

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 173rd MEETING
HELD ON JANUARY 26, 2006**

Pursuant to notice dated January 19, 2006, the Long Island Power Authority (the "Authority") was convened for the one hundred and seventy-third time at 11:15 AM at the Omni Teleconference Center, in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Michael Affrunti
Nancy A. Akeson
Harvey Auerbach
John Fabio
Edna Gerrard
Harriet Gilliam
James Hermann
Nancy Nugent
James M. Shuart
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, 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 Kessel called the meeting to order.

Chairman Kessel stated that the first item on the agenda is the adoption of the minutes of the Board's last meeting held on December 15, 2005.

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

760. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE DECEMBER 15, 2005 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 15, 2005 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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Chairman Kessel stated that LIPA and KeySpan did an extraordinary job during responding to outages last week. The Chairman continued that there were 24,000 outages from a storm during the weekend of the Martin Luther King holiday, and service was restored within twenty-four hours. He indicated that there were some issues concerning customers' ability to get through to the Call Center on a timely basis, and LIPA is exploring a number of solutions, including

instituting a system that would allow LIPA to call out to neighborhoods or to customers who are without power for long periods of time.

Chairman Kessel stated that LIPA experienced another storm shortly thereafter, with wind gusts of 77 miles per hour and pouring rain. The Chairman continued that there were approximately 46,000 outages on Long Island, most of which were quickly restored, with most of the balance restored by early afternoon the following day.

Chairman Kessel stated that there were close to 200,000 outages in the region, including Long Island, Connecticut, New Jersey and Westchester County. The Chairman continued that when LIPA was virtually finished with its work, there were still approximately 100,000 outages in other areas. He added that Con Edison asked for LIPA's help to restore outages in Westchester County and LIPA sent 32 workers to help.

Chairman Kessel stated that the number of outages LIPA experienced was far less than would have been the case even a few years ago, due to the investment LIPA has made in the electric system. The Chairman continued that the volume of outages has been reduced significantly, due to the maintenance work, the tree trimming program and the strength of the distribution system. He noted that LIPA has invested more than \$1.5 billion in the system, which has paid dividends by reducing the number of outages and allowing LIPA to quickly restore service to customers.

Chairman Kessel stated that he had an opportunity to visit some crew sites last Wednesday, including a terrible mess on Broadway in Bethpage. The Chairman continued that there was a fire and downed poles, and part of Broadway had to be closed off. He added that although the winds were howling, and the rain pouring at times, nevertheless, the crews went up and made repairs.

Deputy Chairman Foye stated that there were a significant number of outages on the Port Washington peninsula, and the response of LIPA and KeySpan was extraordinary.

Chairman Kessel stated that that it was an incredible performance by this utility, and the men and women who work for it. The Chairman continued that the Call Center handled many calls courteously, and LIPA actually called some homes on Wednesday night when LIPA believed that power would not be restored until the next morning. He thanked Ms. Francine DeMaio, LIPA's Director of Customer Relations and Mr. Steven McCabe of KeySpan for their great work.

Trustee Fabio stated that the Nassau County Police Department has a SPIN program, and they send out important messages concerning safety, weather and crime prevention. He indicated that LIPA could send out information in Nassau County on a countywide basis if LIPA were to tap into that network. Chairman Kessel stated that it is a good idea, and LIPA has also looked at the reverse 911 system used in the Village of Freeport. The Chairman indicated that LIPA received good, but not great responses from those customers that LIPA

contacted. He noted that some were thankful that LIPA reached them, although a couple of people were upset that their electric power would be out overnight.

Chairman Kessel thanked Mr. Ralph Rangelhi, Mr. Don Daly, Ms. Ellen Redmond and the workers that they represent for their extraordinary job. The Chairman continued that this validates the relationship with KeySpan, which at times has its bumps and bruises. He added that the bottom line to the customer, even more than the bill, is service, and LIPA is number one at that.

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 achieved 39.04 MWs against the year-end goal of 42 MW in connection with LIPA's Sales and Marketing Load & Revenue Growth and Retention program. He continued that LIPA also added some companies that have been using cogeneration and now have reverted to the system, giving a total of 44.2 MW added. He indicated that LIPA is not targeting co-generators to come back to the system, and LIPA fell approximately 3 MW short of its original goal due to slow economic development.

Mr. Hulkower stated that LIPA had great success with respect to its Clean Energy initiatives. With respect to the Lighting and Appliances program, he continued that LIPA had 649,414 units in the marketplace, against a goal of 526,000 units. He added that the HVAC program had virtually the same number of units installed as was LIPA's goal, but there were approximately 8.7 MW added,

against a goal of 4.4 MW. He indicated that the installed units were larger than originally anticipated, which has helped that program achieve an actual coincident peak reduction of 15.3 MW, against a goal of 10.4 MW.

Mr. Hulkower reported that LIPA has total customer arrears of \$90.5 million. Regarding arrears longer than 180 days as a percentage of 12-month revenues, this measure remained flat from one month to the next, and LIPA continues to operate in the same narrow bandwidth.

With respect to the average frequency and duration of outages, Mr. Hulkower reported that LIPA finished the year respectively with a SAIFI of 14.1 months and a CAIDI of 64 minutes, and LIPA's SAIFI was best in the State for overhead utilities. He added that he is pleased with LIPA's numbers, which are a result of the capital program.

Chairman Kessel asked whether LIPA is seeing any significant increase in arrears as a result of higher energy bills. Mr. Hulkower answered that the percentage is fairly constant when compared to total revenues. He continued that the absolute dollar amount has risen as bills go up. Chairman Kessel asked whether the base of customers in arrears is expanding significantly. Mr. Hulkower responded that there is movement in and out of that class of customers, but it is largely the same customers.

Chairman Kessel asked that Mr. Hulkower and Ms. DeMaio work with LIPA's customers to make sure that the money is collected, but that the

customers can continue if the economy worsens due to a major increase in energy costs. Mr. Hulkower agreed.

Chairman Kessel stated that he commends Mr. Hulkower, Mr. Hervey and all of the LIPA staff for LIPA's great SAIFI and CAIDI numbers. The Chairman continued that it is good to be number one, but it takes a lot of work and effort, including the planning and implementation of the capital budget. He indicated that the professionalism and the utility expertise of Mr. Hulkower, Mr. Hervey, Mr. Bolbrock and some of the other staff and their great work puts LIPA in the position to be the most reliable overhead utility in the State, and one of the most reliable overhead utilities in the country.

Deputy Chairman Foye asked how LIPA has done in terms of people moving to online payment, direct deposit, ACH or other electronic means of payment. Mr. Hulkower answered that LIPA is still pursuing that. He added that LIPA has seen a number of customers leave the balanced billing program as they were seeing their total bill change and receiving adjustments. Deputy Chairman Foye indicated that balanced billing is not necessarily online. Mr. Hulkower responded that it is not necessarily, but it is part of their participation in LIPA's programs. He continued that there is a lot of crossover, and LIPA will be promoting its programs very heavily.

Deputy Chairman Foye asked whether LIPA has attained five percent direct pay. Mr. Hulkower answered that LIPA has 43,000 customers out of a million in its direct pay program, compared to 37,000 enrolled in 2004.

Trustee Nugent asked whether there has been a retreat from direct pay over the last twelve months. Mr. Hulkower answered that most of the customers who register for direct pay stay with the program, but some people come in and out of the online registration.

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

Ms. McCarthy reported that for the eleven months ended November 30, 2005, LIPA's excess of revenues over expenses was \$13 million, which is 56 percent or \$16 million below budget. She indicated that the primary driver is the variance of fuel and purchased power costs.

Ms. McCarthy reported that revenues for the period were \$125 million or 8 percent above budget, mostly due to increases related to the fuel and purchased power cost adjustment. She indicated that weather also had a positive impact.

Ms. McCarthy reported that fuel and purchased power costs were 14 percent or \$201 million above budget, driven by higher commodity costs and offset by significant savings of approximately \$170 million from the fuel and commodity hedging program. She continued that operation and maintenance expenses were 3 percent ahead of budget, driven by higher than budgeted Management Services Agreement ("MSA") costs. She added that the higher MSA costs were due mostly to the differences between capital and operating

programs, and higher storm reserves, offset by lower than budgeted clean energy spending.

Ms. McCarthy reported that Payments in Lieu of Taxes were \$5 million over the budget, due to higher sales revenues and higher than anticipated property taxes. She continued that the other major variance was in the area of “other income and deductions”, which was 12 percent or \$5.5 million above budget, due to higher than budgeted emissions credits. She indicated that LIPA expects to reach its financial target of an excess of revenues over expenses of \$20 million.

Ms. McCarthy reported that as of November 30, 2005, LIPA had \$640 million in cash and cash equivalents on the books. She indicated that 97 percent was invested in a variety of instruments with liquidities of 3 months or less. She added that at year-end LIPA’s liquidity position was approximately \$570 million, against a target of \$500 million.

Deputy Chairman Foye asked what the results of the hedging program were for the year, and what its effect on rates was. Ms. McCarthy answered that the hedging program has resulted in realized gains of approximately \$200 million. She indicated that absent those gains, the fuel price adjustment would have been 8 percent higher.

Deputy Chairman Foye asked whether LIPA saved the ratepayers \$200 million, and whether the rates would have been 8 percent higher without the program. Ms. McCarthy answered that is correct.

Trustee Akeson stated that the Finance and Audit Committee meets each month, and there are briefings in between. She continued that Ms. McCarthy briefed the Board with respect to the item on today's agenda concerning the Request for Proposals for cash management services. She added that the Board also receives monthly financials on a timely basis, with a full opportunity for review before the meetings.

Chairman Kessel stated that the next two items on the agenda are consideration of a new Management Services Agreement with KeySpan, and the Ratepayer Protection Program.

Chairman Kessel stated that an issue has been brought up this week that has been misleading to the public, and on which he is obligated to speak. The Chairman continued that there was a study done by an Assemblyman that somehow indicated that \$60 million in consulting fees were incurred for the strategic review resulting in a deal involving the \$40 million in immediate cash savings to customers. He indicated that the \$40 million is just a cash component of a much larger set of agreements that ultimately has value in excess of \$350 million.

Chairman Kessel stated that the numbers that were put out were terribly misleading, and he wants to correct some misconceptions. The Chairman continued that the record has to reflect that the total cost of consultants for the deal was approximately \$8.3 million, not \$60 million. He noted that the legislator

who provided the study refused to provide the list of contracts concerned, and once LIPA received it, LIPA realized that most of the contracts had nothing to do with the deal.

Chairman Kessel stated that one of the entities on the list was Navigant Consulting at \$45 million. The Chairman continued that Navigant was actually paid \$120,000 relative to the deal. He added that some of the other contractors, such as PriceWaterhouseCoopers, have not performed work for LIPA for years, and their work related to contracts that were entered into in some instances several years prior to the LIPA takeover of LILCO.

Chairman Kessel stated that the editorial that appeared in Newsday was one of the worst examples of journalistic malpractice ever, because it led the public to believe that LIPA's contracts are not reviewed, approved or overseen by anyone. He continued that LIPA's contracts in excess of \$15,000 have to be approved by the New York State Comptroller, an independently elected state official, who has not always been the best friend of LIPA and other public authorities in the State. He added that LIPA has done a very good job and many of the Comptroller's suggestions have improved LIPA's processes.

Chairman Kessel stated that almost every contract entered into by LIPA for consulting, legal or other services has to be put out for competitive bid unless there is a unique, sole source reason why it could not be bid competitively or an emergency situation. The Chairman continued that the RFP process is rigorous, and many contracts, especially the larger ones, have to be approved by the

Board. He added that the contracts are submitted to the Comptroller for a rigorous review.

Chairman Kessel stated that the Office of the New York State Comptroller asks numerous questions about the contracts, and they look through the entire RFP process. The Chairman indicated that in some instances they reach out and ask other bidders about the contract. He indicated that in some instances it takes months before the New York State Comptroller completes its review and makes a decision about the contract.

Chairman Kessel stated that the notion that these contracts are not reviewed is a blatant lie. The Chairman indicated that no other major utility in the State has to have their contracts pre-approved by anyone, including the Public Service Commission, which regulates them. He noted that LIPA is the only utility that must have contracts over \$15,000 approved by the New York State Comptroller, and the review is beyond any review of any other utility in the State.

Chairman Kessel stated that LIPA is one of only two authorities that is under such oversight by the Comptroller. The Chairman continued that LIPA welcomes that oversight, because it adds credibility.

Chairman Kessel stated that there is a notion that the total amount of money LIPA spent on consultants over a five-year period is excessive. The Chairman indicated that LIPA budgeted approximately \$116 million for consultants over the years 2000 through 2005. He added that these are

prominent and professional companies that do all critical work, including the review of power purchase agreements, development of power plants, construction of transmission lines such as the Cross Sound Cable, and the related environmental, legal and engineering work.

Chairman Kessel stated that LIPA spent an average of \$23 million per year over five years on consultants, which is approximately three-quarters of one percent of LIPA's annual budget. The Chairman continued that LIPA will conduct a study of similar spending by other utilities, and the amount of money LIPA spends is far less than the amount other major electric and gas companies in the State of New York spend for consultants. He added that unlike LIPA, other utilities have thousands of employees.

Chairman Kessel stated that it is easy to disparage people's integrity and credibility, and that is indicative of the world we live in today and the world of journalism. The Chairman continued that LIPA has hired expert consultants, including Navigant Consulting, which is one of the premier engineering consultants in the world. He added that these firms are professional firms that are selected through an RFP process certified and approved by the New York State Comptroller.

Chairman Kessel stated that in his view, the things that have been thrown around are irresponsible and disgraceful. The Chairman continued that in his view, to carry the story without fact checking is journalistic malpractice, and

opinions should be reasoned and based on the facts. He added that he is outraged, and an apology is owed to LIPA.

Deputy Chairman Foye stated that the RFP process is a competitive process in which firms bid against each other, and the marketplace presumably will cause the vendors to quote lower prices. He indicated that it may be helpful to the audience and for the record for Mr. Klimberg to explain the process.

Mr. Klimberg stated that whenever LIPA considers the need for additional professional services or is considering going forward with a project, LIPA crafts a request for proposals that takes into account the scope of services that LIPA needs, and the form of the contract that LIPA wants is attached to the RFP so that those in the public that may want to submit a proposal in response to the RFP know the specific services LIPA is looking for, the terms and conditions under which LIPA would like to retain a service provider, and are given a full opportunity to review the scope and terms before submitting a proposal. He continued that as part of the process, LIPA identifies the companies and firms that might have the capability to respond to the RFP. He indicated that LIPA does an exhaustive review before issuing the RFP so that it is able to bring within its scope all of those entities so that they can be evaluated by LIPA.

Mr. Klimberg stated that LIPA puts together a team to craft the RFP and the form of the contract. He continued that LIPA then issues it, and LIPA sends the RFP directly to the list of potential proposers. He added that LIPA also publishes a notice in the New York State Contract Reporter that LIPA is seeking proposals.

Mr. Klimberg stated that LIPA forms an internal team, or selection committee, comprised of expert LIPA staff and consultants who will evaluate the proposals. He continued that after the proposals are submitted, LIPA ordinarily has a bidder's conference in which LIPA lays out the terms of the RFP. He continued that LIPA makes a presentation, and LIPA responds to questions from potential proposers regarding the nature of the services that LIPA is seeking so that everyone can craft their proposals with a full understanding of the RFP. He indicated that before the proposals are submitted, LIPA responds to questions, and LIPA posts the questions and responses on LIPA's website so that everybody can see the questions and responses and gain a full understanding of what is expected.

Mr. Klimberg stated that after LIPA receives the proposals, LIPA's selection committee conducts an extensive review of the proposals, and LIPA seeks clarification of the proposals, as appropriate. He continued that this is an extremely rigorous process that ultimately leads to a recommendation to the Board on the selection of a consultant or a firm for the services that LIPA is seeking. He noted that the Board is briefed on the evaluation and has an opportunity to examine the reasoning behind the proposed selection.

Deputy Chairman Foye thanked Mr. Klimberg for the explanation of LIPA's RFP process. He asked whether there are provisions requiring a Trustee to inform the Authority of a contact by a bidder. Mr. Klimberg answered that there are provisions in LIPA's RFP that limit contact with the Board or LIPA's staff,

other than those who are specifically identified as a contact point for the RFP. He continued that this is to ensure that the process is fair and there is no potential untoward contacts or influence in the selection process, and LIPA specifically indicates that any impermissible contacts are grounds for cancellation of the proposal.

Trustee Sinnreich stated that Chairman Kessel's comments concerning the Newsday editorial are so valid and so important that they should not only come from the Chairman. He continued that he wants the public to know that he read an editorial which congratulated an assemblyman on making charges, which the same editorial conceded were false, on the theory that it keeps LIPA on its toes. He added that it reminds him of the recent controversy about memoirs where an author basically tried to pass off a work of fiction as truth.

Trustee Sinnreich stated that when a leading newspaper on Long Island starts to editorialize in favor of blurring the line between truth and fiction because somehow it is good medicine, we are all in trouble. He continued that he joins the Chairman completely. He added that it went way beyond journalistic malpractice, and it is an incredibly dangerous kind of journalism.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to enter into agreements with KeySpan, namely the Settlement Agreement regarding LIPA/KeySpan "Global Issues" under the MSA and other existing agreements, an Amended and Restated MSA, and Option and Purchase and Sale Agreement. The Chairman

continued that this would resolve a number of significant and longstanding contractual issues between LIPA and KeySpan relating to the MSA, Power Supply Agreement, Energy Management Agreement, and the Agreement and Plan of Merger.

Chairman Kessel stated that the Amended MSA would replace the current agreement with a new contract structure and extend it to 2013. The Chairman continued that under the Option Agreement, LIPA would obtain the right, exercisable this year, to purchase one or both of two specified power plants, including the related sites and real property, owned by KeySpan. He indicated that those power plants would be the 350 MW E. F. Barrett steam generating station unit Nos. 1 and 2 located in Island Park, and the 100 MW Far Rockaway steam generating station.

Chairman Kessel stated that the parties have also agreed to settle global issues for a total of \$120 million, consisting of a cash payment to LIPA of \$69 million and LIPA's retention of \$51 million already in its possession for disputed amounts. The Chairman continued that KeySpan will be permitted to use an incremental \$145 million in LILCO tax credits and attributes in settling the final LILCO tax liability, which are not usable by LIPA as a federally tax-exempt entity. He indicated that LIPA staff considers this negotiated settlement to be fair and reasonable, and furthermore the proposed Settlement Agreement provides a source of funds for LIPA to create a Ratepayer Protection Plan. The Chairman indicated that the Amended MSA would supersede the current agreement which

runs through 2008, and which would otherwise require a re-bid commencing this year.

Chairman Kessel stated that in place of the current MSA and its basic cost-plus structure, the Amended MSA would apply a fee-for-service structure. The Chairman continued that the new structure includes a detailed scope of operational and customer service functions that KeySpan must perform; pricing based on a fee per kilowatt hour of electricity billed, with a floor and a cap; specific performance metrics that KeySpan must achieve or else incur financial penalties and face possible termination; increased transparency from more rigorous KeySpan reporting requirements; extension of the termination date of the MSA from December 21, 2008 to December 31, 2013; and a LIPA termination right if LIPA decides to pursue privatization, with reasonable termination payments to KeySpan. He indicated that the Amended MSA would bring substantial benefits to LIPA and its customers, including reduced costs to customers immediately and on a recurring basis, amounting to approximately \$34 million on a net present value basis or about ten percent of the contract.

Chairman Kessel stated that the Option Agreement would afford LIPA the opportunity to purchase at book values the Barrett and Far Rockaway plants, which LIPA believes are the best candidates for repowering. The Chairman continued that the option would be in effect from January 1 through December 31 of this year. He indicated that LIPA could conduct environmental due diligence during this period.

Chairman Kessel stated that the book value of Barrett is estimated at \$63 million, and Far Rockaway is estimated at \$12 million. The Chairman indicated that LIPA would acquire all emission credits related to the plant(s) purchased and obtain 100 percent of the profits on the sale of excess credits. He noted that following the purchase of the plant(s), LIPA would have the opportunity to issue a request for proposals for repowering the plant(s), or sell one or both to a third party for that purpose.

Chairman Kessel stated that if LIPA purchases the plant(s), KeySpan would continue to operate them under a new Operation and Maintenance Agreement until the earlier of plant retirement, repowering or the year 2013. The Chairman continued that the Option Agreement is in LIPA's best interest. He added that the current GPRA option would require LIPA to commit to purchase all of the KeySpan generation at an unknown price to be determined after the commitment in an uncertain and potentially lengthy process to determine fair market value, as opposed to an option for LIPA to purchase one or two pre-selected power plants at readily determined book value.

Chairman Kessel turned to Ms. McCarthy for a presentation. She stated that in August of 2004, LIPA initiated its comprehensive review of strategic options, including consideration of its organizational structure, with a range of possible structures including full municipalization, privatization and/or the continuation of the current public/private partnership structure. She continued that LIPA retained for this purpose FTI Consulting; Bear Stearns; Thelen Reid & Priest; Hawkins, Delafield & Wood; Hunton & Williams and, on a limited scope,

Navigant Consulting. She indicated that Mr. Michael Hamilton of FTI Consulting will present a summary of their report on this review.

Mr. Hamilton stated that he is the Senior Managing Director of FTI Consulting and he leads FTI's energy practice. He continued that FTI issued its report in December 2005, which concludes that Governor Pataki's objectives in acquiring LILCO largely have been achieved. He added that the key issues were minimizing the cost of the Shoreham stranded asset, restoring confidence in management, improving and maintaining reliability, and resolving the property tax dispute in Suffolk County.

Mr. Hamilton stated that the current public/private partnership has served LIPA well and, looking at the other organizational options, the continuing partnership will result in the lowest rates for customers on Long Island at this time. He indicated that privatization does have some potential benefits, and it should continue to be considered if cost efficiencies can be achieved to offset the cost of capital. He added that privatization would require a great increase in costs to customers in the short term of approximately 6 to 10 percent.

Mr. Hamilton stated that FTI did not think that full municipalization is a viable model going forward, primarily due to labor and cost issues. He continued that there is no additional financial benefit to full municipalization, since all of the assets are currently financed using low cost municipal debt. He added that FTI concluded that the status quo is the best current alternative, but changes need to be made in the public/private model going forward.

Mr. Hamilton stated that FTI also looked at a rebid and concluded there is significant risk to the Authority in a rebid. He continued that the risk is that there is no guarantee a rebid would lower cost, the KeySpan synergies currently received by the Authority would be lost, and it would probably require multiple contractors to take over the KeySpan efforts. He added that there are concerns related to the management of multiple contractors and the apportioning of responsibility among them.

Mr. Hamilton stated that the Authority had significant leverage in a renegotiation with KeySpan and this was an appropriate time to try to make improvements to the MSA that had been identified by the rebid team. He continued that the conclusion reached by FTI is that the definitive agreements negotiated with KeySpan produce the optimum result for LIPA. He added that it also provides for the ability to privatize at a relatively modest cost if that organizational option becomes appropriate beneficial to customers in the future

Mr. Hamilton stated that the real key to rates on Long Island remains the Shoreham debt. He continued that the Shoreham debt should be accelerated within the confines of LIPA's financial structure.

Ms. McCarthy stated that once LIPA concluded it is beneficial to move forward to negotiate an agreement in principle, and ultimately definitive agreements with KeySpan, LIPA took into consideration that the existing public/private partnership was the first contract of its type and scale. She

continued that LIPA recognizes that this structure has led to difficulties in the day-to-day relationships between KeySpan and LIPA, mostly on the financial side of the house, not the operational side. She indicated that LIPA wanted to make sure it factored in what could be done to improve this situation.

Ms. McCarthy stated that there have been a number of contract disputes between the parties that required resolution, either through negotiation, mediation or arbitration. She continued that LIPA thought the current generation purchase right for all of the plants at an unknown price was of limited value to LIPA. She added that LIPA wanted to structure a better purchase option.

Ms. McCarthy stated that LIPA believes the definitive agreements address each of these issues and they allow LIPA to lower its cost to customers immediately and on an ongoing basis. She continued that the agreements also provide for greater informational access for LIPA and operational transparency, which will position LIPA well in the future for either a rebid of the operating contracts or any kind of privatization transaction. She added that this settles the global issues both retroactively and prospectively in a manner that LIPA thinks is fair to both sides, and provides substantial benefits for LIPA to use to create a Ratepayer Protection Plan.

Ms. McCarthy stated that this gives LIPA a purchase option for the selected units that LIPA believes have the best opportunity for repowering and at a known price, which is currently the book value of those plants. She continued that it does not encumber the ability to change the structure of LIPA in the future.

Ms. McCarthy stated that there are three primary operating agreements before the Board for consideration: the Option and Purchase and Sale Agreement, a Settlement Agreement on the global issues, and an Amended and Restated Management Services Agreement. She continued that with respect to the Option Agreement, LIPA intended to gain the ability to repower older, less efficient units while preserving LIPA's rights under the existing long-term Power Supply Agreement with KeySpan. She added that the purchase option under the Option Agreement opens with an approval of the contracts by the Comptroller and closes on December 31, 2006.

Ms. McCarthy stated that in addition to acquiring the units, LIPA will acquire all of the emission credits that relate to those units, which have value beyond the operating period. She continued that KeySpan will continue to operate these plants under an operation and maintenance agreement until the earlier of plant retirement or repowering, or 2013. She added that upon the exercise of LIPA's option, LIPA will also have the ability to either issue an RFP for the repowering on that site, or sell the plant to a third party for the purpose of repowering.

Ms. McCarthy stated that the terms of all of the ancillary agreements that would be triggered if LIPA exercised the option have been negotiated and are exhibits to the Option and Purchase and Sale Agreement, namely an Operation and Maintenance Agreement which amends the existing Power Supply Agreement and an Amendment to the existing Energy Management Agreement.

She indicated that those are all in form, and the key terms have been negotiated and are part of the Agreement.

Ms. McCarthy stated that the Settlement Agreement relates to longstanding issues that are primarily related to allocation of general and administrative costs from KeySpan to the LIPA contracts, billings for an abandoned customer business system, common plant charges for assets that KeySpan uses beyond the electric side of the business, use of some LILCO tax credits, and the general workings of the management contract as it currently exists as a cost-plus contract. She continued that LIPA will be settling the issues for \$120 million, and \$69 million of that will be cash. She added that LIPA believes that is fair, and it will give LIPA the opportunity to establish a Ratepayer Protection Plan.

Ms. McCarthy stated that the Amended MSA extends the term from 2008 to 2013, but it also delivers immediate changes in the contract structure and pricing, effective January 1, 2006. She added that another benefit of this transaction is that LIPA is accelerating forward any savings of a type that might have resulted from a rebid.

Ms. McCarthy stated that the new contract will be a fee for service contract, as opposed to a cost-plus contract. She continued that it provides LIPA with additional operating and recording transparency, and for the first time, LIPA will have the ability to have constant participation in key positions at KeySpan in the electric business unit. She indicated that there will be one LIPA staff member who will work directly with the head of the electric business unit, and will be at

KeySpan on a day-to-day basis to make sure that decisions are being made in the best interest of the Authority.

Ms. McCarthy stated that two positions will be created in the critical planning area. She further stated that a fourth position will be created in a combined electric and sales marketing organization. She indicated that it is critical to LIPA to have on-site participation at KeySpan in key positions, because LIPA will get better transparency, and LIPA will be better positioned going forward.

Ms. McCarthy stated that the annual contract will be at a reduced cost from what it would have been. She continued that compared to the price that LIPA paid in 2005, on a net present value basis it will be equivalent to a \$39 million per year reduction in price. She added that it will be phased in over three years, and LIPA will get an immediate \$18 million reduction in 2006 and a \$28 million reduction in 2007.

Ms. McCarthy stated that in addition to the price per kilowatt hour that LIPA will pay for the services, LIPA will continue to have certain items passed through. She continued that the same capital expenditures, costs relating to storm events and certain legal costs, which are currently being passed through to LIPA, will continue to be passed through on an actual cost basis, without any type of cost-based incentive. She added that this issue led to much of the disputes between LIPA and KeySpan.

Ms. McCarthy stated that instead of having any type of performance or cost-based incentives, this contract has performance metrics. She continued that there are eighteen performance metrics which could trigger financial penalties to KeySpan in an amount of up to \$7 million per year.

Trustee Nugent asked whether KeySpan would repower the two plants if LIPA does not exercise the option to purchase them. Ms. McCarthy answered that there is nothing that would result in KeySpan necessarily repowering those facilities if LIPA determined they were not appropriate candidates to purchase for repowering. She added that the plants would stay under the existing Power Supply Agreement with KeySpan.

Chairman Kessel stated that while it is not part of this agreement, LIPA and KeySpan have agreed to undertake a review of all of the power plants on Long Island, which will focus particularly not only on repowering, but on reducing emissions from some of the older plants, including Northport and Port Jefferson. He indicated he is hopeful that he and Chairman Catell of KeySpan will be able to present to the Board in the future a plan that relates to some of the older plants that are not part of the option, and he does not want anyone to think that both companies are not serious about reducing emissions significantly because LIPA might not purchase them. He stated that he hopes to formally apprise the Board and the public shortly of the due diligence team that LIPA will put together to evaluate the repowering of the E.F. Barrett and Far Rockaway facilities.

Trustee Sinnreich stated that he was concerned that both of the plants that LIPA chose to be subject of the option are in Nassau County, and he was concerned as to why no Suffolk plants were selected, since there are obvious environmental benefits to the repowering. He indicated that he has been satisfied on the question but he would like to have Ms. McCarthy address the issue.

Ms. McCarthy stated that LIPA evaluated the various plant sites, and the two sites were selected as the best candidates for repowering from the perspective of available land on the site, access to transmission, impacts on the transmission system, as well as the potential cost impacts of repowering.

Chairman Kessel stated that he has spoken to a number of elected officials, particularly those representing the Port Jefferson and Northport areas, including Senator Flanagan, Brookhaven Supervisor Foley, Assemblyman Englebright and Suffolk County Legislator Cooper. The Chairman continued that he assured them that LIPA has a serious commitment to reduce emissions significantly at the plants located in both counties, even though the plants selected in the option are Nassau County plants. He added that some plants are not repowerable because of physical constraints, and there is no room to repower at sites such as Port Jefferson.

Chairman Kessel stated that a plan will be presented to the Board before LIPA makes a decision on triggering the option to purchase these two plants.

Trustee Sinnreich stated that he has zealously concerned himself with the equity between the two counties, and he is satisfied that the proper choice has been made. He continued that he is satisfied that in the future LIPA will be looking at some of the Suffolk County plants.

Trustee Sinnreich stated that he has been troubled by LIPA's reluctance sometimes to aggressively assert LIPA's rights under its agreement with KeySpan. He indicated that the issues that have been settled with KeySpan date back to 1998. He added that it has basically been a good marriage with KeySpan, but he strongly urges that LIPA more timely assert its rights, and that where LIPA is right, that LIPA not be afraid to exercise its rights under the agreement regarding disputes.

Chairman Kessel stated that part of the benefits of this Amended Agreement is that some of the traditional disputes will be eliminated, due to the structure of the new contract. Trustee Sinnreich stated that there will always be disputes. The Chairman agreed.

Deputy Chairman Foye noted that there will be multiple briefings, comprised of conference calls and informal meetings over a period of months, involving the distribution of materials. He added that this is the culmination of an extensive and exhaustive briefing.

Chairman Kessel stated that he wishes to thank the team, both in-house and outside, who helped to negotiate the agreement. The Chairman continued

that the professionalism of LIPA's staff that worked on this complicated agreement, and the expertise of LIPA's outside consultants from a technical, organizational, governance and legal perspective is extraordinary. He commended all of the teams for their great work and sacrifices, especially during the holiday season.

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

761. AUTHORIZATION OF CHAIRMAN TO ENTER INTO SETTLEMENT AGREEMENT, AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT, AND OPTION AND PURCHASE AND SALE AGREEMENT WITH KEYSpan

WHEREAS, LIPA staff has negotiated the terms of the following agreements with KeySpan: a Settlement Agreement resolving important "Global Issues" that arose under the LIPA/KeySpan Management Services Agreement ("MSA"), Power Supply Agreement ("PSA"), Energy Management Agreement ("EMA"), and Agreement and Plan of Merger; an amended and restated MSA replacing the current MSA with a new, "fee for service" contract structure and extending to 2013 ("Amended and Restated MSA"); and an Option and Purchase and Sale Agreement ("Option Agreement") granting LIPA the right, in effect from January 1, 2006 through December 31, 2006, to purchase at book value one or both of two specified power plants (including the related sites and real property) owned by KeySpan, i.e. the 350 MW E.F. Barrett steam generating station Units Nos. 1 and 2 and the 100 MW Far Rockaway steam generating station, which LIPA staff believes are the best candidates for repowering, with the following forms of agreement to be attached to and constitute part of the Option Agreement and to apply in the event LIPA purchases the plant(s): an Operation and Maintenance ("O&M") Agreement for the plant(s) purchased, priced based on the amount paid to KeySpan under the PSA for O&M services and under the EMA for fuel related services; and amendments to both the PSA and EMA to remove the KeySpan services and payments under those agreements for the plant(s) that would now be the subject of a new O&M agreement; and

WHEREAS, for the reasons discussed in the preceding Memorandum, the proposed Settlement Agreement, Amended and Restated MSA, and Option Agreement are in LIPA's best interest;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect the Settlement Agreement, Amended and Restated MSA, and Option Agreement with KeySpan substantially in the form presented at this meeting and attached hereto, with such changes as the Chairman shall deem appropriate, 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 carry out the aforesaid agreements.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to adopt a Ratepayer Protection Plan, including the provision of \$35 rebate checks to customers, creation of a \$100 million Fuel Cost Reserve Fund to help stabilize electric bills for the next few years, pay-down of the Shoreham-related debt, additional funding for LIPA's Solar Roof Initiative in 2006 and funding for low-income electric heating assistance. The Chairman continued that the Ratepayer Protection Plan results from the negotiated settlement, which the Board has approved. He indicated that these agreements would provide substantial additional funds and cost savings going forward.

Chairman Kessel stated that to achieve a fair and reasonable balance of the goals of the Ratepayer Protection Plan, it is proposed that the Board approve, as set forth in the proposal, the issuance of rebate checks in the amount of \$35 per customer at an approximate cost of \$40 million; creation of an approximately \$100 million Fuel Cost Reserve to help stabilize electric bills in 2006 and 2007 in the face of increased, highly volatile fuel costs, barring a major energy price crisis; use of approximately \$25 million to help pay down the Shoreham debt; and use of \$1 million for additional funding of LIPA's 2006 Solar Roof initiative and \$250,000 to assist low-income electric heating customers. The Chairman

indicated that following the issuance of a public notice of LIPA's proposed action under the Ratepayer Protection Plan, two public hearings were held, and the public was afforded the opportunity to present comments.

The Chairman continued that there were a total of approximately a dozen speakers at the hearings, which were held in both Nassau and Suffolk counties. He thanked Trustee Affrunti for his participation in these hearings.

Chairman Kessel stated that most of the comments at both hearings did not relate to either the agreement in principle or the Ratepayer Protection Plan, but rather to individual bills and concerns about the fuel surcharge on the bills. The Chairman continued that as a result of those comments, he has asked Mr. Hulkower, Ms. DeMaio and Ms. McCarthy to take a hard look at the bill format of LIPA that was inherited from LILCO. He indicated that it is time to make a significant change in the format of LIPA's bills to conform more to what other electric companies have, primarily a delivery charge and a commodity charge.

Chairman Kessel stated that a tremendous misconception exists that the fuel surcharge is somehow a new charge added to the bill, rather than a portion of the bill that relates to higher fuel costs. The Chairman continued that LIPA will address the issue, and LIPA will present a solution to the Board at the appropriate time. He added that it is desirable for the Board to provide input on this issue.

Chairman Kessel stated that LIPA received a couple of comments about the Ratepayer Protection Plan, including comments that the rebate should be larger. The Chairman continued that one comment by a former KeySpan employee concerned the extension of the MSA without competition. He indicated that he has been contacted by about twenty-five to thirty customers, most of whom indicated that they wanted a bigger rebate. He stated that a couple of customers indicated that they would rather see the money credited, and there were approximately one dozen who wanted a rebate check now. The Chairman continued that he has also heard from public officials representing Long Island at the State and local level, two who felt that LIPA should issue a credit, and approximately one dozen who thought that LIPA should issue a rebate check. He added that several indicated that LIPA should not minimize the value of a \$35 refund to customers.

Chairman Kessel stated that overall there was general support for what LIPA is doing, and LIPA is trying to balance all of the issues.

Chairman Kessel stated that it is important to note that the key component of the Ratepayer Protection Plan is not getting the attention that it should, that is, the need to stabilize bills on Long Island. The Chairman continued that the market is very difficult right now, and world events are impacting oil and gas prices. He added that oil prices rose to more than \$68 over the past week, and they are approaching post Hurricane Katrina prices.

Chairman Kessel stated that some analysts are projecting prices of approximately \$80 to \$90 per barrel of oil. The Chairman indicated that an unfortunate event in Nigeria, Iran or another part of the world could also drive up prices. He added that energy costs will soar this year, and gasoline prices have risen between fifteen and twenty cents per gallon since the beginning of the year.

Chairman Kessel stated that heating costs have also risen, but thus far it has been a mild winter, although it is uncertain whether that will hold in February. The Chairman continued that the ability to provide some bill stability, absent a worldwide crisis, is critical. He added that he expects that other energy costs and electric bills for areas outside Long Island will increase significantly this year and next year. He stated that if LIPA is able to hold bills steady, it will make Long Island more competitive, and businesses will be better able to plan ahead. The Chairman continued that this is critical to the survival of Long Island.

Trustee Fabio stated that he supports the approval of the Ratepayer Protection Plan, but he takes exception to the issuance of the \$35 check. He continued that he prefers a bill credit since there will be approximately \$1.5 million in administrative costs associated with the issuance of the checks. He indicated that he prefers that this money would be better used for the Solar Roof Initiative and low-income relief for winter heating bills. Trustee Nugent stated that she agrees in part with Trustee Fabio in that she absolutely supports the Solar Initiative and the use of the money to aid the low-income ratepayers. She continued that she supports issuance of the \$35 rebate checks. She noted that there will be some benefits from the rebate checks, since they will impact the

local and retail economy when multiplied over the million ratepayers who will receive it. Deputy Chairman Foye stated that he agrees with Trustee Fabio, but he defers to the recommendation of the Chairman and LIPA staff, and he will vote for this.

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

762. APPROVAL OF LIPA'S RATEPAYER PROTECTION PLAN

WHEREAS, LIPA and KeySpan recently negotiated a Settlement Agreement resolving significant outstanding contractual issues, a restructured Management Services Agreement and certain other agreements; and these agreements would provide substantial additional funds and cost savings going forward, which will enable LIPA to create a Ratepayer Protection Plan ("RPP") in order to provide substantial benefits to LIPA's customers; and

WHEREAS, LIPA staff recommends that the RPP include the following measures: the issuance of rebate checks in the amount of \$35 per customer account, as set forth in the attached Proposal; creation of an approximately \$100 million Fuel Cost Reserve Fund to help stabilize electric bills in 2006 and 2007 in the face of increased, highly volatile fuel costs, barring an energy price crisis; use of approximately \$28 million to help pay down the Shoreham related debt and yield debt service cost savings; and use of approximately \$1 million to additionally fund LIPA's 2006 Solar Roof Initiative and approximately \$250,000 to create a fund to assist low income electric heating customers with winter bills; and

WHEREAS, following issuance of a public notice of LIPA's proposed action under the RPP relative to rebates, two public hearings were held on January 24, 2006, and the public was afforded the opportunity to present comments; and

WHEREAS, as discussed in the preceding Memorandum, the RPP, including the Proposal, is in the public interest; and

WHEREAS, in order not to delay provision of rebate checks to customers, it is necessary for LIPA to act on the Proposal pursuant to the expedited procedures of Section 202(6) of the State Administrative Procedure Act;

NOW, THEREFORE, BE IT RESOLVED, that the RPP including the Proposal are hereby adopted and approved, and the Chairman or his designee be and

hereby are authorized to carry out the RPP including entering into any related agreements and arrangements and performing any further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to ensure the RPP is carried out.

Chairman Kessel stated that the next item on the agenda is Board consideration of resolutions approving the following recommendations in response to the Off-Island RFP issued by LIPA on February 17, 2005: the selection of a proposal for 345 MW initially, 622 GWH per year of peaking energy, and green attributes of up to 565 MW per year by Bear Swamp Company, LLC from the Bear Swamp pumped storage hydro project and a portfolio of hydroelectric projects located in the Northeast to be transmitted to LIPA over the Cross Sound Cable; the selection and authorization to negotiate a Power Purchase Agreement for up to 685 MW proposed by FPL Energy LLC ("FPLE") from the Marcus Hook Energy Center in Pennsylvania to be transmitted to LIPA over the Neptune Cable as the first preferred project with respect to that cable; and a PPA for 180 to 240 MW proposed by LS Power, LLC from the Ontelaunee Project located in Pennsylvania to be transmitted to LIPA over the Neptune Cable as the second preferred project. The Chairman continued that with the current operation of the Cross Sound Cable and the planned addition of the Neptune Cable, LIPA will have an additional 990 MW of transmission capability available for capacity and/or energy purchases from off-Island resources. He added that LIPA recognizes the need for additional generation to be transmitted to Long Island from off Island resources.

Chairman Kessel stated that LIPA staff has projected that there is a need for as much as 340 MW of additional on-Island qualified resources to meet LIPA's needs for Long Island resources by this coming summer, and to maintain the reliability of the system. The Chairman continued that in order to satisfy the need for the capacity and improve system reliability, LIPA issued a RFP on February 17, 2005, seeking proposals to supply LIPA with power from new or existing generating facilities located off-Island that can be delivered to LIPA using the existing Cross Sound Cable or the Neptune Cable, which is under construction. He added that LIPA received twenty-eight proposals from eleven entities and each proposal was carefully evaluated by a selection committee.

Chairman Kessel stated that based on the committee's ranking of the qualified proposals, the committee has concluded that Marcus Hook, Ontelawnee and the Bear Swamp projects would best meet the terms of the RFP and LIPA's needs. The Chairman continued that Bear Swamp Power has proposed a sale of 100 MW at the Connecticut terminus of the Cross Sound Cable, and 345 MW prior to the ISO-New England adopting certain rules, from the Bear Swamp pumped storage hydroelectric project and portfolio of existing hydroelectric projects located in the Northeast. He added that each project is fully permitted and operating and is currently selling power in the ISO New England market.

Chairman Kessel stated that under the proposed arrangement with Bear Swamp Power, LIPA will purchase capacity, energy and green attributes at a specified price and escalator for a term of fifteen years, beginning May 1, 2006. The Chairman continued that the purchase of power from these facilities would

permit LIPA to use the plants' capacity and energy to serve LIPA's electric requirements and would afford LIPA access to a cost effective power supply from hydroelectric resources located in the ISO New England market. He added that this will provide LIPA's customers with fuel diversity and diversity of suppliers, and it will reduce dependence on oil and gas.

Chairman Kessel stated that the FPLE project is the sale of 685 MW to LIPA measured at the New Jersey terminus of the Neptune Cable from the existing Marcus Hook Project located in Pennsylvania. The Chairman continued that this project is a fully permitted and operating 750 MW combined cycle project that employs modern combustion and emission control technologies. He added that under the proposed PPA, LIPA would purchase capacity at a specified price and escalator, and LIPA would call upon energy to be produced by the project, if needed and economical, under the day-ahead call option.

Chairman Kessel stated that the LS Power, LLC (Ontelaunee) project is for the sale of 180 to 240 MW to LIPA, measured at the New Jersey terminus of the Neptune Cable from the Ontelaunee Project in Pennsylvania. The Chairman continued that the project is a fully permitted and operating 540 MW combined cycle project, employing modern combustion and emission control technologies. He added that under the proposed arrangement, LIPA would purchase capacity at a specified price and escalator, and LIPA could call upon energy, if needed and economical, under the day-ahead call option. Chairman Kessel stated that LIPA can choose a PPA term of 5, 10, 15 or 20 years, beginning on the in-service date of the Neptune Cable, which is expected to be July 1, 2007.

Chairman Kessel stated that with respect to Bear Swamp Power, the Trustees are being requested to authorize the Chairman or his designee to negotiate and execute a PPA only, without further review by the Trustees, provided that the final PPA is consistent in all material respects with the proposed commercial terms that have been presented to the Board. The Chairman continued that this is due to the short time that is available to finalize the negotiations and execute the PPA, so that LIPA can receive power from that project by May 1, 2006. He added that in the event LIPA cannot negotiate a PPA in accordance with those terms, the matter would be brought back to the Board for consideration.

Chairman Kessel stated that this is one of the most important steps that LIPA has ever taken to diversify its resources. The Chairman continued that the reason that LIPA's bills are too high, other than the Shoreham debt and the fact that LIPA is one of the largest property taxpayers on Long Island, is the burgeoning cost of oil and natural gas which threatens to strangle Long Island, New York, the region and the country. He added that the country must reduce its dependence on fossil fuels.

Chairman Kessel stated that he is particularly excited by the Bear Swamp pumped storage project which will provide clean, emission-free hydroelectric power to LIPA over the already operating Cross Sound Cable. The Chairman reemphasized that LIPA needs to reduce reliance on oil and gas in order to lower

the cost of energy on Long Island. He added that this project is unique for LIPA since it has never used pumped storage power on such a grand scale.

Chairman Kessel stated that it is important to note that the pumped storage facility is basically hydroelectric power that utilizes the ability to store water and then pump it when it is cheapest, without any emissions from the plant. The Chairman continued that this is an example of the benefits of using the Cross Sound Cable to import power from a facility off Long Island. He added that the use of the Cross Sound Cable in combination with LIPA's clean energy initiatives and LIPA's proposed off-shore wind project demonstrate LIPA's dedication to renewables for Long Island to lead the way with.

Deputy Chairman Foye asked Chairman Kessel to confirm that Bear Swamp and Bear Stearns are two different entities. Chairman Kessel responded that they are different.

Deputy Chairman Foye requested that LIPA staff speak to the effect on rates, and Chairman Kessel agreed. Deputy Chairman Foye stated that the Board was briefed by LIPA staff on both resolutions, and the Board discussed the effect on rates.

Mr. Grilli stated that when LIPA staff modeled the cables and brought the matters before the Board, LIPA staff discussed the economics of both cable projects. He continued that they were stand alone projects, and they were modeled based on LIPA's projections as the power it could purchase from both

regions. He added that the three projects that are before the Board only enhance the benefits of those cables.

Mr. Grilli stated that Mr. James Peterson, LIPA's Director of Power Markets Contracts, will explain how these projects were modeled and what LIPA expects to receive in terms of economic benefits.

Mr. Peterson stated that with respect to Bear Swamp Power, for the 15-year PPA term that LIPA expects to negotiate, LIPA estimates a net present value savings to ratepayers of \$57 million. He continued that this does not include any kind of renewable benefits that might be attributable to that project. He added that LIPA projects a ratepayer savings of approximately \$400 million over the 20-year term from the FPLE Marcus Hook project, and between \$25 to \$69 million in ratepayer savings from the LS Power project, depending on the term.

Deputy Chairman Foye asked whether there are significant economic savings to LIPA and its ratepayers compared to the alternatives that have been considered, in addition to the environmental benefits. Mr. Peterson answered that is correct.

Trustee Gerrard asked whether, in light of the past history with Connecticut, LIPA staff perceives any problems with the use of the Cross Sound Cable. Mr. Grilli answered no. He indicated that LIPA negotiated a global settlement with the State of Connecticut and agreement with Northeast Utilities in connection with the repair and rebuilding of the 1385 cable, and that the

permitting by the Connecticut DEP and the operation of the Cross Sound Cable were all part of the commitments to LIPA. He added that LIPA is moving ahead with that project, and the results of an RFP for the rebuilding of the cable are expected soon.

Mr. Grilli stated that LIPA was able to leverage that project in connection with getting the Cross Sound Cable energized. He continued that the Cross Sound Cable has been operating efficiently, and he thinks the State of Connecticut recognizes that there has been no environmental harm. He added that the global settlement allowed TransEnergie to remedy the Cable's depth problems in New Haven Harbor, and LIPA believes that it will fulfill its obligations to rebuild the 1385 cable in short order.

Trustee Gerard asked whether Connecticut will benefit in any matter. Mr. Grilli answered that LIPA has maintained that Connecticut will benefit through the rebuilding of the 1385 cable and though the operation of the Cross Sound Cable, due to LIPA's ability to wheel power to some areas in Connecticut that have transmission constraints.

Trustee Fabio asked what the historical reason is for the statutory prohibition on LIPA accessing hydropower from upstate New York. Chairman Kessel responded that in order to get the bill passed to create LIPA, a concession was made to satisfy upstate New York.

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

763. APPROVAL OF THE SELECTION OF AND AUTHORIZATION TO NEGOTIATE AND EXECUTE A POWER PURCHASE AGREEMENT WITH BEAR SWAMP POWER COMPANY LLC FOR THE PURCHASE OF CAPACITY, ENERGY, AND GREEN ATTRIBUTES USING THE CROSS SOUND CABLE

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 (“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 or that have their power delivered to LIPA’s service area over dedicated cables, to be in operation by the summer of 2006; 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 action at this time; and

WHEREAS, LIPA’s selection committee has reviewed proposals in response to its February 17, 2005 Request for Proposals (“Off-Island RFP”) to supply LIPA with capacity and/or energy from off-Island generating facilities using the Cross Sound Cable (“CSC”) to Long Island beginning in early summer 2006 or the Neptune Cable to Long Island beginning in early summer 2007, and has recommended the selection of the Bear Swamp Projects proposed by Bear Swamp Power Company LLC (“Bear Swamp Power”) for 100 MW (345 MW until the Independent System Operator New England (“ISO-NE”) adopts Locational Capacity rules expected by summer 2007), 622 GWh per year of peaking energy, and green attributes up to 565 GWh per year over the CSC; and

WHEREAS, the Bear Swamp Projects are a portfolio of hydroelectric projects located in Massachusetts, Vermont, New Hampshire, and New York and are each fully permitted and operating hydroelectric project that are electrically connected to the ISO-NE and which can deliver power to the CSC via the ISO-NE grid; and

WHEREAS, it is in the best interest of LIPA to meet this need for electric capacity and energy by negotiating and executing a Power Purchase Agreement (“PPA”) with Bear Swamp Power, provided the final PPA is consistent in all material respects with the proposed commercial terms of the Bear Swamp Projects proposal and LIPA staff’s evaluation of the economic benefits of the proposal as presented to the Trustees; and

WHEREAS, in the event that such PPA could not be negotiated in accordance with the above-mentioned requirements, the Board would be apprised and further direction would be sought from the Board;

NOW, THEREFORE, BE IT RESOLVED, that in order to ensure the availability of sufficient additional power supply resources to serve LIPA’s customers, the Trustees approve the selection of the Bear Swamp Projects in response to the Off-Island RFP, and authorize the Chairman or his designee to negotiate and execute a PPA and any other related agreements in accordance with the conditions set forth herein for purchase of power from the Bear Swamp Projects.

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

764. APPROVAL OF THE SELECTION OF AND AUTHORIZATION TO NEGOTIATE A POWER PURCHASE AGREEMENT FOR THE PURCHASE OF CAPACITY AND ENERGY USING THE NEPTUNE CABLE WITH (i) FPL ENERGY, LLC AS A FIRST PREFERRED PROJECT AND (ii) LS POWER AS THE SECOND PREFERRED 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 (“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 or that have their power delivered

to LIPA's service area over dedicated cables, to be in operation by the summer of 2007; 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 action at this time; and

WHEREAS, LIPA's selection committee has reviewed proposals in response to its February 17, 2005 Request For Proposals ("Off-Island RFP") to supply LIPA with capacity and/or energy from off-Island generating facilities using the Cross Sound Cable ("CSC") to Long Island beginning in early summer 2006 or the Neptune Cable to Long Island beginning in early summer 2007, and has recommended the selection of up to 685 MW proposed by FPL Energy, LLC ("FPLE") from the Marcus Hook Energy Center located in Pennsylvania (the "Marcus Hook Project") to be transmitted to LIPA over the Neptune Cable as the first preferred project with respect to that cable, and (ii) 180-240 MW proposed by LS Power LLC from the Ontelaunee Project located in Pennsylvania (the "Ontelaunee Project") to be transmitted to LIPA over the Neptune Cable as the second preferred project with respect to that cable; and

WHEREAS, it is in the best interest of LIPA to meet this need for electric capacity and energy by negotiating a Power Purchase Agreement ("PPA") with FPLE and, if necessary and desirable, LS Power LLC for the purchase of a maximum of 685 MW over the Neptune Cable; and

WHEREAS, the Marcus Hook Project and the Ontelaunee Project are fully permitted and operating projects that are electrically connected to the Pennsylvania-New Jersey-Maryland Interconnection ("PJM") and can deliver power to the Neptune Cable via the PJM grid;

NOW, THEREFORE, BE IT RESOLVED, that in order to ensure the availability of sufficient additional power supply resources to serve LIPA's customers, the Trustees approve the selections of the FPLE Marcus Hook Project as the first preferred project and the Ontelaunee Project as the second preferred project with respect to the Neptune Cable in response to the Off-Island RFP, and authorize the Chairman or his designee to negotiate the terms of a proposed PPA and any other related agreements for purchase of power from the FPLE Marcus Hook Project, and if necessary or desirable, the Ontelaunee Project; provided that if fair and reasonable agreements meeting LIPA's needs are negotiated, the Trustees would then be requested to authorize the Chairman or his designee to enter into and execute the agreements.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to engage JPMorgan Asset Management to provide Cash Management/Investment, Custody and

Advisory services to the Long Island Power Authority. The Chairman continued that in September of 2005, LIPA issued an RFP seeking experienced firms to provide these services, and eleven firms responded. He added that a selection committee comprised of LIPA staff members carefully reviewed each proposal for compliance with the terms of the RFP, and then evaluated the proposals.

Chairman Kessel stated that based on the written submissions, the oral presentations and an assessment of the Authority's needs, it was determined that JPMorgan is best suited to fulfill those needs. The Chairman continued that some of the strengths of JP Morgan include its extensive experience managing a large amount of short term fixed income assets similar to the Authority's requirements, strong performance record, good working knowledge and understanding of the Authority and its operations, and solid investment management compliance controls and reporting capabilities. He added that JPMorgan currently provides other commercial banking service to the Authority.

Upon motion duly made and seconded, the following resolution was approved unanimously (with Deputy Chairman Foye not present for this vote):

**765. ENGAGEMENT OF CASH MANAGEMENT/INVESTMENT, CUSTODY AND
ADVISORY SERVICES CONTRACTOR**

RESOLVED, that the Chairman or his designee be, and hereby are, authorized to engage JPMorgan Asset Management Inc. to provide Cash Management/Investment, Custody and Advisory services to the Long Island Power Authority, with the contract term to be two years and with the Authority having the option to renew the term of the contract for up to two additional years.

Chairman Kessel stated that LIPA has been conducting an assessment of a proposal by Broadwater to build a liquid natural gas terminus in the Long Island Sound off the North Shore, and apparently an announcement is being made by a new company to build a terminus in the Atlantic Ocean on the South Shore. The Chairman continued that the evaluation of the Broadwater proposal is continuing and it has been delayed due to other work on the agreements that were just approved by the Board. He added that LIPA will incorporate the new proposal in that review, based upon the preliminary data that will be available.

Chairman Kessel stated that LIPA has not taken any position regarding LNG terminals, Broadwater or this new project. The Chairman continued that LIPA is looking not only at the economic issues, but also the environmental and safety issues. He added that the final presentation may be delayed so that LIPA can look at this new project at least preliminarily from the bare information that is available.

Chairman Kessel stated that this is a different proposal, and LIPA wants to take a look at some of the safety, physical and environmental issues involved in the new project. The Chairman indicated that he expects LIPA will incorporate some preliminary assessment of this new project with the report to the Board on Broadwater.

Trustee Sinnreich asked whether Levitan and Associates was working on the matter for LIPA. Chairman Kessel answered affirmatively.

Trustee Nugent asked what type of facility is proposed. Chairman Kessel indicated that an island may be built approximately ten miles out into the Atlantic Ocean. The Chairman continued that he wonders what some of the people who have raised concerns about aesthetic issues regarding LIPA's proposed off-shore wind project would rather see now, a windmill or an LNG facility.

Chairman Kessel stated that LIPA stands to gain or lose from these two projects from not only an economic perspective. The Chairman continued that Long Island is also LIPA's service territory, and there are environmental and safety issues as well. He added that LIPA wants to be as informed as possible before deciding whether to endorse or oppose either project, or before just putting the facts out to the public.

Chairman Kessel 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:

766. 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.

* * *

At 1:15 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 1:45 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 Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 2:14 p.m.

Respectfully submitted,

Stanley B. Klimberg