

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 179th MEETING
HELD ON JANUARY 25, 2007**

Pursuant to notice dated January 18, 2007, the Long Island Power Authority (the "Authority") was convened for the one hundred and seventy-ninth time at 11:17 AM at the Omni Teleconference Center, in Uniondale, NY.

The following Trustees of the Authority were present:

**Kevin Law, Chairman
Howard Steinberg, Deputy Chairman
Michael Affrunti
Nancy A. Akeson
Anthony Bonomo
Lawrence Elovich
John Fabio
Michael Fragin
James Herrmann
Richard Kessel
Robert Maimoni
Nancy Nugent
Jonathan Sinnreich
Suzette Smookler**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Bruce Germano, Vice President - Retail Services, Elizabeth McCarthy, Chief Financial Officer, Richard Bolbrock, Vice President – Power Markets, Bert Cunningham, Vice President – Communications, Kenneth Kane, Controller, and Kathleen Stella, Secretary to the Board of Trustees.

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

Chairman Law stated that Governor Spitzer had appointed him Chairman of LIPA. The Chairman continued that he looks forward to working with the Board and all others.

Chairman Law stated that he is a resident of St. James in Suffolk County, and he is currently the Chief Deputy County Executive in Suffolk County. The Chairman continued that he will be serving part-time and unpaid as Chairman. He indicated that prior to his service with Suffolk County, he was an environmental and energy lawyer for Nixon Peabody at its Garden City office.

Chairman Law stated that he worked on a number of large energy projects on the Island, and he is very familiar with the energy issues that Long Island faces. The Chairman indicated that he looks forward to being part of the LIPA Board, and to addressing the energy issues that confront Long Island. He added that he thanks Governor Spitzer for his confidence in him, and for this appointment.

Chairman Law stated that he wants to personally thank former Trustee Auerbach for his long and distinguished service to not only the LIPA Board, but also to the Long Island community. The Chairman continued that on behalf of

Governor Spitzer and all of the people of the State of New York and Long Island, he wishes former Trustee Auerbach the best and he thanks him for his service. He added that Trustee Kessel has a presentation to make to former Trustee Auerbach.

Trustee Kessel stated that he wants to welcome Chairman Law aboard as the Chairman of the Authority. He continued that he wants to thank former Trustee Auerbach for his service. He indicated that he first met Mr. Auerbach in 1995 when Governor Pataki named him to the Board of Trustees.

Trustee Kessel stated that Mr. Auerbach has been an extraordinary Trustee, and he is dedicated and loyal. He continued that Mr. Auerbach traveled a long way from the East End to attend meetings, no matter what. He added that in all the years that LIPA has been in existence, the Authority has not seen a trustee as dedicated as he, and on behalf of the Board, the Chairman and the people of Long Island, he wishes to present a plaque to Mr. Auerbach in gratitude for his services.

Trustee Kessel indicated that Mr. Auerbach is an extraordinary person, and everyone on the Board considers him to be not only a great trustee, but also a great friend. He continued that he knows that they will continue to be friends for a long time, and he congratulates Mr. Auerbach.

Mr. Auerbach stated that he thanks Trustee Kessel for the honor, and it is with mixed emotions and sadness that he is leaving. He continued that he has

been on the Board for ten years, and he has made a lot good friends, whom he will miss. He added that he wishes Chairman Law, Trustee Kessel and all of the members of the Board the best for the future.

Mr. Auerbach stated that he knows that the Board will do a wonderful job and it has been a pleasure serving on it. He continued that he enjoyed every minute of it, and he thanks everyone.

Trustee Kessel stated that the next item on the agenda is the Operations Report, to be delivered by Mr. Germano.

Mr. Germano reported that with respect to Sales and Marketing and Load growth, LIPA achieved a total of approximately 42.6 MW and increased revenue of \$16.9 million, against a revenue goal of \$18.7 million. He continued that the shortfall was primarily due to the continued delay of the Calverton site and getting the site plan approval to allow for the necessary building.

Mr. Germano reported that for the Clean Energy Initiative, LIPA achieved 86,000 MWh of savings against a goal of 81,000 MWh. He continued that LIPA had a peak load savings of approximately 19.7 MW against a goal of 22 MW. He indicated that LIPA fell slightly short of its goal in terms of peak load reduction primarily due to the residential lighting and HVAC programs where LIPA had less performance in the peak load area, but more performance in the energy efficiency areas.

Mr. Germano reported that overall, the clean energy programs exceeded their goals both in peak load reduction and in energy savings.

Mr. Germano reported that with respect to Customer Care programs that LIPA developed as a result of the customer satisfaction work that LIPA has done, there has been a significant increase in terms of performance from 2005 to 2006. He continued that LIPA did fall slightly below goal in these particular areas. He added that with respect to electronic transaction programs, LIPA exceeded its goals in all areas.

Mr. Germano reported that revenue collections are approximately \$115 million in arrears at this point, which are comprised of approximately \$81 million in residential arrears and \$34 million arrears in the commercial/ industrial segment. He continued that arrears peaked in September, and they are trending downward.

Mr. Germano reported that LIPA has a very concentrated effort in place to investigate improvements in collections. He continued that LIPA and KeySpan meet monthly to review arrears in amounts greater than \$10,000, and to work on the action plan related to it. He indicated that most commercial customers are paying within 30 to 45 days, and LIPA is starting to see an increase in collections moving from the 60 to 90-day window.

Mr. Germano reported that LIPA's SAIFI index, which is the average months between interruption, saw a significant increase in performance. He continued

that the average is currently at sixteen months, primarily due to a lot of work in maintenance on the transmission and distribution substation system, which tends to eliminate the short duration, large number of customer outages. He added that the converse effect is that LIPA's CAIDI numbers, which are now below the customer average interruption duration, have actually increased, and LIPA has put a plan in place in 2007 to address this.

Mr. Germano reported that for the year, LIPA is number one for all three sectors, which is a reflection of all of LIPA's work.

Trustee Nugent asked whether the proportion of commercial to residential arrears has shifted over the course of the last year or several months, and what the period of time is that LIPA looks at. Mr. Germano answered that LIPA looks at these month-to-month. He continued that the proportion has probably shifted more towards the residential, because LIPA has had a very concentrated effort in focusing on the commercial and particularly the larger customers.

Trustee Nugent asked whether there is a plan to address the fact that the residential arrears seem to be going out further to the 90-day period, rather than the 60-day period. Mr. Germano answered that LIPA is looking at the issue, and although there are limited options, there are key areas that LIPA can start to focus on. He continued that LIPA must be careful as to who it works with and how it addresses those customers.

Deputy Chairman Steinberg asked what the reason was for the spike in LIPA's CAIDI numbers, and whether LIPA is continuing to maintain its robust tree trimming program. Mr. Germano responded that LIPA is maintaining its tree trimming program, and when focusing on the short duration and large number of customer outages, the remainder are the low customer and high duration outage numbers, which is reflected in LIPA's CAIDI number. He continued that LIPA has brought the number of customers down, and there is an effort to figure out how to deal with that issue.

Chairman Law stated that the next item on the agenda is the adoption of the minutes of the December 14, 2006 meeting of the Board of Trustees.

Trustee Smookler stated that she was incorrectly omitted from the minutes since she was in attendance at the meeting. Chairman Law indicated that the minutes should be amended to include Trustee Smookler, who was in attendance.

Upon a motion duly made and seconded, the following resolution was approved, with Chairman Law abstaining:

794. APPROVAL OF MODIFICATION OF DRAFT MINUTES OF DECEMBER 14, 2006 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Draft Minutes of the meeting of the Authority held on December 14, 2006 are modified to reflect that Trustee Smookler was present.

Upon a motion duly made and seconded, the following resolution was approved, with Chairman Law abstaining:

795. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE DECEMBER 14, 2006 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 14, 2006 as modified 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 Law stated that there has been at least one new Trustee recently appointed to the LIPA Board. Trustee Kessel stated that he wishes to welcome Michael Fragin to the Board, who was appointed in December. He added that he looks forward to working with Trustee Fragin.

Chairman Law stated that the next item on the agenda is the Finance Report, to be delivered by Ms. McCarthy.

Ms. McCarthy reported that LIPA closed the books for the summer, and she will offer the most current, but also preliminary and unaudited information. She continued that the Authority ended 2006 with an excess of revenues over expenses of \$118 million, which is in the range LIPA's financial target of between \$25 million and \$125 million. She indicated that Revenues were two percent or \$70 million below budget, driven primarily by lower than expected sales as a

result of mild weather throughout the year, and by the impact of the 7.6 percent reduction in the power supply in October 2006.

Ms. McCarthy reported that Fuel and Purchased Power Costs were approximately three percent or \$61 million below budget for the year, due to lower than expected commodity prices and sales. She continued that operating and maintenance expenses were effectively on budget. She added that administrative and general expenses were approximately nine percent or \$4.5 million below budget due to lower spending in the areas of legal, finance and engineering consulting support.

Ms. McCarthy reported that Payment in Lieu of Taxes were five percent below budget as result of lower than anticipated increases. She continued that other income and deductions were higher than forecast by \$25 million as a result of higher than expected emission sales and earnings on LIPA's cash balances. She added that interest expense was four percent or \$13 million below budget, due to lower than anticipated variable interest rate expense and the impact of the refinancing that the Authority did throughout the year.

Ms. McCarthy stated that LIPA ended the year with approximately \$710 million in cash, with \$250 million in LIPA's rate stabilization fund and the remainder in operating funds. She continued that they are invested in a variety of instruments with a relatively short maturity.

Trustee Sinnreich asked what is meant by the reference to a sale of emissions. Ms. McCarthy answered that LIPA is awarded emissions credits when LIPA does not generate power on-Island, when LIPA uses it more effectively or when uses lower emission fuel. She indicated that to the extent that LIPA does not need them, LIPA may sell the credits into the market and use that to offset LIPA's fuel and purchased power costs.

Trustee Sinnreich asked whether this is a national market. Mr. McCarthy responded that it is a national market.

Trustee Sinnreich asked how much LIPA realized in the sale of emissions credits this year. Ms. McCarthy answered that she believes that it was approximately \$25 million.

Trustee Sinnreich stated that he is interested in knowing how this is trending.

Chairman Law asked whether LIPA's fiscal year is the calendar year. Ms. McCarthy answered, "Yes, it is".

Chairman Law asked whether a consulting firm will perform a certified audit for LIPA, and what the timetable will be for it. Ms. McCarthy answered that KPMG is LIPA's independent auditor, and they are currently conducting their audit, which should be complete for the March Board meeting.

Deputy Chairman Steinberg asked whether LIPA is making any changes of significance to its hedging strategies, in view of the recent trends in the oil markets. Ms. McCarthy answered that LIPA is continuing with its strategy, and LIPA is approximately 85 percent hedged for 2007, almost 60 percent hedged for 2008 and approximately 30 percent hedged for 2009 at this point. She continued that LIPA is constantly evaluating that strategy in light of the changes in the marketplace, and there is an agenda item for a minor change to Board policy on hedges that will be addressed.

Trustee Akeson stated that the Finance and Audit Committee meets monthly prior to the meeting of the Board of Trustees, and at these meetings the Trustees are extensively briefed by Ms. McCarthy and her staff on all of the financial positions of LIPA, including the hedging program.

Trustee Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chief of Staff or his designee to execute a contract for the Sale of Contract Capacity and Energy and other related agreements with FPL Energy Marcus Hook, L.P. He continued that in order to meet the ever increasing demand for electricity on the Island and utilize the existing Cross Sound Cable and the new Neptune Cable, LIPA issued an RFP in January of 2005 to supply LIPA with power over each. He added that following an extensive review process, the Board approved two proposals at its January 26, 2006 meeting.

Trustee Kessel stated that with respect to the Cross Sound Cable, the Board approved the selection of a 345 MW proposal, from the Bear Swamp pumped storage facility in New England. He continued that with respect to the Neptune project which is scheduled to commence operation in July 2007, the Trustees approved a 685 MW proposal from FPL Energy from its facility located in Marcus Hook, Pennsylvania as the first option, and a 240 MW proposal from LS Power from its Ontelaunee project, also in Pennsylvania.

Trustee Kessel stated that the Board authorized the negotiation and execution of Power Purchase Agreements ("PPA) with Bear Swamp and FPLE, with LS Power as an alternative if negotiations with FPLE were not successful. He continued that since that meeting, LIPA negotiated and executed a PPA with Bear Swamp, and LIPA has nearly completed negotiations with FPLE, yielding significant economic benefits for LIPA's customers.

Trustee Kessel stated that the proposed PPA with FPLE would be for the purchase of 685 MW of firm capacity for a twenty year term, and beginning in the sixth year, an option for energy from FPLE's Marcus Hook combined cycle generating plant. He continued that the power from Marcus Hook will be transmitted across the Pennsylvania/ New Jersey/ Maryland transmission system to Sayreville, New Jersey, and then to Long Island over the Neptune Cable. He added that LIPA will be responsible for making the necessary transmission arrangements in PJM's service territory, and FPLE would be responsible for providing the fuel required for generation.

Trustee Kessel stated that this PPA is a pay-for-performance contract, and LIPA would pay for only the capacity and energy that the Marcus Hook Plant delivers, which is very important. He continued that FPLE is required to maintain at least 95 percent availability for the Marcus Hook facility, and if that level is not maintained, LIPA's capacity payments to FPLE would be proportionately reduced. He added that if such impairment continued, LIPA has the right to reduce the amount of capacity it could be committed to purchase.

Trustee Kessel stated that the capacity payment would be fixed for the first five years of the term and would escalate annually thereafter. He continued that with respect to energy, LIPA would have the option, beginning in the sixth contract year to purchase energy from the project. He continued with LIPA expects to purchase most of the energy for delivery over the Neptune Cable from the PJM market, which has numerous lower cost resources available. He added that LIPA has also negotiated a strong termination provision and substantial liquidated damages and security requirements from FPLE, and he recommends that the Board approve this PPA.

Chairman Law requested that Mr. Klimberg comment on the procurement process and how LIPA arrived at the decision to recommend the FPLE proposal.

Mr. Klimberg stated that LIPA issued an RFP in February 2005, among other things to procure capacity and/or energy from power plants located in the Pennsylvania/ New Jersey/ Maryland market for transmission over the Neptune Cable, which is expected to be in service in July 2007. He continued that LIPA

received approximately 28 proposals from 11 different entities for transmission from both New England for transmission over the Cross Sound Cable and from the PJM market for transmission over the Neptune Cable. He added that in January of 2006 the Board selected the Bear Swamp proposal as result of rigorous reviews of those proposals, and two proposals in the PJM market, namely, the Marcus Hook Proposal and the LS Power Ontelaunee proposal.

Mr. Klimberg stated that this rigorous process resulted in a recommendation to the Board to select those proposals, primarily based on the economics that those proposals would provide to the Long Island Power Authority. He added that the purchase of power in both New England and PJM market offers the opportunity to substantially reduce the cost of power on Long Island, because the costs of the projects are far less, even considering LIPA's Cross Sound and Neptune costs for the cables.

Chairman Law asked whether Ms. McCarthy has reviewed this from a financial perspective, and whether she has comments on the proposed agreement. Ms. McCarthy answered that there was a substantial final evaluation done of all of the proposals and she was part of the Executive Team that reviewed it. She indicated that on the basis of that evaluation and the terms that are proposed, this proposal will save LIPA's customers money versus the alternative.

Chairman Law asked whether this was the most financially attractive of all of the proposals. Ms. McCarthy answered, "Yes".

Trustee Sinnreich asked whether the resolution should be amended to authorize the President to enter the agreement, as opposed to the Chief of Staff.

Mr. Klimberg stated that as soon as LIPA has its Chief Executive Officer, it would be suitable to authorize the CEO or his designee to sign the contract.

Trustee Sinnreich asked whether the Authority is anticipating that today. Mr. Klimberg answered, "Yes, we are".

Trustee Sinnreich stated that this resolution and probably all of the previously drafted documents should be changed in that way.

Trustee Sinnreich stated that he proposes an amendment to the resolution to substitute either the President or the Chief Executive Officer, in place of the Chief of Staff, as the designee to execute the agreement.

Trustee Herrmann asked whether the Board can do this, if the Authority does not yet have a President and CEO.

Trustee Sinnreich stated that he does not see why the Authority cannot do that in anticipation of the appointment.

Trustee Herrmann stated that he suggests that this matter be moved up on the agenda so that the Board does not need to amend all four of the resolutions.

Trustee Kessel responded that this is difficult to do, and the Authority is not signing the agreement here, so it will not matter.

Trustee Sinnreich stated that by the time it has to be signed the Authority will have a President and CEO.

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

796. APPROVAL OF MODIFICATION OF RESOLUTION APPROVING AUTHORIZATION TO ENTER INTO AGREEMENT WITH FPL ENERGY MARCUS HOOK, L.P. TO PURCHASE POWER FROM MARCUS HOOK PROJECT

RESOLVED, that the resolution approving authorization to enter into agreement with FPL Energy Marcus Hook, L.P. to purchase power from the Marcus Hook project is modified to state that the Chief Executive Officer and President or his designee is authorized to execute and effect a PPA with FPL 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 Chief Executive Officer and President or his designee, to carry out the PPA.

Trustee Kessel stated that he wants to commend LIPA's staff, who worked not only on this, but also on the Neptune Cable. He continued that it is important to note that this cable is probably the most important energy project ever built for Long Island, and it will connect Long Island to the PJM market. He added that for the first time, LIPA will really be connected to the entire national grid.

Trustee Kessel stated that the efforts to get this cable are extraordinary, although more attention is paid to some of the things that are being done at the golf course at Jones Beach and along the Wantagh Parkway. He continued that all of this will be restored and made better. He indicated that people should know that the Neptune Cable is going to be a huge help to LIPA in bringing down the wholesale cost of electricity.

Trustee Kessel stated that the Neptune Cable has twice the capacity of the Cross Sound Cable, and it is not just the capacity and energy that is significant, but the importance of this project to keeping the lights on and to lowering the cost of electricity on Long Island. He added that he wants to thank LIPA's staff and everyone who worked on this and the cable itself, as it has been completed.

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

**797. AUTHORIZATION TO ENTER INTO AGREEMENT WITH FPL ENERGY
MARCUS HOOK, L.P. TO PURCHASE POWER FROM MARCUS HOOK
PROJECT**

WHEREAS, at its January 26, 2006 meeting, the Board approved the selection of FPLE's Marcus Hook Project proposal in response to LIPA's January 2005 Request for Proposals, and authorized the negotiation of the terms of a PPA with FPLE; and

WHEREAS, LIPA staff has negotiated the terms of a PPA under which, among other things, LIPA would purchase 685 MW of firm power for a twenty year term, and related energy beginning in the sixth year of the PPA, from FPLE's Marcus Hook combined cycle generating plant, located about 20 miles south of Philadelphia ("Marcus Hook Project"), that would be transmitted across the Pennsylvania-New Jersey-Maryland transmission system to Sayreville, New

Jersey, the New Jersey terminus of the Neptune Cable, and then over the Neptune Cable to Long Island; and

WHEREAS, for the reasons discussed in the preceding Memorandum, the proposed PPA for the purchase of firm capacity and energy from Marcus Hook Project is in LIPA's best interest;

NOW, THEREFORE, BE IT RESOLVED, that the Chief Executive Officer and President or his designee be and hereby are authorized to execute and effect a PPA with FPLE 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 Chief Executive Officer and President or his designee, to carry out the PPA referred to above.

Chairman Law asked whether LIPA enters into PPA's for capacity and separate PPA's for energy. Mr. Klimberg answered that often they are in the same contract.

Chairman Law asked if the motion before the Board concerned a PPA for capacity. Mr. Klimberg answered that it concerns primarily capacity, and this also provides an opportunity, starting in the sixth year, to buy energy from that project if it turns out to be more economical than buying generally in the PJM market. He added that LIPA expects that given the attractiveness and the price of energy in the PJM market, LIPA will for the most part purchase energy in the PJM market, since that generation is largely from coal, nuclear, and combined cycle gas plants.

Trustee Fragin asked whether LIPA has any liability if the Neptune Cable does not become live. Mr. Klimberg answered that LIPA anticipated the possibility, although highly unlikely, that it would not be available this summer or

thereafter, and LIPA has negotiated provisions to address that possibility. He continued that the owner, FPL Energy, would market the energy in the PJM market, but ultimately, if the project was not available, LIPA has termination rights in the event that the Neptune Cable was not available or operated at such a low capacity that it would not be worthwhile to continue the contract.

Chairman Law asked what the difference was in the role that Neptune plays, as opposed to the role that FPL plays. Mr. Klimberg answered that Neptune owns the cable itself, but the Authority has purchased, through a transmission capacity agreement, all of the capability of the cable for a 20-year period. He continued that Neptune is the developer and owner of the cable and fully responsible for developing the project, meeting all of the environmental requirements, building it and assuming all the risks associated with its construction, including the costs, and LIPA has negotiated a fixed price arrangement for having the right to transmit 685 MW, the full capability of capacity over the cable.

Chairman Law asked if that was a separate agreement that is already entered into with Neptune. Mr. Klimberg responded, "Yes".

Chairman Law asked what FPL Energy's role is. Mr. Klimberg responded that FPL Energy is an owner of a substantial amount, almost 12,000 MW, of capacity throughout the country, and their subsidiary is the owner of the existing Marcus Hook combined cycle power plant. He continued that they would sell 685 MW, nearly all of the capacity of the plant, to LIPA, and starting in the sixth year

energy, if the energy is economical to LIPA under the terms of the contract. He added that assuming that the Neptune cable is in service in July 2007 when expected, LIPA would be purchasing the capacity of Marcus Hook effective then.

Chairman Law asked whether the Authority has completely negotiated an agreement with FPL Energy at this point. Mr. Klimberg answered that there are some final elements of the agreement to be negotiated, but the principal business terms have been negotiated.

Assemblyman Marc Alessi stated that he is a New York State Assemblyman, and he represents the First District. He asked whether there is an open public comment period. Chairman Law stated that there will be at the end of the meeting.

Assemblyman Alessi stated that it is wrong that a public authority negotiate in secret and that the public does not have an opportunity to comment. He continued that the public is asked to trust LIPA that it is a good deal.

Chairman Law asked what is appropriate for contractual negotiations to be discussed in Executive Session, as opposed to what is appropriate to share with the public when it comes to negotiations. Mr. Klimberg responded that LIPA is often faced with a choice of how much information to release, and it is not an easy decision. He continued that LIPA is in a very competitive market, and LIPA is negotiating with different commercial developers to obtain the best price for commercial arrangements for LIPA's customers. He added that if competing

developers are aware of what each other is prepared to offer, it will stifle the negotiations and prevent LIPA from getting the best commercial arrangement.

Mr. Klimberg stated that the developers consider the price and certainly the other commercial terms to be competitively sensitive information, and often LIPA does as well because it would prevent us from getting the best arrangement for its customers. He continued that LIPA has, when requested, provided portions of the power purchase agreement and withheld others when LIPA considers it to be commercially sensitive. He added that State law permits LIPA to withhold commercially sensitive information, and the judgments that LIPA has made have been upheld in the courts with respect to the amount of information that LIPA has released regarding its power purchase agreements and its transmission capacity agreements.

Mr. Klimberg stated that this is information that the Authority has provided to its Trustees, so that they have a full understanding of the commercial arrangements, but LIPA is constrained to limit the amount of information that it releases if LIPA considers it damaging to its customer's interests, or LIPA is asked by the involved developers not to provide that information. He continued that if LIPA were to provide that commercially sensitive information, LIPA would not have a robust procurement process, not as many developers would be willing to participate in LIPA's procurement, and LIPA would not get the best commercial arrangement.

Trustee Kessel stated that he does not know of any company, public or private, that negotiates extensive contracts in public, and if LIPA had to do that, LIPA would not have any contracts. He continued that LIPA is no different than the State Legislature, where many of the bills are not negotiated in public, but in the end, what LIPA does is subject to public comment. He added that it is important to point out that these are complicated negotiations.

Mr. Grilli stated that the entire agreement, like all agreements, is subject to review by the New York State Comptroller, as well as the Attorney General's Office. He continued that they not only review the contract, but also the procurement process to make sure that this was fair and that LIPA, in fact, and its staff and Trustees did review it carefully and come up with the right deal at the end of the day on behalf of its ratepayers.

Mr. Alessi stated that the lack of public disclosure before signing a deal is indefensible. He continued that LIPA has stated that it cannot disclose to the public what the costs associated with this proposal are because it needs to be secret and that is not appropriate. He added that having worked in the State Comptroller's Office for over five years, he does know that they have to look at these proposals according to the black letter of the law, and they do not look to see if it is a good deal.

Mr. Alessi stated that this came up last year with the management services agreement, and LIPA's contracts with KeySpan, when LIPA went through the scoping process. He continued that LIPA stated there would be more than \$100

million in savings and LIPA is going to send \$40 million back to the ratepayers, and that it is up to the Comptroller's Office to approve it and see if it is a good deal. He indicated that the Comptroller's Office was outraged because they do not get to look at anything but the black letter of the law, that the procurement process was appropriate, and that the Authority made its determination on an appropriate procurement process, but they do not say whether they still think it is a bad deal.

Mr. Klimberg stated that the Authority has been presenting its power purchase agreements and transmission service agreements to the Comptroller's Office and Attorney General for review and approval for five or more years, and there is an extraordinary, intensive review in the Comptroller's Office both of the process the Authority employs in connection with the procurements and the merits of the individual procurements and the provisions of particular contracts. He continued that they evaluate the terms of contracts, the reasonableness of the specific terms, and they ask detailed questions about why the Authority has negotiated one term over the other. He added that they look at the changes in the proposed contract from the time that LIPA first issued the procurement to the final contract, and it is an extremely intensive review process where they consider the merits of the selections and details of the contract before approving them.

Assemblyman Alessi stated that he did not dispute that, and that he is saying that they look at the black letter of the law and whether or not LIPA needs

to do the project, and whether the procurement process was appropriate, but they do not say that dollar-for-dollar, this is the best deal out there.

Trustee Nugent stated that before the Authority gets to the point where it reaches the Comptroller's Office, there is a tremendous due diligence that is undertaken by LIPA to ensure that there are not conflicts and that nobody is benefiting personally. She continued that there are all sorts of constraints that come from Albany, regarding any attempts to lobby or somehow get an unlawful gain from any procurement, and there is tremendous oversight.

Trustee Kessel stated that he has been a part of those reviews, as some have taken months and months, and the Comptroller's Office actually looks at a matrix of all of the costs, not just the black letter law. He continued that they will look at the other bidders and the terms of the contract, including the financial terms. He added that they will look at the economics of what LIPA chose, as opposed to the ones that LIPA did not choose to assure that it is the most financially viable.

Trustee Kessel stated that LIPA is one of only a couple of authorities in the whole state that is subject to the process, which should give people confidence.

Chairman Law asked whether LIPA can share that information with the public, including the five or six deals that LIPA has, and demonstrate to them why this is particularly the best deal for LIPA. Mr. Klimberg answered that LIPA does

not go into the details, but to the extent that LIPA can, consistent with the confidentiality requirements, LIPA shares information with the public.

Chairman Law stated that he appreciates the Assemblyman's concerns, and to the extent that it is not prohibited and LIPA is not breaching any commercial secrets, it would be helpful for the public to perhaps see a matrix of the particular options that LIPA considered, and some numbers to go along with the various criteria that LIPA uses to evaluate the particular proposal to demonstrate that it is indeed the best deal.

Assemblyman Alessi stated that he thinks that they should go to the Comptroller's Office for a legal opinion on exactly what the Comptroller's role is on those items.

Trustee Nugent stated that the issues that Assemblyman Alessi raises touch on a couple of levels, with one being whether it is the best deal for the ratepayer and another being whether there are ethical considerations. She continued that he did mention meeting behind closed doors, which is a somewhat inflammatory way of stating it, as LIPA looks to get more information out to the public. She added that LIPA looks at both of those prongs of whether it is best for the ratepayer and whether there is a perception that there are ethical concerns here.

Chairman Law stated that transparency is very important, and there are perhaps ways to improve transparency and share more information with the

public. The Chairman continued that he is directed by Governor Spitzer to do that, and LIPA will look at ways to improve the sharing of information and improve the transparency of all state agencies, which does not mean that the LIPA Board and LIPA staff had been doing anything improper or unethical. He added that it is just when LIPA can make improvement with transparency and sharing information that is indeed not business secrets or confidential, and he looks forward to sitting down with the staff, Mr. Klimberg and the Trustees to improve that.

Trustee Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to negotiate and execute one or more agreements with the Town of Brookhaven and Caithness Long Island with respect to implementing a Host Community Benefits Initiative related to the development of the proposed Caithness Long Island Energy Center. He continued that LIPA recognizes the need for additional power to be generated on Long Island and or transmitted generated to Long Island from off-Island sources in order to serve LIPA's increasing load requirement. He added that to meet this need for additional resources, on June 23, 2004, the Trustees selected the Caithness project as well as the Neptune Project in response to LIPA's May 30, 2003 RFP to provide energy, capacity and/or ancillary services.

Trustee Kessel stated that Caithness proposes to permit, construct, own, operate and maintain a state-of-the-art combined cycle generation project with a total generating capacity of approximately 326 MW on a 15-acre site within a 96-

acre parcel in the Town of Brookhaven's Empire State Development Zone in Yaphank. He continued that the project would be approximately 30 percent more efficient than the average efficiency of the existing baseload plants on Long Island, and it is important to help meet Long Island's energy requirements, while reducing fossil fuel costs. He added that in order to proceed with the development of the project, Caithness applied to the Town of Brookhaven for a special use permit and related variance and waivers.

Trustee Kessel stated that the siting of new power plants on Long Island is challenging and difficult, and a critical factor in this process has been the need to gain the acceptance of the municipalities, school districts and communities in the area of the project. He continued that during the pendency of Caithness' application, both LIPA and Caithness engaged in various discussions with the Town related to prospective PILOT and other community benefit payments, and these discussions led to the creation of the attached proposed Host community Benefits Initiative. He added that following those discussions and other events, on July 25, 2006, the Town Board approved Caithness' special permit application and further determined under SEQRA that development of the project will not result in any significant adverse impacts in the area.

Trustee Kessel stated that a critical factor in the Town Board's approval were the additional benefits to be received by the municipalities, school districts and host communities at or near the location of Caithness. He continued that the development of this project is contingent on LIPA's and Caithness' ability to reach agreement with the Town on the terms and conditions necessary to

implement these community benefits. He indicated that the proposed benefits consist primarily of PILOT payments in the total amount of \$185 million over a 20-year period, which would be paid by Caithness but passed through to LIPA under the Power Purchase Agreement, and that any Empire Zone benefits received by Caithness for the Project will be passed along to LIPA, which will benefit LIPA's customers.

Trustee Kessel stated that the remainder of the proposed benefits in the total amount of \$12 million, of which \$2 million would be allocated from existing program funds and \$1 million reimbursed by Caithness, would include, among other things, community development and special project funds and other energy efficiency related projects and commitments that will serve the greater public good in the Town of Brookhaven. He continued that these types of benefits are similar to what has been done through all other communities where key power projects have been constructed on Long Island and in New York State. He added that they are a reasonable way to ensure that this important project can move forward, and he recommends this package.

Trustee Fabio asked what the difference in revenue would be that the Town of Brookhaven would receive if the property dedicated for the Caithness Plant was developed as commercial property, as opposed to the amount of PILOT payments and the community benefits package.

Mr. Grilli stated that LIPA has engaged the legal services of Certilman Balin to help in the analysis of this particular project and the taxes that would have

otherwise been paid or due. He requested that Mr. Walter Hoefer, Assistant to the Chief of Staff, who led most of those discussions, further answer that question.

Mr. Hoefer stated that since this is a capital intensive project it would yield more to the Town of Brookhaven than other developments might have in the Empire Zone, so to that extent, the PILOT's are an advantage to the Town, given that it is a power plant, rather than a factory or commercial development that will be built.

Trustee Fabio stated that he was referring to whether or not there is a net gain regarding the tax revenue that Brookhaven would have realized from this property had Caithness not been built, versus the amount that LIPA is paying in PILOTs and in the community developing projects. Mr. Hoefer responded that overall it is a good deal for the Town, because if the property had been developed for some other purpose, it would have yielded substantially less in tax revenue to the Town and surrounding communities, and currently the tax is \$38,000 on the property.

Trustee Fabio asked whether the practice of offering a community benefits package for siting a power plant is something that is generally done within the industry. Mr. Grilli answered that LIPA has spoken to Navigant Consulting among others who have developed projects nationwide, and LIPA has been assured that the community developments package is something that is done normally. He continued that when KeySpan was attempting to permit the Spagnoli Road Project, there were a series of community benefit packages to the Town of

Huntington and the surrounding community far beyond any taxes that would have otherwise been paid, in an attempt to gain the support of the surrounding communities that might not otherwise benefit directly from the PILOT payments.

Trustee Fabio asked whether this is a common practice within the industry, beyond what LIPA is doing. Mr. Grilli answered that it is a common practice.

Trustee Fabio asked how the \$12 million in the community benefits package would be allocated. Mr. Grilli answered that much of the approximately \$12 million will go directly to the Town of Brookhaven for its projects. He continued that other projects are for school districts that are not within the area that will receive the PILOT benefits to assist them, but are in close proximity to the plant, and some will be for support for nearby community centers.

Chairman Law asked how much of the \$12 million will be provided by Caithness and how much by LIPA. Mr. Grilli answered that Caithness is doing other things beyond this with the community in terms of employment and commitments, and as part of the package. Caithness is liable for \$1 million of the \$12 million, and \$2 million is going to be for programs that LIPA would otherwise conduct through its Clean Energy Program, but LIPA will now direct it to the community in order to have them benefit from those programs.

Chairman Law asked whether \$11 million is coming from LIPA. Mr. Grilli answered "correct".

Trustee Sinnreich asked whether there is clear legal authority in the State of New York to authorize this kind of package, regardless of common practice, and whether it does not violate the prohibition against gifts of public money to private entities or other applicable laws. Mr. Klimberg answered that LIPA believes that under the circumstances, it is a reasonable legal practice, although there is not clear legal authority on this point. He continued that given the nature of the project and the practice, the fact that LIPA has the authority to provide PILOT payments and other benefits to the communities, he believes that this is a lawful policy and practice.

Chairman Law asked whether a community benefits package has ever been challenged in court. Mr. Klimberg answered, "Not to my knowledge".

Chairman Law asked whether the agreement has been shared with the public. Mr. Klimberg answered that there is no formal agreement. He continued that this has been a matter that has been discussed with officials at the Town of Brookhaven and with others, and LIPA has informed them that LIPA is prepared to request the Board's approval of this package of benefits, and the Town of Brookhaven has conditioned its approval on these benefits being provided. He added that this is a matter that has to be addressed by the Board of the Trustees and if it is approved, LIPA will formalize these arrangements.

Chairman Law asked whether once the Board approves the ability for LIPA to negotiate and enter into a contract, the agreement will come back to the Board. Mr. Klimberg answered that it is not expected that it would need to come back to

the Board, because it is simply a straight forward arrangement where LIPA would provide the funding as laid out in the exhibit attached to the resolution. He indicated that he does not expect that there will be other matters that would need to be addressed in the agreement to provide the funding.

Chairman Law indicated that nothing prevents LIPA from sharing the information contained in that agreement before LIPA executes the agreement. Mr. Klimberg stated, "That's correct".

Trustee Kessel stated that documents that indicate the substance of what LIPA is doing are attached to the resolution, and all of those terms that have been discussed will be formalized and carried out by LIPA and/or Caithness once the Board approves this resolution.

Trustee Hermann asked why the word "negotiation" is still included, if this is what is to be executed. Chairman Law asked whether it is accurate that there are no further negotiations, and that the Town of Brookhaven is on board with this arrangement. Mr. Klimberg answered, "Yes."

Chairman Law asked whether the agreement will be between LIPA and Brookhaven. Mr. Klimberg responded that LIPA has not worked out those details, but LIPA has told the Town of Brookhaven that this is the arrangement that it would be prepared to enter into.

Mr. Hoefer stated that the exact form of the agreement or agreements will be determined in the next couple of weeks but the framework is what the Board is voting on. He continued that the exact format will come over the next couple of weeks and be formalized in thirty days.

Deputy Chairman Steinberg asked whether it is correct that all of material terms of the agreement are laid out to the Board and that what remains are the technicalities of negotiating the specific agreements to implement it, and if there are any material changes, they will be brought back to the Board and the public. Mr. Klimberg answered, "That's correct."

Trustee Fragin asked who LIPA is negotiating with specifically, including the Town of Brookhaven, the individual villages and school districts collectively and individually, and any entities that may or may not have been formed yet. Mr. Grilli stated that this was all done through the Town of Brookhaven and particularly Supervisor Foley, as well as one of the Trustees that serve on the Town Board who took the lead on that. He continued that they formed a group of all of the civic associations, and came up with a list, which was subject to a lot of negotiation and which is narrowed to the document that is before the Board.

Trustee Fragin asked whether there is a collective agreement amongst the local entities. Mr. Grilli answered, "Correct".

Assemblyman Alessi stated that he is not for or against the Neptune Cable, nor the Caithness project, but he wanted to comment on the corporate

governance issues surrounding it. He continued that he realizes that Long Island needs more power generation, but it was recently brought to his attention that three are allegations that the EIS may have been faulty in that the FAA paperwork may not have been accurate in terms of the height of the smokestack and that the height of the landfill is higher than indicated on the map that was used. He added that his constituents are concerned that the wind gradient may create a scenario where whatever emissions are coming out of the plant will rain down on Yaphank and North Shirley.

Assembly Alessi stated that he wants to go on the record saying that he is going to write a letter to the DEC to look at the wind gradient issue, and to the FAA to explore the smokestack issue, but he is not for or against the plan.

Upon motion duly made and seconded, the following resolution was approved, with Chairman Law abstaining:

798. AUTHORIZATION OF THE NEGOTIATION AND EXECUTION OF A HOST COMMUNITY BENEFITS AGREEMENT IN CONNECTION WITH THE CAITHNESS PROJECT

WHEREAS, the Long Island Power Authority (“LIPA”) is committed to providing reliable electric service to its customers on Long Island; 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 locational generation requirements established by the New York Independent System Operator 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; 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

WHEREAS, development of an approximately 326 MW combined cycle power plant proposed within a 96-acre parcel in the Town of Brookhaven's Empire Development Zone in Yaphank by Caithness Long Island, LLC ("Caithness, LLC") (the "Caithness Project") is in the best interest of LIPA's customers to meet this need for electric power and energy; and

WHEREAS, in furtherance of the public benefits to be derived from the Caithness Project, LIPA, Caithness, LLC and the Town of Brookhaven reached agreement in principle on a Proposed Host Community Benefits Initiative for Caithness Long Island Energy Center including, but not limited to, PILOT payments, community development and special project funds and other energy related projects and commitments to be paid by LIPA and Caithness; and

WHEREAS, pursuant to the power purchase agreement between LIPA and Caithness, LLC, LIPA is entitled to any Empire Development Zone benefits derived from the Caithness Project to offset some of its payment obligations; and

WHEREAS, on July 25, 2006, the Town Board of the Town of Brookhaven approved the application of Caithness, LLC for a special permit and related variances and waivers in connection with the Caithness Project based on, in part, the Proposed Host Community Benefits Initiative;

NOW, THEREFORE, BE IT RESOLVED, in order to ensure the availability of sufficient additional power supply resources to serve LIPA's customers, the Trustees authorize the Chief Executive Officer or his designee to negotiate and execute a Host Community Benefits agreement, and any other necessary and/or related agreements for the Caithness Project, consistent with the Proposed Host Community Benefits Initiative attached to the accompanying memorandum to the Trustees.

Trustee Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to engage Zimmerman/Edelson, Inc. as the Long Island Power Authority's advertising and public information services consultant to provide advertising and public

information advisory services to assist the Authority and LIPA with the development and implementation of various advertising, marketing and public information programs. He continued that on April 3, 2006, the Authority issued an RFP for experienced advertising firms to provide advertising and public information services to the Authority and its subsidiary, LIPA, for a four year period. He added that five firms submitted written responses to the RFP, and the Authority's selection committee evaluated all of the proposals and conducted interviews of the top four qualified proposals, as is provided for in the RFP.

Trustee Kessel stated that based upon the written proposals, the interviews and an assessment of the Authority's needs, Authority staff has concluded that Zimmerman/Edelson is best suited to continue to fulfill those needs. He continued that some of their strengths include a demonstrated understanding of the Authority's operations, qualified and experience staff with extensive knowledge of the Long Island market, a demonstrated ability to meet the Authority's communications needs and reasonable fees and expenses.

Trustee Elovich asked whether they have previously represented the Authority. Mr. Cunningham answered, "Yes, they have."

Trustee Elovich asked for how long they have represented the Authority. Mr. Cunningham answered that the first response to an RFP goes back to 1998. Trustee Elovich asked if they have continuously represented the Authority since 1998. Mr. Cunningham answered, "Yes, they have." He continued that they have

been part of a total of three competitive processes over the last nine or ten years, along with other advertising agencies that responded.

Trustee Elovich asked how much money the Authority has paid them in the last years. Mr. Cunningham responded that in the last year, they received a total of \$166,482.35, of which \$84,000 concerned their \$7,000 per month retainer fee, and the balance of \$82,462.35 was commissions earned on advertising placements. He continued that a standard advertising commission would be approximately 15 percent in the marketplace, and had Zimmerman/Edelson been earning the commission rather than the reduced rate that they charge to the Authority, they would have been able to earn \$211,000 in commissions, so due to the competitive process and the reduced contract rates, it is a worthwhile and efficient way of ensuring that the Authority puts its advertising messages into the market place.

Trustee Elovich asked whether examples of what they have done can be given. Mr. Cunningham answered that he sent out a book to the Trustees that showed this, and the Authority has very important messages to get out into the marketplace, including energy efficiency messages. He continued that LIPA has a 24/7 web site that provides a great deal of information to its customers, which is tied in with all of LIPA's advertising messages. He added that in the last five years LIPA has been able to increase its page views in number and duration.

Mr. Cunningham stated that there is also safety information that is important to get out to the marketplace, as well as storm preparation and response information.

Trustee Nugent asked how many employees this company has. Mr. Cunningham answered that they have approximately sixteen to eighteen employees.

Trustee Nugent asked whether LIPA is their only customer. Mr. Cunningham responded that they have a range of customers in the public and private sectors on Long Island on the Metropolitan region.

Trustee Kessel asked whether their fees were the lowest of the bidders. Mr. Cunningham stated that as far as the per month retainer and commission, their fees were the lowest. He continued that there was a normalization that was done across the responders, and they placed very well.

Trustee Kessel asked with whom LIPA's biggest advertising contract was with. Mr. Cunningham answered the largest contract is with Newsday and that is for \$400,000.

Trustee Herrmann stated that at the Board briefings, Mr. Cunningham explained the entire RFP process, including all of the bidders, their costs and why Zimmerman/Edelson was the best.

Mr. Cunningham stated that individuals from the LIPA staff served on the evaluation committee, including himself and representatives from the Communication and Customer Relations departments.

Chairman Law asked whether there is a summary of the five respondents to the RFP and the criteria used to evaluate the proposals, including a summary of their fees, which can be shared with the Board and the public. Mr. Cunningham answered that it can be shared with the Board, but that he would defer to counsel with regard to how it is shared with the public.

Chairman Law stated that going forward he would like to see that, and at the County of Suffolk, they issue hundreds of RFP's every year and they have evaluation committees, and before any decisions are made he gets to see a matrix of all of the different companies that respond, and the criteria used for the evaluation, which include not only fees. The Chairman continued that they also use percentages for what they give toward the weight of each criteria, and it is always helpful in terms of seeing how the decision is made. He added that it is also something that can be shared with the public, and LIPA can share that with the public going forward as well.

Mr. Cunningham stated that LIPA has that information and can make it available.

Upon motion duly made and seconded, the following resolution was approved, with Chairman Law abstaining:

799. APPROVAL OF THE SELECTION OF AND AUTHORIZATION TO EXECUTE AN AGREEMENT WITH ZIMMERMAN/EDELSON, INC. TO PROVIDE ADVERTISING AND PUBLIC INFORMATION SERVICES

RESOLVED, that the Trustees hereby approve the selection of Zimmerman/Edelson, Inc. as the advertising and public information consultant to the Long Island Power Authority (“Authority”) and LIPA, and authorize the Chief Executive Officer or his designee to execute an agreement with Zimmerman/Edelson, Inc. to provide advertising and public information advisory services and to assist the Authority and LIPA with the development and implementation of various advertising, marketing and public information programs

Trustee Kessel stated that the next item on the agenda is Board consideration of a resolution approving a proposed modification to the Long Island Power Authority Governing Policy for Energy Risk Management, originally adopted by the board on November 25, 2002. He continued that the proposed modification would modify the delegated commodity volume limits to recognize the impacts on the efficiency and effectiveness of the Energy Risk Management program of the fuel switching capability at the generating plants under contract for LIPA. He indicated that through its long term power purchase agreements, LIPA is responsible for providing the natural gas and oil to produce electricity under contract, and these commodities, as well as purchased power are generally purchased on the spot market.

Trustee Kessel stated that in order to mitigate price risk, LIPA utilizes a comprehensive Energy Risk Management Program, and the program allows LIPA to financially hedge its fuel and purchased power risk up to three years in advance of when the customer load is actually utilized. He continued that the

policy currently sets forth limits on the commodity volume to be hedged by LIPA for both natural gas and oil, individually not to exceed 85 percent of anticipated consumption. He added that as a result of the volatility of the markets, in order to improve the efficiency and effectiveness of the Energy Risk Management Program, the Executive Risk Management Committee is requesting that the Trustees approve a modification to the hedging volume limits such that the percentage hedged for natural gas and oil would be measured on a combined basis rather than an individual basis, but the Committee is not requesting a change in the maximum net hedge position of 85 percent or any change to the current volume limits for capacity, power or emission credits.

Deputy Chairman Steinberg stated that LIPA's hedging program has been extremely successful, and Ms. McCarthy and her staff have done a great job on the hedging strategies. He continued that the benefits to LIPA have been substantial, and this has been a very successful program for LIPA at and the public.

Deputy Chairman Steinberg asked what the hedging benefit was to LIPA and its ratepayers in 2006. Ms. McCarthy responded that in 2006 the program saved the customers \$63 million, and from its inception, the program has saved \$363 million.

Trustee Fragin stated that due to LIPA's capacity to switch between gas and oil, this program is specifically suitable for LIPA savings and hedging abilities.

Trustee Elovich asked whether Ms. McCarthy would explain the program to the Trustees on the Board. Ms. McCarthy answered that LIPA has a comprehensive hedging program where the Board has delegated broad authority to hedge up to 85 percent of LIPA's commodity risks both in natural gas, oil and power, capacity and energy. She indicated that LIPA has an Executive Management Committee that oversees activities done by LIPA's hedging staff, particularly Mr. Corey Horowitz.

Ms. McCarthy stated that the program is generally three years forward, where LIPA will enter financial derivative products to help put a cap on the price of a commodity that LIPA will be using as fuel at the plants that LIPA has under contract. She continued that LIPA generally tries to be approximately three years out and 30 percent hedged, and LIPA will increase the hedge ratio each year, depending upon market conditions and the potential impact on LIPA's customers' bills. She added that it is a constant evaluation, and the Executive Management Committee, which is advised by Pace Energy Global, meets monthly.

Upon motion duly made and seconded the following motion was approved with Chairman Law abstaining:

800. APPROVAL OF THE MODIFICATION TO THE LONG ISLAND POWER AUTHORITY GOVERNING POLICY FOR ENERGY RISK MANAGEMENT

WHEREAS, the Long Island Lighting Company d/b/a LIPA ("LIPA"), a wholly-owned subsidiary of the Long Island Power Authority (the "Authority"),

has authorized, pursuant to the Energy Management Agreement dated as of June 26, 1997, KeySpan Energy Trading Services, LLC, as agent of LIPA, to enter into hedging transactions related to fuel and purchased power costs (the "Transactions"); and

WHEREAS, the Authority has determined that the use of such Transactions is appropriate and prudent in certain circumstances but recognizes that there are certain risks that can arise in connection with their use; and

WHEREAS, the Authority adopted the Long Island Power Authority Governing Policy for Energy Risk Management (the "Policy") on November 25, 2002, to assure such transactions are entered into within the policies, philosophy, framework, and delegation of authorities necessary to govern the Transactions and other activities of the Authority relating to fuel and purchased power risk; and

WHEREAS, in order to improve the efficiency and effectiveness of the fuel and purchased power hedging program, the Executive Risk Management Committee (the "ERMC") proposes to modify the natural gas and oil hedging volume limits set forth in the Policy, such that the percentage hedged for natural gas and oil would be measured on a combined fuel basis rather than on an individual fuel basis as the Policy currently provides;

NOW, THEREFORE, BE IT RESOLVED, that Section 2.03 (d) of the Long Island Power Authority Governing Policy for Energy Risk Management is hereby modified, as set forth in Exhibit A, attached hereto.

Trustee Kessel stated that the next item on the agenda is Board consideration of approval of LIPA's participation in the proportionate funding of the operating license extension for Nine Mile Point 2 related LIPA's 18 percent ownership interest in the plant. He continued that in July 2004, Constellation Energy, the current operator and 82 percent owner of the plant made an application to the United States Nuclear Regulatory Commission to extend the operating license of Nine Mile Point 2 to October 31, 2046, and on October 31, 2006, a license extension was granted from 2026 to 2046, as requested. He indicated that in accordance with the terms of the Amended and Restated

Operating Agreement by and between Nine Mile Point 2 and the Long Island Lighting Company, d/b/a LIPA, LIPA has 120 days from the November 1, 2006 receipt of notice of intention to extend the license from Constellation to elect to participate in the extension.

Trustee Kessel stated that in the event that LIPA elected to participate in the extension, LIPA would be required to reimburse Constellation for LIPA's proportionate share of those license extension costs, which is approximately \$2.6 million. He indicated that there are substantial benefits to LIPA's participation in the license extension, most importantly LIPA's ability to retain Nine Mile Point 2 as a low cost, diverse energy source for an additional 20 years. He added that a deferral of the decommissioning process would decrease LIPA's contribution to the decommissioning trust fund from \$4.5 million to \$2.8 million.

Trustee Kessel stated the value of LIPA's 18 percent share would be increased should LIPA later sell its interest, because of the longer operating period available to a potential buyer. He indicated that if LIPA elects not to participate, all of LIPA's rights to its 18 percent interest would have to be surrendered on October 31, 2026 for one dollar, and LIPA would have to turn over the decommissioning trust fund to Constellation in 2026. He added that he recommends that the Trustees approve LIPA's participation in the licensing extension.

Trustee Kessel stated that despite his own reservations about the Nine Mile project and nuclear energy in general, the license has already been extended. He

continued that he favored selling LIPA's share of Nine Mile Point 2. He continued that if LIPA would have to replace that energy at a cheaper cost and if LIPA does not agree to the extension it will devalue LIPA's share of the ability to sell Nine Mile Point 2, because LIPA would own it through 2026, as opposed to 2046.

Trustee Hermann noted that the reduction in LIPA's trust fund contribution would be from \$4.5 million to \$2.8 million per year, which is significant.

Upon motion duly made and seconded, the following resolution was approved, with Chairman Law abstaining.

801. AUTHORIZATION OF PARTICIPATION IN AND REIMBURSEMENT FOR THE OPERATING LICENSE RENEWAL OF NINE MILE POINT UNIT 2

WHEREAS, in July 2004, a license extension application for the operation of the Nine Mile Point Unit 2 ("NMP2") nuclear generating plant was filed with the U.S. Nuclear Regulatory Commission ("NRC") by Constellation Energy, the 82% owner and operator of NMP2; and

WHEREAS, the NRC reviewed the physical condition of the safety-related systems of NMP2, the programs put in place to monitor the aging effects on the plant, as well as the potential environmental impacts of continuing plant operation beyond the current license expiration date; and

WHEREAS, the NRC issued a draft Environmental Impact Statement in May, 2006 indicating no adverse impact to the environment as a result of the license extension, which was reviewed and approved by the New York State Department of Environmental Conservation; and

WHEREAS, on October 31, 2006, the NRC granted Constellation's application extending the expiration of the operation of the plant from October 31, 2026 to October 31, 2046; and

WHEREAS, pursuant to the Operating Agreement that governs the Long Island Power Authority's ("LIPA") 18 percent interest in NMP2, LIPA has 120 days from its receipt from Constellation of notice of its intention to extend operation of NMP2 to 2046 (and the NRC's approval of the license extension) to elect to

participate in and reimburse Constellation for LIPA's proportionate share (18 percent) of the costs for the operating license extension; and

WHEREAS, LIPA's proportionate share of the costs for the license extension is approximately \$2.63 million; and

WHEREAS, LIPA has determined that the benefits of participating in the license extension renewal are greater than LIPA's proportionate share of the application costs since, among other things, it would allow LIPA to continue to provide low cost, diverse energy to its customers for an additional twenty years;

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby authorize the Chief Executive Officer or his designee to take any and all actions necessary to commit LIPA to participate in and reimburse Constellation for the funding of the operating license extension for NMP2.

Chairman Law stated that when Governor Spitzer reached out to him a couple of weeks ago and asked whether he would consider becoming the Chairman of LIPA, he did not answer on the spot because it was a tough decision and he has known Trustee Kessel for a long time, and he is a terrific man, who has done a lot of great things for Long Island. The Chairman continued that he sat down with Trustee Kessel to see if they could make this work, and it was a decision that he helped to make. He added that when the official offer came down, it was because he knew that they were going to be able to make a smooth transition, and he likes him and respects his capabilities, because of that he wants to make the motion appointing Richard Kessel as the CEO of LIPA.

Trustee Sinnreich stated that he had the honor as having served on the Board since it was reconstituted by Governor Pataki, and Chairman Law is the fourth Chairman under whom he has served. He continued that he has not always agreed with Mr. Kessel, as he well knows, but he supports the resolution, and he

applauds Chairman Law for making it personally. He added that Richard Kessel has been a phenomenal Chairman and Chief Executive Officer of LIPA during the hardest period of its existence, and he is delighted that the Authority will be able to continue to retain his services.

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

802. APPOINTMENT TO OFFICES OF CHIEF EXECUTIVE OFFICER AND PRESIDENT

RESOLVED, that Richard M. Kessel be, and hereby is, appointed to the Offices of Chief Executive Officer and President, at his current compensation level, until the earlier of his resignation or removal; and be it further

RESOLVED, that the incumbent of the Offices of Chief Executive Officer and President shall be an officer of the Long Island Power Authority (“Authority”) and its subsidiary, LIPA, within the meaning of the Authority’s enabling legislation (Chapter 517 of the Laws of 1986), as amended, including Section 1020-bb of the Public Authorities Law, and all other applicable laws.

Chief Executive Officer Kessel stated that he thanks Chairman Law and the Trustees for voting for him, and there has been so much confusion over the last couple of months that people do not understand concerning his title and role. He continued that he looks forward to working with Chairman Law, who is brilliant guy and who will be a terrific Chairman. He added that he has worked under several Chairmen.

Chief Executive Officer Kessel stated that he has served on and off as the Chief Executive Officer, and it is a great honor to work for someone like Chairman Law, who is a great friend. He continued that he wants to thank all of the Board members who are not present, with whom he had served since 1987, and all of the good people that have served LIPA. He added that he thanks the Board for having the confidence in him to be the Chief Executive Officer, because that is important.

Chief Executive Officer Kessel stated that he intends to serve as the full time CEO of LIPA and give it his all, as he has always done and do the most important thing, which is keeping the lights on. He continued that if people do not understand, they may ask those in Queens and Westchester, what their summer was like last year, as opposed to LIPA's customers.

Chief Executive Officer Kessel stated that he made plans a long time ago to move on at some point, and he has been Chairman at LIPA twice with his second term being for ten years. He indicated that you should not do anything for too long, and it is important to have succession planning and transition. He added that this is a serious job, and what is important in the end is keeping the lights on.

Chief Executive Officer Kessel stated that he believes that this is a good opportunity to help transition to a new Chairman and CEO, which Chairman Law will assume when he leaves before the end of the year. He further stated that he is thrilled with the opportunity to work with Governor Spitzer, who he knows and

has worked with for many years when he was Attorney General. He added that Governor Spitzer is terrific, and he is going to do extraordinary things.

Chief Executive Officer Kessel stated that because of the Public Authorities Accountability Act, he is resigning today as a member of the Board of Trustees. He noted that as a Trustee he is an appointee of Assembly Speaker Silver and was designated as Chairman by the Governor. He continued that he wants to thank Speaker Silver for the opportunity, noting that Speaker Silver appointed him to the LIPA Board after he was removed by Governor Pataki in 1995. He indicated that he looks forward to the opportunity of working with Chairman Law and the Board running the day-to-day operations of LIPA and transitioning to the person who will be the best Chairman yet, and a good friend forever.

Chairman Law stated that he will be unpaid and part-time and Chief Executive Officer Kessel will be full-time, and they are going to work together over the next several months. The Chairman continued that he intends to learn a lot from him, as well as from the Trustees. He added that Governor Spitzer is very happy with the arrangement, and they will be a good team.

Chairman Law indicated that Supervisor Steven Bellone from the Town of Babylon wishes to express some additional words.

Supervisor Bellone stated that he is honored to be present, and Chief Executive Officer Kessel has always done things in a very large way. He continued that it has been a pleasure to have the opportunity to work with him,

and he has done great things to move Long Island forward in terms of clean energy initiatives, including siting a fuel cell farm in West Babylon. He added that LIPA will play an important role with respect to the green building initiative, so that new buildings on Long Island will be more energy efficient.

Supervisor Bellone stated that he also wants to welcome Chairman Law, whose record of public service is exemplary. He indicated that the Governor could not have made a better selection, and he compliments him.

Supervisor Bellone stated that Long Island is at a critical juncture and one thing that will help address Long Islands concerns is repowering, which can dramatically increase energy capacity, reduce emissions and reduce reliance on fossil fuels. He further stated that all of LIPA's energies should be brought to bear at this critical juncture to accomplish repowering, which is the most critical thing LIPA can do for a host of reasons.

Chief Executive Officer Kessel stated that he thanks Supervisor Bellone, and he looks forward to continuing to work with him. He continued that the Supervisor is a leader on Long Island in terms of energy efficiency and in other areas. He noted that the grant that LIPA is giving for Energy Star construction was Supervisor Bellone's and Brookhaven Supervisor Brian Foley's idea, and he commended Supervisor Bellone for all of his great work.

Assemblyman Alessi stated that he wishes to welcome Chairman Law to LIPA, and that Long Island turns its lonely eyes to him, and that he has a lot of

work ahead. He continued that in terms of shaping LIPA's corporate governance structure and accountability issues that is what most people are looking forward to because of his background. He indicated that the pertinent issues will include the LIPA fuel surcharge, which he has argued is an illegal rate hike.

Assemblyman Alessi stated that he feels that a temporary fuel surcharge should come off the rate structure after twelve months when it is not an unanticipated cost. He further stated that in LIPA's petition to the PSC, he did not feel that the issue was framed to get to the crux of the matter. He added that the PSC rejected it, which decision he appealed and which appeal was denied, and now he is looking at a few options.

Assemblyman Alessi stated that those options include getting LIPA to act voluntarily, or pass legislation codifying the Public Authority Control Board Resolution No. 5 that require the PSC to review LIPA's rates when they increase more than 2.5 percent.

Assemblyman Alessi stated that the KeySpan merger with National Grid is the "elephant in the room" in that KeySpan does a remarkable job in a number of areas, and if you look at system performance, LILCO had an abysmal record before the takeover, and everyone does not want to return there. He continued that KeySpan has since improved performance, and KeySpan ranked second in a recent University of Michigan study in terms of consumer satisfaction, while National Grid is ranked last. He added that National Grid was fined a number of

times for not meeting minimum industry standards, and they were fined by the PSC for their handling of winter storms in Upstate New York.

Assemblyman Alessi stated that this is a huge merger and a tangible benefit for the ratepayer of Long Island is desired, so returning to the days of not having reliability is not an option. He further stated that there should be standards and benchmarks in place to protect the Long Island ratepayer. He added that a larger portion of the synergy savings should be allocated to the ratepayers, since they pay the highest rates in the nation.

Assemblyman Alessi stated that the final issue is repowering. He indicated that he will attend every Board meeting that he can and he looks forward to working with the Board.

Chairman Law thanked Assemblyman Alessi, and he stated that he looks forward to working with him as well.

Chief Executive Officer Kessel stated that to correct Assemblyman Alessi's statement concerning reliability rankings, it is LIPA, not KeySpan that is number one in the State for overhead utilities. He continued that LIPA and its customers made more than \$2 billion in investments in infrastructure, and one of the reasons that there was no collapse in the system this summer as in other areas, is because of that investment by LIPA. He added that LIPA does not have the highest rates in either the country or the state, rather Con Edison has that distinction.

Assemblyman Alessi stated that he was not saying that KeySpan was number one in reliability, but rather second in customer satisfaction, and if LIPA is number one, he applauds the efforts that were made to ensure that. He continued that in terms of the rate issue, he apologizes if he was incorrect, and he was under the impression that LIPA was second highest in the nation, which is not something to be proud of either.

Chief Executive Officer Kessel stated he applauds Assemblyman Alessi's comments concerning reliability, and it is important to note that it is not just the investment in the infrastructure, but also the great work done by all of the employees who do a great job. He indicated that with respect to rates, Connecticut just raised rates for most of its customers by 48 percent, and they are now close to LIPA, and there may be a lot of areas that are now passing New York and Long Island. He added that LIPA will be glad to work with him.

Chairman Law entertained a motion to go into executive session to discuss litigation and personnel issues.

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

803. 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 litigation and personnel matters.

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At 1:45 p.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 2:35 p.m. the executive session was adjourned and the open session was reconvened.

After noting that no votes were taken in the executive session, Chairman Law entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 2:36 p.m.

Respectfully submitted,

Stanley B. Klimberg