

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 211th MEETING

HELD ON SEPTEMBER 23, 2010

The Long Island Power Authority (the "Authority") was convened for the two-hundred-and-eleventh time at 11:06 AM at the LIPA Board Room, in Uniondale, NY, pursuant to legal notice given on September 20, 2010; verbal notice given by the Chairman at the September 28, 2010 meeting of the Board of Trustees; and electronic notice posted on the Authority's website annually.

The following Trustees of the Authority were present:

**Howard Steinberg, Chairman
Laurence Belinsky
David Calone
Gemma de Leon
Lawrence Elovich
John Fabio
Neal Lewis
Susan Gordon Ryan
Suzette Smookler
Lawrence Waldman
Diana Weir**

The following Trustees of the Authority were absent:

**X. Cristofer Damianos
Michael Fragin
Christopher Hahn
James Herrmann**

Representing the Authority were Michael D. Hervey, Chief Operating Officer; Lynda Nicolino, General Counsel and Secretary; Herb Hogue, Vice President and CFO; Paul DeCotis, Vice President–Power Markets; Mike Deering, Vice President-Environmental Affairs; and Bruce Germano, Vice President-Retail Services

Chairman Steinberg welcomed everyone to the 211th meeting of the Long Island Power Authority Board of Trustees. He then led the Board in a moment of silence to honor the men and woman serving our country, followed by the Pledge of Allegiance.

Chairman Steinberg made a motion to accept the minutes of the August 26, 2010 meeting of the Board of Trustees, which was seconded. He asked if there were any additional changes or deletions, and after hearing none, the following resolution was then adopted, with Suzette Smookler abstaining:

1004. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE AUGUST 26, 2010 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on August 26, 2010 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.

The Chairman remarked on the following items:

- *Mr. Hervey's new role as Chief Operating Officer;*
- *The status of the search for a new Chief Executive Officer;*
- *LIPA's obligation and responsibility to prepare for major weather events, including Hurricane Earl; and*
- *The appointment of an ad hoc committee of the Board to be chaired by Trustee David Calone for the limited purpose of reviewing LIPA's emergency storm preparedness*

policies and reporting back to the Board at the next meeting after such review.

After concluding his remarks, Chairman Steinberg turned to Chief Operating Officer Michael Hervey for his report.

Mr. Hervey reported on the following items:

- *The status of the budget for next year and the capital budget for the next two years;*
- *The complexities of the budget process including evaluating LIPA's sales over the summer;*
- *The status of the Request for Proposal for Utility Services Management;*
- *The status of the Generation and Transmission Request for Proposals seeking up to one thousand megawatts of new resources; and*
- *LIPA's focus on three basic operational initiatives over the next several months during the interim period between CEOs, including maintaining reliability of the electric system, pursuing LIPA's energy efficiency and renewables program, and increasing customer satisfaction.*

After concluding his report, Mr. Hervey stated that the full Operating Report is in the Board book for the Trustees to review. He further stated that every measure in the Operating Report is either meeting or exceeding its goals, except for tree trimming, which is slightly behind because of the recent storms.

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

The Chairman stated that the next item on the agenda is the presentation on the status of the Efficiency Long Island Program, which will be presented by Mr. Deering.

Mr. Deering presented the results of the independent evaluation of the ELI program performed by Opinion Dynamics Corporation which showed that for the calendar year 2009 ELI has been highly cost-effective, achieving goals, and staying within the budget

established by the Trustees for 2009.

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

Chairman Steinberg stated that next Mr. Hogue will present the Financial Report.

Mr. Hogue then presented the Financial Report, which included outlining the current budgeting process for the 2011 operating budget, the capital budget for the next two years and a five year financial plan.

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

Chairman Steinberg stated that next item on the agenda is the Consideration of Approval of a Resolution Authorizing Issuance of Bonds.

After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Mr. Hogue.

Mr. Hogue presented the following action item:

Requested Action

The Trustees are being requested to authorize the issuance of up to \$490,000,000 aggregate principal amount of Electric System Revenue Bonds (the “Authorized Bonds”) for the purposes of (i) funding costs of system improvements, (ii) refunding certain outstanding Authority Bonds, (iii) funding costs of issuance, all as described herein. The Trustees are also being requested to authorize the execution, delivery, termination, assignment or amendment of one or more interest rate or basis swaps as described below.

Plan of Finance

The Authority is considering issuing the Authorized Bonds for the purposes of (i) directly funding costs of system improvements and/or reimbursing such costs already incurred (ii) refunding certain outstanding fixed rate bonds of the Authority for the purpose of achieving debt service savings and (iii) paying costs of issuance. The Authorized Bonds may be issued as federally tax exempt bonds or, in the case of Authorized Bonds issued to fund certain system improvements, as federally taxable “Build America Bonds” and may be issued in either a fixed rate or variable rate or a combination thereof. The Build America Bonds program permits the Authority to issue taxable bonds for certain system improvements and to receive a direct federal subsidy payment from the Treasury Department for a portion of its borrowing costs (equal to 35 percent of the total coupon interest paid to investors). The Internal Revenue Code provisions which authorize Build

America Bonds currently expire as of December 31, 2010. Legislative proposals are pending which would extend the authorization of Build America Bonds, but with a lower rate of federal subsidy. The Authority may seek to lower the effective debt service cost of the Authorized Bonds or to reduce the risk associated with a variable or fixed interest rate by entering into interest rate or basis swap agreements at any time relating to the proposed Authorized Bonds as described below.

Authorized Bonds and Interest Rate Swaps

The Authorized Bonds, will be issued as either fixed rate or variable rate bonds or a combination thereof and sold either on a negotiated basis (i) to one or more underwriters for resale to investors or (ii) directly to one or more investors at such price or prices as they shall determine to be the most cost effective and advantageous for the Authority.

The decision as to the specific interest rate strategy or strategies to be employed and, if interest rate swap agreements are utilized, the indices, formulae or methods to be used in calculating payments to be made by the Authority or the counterparties (which indices, formulae or methods may include, but not be limited to, LIBOR or indices established by the Securities Industry and Financial Markets Association) will be made by the President and Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, taking into account market conditions and the advice of the Authority's Financial Advisor as to which approach will be most likely to lower debt service payable on the Authority's debt consistent with interest rate and other risk considerations. Depending on market conditions, it may be more beneficial for the Authority to enter into basis swaps, either in lieu of or before entering into any variable-to-fixed or fixed-to-variable interest rate swap agreements or in connection with or after entering into such interest rate swap agreements, in either case as a means of converting the Authority's variable or synthetic variable rate bonds from one basis to another.

Any new interest rate swap agreement(s) would (i) commence on such date or dates as the President and Chief Executive Officer, Chief Operating Officer or Chief Financial Officer specifies, (ii) have a term ending on or prior to the anticipated final maturity of the bonds to which they relate, as any such officer specifies, (iii) be entered into with such counterparties in such notional amounts (subject to the aggregate notional amounts described below), as any such officer specifies, (iv) provide for payments to and by the Authority determined based upon such indices, formulae or methods as may be approved by any such officer, and (v) otherwise be in accordance with the Authority's Guidelines for the Use of Interest Rate Exchange Agreements. Any new interest rate swap agreements would relate to a notional amount of not more than \$490,000,000 in the aggregate, provided that, in applying such aggregate limit, basis swaps entered into in connection with or after entering into other interest rate swaps will not be taken into account.

Risks associated with Interest Rate and Basis Swaps

The use of variable or fixed rate obligations and interest rate swaps and basis swaps entails acceptance of certain risks, such as (i) basis risk (e.g., where the variable rate paid by the

Authority on its bonds is higher than the variable rate paid to it under the swaps), (ii) tax risk (e.g., a change in tax law which results in an adverse movement in the trading ratios of short-term tax-exempt securities to short-term taxable securities generally, decreasing or eliminating the anticipated savings to the Authority if the change in law causes the variable rate on the bonds to rise faster than a LIBOR-based floating rate on the swap), (iii) term risk (e.g., where the swap does not extend for the full period of time during which the Authority desires to maintain a net fixed rate exposure), (iv) counterparty risk (e.g., a default by the other party to the swaps that may result in additional cost to the Authority), (v) termination risk, including the costs to the Authority of any termination of the swaps, either by the Authority or the counterparty, and the risk that the swaps no longer would extend for the full period of time during which the Authority desires to maintain a net fixed rate exposure, (vi) tax-exempt variable rate debt supply/demand risk (e.g., where supply or demand affects the liquidity for the swaps and increases the costs to the Authority of periodic payments thereunder and of any termination thereof), (vii) the risk of escalated costs for ancillary services in connection with the variable rate issues (e.g., costs of credit and liquidity support and/or insurance, remarketing or dealer costs, and other costs necessary in connection with variable rate issuance, in excess of those assumed in current studies), (viii) the risk of credit and liquidity support being unavailable at any reasonable cost as a result of bank policies and practices, the Authority credit, or other factors, and (ix) the risk of inability to remarket variable rate obligations because of market or other factors. Authority staff has analyzed these risks in consultation with the Authority's Financial Advisor and has determined that the risks associated with the potential use of interest rate swaps and basis swaps as described herein if implemented (i) would be manageable, (ii) would be reasonable in relation to the potential savings and (iii) can be mitigated without undue net loss to the Authority. By adoption of the requested resolution the Trustees will confirm such determination. It is expected that the form of any such agreements and related opinions and certifications would be similar to those utilized in other interest rate swap transactions entered into by the Authority.

Recommendation

Based upon the foregoing and the recommendation of the Finance and Audit Committee, Mr. Hogue recommended that the Trustees adopt the resolutions attached hereto authorizing the issuance of up to \$490,000,000 aggregate principal of Electric System General Revenue Bonds of which no more than \$250 million in principal amount shall be New Money Bonds, the execution and delivery, of one or more interest rate or basis swap agreements, all as described above.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1005. AUTHORIZATION RELATING TO THE ISSUANCE OF ELECTRIC SYSTEM GENERAL REVENUE BONDS FOR THE PURPOSES OF FUNDING COSTS OF

SYSTEM IMPROVEMENTS AND REFUNDING ALL OR A PORTION OF CERTAIN OUTSTANDING AUTHORITY BONDS, AND THE EXECUTION OF ONE OR MORE INTEREST RATE SWAP AGREEMENTS.

WHEREAS, Long Island Power Authority (the “Authority”) is authorized by the Long Island Power Authority Act (the “Act”) to issue its bonds and notes for any purposes authorized thereby and to adopt bond resolutions establishing the contract with its bond and note holders; and

WHEREAS, on May 13, 1998 the Authority adopted its Electric System General Revenue Bond Resolution (the “General Resolution”), which, consistent with the Act, authorizes bonds, notes or other evidences of indebtedness of the Authority, such bonds to be designated as “Electric System General Revenue Bonds” (the “Bonds”), as special obligations of the Authority in accordance with the terms thereof for, among other purposes, funding Costs of System Improvements (as defined in the General Resolution) and refunding other Bonds of the Authority; and

WHEREAS, the Authority may sell Bonds on a negotiated basis to one or more underwriters for resale to the public or by private placement to one or more investors at such price or prices as the Authority shall determine; and

WHEREAS, Article II of the General Resolution requires that the issuance of each series of Bonds by the Authority shall be authorized by a supplemental resolution or resolutions of the Authority adopted at or prior to the time of issuance, subject to further delegation to certain officers to establish the details of the terms of such Bonds; and

WHEREAS, the Authority’s outstanding obligations include, among others, the Electric System General Revenue Bonds, Series 1998B, 2001A and 2003C (collectively, the “Specified Bonds”); and

WHEREAS, the Authority wishes to authorize the issuance of Bonds (the “New Money Bonds”) for the purpose of funding Costs of System Improvements and for various related purposes and Bonds (the “Refunding Bonds” and collectively with the New Money Bonds, the “Authorized Bonds”) for the purpose of refunding all or a portion of the Specified Bonds, which Authorized Bonds shall be in an aggregate principal amount not to exceed \$490,000,000, of which no more than \$250,000,000 in principal amount shall be New Money Bonds; and

WHEREAS, the Authority wishes to issue the Authorized Bonds either as federally tax exempt bonds or as federally taxable “Build America Bonds” in either a fixed rate or variable rate or a combination thereof; and

WHEREAS, in order to achieve such purposes there has been prepared and submitted to the Trustees a form of Seventeenth Supplemental Resolution (the “Seventeenth Supplemental General Resolution”); and

WHEREAS, the General Resolution permits the Authority to enter into Financial Contracts (as defined therein), which include interest rate caps or collars and forward rate, future rate and certain swap agreements with Qualified Counterparties (as defined therein); and

WHEREAS, the Authority has determined that the use of such swap agreements is appropriate in certain circumstances but recognizes that certain risks can arise in connection with their use and the Authority has adopted guidelines (the “Guidelines”) for the use of such agreements in order to assure that such agreements are used for appropriate purposes and to assure that the risks potentially associated with such agreements are effectively managed and minimized; and

WHEREAS, under current market conditions the Authority has determined that it may achieve debt service savings by entering into one or more such interest rate swap agreements in an aggregate notional amount of up to \$250,000,000 with any single counterparty relating to all or a portion of the Authorized Bonds, or any of the Authority’s outstanding variable or fixed rate bonds pursuant to which the Authority and the counterparties thereto would agree to make payments to one another based principally upon certain indices, formulae or methods to be specified therein; and

WHEREAS, the decision as to which specific strategy or strategies to be employed in connection with such new or existing interest rate swap agreements and the indices, formulae or methods to be used in calculating payments to be made to the Authority or the counterparties will be made by the President and Chief Executive Officer, Chief Operating Officer or the Chief Financial Officer, taking into account market conditions and the advice of the Authority’s Financial Advisor, with the intention of lowering the effective rate of interest payable in connection with the Authority’s indebtedness consistent with interest rate and other risk considerations;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. The Seventeenth Supplemental General Resolution, in the form presented to this meeting and made a part of this resolution as though set forth in full herein, is hereby approved and adopted. The President and Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer are each hereby authorized to deliver the Seventeenth Supplemental General Resolution to The Bank of New York, as the Trustee for the Bonds, with such amendments, supplements, changes, insertions and omissions thereto as may be approved by the President, Chief Operating Officer or the Chief Financial Officer, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.

2. The President and Chief Executive Officer, Chief Operating Officer or the Chief Financial Officer, are each authorized to sell all Bonds issued either on a negotiated basis (i) to one or more underwriters for resale to investors or (ii) by private placement to one or more investors at such price or prices as determined to be the most cost effective and advantageous for the Authority.

3. Each Authorized Representative (as defined in the General Resolution) is hereby authorized with respect to each series of the Authorized Bonds, to execute and deliver a Bond Purchase Agreement in substantially the form of the bond purchase agreement executed by the Authority in connection with the issuance of the Authority's Electric System General Revenue Bonds, Series 2010B, with such modifications thereto as any Authorized Representative of the Authority, upon the advice of counsel to the Authority, approves, which approval shall be conclusively evidenced by the execution thereof by such Authorized Representative.

4. Each Authorized Representative is hereby authorized and directed to execute and deliver any and all documents, including but not limited to the execution and delivery of one or more official statements or other disclosure documents and instruments and to do and cause to be done any and all acts necessary or proper for carrying out each Bond Purchase Agreement and any agreement entered into in connection with the private placement of the Bonds, the issuance, sale and delivery of the Authorized Bonds and for implementing the terms of each Bond Purchase Agreement, and the transactions contemplated thereby, the Seventeenth Supplemental General Resolution and this resolution.

5. The President and Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer, after consultation with the Finance and Audit Committee, are each authorized to enter into interest rate swap agreements in an aggregate notional amount of up to \$250,000,000 with any one counterparty relating to the Authorized Bonds with such Qualified Counterparties (as defined in the General Bond Resolution) as such officers may select in accordance with the Guidelines, which agreements shall (i) relate to a notional amount of not more than \$250,000,000 in the aggregate, provided that, in applying such aggregate limit, basis swaps entered into in connection with or after entering into other interest rate swaps shall not be taken into account, (ii) commence on such date or dates as the President and Chief Executive Officer, Chief Operating Officer or the Chief Financial Officer specifies, (iii) have a term ending on or prior to the anticipated final maturity of the bonds to which they relate, as the President and Chief Executive Officer, Chief Operating Officer or the Chief Financial Officer specifies, (iv) provide for payments to the Authority determined based upon such index, formula or method as may be approved by the President and Chief Executive Officer, Chief Operating Officer or the Chief Financial Officer, and (v) otherwise be in accordance with the Guidelines and substantially in the form of interest rate swap agreements entered into by the Authority in relation to other interest rate swap transactions, with such changes and additions to and omissions from such form as such authorized executing officer deems in his discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval. In connection with the authorizations herein set forth, the Authority has determined, after consideration of the risks inherent in the use of interest rate swap agreements, including those outlined in the memo submitted to the Trustees relating thereto and the advice of the Authority's Financial Advisor relating to the potential use of interest rate swap agreements, that (a) the potential use of such interest rate swap agreements may, in the judgment of the Authority, result in lowering the effective rate of interest payable in connection with the Authority's indebtedness, (b) the risks of any potential interest rate swap agreements if implemented

would be both manageable and reasonable in relation to the potential benefits; and (c) any interest rate swap agreements, if implemented, are necessary or convenient in the exercise of the power and functions of the Authority under the Act.

6. Each Authorized Representative (as defined in the General Bond Resolution) is hereby authorized and directed to execute and deliver any and all documents and instruments and to do any and all acts necessary or proper for carrying out and implementing the terms of, and the transactions contemplated by the potential interest rate swap agreements and this resolution and each of the documents authorized thereby and hereby.

7. This resolution shall take effect immediately.

Chairman Steinberg stated that next item on the agenda is the Consideration of Approval to enter into Agreement with National Grid for Additional Services Related to the Efficiency Long Island Program.

After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Mr. Deering.

Mr. Deering presented the following action item:

Requested Action

The Trustees are being requested to adopt a resolution authorizing the Chief Operating Officer or his designee to execute an agreement with National Grid to increase its staffing levels to provide sufficient support to the Long Island Power Authority's ("LIPA") Efficiency Long Island ("ELI") Program.

Background

ELI is LIPA's 10-year, \$924 million energy efficiency program that makes a wide array of incentives, rebates and programs available to LIPA's residential and commercial customers to assist them in reducing their energy usage to lower their bills. The objective of ELI is to reduce LIPA's peak electric demand by approximately 520 MW by 2018. This reduced consumption would result in the deferral or elimination of the need for one or more future power plants and the need to produce high-cost, on-peak energy. ELI represents a substantial increase in LIPA's energy efficiency and renewable energy programs in comparison to its predecessor, the Clean Energy Initiative, which totaled \$351 million of spending during its 10-year span ending on December 31, 2008. ELI is the lowest-cost alternative to LIPA's future anticipated capacity needs, and is among the most aggressive and comprehensive energy efficiency and renewable programs in the country.

The Services

National Grid has provided, and continues to provide, certain energy conservation, renewable generation and load management program support to LIPA pursuant to the Management Services Agreement (as amended) between the parties (the “MSA”). In light of the significant expansion of these energy efficiency and renewable programs through ELI, over the past three years National Grid has increased the number of full-time employees dedicated to support such programs by five, at no additional cost to LIPA. LIPA has determined, however, that even with these additional employees, National Grid’s existing staffing level dedicated to this effort under the MSA is insufficient to meet ELI’s objectives. Without additional support, certain of the programs and processes contemplated by ELI, such as the Solar Thermal, Residential Remodeling and Home Energy Comparison programs, would not be able to be implemented, thereby reducing ELI’s effectiveness. Also, additional employees are needed to reduce the backlog currently being experienced in connection with rebates for existing programs, including the increasingly popular Solar Pioneer Program.

As such, it is proposed that LIPA and National Grid enter into an agreement for “additional services” (as defined under the MSA), starting the last quarter of 2010 until the end of the MSA in 2013, which would provide for, among other things, National Grid hiring up to an additional eight employees (seven professional and one clerical) dedicated to pursuing LIPA’s ELI objective. Under the agreement, the cost of these employees would be shared equally between the parties, including fully burdened salaries and equipment, up to an annual cap of: \$702,500 in 2010 (pro-rated); \$702,375 in 2011; \$722,846 in 2012; and \$743,932 in 2013. The agreement would provide for an annual true-up of the costs to ensure that LIPA pays no more than the actual costs incurred by National Grid for these employees. Mr. Deering noted that the agreement would be subject to all other terms and conditions provided in the MSA and would require approval by the Attorney General and the State Comptroller in accordance with LIPA’s standard contracting practices.

Based upon the cost-sharing nature of the agreement, staff believes this arrangement represents the best value to LIPA to address the need for increased staffing to support the day-to-day implementation of ELI.

Recommendation

Based on the foregoing, Mr. Deering recommended that the Trustees adopt a resolution in the form of the draft resolution attached hereto.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1006. AUTHORIZATION TO ENTER INTO AGREEMENT WITH NATIONAL GRID FOR ADDITIONAL SERVICES RELATED TO EFFICIENCY LONG ISLAND PROGRAM

WHEREAS, the Long Island Power Authority (“LIPA”) has implemented the Efficiency Long Island (“ELI”) Program, a 10-year, \$924 million energy efficiency program that makes a wide array of incentives, rebates and programs available to LIPA’s residential and commercial customers to assist them in reducing their energy usage and lower their bills; and

WHEREAS, the objective of ELI is to reduce LIPA’s peak electric demand by approximately 520 MW by 2018 to defer or eliminate the need for one or more future power plants and to avoid high-cost, on-peak energy production equivalent to saving 2.2 million barrels of oil; and

WHEREAS, National Grid currently provides certain energy conservation, renewable generation and load management program services in support of the ELI Program pursuant to the Management Services Agreement, as amended, between LIPA and National Grid (“MSA”); and

WHEREAS, in light of the significant expansion of LIPA’s energy efficiency and renewable programs through ELI, National Grid has recently increased the number of full-time employees dedicated to support such programs by five, at no additional cost to LIPA; and

WHEREAS, LIPA has determined that National Grid’s existing staffing level dedicated to this effort under the MSA is still insufficient to meet ELI’s objectives and can best be addressed by providing additional resources to allow for its full implementation; and

WHEREAS, LIPA and National Grid have agreed to equally share the cost of securing eight additional National Grid employees to supplement the ELI Program services already being provided until the expiration of the MSA in 2013; and

WHEREAS, the cost of these additional employees would include fully burdened salaries and equipment and would be subject to an annual cost cap and true-up mechanism, as more fully set forth in the accompanying memorandum; and

WHEREAS, LIPA believes that this arrangement represents the best value to LIPA to address the need for increased staffing to support the day-to-day implementation and success of ELI:

NOW THEREFORE, BE IT RESOLVED, that the Chief Operating Office, or his designee be, and hereby is, authorized to execute an agreement with National Grid for additional services related to the ELI Program under terms and conditions deemed necessary or advisable and consistent with the accompanying memorandum.

The Chairman stated that the next item on the agenda is the Consideration of Authorization to Enter into Agreements for Smart Grid Demonstration Project Funding.

After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Mr. Germano.

Mr. Germano presented the following action item:

Requested Action

The Trustees are being requested to authorize the Chief Operating Officer, or his designee, to execute agreements with the United States Department of Energy (USDOE) and separately, with the Research Foundation of State University of New York (RFSUNY) on behalf of Stony Brook University and Farmingdale State College, related to the implementation and partial funding of the Long Island Power Authority's (LIPA) proposed Long Island Smart Energy Corridor demonstration project.

Background

On August 26, 2009, LIPA, in partnership with Stony Brook University ("Stony Brook") and Farmingdale State College ("Farmingdale"), submitted a response to a request for proposals issued by the USDOE seeking Smart Grid Demonstration Projects to fund pursuant to the American Recovery and Reinvestment Act (ARRA). On February 5, 2010, LIPA's "Long Island Smart Energy Corridor" project (the "Project") was selected for funding, subject to an Award Agreement between LIPA and the USDOE, and a Sub-Award Agreement between LIPA and RFSUNY (on behalf of Stony Brook and Farmingdale, as sub-awardees). As more fully set forth in the attached Exhibit B, the Project would create Long Island's first integrated Smart Energy Corridor along the center of Route 110, and would demonstrate key energy-related resources designed to advance the development and implementation of a Smart Grid.

Since February, LIPA has been working with Stony Brook, Farmingdale and the USDOE to finalize details and budgets for this five-year Project. Concurrently, LIPA has been negotiating the terms and conditions of the required agreements with both USDOE and RFSUNY, which are consistent with the requirements for all awardees receiving funds under the USDOE Smart Grid Demonstration Project program. It should be noted that under the terms of the Award Agreement with the USDOE, which would end on September 30, 2015, LIPA would be responsible for, among other things, the entire Project, including the portion to be undertaken by the sub-awardees. The shared funding obligations under the agreements would be as follows:

	<u>ARRA Funds</u>	<u>Party Cost</u>	<u>Total</u>
LIPA	\$5,202,735	\$5,532,172	\$10,734,907
RFSUNY	\$7,293,312	\$7,265,516	\$14,588,828
Total	\$12,496,047	\$12,797,688	\$25,293,735

Mr. Germano noted that LIPA and RFSUNY are anticipating receiving \$652,000 in a matching grant from New York State, to further enhance the cost-effectiveness of the Project.

Staff believes that the Project is beneficial and cost-effective and would serve to: 1) advance LIPA's knowledge of the Smart Grid and allow for an integrated approach to distribution system automation and customer end-use devices; 2) allow LIPA to assess the capabilities of a new Outage Management System; 3) help create a regional economic development opportunity for new technology development with the Stony Brook Advanced Energy Center; and 4) help create a regional economic development opportunity for Green Jobs training and education.

Recommendation

Based upon the foregoing, Mr. Germano recommended approval of the above requested action by adoption of a resolution in the form of the draft resolution attached hereto.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1007. AUTHORIZATION TO EXECUTE AGREEMENTS FOR FUNDING RELATED TO LONG ISLAND SMART GRID ENERGY CORRIDOR DEMONSTRATION PROJECT

WHEREAS, on February 5, 2010, the Long Island Power Authority ("LIPA") was awarded funding by the US Department of Energy ("USDOE") under the American Recovery and Reinvestment Act ("ARRA") for a five-year demonstration project, undertaken in partnership with Stony Brook University ("Stony Brook") and Farmingdale State College ("Farmingdale"), entitled the Long Island Smart Energy Corridor (the "Project"); and

WHEREAS, the Project would create Long Island's first integrated Smart Energy Corridor along the center of Route 110, and would demonstrate key energy-related resources designed to advance the development and implementation of a Smart Grid; and

WHEREAS, in order to obtain the funding for this important Project, an Award Agreement between LIPA and the USDOE, and a Sub-Award Agreement between LIPA and RFSUNY (on behalf of Stony Brook and Farmingdale, as sub-awardees) are required under terms and conditions acceptable to USDOE; and

WHEREAS, LIPA has been negotiating the terms and conditions of the required agreements with both USDOE and RFSUNY consistent with the requirements for all awardees receiving funds under ARRA; and

WHEREAS, under the terms of the Award Agreement with the USDOE, LIPA would be responsible for, among other things, the entire Project, including the portion to be undertaken by the sub-awardees; and

WHEREAS, the agreement provides for certain shared funding obligations as set forth in the accompanying memorandum; and

WHEREAS, LIPA has successfully negotiated the required agreements related to the funding and believes it is in LIPA's best interest to go forward with them in order to avail its customers of the benefits of the Project:

NOW THEREFORE BE IT RESOLVED, that the Trustees hereby authorize the Chief Operating Officer or his designee to: 1) execute an agreement with the USDOE to secure ARRA funding for the Project; 2) execute an agreement with the RFSUNY, on behalf of Stony Brook and Farmingdale, as sub-awardees to LIPA for ARRA funding; and 3) take such other actions deemed reasonable and necessary to effectuate the Project consistent with the accompanying memorandum.

Chairman Steinberg stated that next on the agenda is the Consideration of Approval of Modifications to LIPA's Tariff for Electric Service for Net Metering.

After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Mr. Germano.

Mr. Germano presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution adopting modifications to the Long Island Power Authority's ("LIPA") Tariff for Electric Service ("Tariff") to expand net metering consistent with recently enacted changes to the New York State Public Service Law.

Background

Pursuant to Section 1020-g(h) of the LIPA Act, LIPA is required to implement policies and programs that provide for net metering to customer-generators consistent with sections 66-j and 66-l of the Public Service Law (PSL). Net metering for certain types of alternative resources provides benefits to such customer-owned generation beyond what is available

for typical on-site generation. Recently, PSL Sections 66-j and 66-l were amended to expand certain aspects of the existing net metering requirements. As such, staff proposes that LIPA's Tariff with respect to "Net Metering Eligibility" be revised as follows, to allow:

- (1) non-residential customers to install up to 2,000 kW of solar or wind electric generation. The current criteria limits the size to the lower of the customer's peak load as measured over the previous twelve (12) months or 2,000 kW; and
- (2) net metering for a residential micro-combined-heat-and-power ("micro-CHP") or residential fuel cell customer-generator up to 10 kW; and
- (3) net metering for a non-residential farm waste customer-generator up to 500kW; and
- (4) a decrease in the maximum eligible size for residential solar and wind net metering to 25 kW by eliminating the 10% margin that was built into the existing tariff.

In addition, the proposal requires a micro-CHP or fuel cell customer-generator to pay up to three hundred and fifty dollars (\$350.00) to LIPA for the cost of installing transformer(s) and other equipment, and a non-residential farm waste customer-generator to pay up to five thousand dollars (\$5,000) for this same equipment, which is consistent with the PSL. Further, net metering for residential micro-CHP and fuel cells will operate differently from the net metering provisions for wind and solar currently allowed under the tariff. Specifically, LIPA will purchase the monthly excess generation from micro-CHP and fuel cell customer-generators at LIPA's SC 11 avoided cost rate, and these customers will not be allowed to bank their excess generation for use in subsequent months. Mr. Germano noted that LIPA's proposal is consistent with the PSL and the New York State Public Service Commission's regulations governing the regulated utilities in the State.

LIPA Staff anticipates that there will be no additional financial impact on LIPA and its customers in connection with this proposal, as the overall participation limits for all net metering participants provided for in the legislation were unchanged. Lost revenues associated with solar and wind generation can be recovered by LIPA through its Efficiency and Renewable cost recovery rider. Mr. Germano noted that even though the lost revenue associated with net metering for technologies that are not part of LIPA's efficiency and renewable program, such as micro-CHP and fuel cells, the financial impact is anticipated to be minimal.

Public hearings were held on September 10, 2010 at the Omni Building in Uniondale and the H. Lee Dennison Building in Hauppauge. Members of the public representing the Long Island's solar, wind and Micro-CHP industries commented favorably on the proposal and commended LIPA for providing this opportunity to benefit the environment and the economy, and to provide customers with an additional means to manage and reduce their electric bills. In addition, one written comment was received in support of the proposal,

which recommended that LIPA provide additional incentives for micro-CHP systems. Additionally, the written comment requested that LIPA's existing interconnection and operation standards not create financial risk for any micro-CHP or other residential customers who invest in alternative energy technologies. No further comments were received and the public comment period has expired.

LIPA staff has reviewed and considered the public comments and recommends adoption of the net metering provisions as proposed. Under the staff proposal, LIPA's customers will enjoy the same benefits as are available to other utility customers throughout New York State.

Recommendation

For the reasons stated, Mr. Germano recommended approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1008. APPROVAL OF MODIFICATIONS TO LONG ISLAND POWER AUTHORITY TARIFF FOR NET METERING

WHEREAS, the Long Island Power Authority's ("LIPA") Tariff for Electric Service ("Tariff") currently provides for net metering to certain customers for solar and wind generation; and

WHEREAS, LIPA staff issued a proposal to modify LIPA's Tariff to include farm waste, micro-combined-heat-and-power and fuel cell customer-generators and to modify eligibility criteria for net metering, among other things; and

WHEREAS, the proposed modifications are designed to make LIPA's Tariff consistent with sections 66-j and 66-l of the Public Service Law ("PSL") as required under the LIPA Act; and

WHEREAS, following Public Notice in the State Register on July 14, 2010, two public hearings were held in Nassau and Suffolk counties on September 10, 2010, where comments were received from the public, and the public was afforded the opportunity to submit written comments by September 15, 2010; and

WHEREAS, the oral comments received at the hearings and the one written comment received after the hearings were all supportive of the proposal and do not otherwise warrant further modification to the Tariff at this time; and

WHEREAS, as discussed in the preceding Memorandum, the Proposal is in the public interest:

NOW, THEREFORE, BE IT RESOLVED, that the Proposal is hereby adopted and approved; and be it further

RESOLVED, that the attached Tariff leaves reflecting our action herein are approved.

Chairman Steinberg stated that next on the agenda is the Consideration of Approval of Revised Finance and Audit Committee Charter.

After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Ms. Nicolino.

Ms. Nicolino presented the following action item:

Requested Action

The Trustees are being requested to adopt a revised Long Island Power Authority (the "Authority") Finance and Audit Committee Charter in the form attached hereto.

Background

The Finance and Audit Committee Charter (the "Charter"), which was approved by the Board of Trustees on April 30, 2008, establishes, among other things, the purpose, powers, composition and key responsibilities of the Finance and Audit Committee (the "Committee") and serves as the governing document for the Committee. Consistent with the Charter, the Committee has recently undertaken a thorough review of the Charter's adequacy and determined that a number of changes are desirable to: 1) incorporate new requirements created under the Public Authorities Reform Act of 2009 (effective as of March 1, 2010); 2) incorporate certain recommendations of the New York State Authorities Budget Office; and 3) expand the scope of the Committee's financial responsibilities to more clearly reflect current and desired practices.

The principle modifications proposed to be made to the Charter include the addition of certain key responsibilities, including:

- **Conducting an annual self-evaluation of the Committee's performance and reporting annually to the Board;**
- **Reviewing, approving and recommending adoption by the Board of the proposed annual operating budget;**
- **Reviewing proposals for the issuance and repayment of debt and making recommendations to the Board related thereto;**
- **Reviewing and advising the Board concerning the engagement of financial advisors and underwriting firms relating to debt and debt management;**
- **Reviewing the Authority's investment policy and annual report, and evaluating**

allocations of assets;

- **Recommending the selection of investment and financial managers and advisors to the Board; and**
- **Presenting the results of any audit reports to the Board and recommending any related policy changes.**

Ms. Nicolino noted that the proposed revised Charter has been substantially reformatted as well, in order to provide greater continuity and flow for the reader. She further noted that the Committee believes that the proposed revised Charter is in all respects reasonable and appropriate. Accordingly, the Committee and has adopted a resolution recommending approval of the Charter by the Trustees.

Recommendation

Based upon the foregoing, Ms. Nicolino recommended approval of the above-requested action by adoption of a resolution in the form of the draft resolution attached hereto.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1009. APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY FINANCE AND AUDIT COMMITTEE CHARTER

WHEREAS, the Trustees adopted a Finance and Audit Committee Charter (“Charter”) on April 30, 2008, with respect to the purpose, powers, composition and key responsibilities of the Finance and Audit Committee (the “Committee”); and

WHEREAS, the Committee has reviewed the Charter and believes it is reasonable and appropriate to revise it for the reasons set forth in the accompanying memorandum;

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby approve and adopt the “Long Island Power Authority Finance and Audit Committee Charter (as revised September 23, 2010)” in the form presented at this meeting; and be it further

RESOLVED, that such Long Island Power Authority Finance and Audit Committee Charter is to be effective with respect to the regulation and management of the Committee as of September 23, 2010.

Chairman Steinberg stated that next on the agenda is the Consideration of Approval to Enter into Lease Agreement for Executive Office Space.

After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Ms. Nicolino.

Ms. Nicolino presented the following action item:

Requested Action

The Trustees are being requested to approve and adopt a resolution modifying the authorization previously given to the President and Chief Executive Officer or his designee to execute a lease agreement with RXR Realty (“RXR”) to maintain the Long Island Power Authority’s (“LIPA”) executive office space at the current location in Uniondale (the “Omni”), for a 13-year term, as set forth below.

Background

Following a comprehensive analysis conducted with the assistance of a professional broker, at the June 24, 2010 meeting of the Board, the Trustees authorized the negotiation and execution of a lease agreement with RXR for the acquisition of approximately 35,000 square feet of executive office space in the Omni for a 13-year term. As presented at the time, the Omni proposal to consolidate LIPA’s operations onto the fourth floor constituted the best lease option for LIPA considering all other available alternatives.

In that regard, the Trustees’ authorization was premised on the new lease achieving an overall 39% reduction in total rental cost (or approximately \$550,000 in projected annual rental savings) when compared to the lease for LIPA’s existing space. The Trustees’ authorization also recognized other benefits of staying at the Omni and consolidating its employees onto one floor, including the ability to avoid moving costs, make LIPA’s space more efficient and productive, and continue to enjoy the amenities of the building; and provide continuity for LIPA’s workforce.

Since the June meeting, LIPA has been negotiating a lease with RXR and reviewing numerous floor plan designs that are intended to accommodate LIPA’s current and long-term needs. Based on that review, staff believes that the 35,000 square feet originally contemplated is insufficient to achieve the stated goals of consolidating and maximizing LIPA’s organizational and operational efficiency. Based on the preferred floor plan design, which sets forth the most functional arrangement of LIPA’s office, including more accessible and efficient conference and employee areas, staff believes that approximately 13,000 additional square feet of space is necessary.

Acquiring additional space at this time would allow LIPA to take advantage of the availability of contiguous space on the floor in a declining commercial real estate market, while still substantially reducing LIPA’s ongoing operating costs going forward. In this regard, Ms. Nicolino noted that staying in the Omni with additional space compares favorably to the other options available, and in comparison to the existing lease, would result in an overall 19% reduction in total rental cost (or approximately \$284,000 in projected annual rental savings).

Recommendation

Based on the foregoing, Ms. Nicolino recommended that the Trustees adopt a resolution in the form of the draft resolution attached hereto.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

1010. AUTHORIZATION TO EXECUTE A LEASE AGREEMENT FOR EXECUTIVE OFFICE SPACE

WHEREAS, on June 24, 2010, the Trustees authorized the Chief Operating Officer of the Long Island Power Authority (“LIPA”), or his designee, to negotiate and execute a lease agreement with RXR Realty for the acquisition of executive office space on the fourth floor in the Omni Building located at 333 Earle Ovington Boulevard, Uniondale (the “Omni”) for a 13-year term; and

WHEREAS, the Trustees authorized such actions on terms and conditions that required certain overall rental savings based on the costs associated with approximately 35,000 square feet of rental space on the fourth floor of the Omni and which would, among other things, avoid moving costs, consolidate employee operations onto one floor and improve organizational efficiency; and

WHEREAS, staff has determined that it is desirable to expand the rental space by approximately 13,000 square feet, as more fully set forth in the accompanying memorandum, in order to achieve the long-term efficiency and productivity of its operations on the fourth floor as originally intended; and

WHEREAS, LIPA staff believes that the proposal from RXR Realty to consolidate and remain at the Omni for an additional 13 years still provides the best value and constitutes the overall lowest cost and best option for LIPA in the long term when compared to other options previously considered; and

WHEREAS, LIPA staff believes that in comparison to the existing lease, staying in the Omni still results in an overall 19% reduction in total rental cost (or approximately \$284,000 in projected annual rental savings), for 37% more space:

NOW, THEREFORE, BE IT RESOLVED, that the Chief Operating Officer, or his designee, be and hereby is authorized to execute a cost-effective lease agreement with RXR Realty for the acquisition of executive office space in the Omni Building located at 333 Earle Ovington Boulevard, Uniondale for a 13-year term, and to take such other further actions necessary and consistent with the accompanying memorandum to the Trustees.

Chairman Steinberg announced that the next Board meeting is scheduled for October 28, 2010 at 11:00 a.m. in Uniondale.

The Chairman called for a motion to enter Executive Session to discuss property tax and other litigation matters. Upon motion duly made and seconded, the following motion was unanimously approved:

1011. EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW

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 property tax and other litigation matters.

At approximately 12:39 p.m. the open session of the Board of Trustees was temporarily adjourned on motion into Executive Session which commenced at 1:03 p.m.

After noting that no votes were taken in the Executive Session, Chairman Steinberg entertained a motion to adjourn, which was duly made and seconded, after which the meeting ended at 1:51 p.m.

Respectfully submitted,

Lynda Nicolino