

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 151st MEETING
HELD ON JANUARY 9, 2003**

Pursuant to notice dated January 2, 2003, the Long Island Power Authority (the "Authority") was convened for the one hundred and fifty-first time at 10:15 AM at the Omni Teleconference Center in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Howard Steinberg, Deputy Chairman
Nancy A. Akeson
Harvey Auerbach
Edna Gerrard
Harriet Gilliam
James Herrmann
Robert Maimoni
Nancy Nugent**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Anastasia Song, Acting Chief Financial Officer, Richard Bolbrock, Vice President – Power Markets, Bert Cunningham, Vice President - Communications, William Davidson, Director of Government Relations, Richard Bolbrock, Vice President - Power

Markets, Bruce Germano, Vice President – Retail Services, Kenneth Kane, Controller, and Kathleen Stella, Secretary to the Board of Trustees.

Upon determining that a quorum was present, Chairman Kessel called the meeting to order.

Chairman Kessel stated that this special meeting has been called to address a project for the summer of 2003 and to update the Board on the power situation for the summer and the status of the Cross-Sound Cable. The Chairman continued that there are options the Board may want to review as a result of the decision of TransEnergie to withdraw from the regulatory process in Connecticut and to possibly seek legal action on its own to operate the cable.

Chairman Kessel indicated that since acquiring LILCO in 1998, LIPA has pursued an energy strategy centering on three areas: first, energy efficiency, conservation and renewable technologies; second, transmission to and from Long Island to the rest of the region; and third, additional on-Island generation. The Chairman stated that it would be unwise for LIPA to depend on only one of those strategies, so LIPA has moved in a number of different directions to ensure that there is a reliable supply of electricity at the lowest possible cost with minimal environmental impact.

Chairman Kessel noted that LIPA is leading the State and is a leader in the nation regarding clean energy and alternative technologies, largely due to the

efforts of Governor Pataki who mandated that LIPA set aside approximately \$170 million for clean energy initiatives and investment in new technologies.

Chairman Kessel stated that he is delighted Governor Pataki has set a standard for New York State that within ten years, 25 percent of energy must come from renewable technologies, and LIPA is positioned to be the leader in the State in achieving that goal.

Chairman Kessel noted that energy efficiency is critical, especially since this country is dependent on foreign oil, and LIPA must encourage new technologies such as hydropower, generation from the ocean, fuel cells, wind, solar and geothermal. The Chairman indicated that LIPA will move forward aggressively to promote energy efficiency, and he will ask LIPA's clean energy personnel to act to further dampen demand. He added that LIPA will spend approximately \$32 million this year on clean energy programs.

Chairman Kessel stated that LIPA intends to add approximately 150 MW of on-island generation for the summer. The Chairman continued that due to the terrific work of Mr. Grilli and LIPA's staff, LIPA was able to install 400 megawatts of permanent capacity in 2002, which provides less expensive energy during peak and non-peak hours. He stated that the plants are not only critical to meet summer demand growth, but they are also important to provide power throughout the year.

Chairman Kessel stated that the Board previously voted to move forward with new generation projects in Far Rockaway and North Bellport, but since that time Public Service Electric and Gas of New Jersey has withdrawn from the North Bellport project, which is disappointing. The Chairman continued that LIPA is working diligently on two individual projects to replace the approximately 79.9 MW that the North Bellport project would have delivered, and one of those projects is in the Village of Greenport and will be voted on today. He indicated that LIPA has been able to work well with the other municipal Long Island electric companies, namely Greenport, Rockville Centre and Freeport.

Chairman Kessel indicated that LIPA is negotiating with several other companies and looking at alternative sites, and a third project may be proposed at the January 21 Board meeting. The Chairman further indicated that LIPA is working with the Governor's office to save an additional 50 MW through demand reduction and peak load reduction programs.

Chairman Kessel stated that LIPA expected that the Cross-Sound Cable, which is installed and ready to operate, will be available for the summer, but TransEnergie, the builder of the cable, has informed LIPA that it will not pursue the regulatory route to get the cable energized. The Chairman continued that the State of Connecticut has put every roadblock and barrier in the way of the cable, despite the fact that the Army Corps of Engineers has clearly indicated that the Cross-Sound Cable poses no environmental threat. He indicated that it is disturbing that Connecticut continues for political purposes to thwart interstate commerce and jeopardize the reliability of the electric supply.

Chairman Kessel stated that TransEnergie believes it will be unable to obtain regulatory approval from the State of Connecticut to energize the Cross-Sound Cable, although it is ready to operate. The Chairman indicated that LIPA's decision to have the cable built as a merchant line by a private company was wise, since LIPA and its customers will not be exposed to any costs of the cable unless power flows through it. He added that the Cross-Sound Cable is a critical component to electric service for the entire Northeast region, not just Long Island.

Chairman Kessel indicated that LIPA has moved aggressively to compensate for the absence of the cable by pursuing conservation, demand-side management and additional on-Island generation. The Chairman further indicated that the cable could have provided Long Island with better margins this summer, and it will be needed to keep the lights on if LIPA loses another major transmission cable or a major generation plant. He stated that the Cross-Sound Cable is absolutely critical for the entire region, and it is of national importance given the rising prices of oil, the possibility of war and the potential shortage of oil and natural gas this summer. He noted that President Bush and his administration are courageously fighting terrorism, but there are major challenges ahead including our heavy dependence on oil, and it is the height of imprudence to jeopardize the supply and reliability of the flow of electricity during this crisis.

Chairman Kessel stated that although TransEnergie has decided to withdraw from the regulatory process, LIPA should take whatever steps are necessary to energize the Cross-Sound Cable. The Chairman continued that he will request LIPA's General Counsel to explore LIPA's legal options regarding the State of Connecticut and TransEnergie in order to energize the cable and prevent Connecticut from interfering with interstate commerce and denying Long Island the economic benefits of accessing other sources of power in the region. He further stated that he will ask Mr. Grilli and Mr. Bolbrock to work with the Governor's office to determine what actions LIPA may take before the federal government to provide for the use of the cable in the national interest and prevent Connecticut from jeopardizing the region, including its own residents. Chairman Kessel noted that this project was important to the approval of LIPA's acquisition of LILCO, and it is a prime component of LIPA's energy strategy that is supported by the Governor, the Board and the business community, particularly the Long Island Association.

Deputy Chairman Foye thanked the Chairman for his vigilance regarding this issue. He stated that LIPA should reach out to the Department of Homeland Security, which has unprecedented powers under the Homeland Security Act. He further stated that LIPA should examine what leverage it may have against the Connecticut politicians, including consideration of LIPA's work in connection with the NUSCO cable. Chairman Kessel stated that the notion of contacting the Department of Homeland Security is excellent and will be pursued.

Trustee Nugent asked whether anyone has knowledge of any threat, coercion or inducement that caused TransEnergie to pull back from a project in which it is so heavily invested. Chairman Kessel responded that he cannot speak for TransEnergie, but the State of Connecticut has made it clear that it will oppose the project at all levels. The Chairman indicated that TransEnergie's strategies in dealing with the State of Connecticut have been less than desirable, which is why LIPA may have to step in, although LIPA does not seek to bear the financial responsibility of ownership of the cable. He added that TransEnergie has every right to operate the cable under the permit granted to it without additional permission from the State of Connecticut.

Mr. Grilli stated that TransEnergie's withdrawal from the state siting council process in Connecticut is no indication that it has abandoned the project, but rather represents a new tack. Chairman Kessel stated that TransEnergie will lose a tremendous amount of money should it walk away from the project, but if it does not intend to follow the regulatory process, the chance of getting the cable operational this summer is very low.

Deputy Chairman Steinberg stated that LIPA has relied in good faith on TransEnergie, including its making every reasonable effort to get approval for this project, but TransEnergie is not aggressively pursuing regulatory approval and may be in breach of its obligations. Mr. Klimberg indicated that this issue will be carefully examined.

Trustee Akeson asked whether LIPA could get another company to replace PSE&G regarding the North Bellport project to provide the 79 MW for this summer. Chairman Kessel responded that it is unlikely that the North Bellport project is feasible for this summer, but LIPA is working on a third project to replace part of the power lost from the cancellation of the North Bellport project, and LIPA intends to fill the remaining 50 MW with additional peak-load reduction and demand side management. The Chairman added that businesses such as King Kullen would lose millions of dollars if there were rolling blackouts, which highlights the need for the projects that LIPA is pursuing.

Chairman Kessel indicated that the growth in demand has continued on Long Island, with two records set in December 2002 for peak usage. He further indicated that the proposed 150 MW of generation will be entirely consumed by growth that LIPA has not even seen yet.

Deputy Chairman Steinberg stated that LIPA's staff should provide a comprehensive report at the February Board meeting in connection with the Cross-Sound Cable, laying out all options, including the option and costs of condemning the Cross-Sound Cable, so that the Board can make a reasoned decision as to which avenues it should pursue. He further stated that, from the perspective of LIPA's electric rates and charges, he is concerned about LIPA's ability to continue to absorb the cost of fuel and purchased power, including the costs of new projects where parties are not keeping their commitments to LIPA. Chairman Kessel concurred.

Chairman Kessel stated that LIPA has proposed adding about three percent to the fuel surcharge this year to help recover some of the excess fuel and purchased power costs. The Chairman further stated that LIPA cannot afford to continue indefinitely with the building of small power plants, although they are needed to meet the growth in demand and the lack of planning by the former LILCO. He indicated that despite LIPA's many projects, the long term answer is to add another major base load generating plant on Long Island, and within the next 90 days he hopes to present such a proposal to the Board.

Chairman Kessel stated that the matter is complicated by the expiration of the Article X process, with no State siting process to replace it. The Chairman continued that it is unlikely that any company can build a major power plant if they have not already obtained an Article X certificate, but there are companies that have either completed or are currently involved in the process. He stated that he hopes LIPA will not have to propose any additional projects beyond what is currently proposed and the major base load generation to be available by the summer of 2006.

Chairman Kessel indicated that LIPA is fortunate that it is in good financial shape, with a strong cash position. The Chairman thanked Ms. Song and LIPA's financial staff for their efforts to keep LIPA financially strong, while it absorbs some of the excess fuel costs to protect the Long Island economy.

Chairman Kessel indicated that the first item on the agenda is Board consideration of a resolution to adopt a negative declaration under SEQRA for

the Global Common Greenport Combustion Turbine Project for the summer of 2003. The Chairman continued that the Board is requested to approve a resolution adopting, among other things, the determination that the siting, construction and operation of the 54 MW Pratt & Whitney FT-8 Swift-Pac turbine generator in Greenport will not have a significant adverse impact on the environment and will not require the preparation of an environmental impact statement. He stated that after evaluating proposals from several independent power producers, LIPA has concluded Global Common is capable of constructing and operating the proposed Greenport Energy Center project for the summer of 2003.

Chairman Kessel thanked Greenport Mayor David Kapell, who has worked closely with LIPA on the project. The Chairman also thanked Suffolk County Executive Robert Gaffney for his assistance on the project, which has been in development for several years.

Chairman Kessel indicated that the environmental assessment prepared by LIPA as lead agency under SEQRA concludes that the project, while a "Type I" action under SEQRA, will not, either individually or cumulatively with the other LIPA projects, have a significant adverse impact on the environment, and thus will not require preparation of an environmental impact statement. The Chairman further indicated that Global Common has filed applications with the Department of Environmental Conservation and Department of Public Service for approval to construct and operate the proposed facility. He thanked those agencies and the Governor's office for their assistance to expedite this project.

Chairman Kessel requested that Mr. Stephen Kass deliver a presentation concerning the environmental review for this project. Mr. Kass stated that he is a partner in the firm of Carter, Ledyard & Milburn, which is environmental counsel to LIPA in connection with this project, and appearing with him are Mr. Stephen Rosen and Mr. Phillip Sears of the environmental consulting firm of Allee, King, Rosen & Fleming. He continued that the environmental assessment concludes that the facility will have no significant adverse environmental impact, which is not surprising since the proposed unit is virtually identical to the proposed Jamaica Bay facility for which a negative declaration has already been issued. Mr. Kass added that a small expansion of the Southold substation of approximately 1,200 square feet to accommodate the additional power will be necessary, but there will be no significant adverse impact.

Mr. Rosen explained that the environmental assessment was comprehensive, encompassing such areas as community character, community facilities, cultural facilities, traffic implications, air quality, noise, visual quality, water resources, construction effects, electromagnetic fields and hazardous materials.

Chairman Kessel asked how the issue of particulate matter (“PM”) 2.5 is dealt with in the environmental assessment. Mr. Kass responded that PM 2.5 are fine emissions subject to a newly adopted EPA standard that has not yet been implemented, and although there is no requirement that there be a PM 2.5

analysis for permitting purposes in New York State, a detailed analysis of the issue was undertaken.

Chairman Kessel stated that a similar analysis was undertaken for the proposed Jamaica Bay facility. Mr. Kass indicated that the analysis shows that any PM 2.5 effect would be imperceptible for either gas or oil-fired projects, since the facilities are state-of-the-art with the best pollution controls built into them.

Trustee Gerrard asked whether the substation expansion would impact archeologically sensitive sites, including possible Indian grave sites. Mr. Rosen responded that based on preliminary work done at the site, it is unlikely, although possible, that something of significance will be found, and in the event that an item of significance is found, LIPA would preserve and catalogue whatever is there. He continued that a negative declaration would only apply to this 30 by 40 foot proposed expansion, and any future expansion will receive its own environmental review.

Mr. Kass stated that there is also a wetland at the site, which LIPA is avoiding. He indicated that if something is discovered prior to actual construction, adjustments can be made to avoid it, if possible, or catalogue and record it. He further indicated that no significant problems are expected. Chairman Kessel stated that LIPA's planning staff should review this issue if expansion of the substation is anticipated for demand needs.

Trustee Nugent asked whether the expansion issue will affect the negative declaration in either the individual or cumulative sense. Mr. Kass confirmed that it would not affect either aspect.

Upon motion duly made and seconded, the following resolution was approved, with Trustee Maimoni abstaining:

626. APPROVAL OF NEGATIVE DECLARATION FOR GREENPORT ENERGY CENTER PROJECT UNDER SEQRA

WHEREAS, the growing Long Island economy and other factors have resulted in a continued increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, the Long Island Power Authority (“LIPA”) staff has concluded that LIPA needs at least an additional 200 MW of new generating capacity to be operational by summer 2003 on Long Island and in Far Rockaway, Queens in order to meet customer needs, ensure system reliability and satisfy reliability criteria during summer 2003 and thereafter; and

WHEREAS, over the past several months, LIPA’s staff has prepared, with the assistance of environmental engineers, consultants and counsel, a comprehensive Environmental Assessment of the potential environmental impacts of the proposed Greenport Energy Center Project in order to determine, under the State Environmental Quality Review Act (“SEQRA”), whether that Project would or might have any significant adverse environmental impacts; and

WHEREAS, LIPA has advised all other potentially involved agencies that LIPA proposes to serve as “lead agency” under SEQRA in connection with the environmental review of the Project, and all such agencies have consented to LIPA’s serving in such capacity; and

WHEREAS, the Environmental Assessment finds that no significant adverse environmental impacts will result from the Project and, accordingly, that no environmental impact statement is required under SEQRA;

NOW, THEREFORE, BE IT RESOLVED, that LIPA hereby (a) confirms that it is the “lead agency” for the review of the Greenport Energy Center Project under the State Environmental Quality Review Act, (b) approves and adopts the comprehensive Environmental Assessment, dated December 2002, for the Project, and (c) for the reasons set forth in and on the basis of such

Environmental Assessment, finds and determines that (1) the siting, construction and operation of the Greenport Energy Center in Greenport, Suffolk County as described in the Environmental Assessment and the carrying out of the Project will not, either individually or cumulatively with other LIPA projects, have a significant adverse effect on the environment and (2) an environmental impact statement need not be prepared in connection with such proposed action; and be it further

RESOLVED, that the Chairman or his designee is directed to prepare, file and publish a Negative Declaration, effective immediately, for such proposed action in accordance with the requirements of SEQRA, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to ensure that the foregoing is carried out.

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Chairman Kessel stated that next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to execute and effect a power purchase agreement and other related agreements and to take such actions as are necessary for LIPA to purchase power from the planned 54 MW Greenport Energy Center Project, and to execute and effect any other related agreements necessary to accomplish the goals specified in this project.

Deputy Chairman Foye asked who are the principals of Global Common. Mr. Grilli indicated that the principals are present at the meeting, and include Mr. Gregory Blair. Mr. Blair stated that Mr. Robert Foxen is also a principal in attendance.

Deputy Chairman Foye inquired whether there is corporate financing backing the project. Mr. Blair responded that there are eleven bidders on a single investor lease structure for the financing of the project, including GE Capital, CIT

and Fleet Bank One, but there are no utility investors currently under consideration, nor is there any public funding involved.

Deputy Chairman Foye asked whether the institutional financial money is committed. Mr. Blair answered that the commitment process has been initiated, but is not final.

Deputy Chairman Foye asked whether there is a degree of comfort that the deal will get financed and done for the summer. Chairman Kessel indicated that there was, and LIPA would not be financially responsible if the deal did not get financed. Mr. Blair agreed.

Upon motion duly made and seconded, the following resolution was approved with Deputy Chairman Foye and Trustee Maimoni abstaining:

627. AUTHORITY TO ENTER INTO POWER PURCHASE AGREEMENT AND UNDERTAKE RELATED ACTIVITIES IN CONNECTION WITH THE GREENPORT ENERGY CENTER PROJECT

WHEREAS, the Long Island Power Authority (“LIPA”) is committed to providing reliable electric service to its customers on Long Island and Far Rockaway, Queens; and

WHEREAS, the growing Long Island economy and other factors have resulted in an increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, in order to meet the electricity needs of LIPA’s customers and statewide and location generation requirements established by the New York Independent System Operator (“NYISO”) and the New York State Reliability Council, it is necessary to secure additional sources of power supply from generation located within LIPA’s service area, to be in operation by the summer of 2003; and

WHEREAS, the maintenance of a continuous and reliable supply of dependable electric power and energy is an essential matter of urgent public concern and requires immediate action; and

WHEREAS, it is in the best interest of LIPA to meet this immediate need for electric power and energy by entering into a power purchase agreement (“PPA”) and other related agreements regarding the Greenport Energy Center Project; and

WHEREAS, by separate Resolution, the Trustees have determined that the Greenport Energy Center Project will not have any significant adverse environmental impacts and, accordingly, have adopted a Negative Declaration for such Project pursuant to the State Environmental Quality Review Act;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect a PPA and other related agreements and arrangements, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to implement LIPA’s purchase of power from the new Greenport Energy Center Project in order to ensure the availability of sufficient additional power supply resources to serve LIPA’s customers; and be it further

RESOLVED, that all action taken by the Chairman, the Chief of Staff and the Vice President – Power Markets with respect to the Project referred to in the preceding resolutions are hereby in all respects ratified and approved.

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Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 11:20 AM.

Respectfully submitted,

Stanley B. Klimberg