provide the best value to the Authority’s customers based on the quantitative and qualitative merits of its Proposal using the evaluation criteria set forth in the RFP. As stated in the Authority’s procurement guidelines, “best value” means the basis for awarding contracts which best achieves the criteria specified by the Authority in the RFP, taking into account, among other things, quality, cost and efficiency. The evaluation process for this RFP (as well as other generation and transmission procurements), considered the best overall value of the proposals, which took into account the qualitative and quantitative (cost) elements of the proposals.

During the evaluation period, the Selection Committee regularly briefed and sought advice from an Executive Committee consisting of Authority executives, and from time-to-time briefed and sought guidance from the Board of Trustees Operations Committee, as well as the full Board of Trustees.

The Selection Committee first reviewed the Proposals for compliance with the submittal requirements of the RFP and then evaluated the qualifying Proposals based on the criteria set forth in the RFP, including, among other things, the qualitative aspects of each proposal; the prices for capacity and energy; the cost of fuel and transmission system upgrades; and the impact on the Authority’s purchases and sales of power on behalf of its customers. The evaluation considered the
attributes of each proposal, including operational flexibility, environmental impacts, the interaction with other power supply resources, and the ability to get the project developed on time. Each responsive proposal was evaluated in a fair and unbiased manner, consistent with the evaluation afforded to all other proposers.

In light of the breadth of the proposals, which included a variety of technologies, project sizes and locations, as well as the financial impact of the proposals, the Authority followed an extensive and time-consuming process to ensure that a complete and thorough evaluation of the proposals and to also continually assess and evaluate the Authority’s resource needs.

Based on the evaluation, the Selection Committee determined that the Caithness GE 2X1 Project and the J-Power ELIP 501G Project were ranked the highest, and concluded that concurrent contract negotiations were required with each proposer to better identify risks in each proposal, including the uncertainties associated with natural gas supply arrangements, the electric transmission improvements, and environmental permitting for both projects and to initiate contract negotiations to ultimately determine which project would provide our customers the best value.

**Selection Decision**

As a result of the progress made in negotiations with Caithness and J-Power since October 25, 2012, and consistent with the selection recommendation of the Authority’s RFP Selection Committee and Executive Committee, negotiations with J-Power will cease and negotiations for a PPA with Caithness will continue toward completion. It is important and timely to make this selection so that time and attention can now be devoted by Caithness to siting and permitting its proposed project for a 2018 in-service date.

We are selecting the Caithness project for several reasons: (1) it results in comparable, if not lower costs to our customers over the contract term across a range of assumptions evaluated; (2) the size of the facility, at 706 MW, will provide the system added flexibility in assessing and addressing future system needs; for example, the available capacity would allow for plant retirements and repowering options and helps the Authority meet its capacity needs through 2022; and (3) negotiations to date with Caithness have resulted in generally acceptable PPA terms and conditions.

Caithness (a wholly owned subsidiary of Caithness Energy LLC) is a Delaware limited liability company that proposes to develop, operate, and own a new 706 MW natural gas-fired, combined cycle power plant in Yaphank, New York in the Town of Brookhaven (“Caithness Project”) adjacent to its existing 326 MW combined cycle generation plant. The majority of the existing generation plant’s output is sold to the Authority under a 20-year PPA, which began in 2009. Caithness proposes to use a state-of-the-art General Electric 207FA.05 flexible combined cycle technology that is designed for faster start-ups in order to respond to rapidly increasing system demands, while permitting much lower output during times of low system demands.

Caithness proposes to achieve a May 1, 2018 COD. Natural gas for the Caithness Project would be delivered through upgrades to the existing National Grid gas system or through an extension of one of the interstate pipelines serving Long Island. A two-day supply of fuel oil would be stored on site in case of interruptions in gas deliveries. Electric transmission upgrades would also be needed to enable the output of the Caithness Project to be delivered into the Long Island electric system.
Next Steps

Continued progress on the environmental review, which is being conducted by the Town of Brookhaven as lead agency under the State Quality Environmental Review Act (“SEQRA”), would involve public input, in addition to which the Authority must determine that there is adequate assurance of natural gas delivery and a satisfactory PPA before requesting Board of Trustees authorization to approve a PPA in the Fall of 2014 and any other related agreements for the project. In addition, the procurement process, as well as the resulting PPA will require review and approval by the New York State Office of the State Comptroller.

Other Resource Planning Initiatives

It is important to note the significance of the Caithness selection in the context of the Authority’s broader resource planning efforts. Base-load central station power plants provide the backbone for the electric supply system on Long Island and will continue to well into the future. Such plants, coupled with the necessary peaking units to meet customer demands on the hottest of summer days, provide the necessary balancing needs to enable a larger share of renewable energy resource to be added to the system. It is with this in mind that the Authority is pursuing a comprehensive plan for meeting its electric system needs.

As stated publicly many times, the development of new base-load central station electric generation is only part of the Authority’s strategy to meet the future electricity needs on Long Island in a cost-effective and environmentally sound manner. The Authority is further diversifying its supply portfolio through efforts to improve energy efficiency and demand response through the Efficiency Long Island Program; enhancements to existing renewable energy programs; future renewable energy procurements; replacing inefficient peaking units, and other actions and investments, including emerging technologies and increasingly promising distributed generation, that might be necessary and or feasible to reliably and economically meet future load. Staff is committed to:

1. Another 100 MW of solar renewable energy capacity under the existing Clean Solar Initiative feed-in-tariff (“FIT”) at a price to be determined after assessment of market conditions at that time. A portion of this total would be reserved for the East End of the Long Island system as part of a comprehensive plan designed to defer the need for significant capital investments for transmission system upgrades. This tariff proposal was published for public comment on July 17, 2013 pursuant to the State Administrative Procedures Act (“SAPA”). Upon conclusion of the public comment period under SAPA, Authority Staff will address the proposal and any related comments with the Trustees and seek authorization to modify the tariff as appropriate.

We are also expanding the feed-in-tariff to allow wind, fuel cells and “other” renewable resources to fill an additional 20 MW block of capacity, as directed by Trustees. The pricing structure in the tariff would be set to reflect the unique characteristics of each resource block. This updated tariff will be made available before year-end 2013.

2. Continuing a process initiated earlier in 2013, Staff will continue to solicit input from renewable energy providers, energy efficiency experts, and consumer and environmental interest groups on expanding the use of renewable resources and efficiency programs over
the 2013 to 2022 timeframe and beyond. Consideration would be given to smaller and more affordable offshore and onshore wind, along with solar and fuel cells. The public input process seeks to find the most cost-effective procurement approach to obtaining a greater percentage of efficiency and renewable energy on Long Island, giving consideration to the capacity needed by 2022, and the goal of reducing load on the East End to defer the need for transmission system upgrades.

At the conclusion of the stakeholder input process, the Authority would report the results to the Trustees and request a competitive procurement for additional renewable energy resources for up to 280 MW of capacity to be in-service by 2018. This procurement, combined with the expansion of the FIT would bring an additional 400 MW on-line by 2018. A second renewable RFP would be considered within the context of ongoing electric resource planning efforts, and would consider an additional RFP for renewable resources for up to 300 MW between 2018 and 2022. Any action on the Authority’s collaborative wind project with NYPA and Consolidated Edison would be in addition to these resources and can add up to an additional 175 MW of offshore wind capacity to the Long Island system.

3. Releasing a Peaking and Storage RFP to replace old, inefficient, and obsolete peaking units on the system with more efficient, modern, cleaner peaking units and to add distributed generation and energy storage resources as appropriate and cost-effective throughout the system to obviate the need for new fossil generation or delay or forgo significant new investment in transmission and distribution infrastructure.

Conclusion

This memorandum reports the conclusions of the Staff to the Board of Trustees. The conclusions are in line with the goal of planning and implementing a clean, reliable and diverse power supply on Long Island and meeting the energy needs of LIPA’s 1.1 million electric customers for the future.

The memorandum does not request the Board of Trustees to take any immediate action. The Authority’s Staff recognizes the passage of the New York State LIPA Reform Act (the “Act”) and the changes that are to result from the Act to the Board of Trustees and to our day-to-day management of the electric system. The actions reported herein are appropriate because, even in the midst of change, it is critically important to continue to plan and move forward with developing the energy infrastructure essential in so many ways to the future of Long Island.

Mr. McMahon concluded his presentation and took questions from the Trustees.

The Chair then allowed public comment to be heard, after which he announced that the next Board meeting is scheduled for September 26, 2013 at 11:00 a.m. in Uniondale. The Chair then asked for a motion to adjourn to Executive Session to discuss Litigation Matters and the Amended and Restated Operations Services Agreement negotiations.
RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation and the Generation and Transmission RFP.

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At approximately 1:11 p.m. the Open Session of the Board of Trustees was adjourned on a motion to enter into Executive Session, which commenced at 1:25 p.m.

After noting that no votes were taken in the Executive Session, Chairman Waldman entertained a motion to adjourn, which was duly made and seconded, after which the meeting ended at 2:22 p.m.

Respectfully submitted,

Lynda Nicolino