

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 152nd MEETING
HELD ON JANUARY 21, 2003**

Pursuant to notice dated January 15, 2003, the Long Island Power Authority (the "Authority") was convened for the one hundred and fifty-second time at 10:20 AM at the Omni Teleconference Center in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Michael Affrunti
Nancy A. Akeson
Harvey Auerbach
Edna Gerrard
James Herrmann
Vincent Polimeni
Jonathan Sinnreich**

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, Bert Cunningham, Vice President – Communications, Bruce Germano, Vice President – Retail Services, Edward P. Murphy, Jr., Chief Administrative Officer, 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 the first item on the agenda is approval of the minutes of the December 20 Board meeting. Upon motion duly made and seconded, the following resolution was approved unanimously:

628. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE DECEMBER 20, 2002 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on December 20, 2002, 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.

* * *

Chairman Kessel stated that Long Island is enduring a spell of cold weather, which is expected to continue for several weeks, and the T & D system has performed very well. The Chairman indicated that LIPA set two records for winter peak usage in December, which indicates that LIPA can expect similar growth this summer. He thanked LIPA's employees for their terrific work, and in particular for their response to the storm on Christmas that involved extremely difficult conditions.

Chairman Kessel stated the New York State Court of Appeals has refused to hear further appeal in the case brought by the Town of Islip and others

challenging the Shoreham settlement. He indicated that this ends the litigation, leaves intact the Appellate Division decision upholding the settlement, and allows LIPA to move forward to implement the surcharge in Suffolk County to collect settlement costs. The Chairman noted that LIPA is helping the people of Suffolk County by collecting less than half of the underlying judgment. He also observed that the conclusion of this component of the Shoreham settlement litigation gives LIPA greater financial certainty with rating agencies.

Chairman Kessel stated that he will continue to talk with the Suffolk County Executive and Legislature to determine whether Suffolk will enter into a cash settlement to save Suffolk County ratepayers tens of millions of dollars in interest costs. The Chairman thanked all of LIPA's Trustees for their firm stance on the settlement agreement. He further thanked Mr. Klimberg, Mr. Kremer and Mr. Krinick for their extraordinary legal work on the case.

Chairman Kessel stated that he is interested in seeing a recent proposal by Mr. Wolkoff concerning the development of an energy smart city (Heartland) on the grounds of the former Pilgrim Psychiatric Center in Brentwood, involving 9,000 residential units, an aquarium, stores and an office building. The Chairman indicated that Mr. Wolkoff deserves a great deal of credit for pursuing this extraordinary initiative on Long Island. The Chairman further stated that the new Heartland facility may require in excess of 20 MW, and LIPA may use this opportunity to promote Clean Energy programs, including the installation of energy efficient street lighting, construction of energy efficient homes with energy smart appliances and the utilization of alternative technologies such as

geothermal systems, particularly in the proposed office complex, stores and aquarium. The Chairman continued that growth can be a wonderful thing, but it adds demand to LIPA's system, and LIPA should avail itself of the opportunity to work with Mr. Wolkoff to create the most energy efficient and energy independent city possible. He added that the use of energy smart technologies would also help LIPA meet the Governor's goal of 25 percent renewable technologies within the next ten years.

Chairman Kessel stated that the next item on the agenda is the Operations Report, to be delivered by Mr. Hulkower. Mr. Hulkower reported that LIPA exceeded by 2.3 percent its targets for total megawatts and revenues added, due to an exceptional effort by the sales and marketing department. He continued that 79 different projects involving LIPA's major customers accounted for the 25.58 MW of growth necessary to reach LIPA's goal.

Mr. Hulkower reported that LIPA's coincident peak demand reduction for 2002 was 47.6 MW against a target of 32.5 MW, exceeding LIPA's goal by 46.7 percent. He indicated that LIPA's 2002 energy savings were more than 75,000 MWh against a goal of approximately 63,000 MWh.

Mr. Hulkower reported that LIPA's total aging of arrears was lower for 2002 than 2001. He continued that although the 30-day arrears is greater, the more difficult 60 and 90-day arrears are lower with a significant decrease in the 90-day arrears due to a concerted effort by LIPA.

Mr. Hulkower reported that continued bad weather has hurt LIPA's reliability performance numbers. He indicated that in December 2002 there were 18 percent more outages than December 2001, an increase of 21 percent compared with LIPA's five-year average. He further indicated that LIPA's SAIFI is 12.2 months and CAIDI is 70 minutes.

Mr. Hulkower reported that LIPA is experiencing problems in western Nassau County, an area that has the heaviest tree coverage in LIPA's service area. He indicated that LIPA is addressing the problem and more details will be forthcoming.

Chairman Kessel stated that Mr. Hulkower is preparing a report to the Board, which will include recommendations concerning further improvements to the system. The Chairman further stated that Mr. Hulkower will offer an update to the Board in February.

Chairman Kessel indicated that LIPA continues to audit and review the KeySpan errors regarding LIPA revenues. The Chairman stated that there have been some significant developments, and he hopes a financial report on the matter will be provided in February.

Ms. Song stated that LIPA's audit of KeySpan is on schedule, but unfortunately LIPA has had to devote substantial resources to the effort. She continued that she will visit the rating agencies by the end of the month, and a written report will be issued summarizing the audit results and recommendations.

She stated that she hopes LIPA will return to its normal cycle of closing books and providing financial updates by the end of February.

Chairman Kessel indicated that the next item on the agenda is Board consideration of a resolution to adopt a negative declaration under SEQRA for the Calpine Stony Brook Energy Center 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 79.9 MW General Electric LM6000 turbine with a steam turbine generator on the State University of New York, Stony Brook campus, will not have a significant adverse impact on the environment and will not require the preparation of an environmental impact statement.

Chairman Kessel stated that LIPA had intended to add 200 MW of additional on-island resources for the summer of 2003, consisting of 150 MW of generation and 50 MW of peak load reduction. The Chairman continued that PSE&G withdrew from the proposed two-unit project in North Bellport, so the Authority approved a second unit in Greenport to replace one of those units. He indicated that this third proposed unit will bring the total added capacity to the proposed 150 MW. He continued that after evaluating proposals from several independent power producers, LIPA has concluded that Calpine Corporation is capable of constructing and operating the proposed Calpine Stony Brook Energy Center project for the summer of 2003.

Chairman Kessel indicated that the project will initially supply approximately 50 MW, and the unit will convert to a combined cycle facility in the summer of 2004, with a combined net output of 79.9 MW. The Chairman continued that in addition to providing generation for the summer of 2004, the project will be more efficient and cleaner for the environment once it is converted to a combined cycle unit. He further indicated that the construction of this unit, and the addition of the Freeport unit in 2004, should eliminate the need to build further temporary or smaller generation on Long Island, and LIPA is currently involved in intensive negotiations regarding a possible power purchase agreement for a base load plant to be available in 2005 or 2006.

Chairman Kessel requested that Mr. Stephen Kass deliver a presentation concerning the environmental review for this Calpine project. Mr. Kass stated that he is a partner in Carter, Ledyard & Milburn, which is environmental counsel to LIPA in connection with this project, and appearing with him is Mr. Stephen Rosen of the environmental consulting firm of Allee, King, Rosen & Fleming. Mr. Kass continued that the proposed project is a natural gas facility that combines all of the state-of-the-art controls, including SCR and oxidation controls, and during the second phase in 2004, it will become what is believed to be the first combined cycle facility of its kind in the State. Mr. Kass added that the second phase of the project will provide an ability to use steam from the adjacent Stony Brook cogeneration facility, to that extent avoiding the need to release the steam; and he indicated that in addition to having the best possible energy generation and pollution controls, the unit will reduce noise on the Stony Brook Campus.

Mr. Kass stated that the environmental assessment includes an analysis of issues on PM 2.5, environmental justice, potential climate changes, and air pollution. He further stated that a negative declaration is appropriate, which allows for State and federal permitting reviews to begin.

Mr. Rosen explained that a combined cycle unit runs waste heat through another steam generator rather than a stack so that the waste heat is recovered. He continued that not only will the waste heat be recovered from this unit, but also from the existing SUNY steam unit, resulting in a gain of approximately 30 to 35 MW.

Mr. Rosen reiterated that the unit has all of the latest air pollution controls, including an SCR and a CO catalyst, which result in pollutant concentrations below EPA-designated significant impact levels. He continued that the levels of air pollution for the unit are below all standards. He added that noise levels will be low, since steam is transferred to this unit rather than released, and there would be no significant adverse impacts in regard to all standard criteria, including land use, zoning, cultural resources, hazardous materials and water use.

Trustee Gerrard asked whether impact to fire protection was considered in the environmental assessment, since additional fire services may be required and there may be no corresponding tax or PILOT payments. Mr. Rosen answered that there would be no significant increase in the demands for fire protection. Chairman Kessel stated that the issue on PILOT payments should be addressed

between the developer and the community. Mr. Kass noted that increased fire protection needed for this project would be very marginal, since there is existing fire protection service required for the SUNY facility.

Trustee Gerrard stated that she is concerned LIPA could be perceived negatively by the community for creating an additional tax burden with minimal benefit. Mr. Kass reiterated that any increased fire protection will be marginal, and the community will benefit from the decreased noise levels, due to the fact that the steam will be used to generate electricity rather than released.

Chairman Kessel stated that he hopes there will never be a need for fire services, but he wants to make sure Ms. Gerrard's concern is pursued. The Chairman requested that Mr. Grilli speak with Calpine so that their representatives may speak with Ms. Gerrard and the local fire departments. He indicated that although LIPA will not own the proposed facility, LIPA tries to be helpful to resolve such matters.

Chairman Kessel thanked SUNY Stony Brook and President Kenny for their assistance to this project, which is a benefit to both the Stony Brook and Long Island electric grids. The Chairman continued that the unit will be important in regard to reliability of supply and economic development for the University, in addition to increasing LIPA's resources.

Trustee Polimeni asked what the final products of the discharge from the unit will be. Mr. Rosen responded that warm air and some water vapor will be

discharged. Mr. Kass added that there will be some very small emissions, which will be as low as possible for a fossil fuel burning unit.

Chairman Kessel asked whether the new generation of power plants will be combined cycle units capturing waste energy and waste heat to generate additional electricity and reduce total emissions. Mr. Rosen answered that almost all large planned plants will utilize combined cycle technology and this proposed combined cycle unit is unique in that its size is less than 80 MW.

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

629. APPROVAL OF NEGATIVE DECLARATION FOR CALPINE STONY BROOK ENERGY CENTER 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 anticipates that there is a potential for a shortfall of approximately 200 MW during the summer of 2003 in the LIPA service area, such that new generating capacity must be installed and 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, the proposed Calpine Stony Brook Energy Center would be available to provide, over the long term, a secure, cost effective supply of electricity to SUNY Stony Brook to meet the campus's future educational needs; 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 Calpine Stony Brook Energy Center 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 Calpine Stony Brook Energy Center under the State Environmental Quality Review Act, (b) approves and adopts the comprehensive Environmental Assessment, dated January, 2003, 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 Calpine Stony Brook Energy Center on the SUNY Stony Brook campus in the Town of Brookhaven, 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 the 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 to implement the purchase of power from the planned 79.9 Calpine Stony Brook Energy Center, and authorizing the Chairman or his designee to execute and effect any other related agreements necessary to accomplish the specified project goals.

Trustee Sinnreich asked whether the fact that the unit will be built on State property will affect either tax or PILOT obligations. Mr. Klimberg responded that LIPA will not have any PILOT obligations since LIPA does not own the land, and he is unaware of what arrangement SUNY has regarding PILOT payments.

Trustee Sinnreich inquired as to whether any savings to the developer due to the lack of tax or PILOT obligations has been considered in the pricing of this agreement. Chairman Kessel responded affirmatively, and he noted that Calpine has been a terrific community participant when negotiating such agreements, and Calpine is free to enter into agreements with local entities to satisfy some of their financial needs.

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

630. AUTHORITY TO ENTER INTO POWER PURCHASE AGREEMENT AND UNDERTAKE RELATED ACTIVITIES IN CONNECTION WITH THE CALPINE STONY BROOK ENERGY CENTER

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 15 year, 11 month power purchase agreement ("PPA") and other related agreements regarding the Calpine Stony Brook Energy Center; and

WHEREAS, the proposed Calpine Stony Brook Energy Center would be available to provide, over the long term, a secure, cost effective supply of electricity to SUNY Stony Brook to meet the campus's future educational needs; and

WHEREAS, by separate Resolution, the Trustees have determined that the Calpine Stony Brook Energy Center 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 15 year, 11 month 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 Calpine Stony Brook Energy Center 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 stated that the next item on the agenda is Board consideration of a resolution to approve the 2003 Operating Budget and 2003 and 2004 Capital Budgets, which present LIPA's revenue forecasts and planned operating expenses for 2003 and capital expenditures for 2003 and 2004. The Chairman continued that revenues are projected at \$2.566 billion, which include recovery of a portion of excess fuel and purchased power costs pursuant to LIPA's tariff. He indicated that O & M expenses are budgeted at \$671 million;

general and administrative expenses at \$42.1 million; depreciation and amortization at \$233 million; PILOTs at \$152.3 million; other income and deductions at \$45.8 million; interest expenses at \$323.3 million; and cash flow from operations is forecast to be \$181.2 million.

Chairman Kessel stated that the Capital Budget for 2003 is \$251 million, a decrease of 80.8 million or 24.4 percent from the 2002 budget. The Chairman continued that LIPA's 2004 Capital budget is \$239.6 million, a decrease of 11.4 million from the proposed 2003 capital budget.

Chairman Kessel stated that the budget is financially solid, and it meets the needs of LIPA and its customers while maintaining rates and charges as low as possible in a very difficult economy. The Chairman continued that the net income projection is approximately \$21 million, against a target of \$20 million, which is crucial to the rating agencies. He indicated that the proposed net income target is a significant improvement against LIPA's target for 2002.

Chairman Kessel stated that the proposed budget incorporates an anticipated three percent increase in the fuel surcharge, but the surcharge issue will be addressed by the Board as a separate agenda item in February. The Chairman continued that the proposed LIPA budget begins a transition whereby LIPA will begin to collect fuel costs in the years in which they are incurred. He indicated that this real-time mechanism will be a significant financial improvement for LIPA.

Chairman Kessel stated that the three percent increase in the surcharge amounts to approximately \$2.80 per month for the average residential customer, which pales in comparison to current 20 percent increased heating oil costs and thirty percent increased gasoline costs, which are expected to continue to increase. The Chairman continued that LIPA's bill is less today than LILCO's was five years ago (in real dollars accounting for higher fuel costs and inflation); and unlike former LILCO, LIPA does not have the highest electric rates in either the State or the country. He indicated that LIPA's rates may be lowered once the Shoreham debt is retired, and rates could be lowered further by approximately 15 to 20 percent if LIPA was not obligated to pay PILOTs. He noted that Long Island has some of the highest property taxes in the country, and LIPA is Long Island's largest taxpayer.

Chairman Kessel indicated that the budget provides for capital expenditures to ensure continued improvement of the electric system. He stated that the capital budget is less than in 2002, primarily due to the fact that there will be construction of fewer plants and fewer associated interconnections. He added that LIPA is spending more than twice what was anticipated at the time of the acquisition of LILCO, and LIPA has greatly improved the T & D system. Chairman Kessel thanked Mr. Ranghelli, Mr. Hervey and Mr. Hulkower for their extraordinary work regarding the maintenance of LIPA's system.

Chairman Kessel stated that LIPA held a budget hearing at which not one person from the public attended, which is indicative of the relative satisfaction with LIPA. The Chairman continued that if people are upset with either the

budget or fuel surcharge, they would have attended the hearing. He thanked Ms. Song, Mr. Feldman, Ms. Horigan and the financial staff for preparing the budget. He further thanked Trustee Polimeni and LIPA's Finance and Audit Committee for their work on the budget.

Trustee Sinnreich stated that LIPA's consulting expenses are \$19 million, which is 50 percent greater than LIPA's payroll; and although the proposed expenses are a great improvement over 2002, LIPA's long range goal should be to change the ratio so that this expertise is brought in-house. He continued that he understands the political realities of expanding LIPA's staff, but from a business standpoint it makes sense.

Chairman Kessel stated that LIPA is proceeding to hire more staff, and LIPA must balance the need for expertise with the desire to stay as trim as possible. The Chairman continued that LIPA has some great consultants, but LIPA has also hired some in-house staff who have performed work that was formally done by outside consultants and loaned personnel from the New York Power Authority. He indicated that LIPA will continue to strive to hire in-house personnel who will be dedicated for the long term and understand LIPA's needs.

Trustee Polimeni stated that he is concerned LIPA's staff could be getting too large, and it would probably require the tripling of LIPA's staff to reach a point where outside consultants were no longer needed. Trustee Sinnreich stated that a reasonable balance must be achieved, and in-house personnel offer advantages related to economics, expertise and loyalty. Trustee Polimeni stated that any

hiring should be done intelligently, since many of LIPA's projects involve one-time expenses, and it is difficult to release someone after they are no longer needed for a particular task.

Chairman Kessel stated that LIPA will have to make some long-term decisions during 2003 concerning what LIPA's relationships with KeySpan will be, if any at all, particularly in light of the ongoing audits. The Chairman continued that when LIPA was in the process of acquiring LILCO, a staff of approximately 26 people was estimated to be needed, which seemed like a lot at the time; but LIPA is now approximately three times that size, with an extraordinary staff that in many areas is running the utility on a daily basis perhaps more so than the manager. He indicated that it makes sense to keep down LIPA's size and not create a huge bureaucracy.

Chairman Kessel indicated that LIPA needs to address numerous management issues, including the staffing that is required to ensure appropriate management, accurate projections and accurate charges by its manager. The Chairman continued that the Board will discuss LIPA's organizational structure in 2003.

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

**631. APPROVAL OF THE 2003 OPERATING BUDGET AND 2003 AND 2004
CAPITAL BUDGETS**

WHEREAS, the Long Island Power Authority (“Authority”), through its wholly owned subsidiary, LIPA, owns and operates the electric transmission and distribution system (“T&D System”) serving the counties of Nassau and Suffolk and a small portion of the county of Queens known as the Rockaways; and

WHEREAS, the Board of Trustees is required to approve annual budgets for the operation and maintenance of the T & D System and for capital improvements; and

WHEREAS, the Authority released its proposed 2003 Operating Budget and 2003 and 2004 Capital Budgets on December 20, 2002; and

WHEREAS, the Authority conducted a public hearing on the proposed 2003 Operating Budget and 2003 and 2004 Capital Budgets on January 15, 2003;

NOW, THEREFORE, BE IT RESOLVED, that the 2003 Operating Budget and 2003 and 2004 Capital Budgets, which are attached hereto, are hereby approved; and be it further

RESOLVED, that the Authority intends to finance the requirements of the 2003 and 2004 Capital Budgets through a combination of internally-generated funds and the issuance of tax-exempt debt of the Authority, to the extent permitted by law.

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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 11:30 AM.

Respectfully submitted,

Stanley B. Klimberg