

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 159th MEETING
HELD ON FEBRUARY 10, 2004**

Pursuant to notice dated February 3, 2004, the Long Island Power Authority (the "Authority") was convened for the one hundred and fifty-ninth time at 10:20 AM at the Omni Teleconference Center in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Howard Steinberg, Deputy Chairman
Nancy A. Akeson
Harvey Auerbach
John Fabio
James Herrmann
Robert Maimoni
Nancy Nugent
Vincent Polimeni
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, Bruce Germano,

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

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

**Chairman Kessel indicated that the first item on the agenda is the adoption
of the minutes of the December 4, 2003 Board meeting.**

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

**664. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT
THE DECEMBER 4, 2003 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 4,
2003 are hereby approved and all actions taken by the Trustees present at such
meeting, as set forth in such Minutes, are hereby in all respects ratified and
approved as actions of the Authority.**

*** * ***

**Chairman Kessel indicated that the next item on the agenda is Board
Consideration of two resolutions commemorating Mr. Perry Duryea and Ms.
Maxine Postal. The Chairman stated that both distinguished Long Islanders
recently passed away. He continued that both were extraordinary individuals
who contributed a great deal to Long Island, the State, and the country, as well as
LIPA.**

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

665. RESOLUTION MEMORIALIZING THE HONORABLE PERRY B. DURYEYEA, JR.

WHEREAS, Montauk's native son, Perry B. Duryea, Jr. served the people of Long Island, the State of New York and the United States of America through a long a distinguished career in private business and public service; and

WHEREAS, Mr. Duryea served as a member of the New York State Assembly from 1961 to 1968 and rose through the leadership chairs in the Assembly to serve as Minority Leader from 1966 to 1968 and later as Speaker from 1968 to 1974 – only the second Suffolk resident in history to serve in that position – and was widely respected for his legislative accomplishments; and

WHEREAS, Mr. Duryea was elected to and served as Vice President of the 1967 New York State Constitutional Convention, and also served as President of the Long Island State Parks Commission from Spring 1963 to Fall of 1969; and

WHEREAS, Mr. Duryea conducted an eloquent and gallant campaign for Governor of the State of New York in 1978 and spoke out passionately on a wide range of issues important to the advancement of his home State and its citizens; and

WHEREAS, Mr. Duryea had deep roots in his beloved home village of Montauk, having attended its local schools and was graduated from East Hampton High School in 1938; and

WHEREAS, Upon graduation from Colgate University in 1942, Mr. Duryea served his nation well during World War II as a command pilot in the Naval Air Transport Service, Pacific Wing, from 1943 to 1946; and

WHEREAS, Mr. Duryea gave back to his community in many ways including as a member of American Legion Post 501, the Veterans of Foreign Wars, the Montauk Lions Club and the Suffolk County Council, Boy Scouts of America and numerous charities; and

WHEREAS, after retiring from elected public service, Mr. Duryea continued to be a strong voice within his community as a business owner and bank founder; and

WHEREAS, Mr. Duryea's family, friends, neighbors and associates in his home community, as well as the people of Long Island and State of New York, mourn his passing on January 11, 2004;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of the Long Island Power Authority pause in its deliberations, on this day, February 10, 2004, for a moment of silence in recognition of Mr. Duryea's courageous and fruitful life; and be it further

RESOLVED, that a copy of this resolution be transmitted to Mr. Duryea's family with the deepest and most sincere sympathies of the LIPA Board of Trustees upon the loss of their most cherished family member, Perry B. Duryea, Jr.

* * *

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

666. RESOLUTION MEMORIALIZING THE HONORABLE MAXINE S. POSTAL

WHEREAS, Ms. Maxine S. Postal served the people of Suffolk County and Long Island as a member of the Suffolk County Legislature for fifteen years; and

WHEREAS, Ms. Postal served on numerous committees of the Suffolk Legislature including the Committees on Health Services, Human Services, and Senior Citizens, that sought to improve the quality of life for her constituents and the people of Suffolk; and

WHEREAS, During Ms. Postal's tenure in the Suffolk Legislature she rose through the leadership positions to serve as: Vice Chair of the Finance and Financial Services Committee; Minority Leader; Deputy Presiding Officer; and ultimately Presiding Officer, only the second woman in Suffolk's history to be elected to that high legislative post; and

WHEREAS, Ms. Postal was an articulate and passionate advocate for all of her constituents, but most especially for minorities, women, children and those in society who are less fortunate including the homeless; and

WHEREAS, Ms. Postal accumulated a long list of legislative accomplishments during her tenure in the Suffolk Legislature including: co-sponsor of the first child care legislation for Suffolk County employees; sponsor of the first reform of the Suffolk County Tax Act to permit installment payments of property taxes; and co-sponsor of legislation to promote recycling, provide tax relief for senior citizens, institute economic development for women and minority-owned

businesses, launch health care programs such as free prostate cancer screening and assistance for breast cancer victims; and

WHEREAS, Ms. Postal's long and distinguished career in public service included serving her home community of Amityville as: Vice President of the School Board, which allowed her the opportunity to press for programs to improve educational opportunities for young people; Vice President of the Amityville Soccer League; Secretary of Friends of the Amityville Library; and President of the L.A. Wilson Tech Child Care Advisory Board; and

WHEREAS, Ms. Postal's courage and zest for life was amply displayed through her valiant battle against Creutzfeldt-Jakob disease; and

WHEREAS, the friends, neighbors and colleagues of Ms. Postal as well as the people of Suffolk County and Long Island mourn her passing on January 1, 2004;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of the Long Island Power Authority pause in its deliberations, on this day, February 10, 2004, for a moment of silence in recognition of Ms. Postal's courageous and fruitful life; and be it further

RESOLVED, that a copy of this resolution be transmitted to Ms. Postal's family with the deepest and most sincere sympathies of the LIPA Board of Trustees upon the loss of their most cherished family member, Maxine S. Postal.

*** * ***

Chairman Kessel thanked Mr. Cunningham for his assistance in preparing these resolutions.

Chairman Kessel stated that he was pleased to announce several weeks ago that LIPA's reliability statistics are significantly and steadily improving to the point where LIPA is first in the State for overhead utilities in most areas. The Chairman continued that electric service on Long Island was abysmal in the mid-eighties through the early nineties. He indicated that the Board and LIPA's work force deserve special recognition for the improvements to the system.

Chairman Kessel stated that LIPA experienced a tough year in 2003 with respect to the weather and the blackout. The Chairman continued that LIPA experienced fewer than 1,000 outages during several major storms, which is extraordinary. He added that LIPA's investment in the transmission and distribution system has paid off.

Chairman Kessel stated that LIPA has achieved extraordinary improvement in service reliability. The Chairman continued that LIPA continues to spend money on service quality, which has made a huge difference.

Chairman Kessel thanked LIPA's work force for their great work often during bad weather conditions. The Chairman indicated that KeySpan's contract with its employees will expire shortly, and negotiations between KeySpan and the unions are continuing. He stated that he hopes a settlement can be reached that is financially prudent, but which also recognizes the significant work performed.

Chairman Kessel stated that the next item on the agenda is the Operations report, to be delivered by Mr. Hulkower.

Mr. Hulkower stated that the possible strike will involve the physical labor force and the clerical labor force. He continued that hopefully the parties will reach an agreement before the imminent expiration of the current contract.

Deputy Chairman Foye asked what plan exists to ensure continued service if there is a strike. Mr. Hulkower answered that KeySpan has a plan in place,

which includes a reduction in meter reading and the utilization of approximately 500 employees in the field who will work twelve-hour shifts to ensure service.

Chairman Kessel indicated that LIPA has a significant financial interest but is not involved in the negotiations. The Chairman stated that he has informed Chairman Catell of KeySpan as to LIPA's position. He further stated that both sides have important positions, but it is in everyone's best interest to resolve the matter, and he will keep the Board informed of the progress of the negotiations.

Deputy Chairman Steinberg asked whether LIPA has any consent rights regarding the contract. Chairman Kessel indicated that LIPA does not. Mr. Hulkower stated that LIPA has only an advisory capacity.

Chairman Kessel stated that Chairman Catell has been very cognizant of the fact that LIPA has a huge interest on both sides of the matter. The Chairman continued that LIPA's financial interest will be impacted by the contract negotiations because LIPA pays 100 percent of the KeySpan employees' salaries and benefits related to the electric business. He added that LIPA will be impacted if a strike occurred.

Chairman Kessel stated that the LIPA and KeySpan senior management teams recently discussed the contract negotiations. The Chairman continued that LIPA is watching the matter closely, and KeySpan will not likely make a decision without first seeking LIPA's advice and consent.

Mr. Hulkower reported that LIPA added 38.8 MW in 2003 against a goal of 36.65 MW. He further reported that LIPA added 2.5 MW for economic development against a goal of 3 MW.

Mr. Hulkower stated that LIPA works with the Empire State Development Corporation in its Industrial Effectiveness Program. He continued that LIPA offers discounted rates to Long Island companies while they transform their businesses. He indicated that the program was especially effective in the late 1980's and early 1990's when Long Island businesses were transforming from the defense industry.

Mr. Hulkower reported that LIPA's year end peak reduction is nearly 27 MW against a goal of 23 MW. He further reported that LIPA saved 77,000 MWh, and the area of greatest success has been lighting and appliances with a 36,000 MWh savings against a goal of 26,000 MWh.

Mr. Hulkower reported that LIPA ended the year with total arrears in revenue collections of \$69.2 million, which is a good number. He indicated that 30-day arrears rose sharply in July, August and September, due largely to the heat.

Mr. Hulkower stated that the 90-day arrears rose near the end of the year as the 30-day arrears declined, which was expected. He continued that the 90-day arrears normally falls in January.

Deputy Chairman Foye asked what portion of the accounts is residential as opposed to commercial. Mr. Hulkower responded that there are nearly a million residential accounts and one hundred thousand commercial accounts. He indicated that approximately 14 percent of residential accounts and 20 percent of commercial accounts are in arrears. Deputy Chairman Foye asked whether the number of accounts in arrears is high. Mr. Hulkower answered that it is not unusual since most are 30-day arrears, and LIPA's write-off rate is comparatively low.

Mr. Hulkower reported that the average time between interruptions (SAIFI) fell from 15.5 months to nearly 12 by early 2003, but rose to 13.6 by the end of the year. He indicated that despite the weather problems the SAIFI has fallen to 13.2 months.

Mr. Hulkower reported that the average interruption duration (CAIDI) fell from 70 minutes to 65 minutes in 2003, and it is now down to 64 minutes. He further reported that LIPA completed all tree-trimming circuits on time, and more mileage was completed than had been targeted.

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

Ms. McCarthy reported that LIPA's sales were approximately one percent over budget due to strong residential sales, but offset by lower than expected commercial sales. She indicated that fuel and purchased power expense before

deferrals was \$135 million, due to high commodity costs. She added that O & M costs also increased.

Ms. McCarthy reported that LIPA reached its targeted net income goal of \$20 million. She further reported that cash is approximately \$419 million, which is \$169 million above target.

Deputy Chairman Steinberg asked whether the fuel and purchased power expense is net of the benefit of hedging transactions. Ms. McCarthy responded affirmatively. Deputy Chairman Steinberg asked whether Ms. McCarthy viewed the \$26 million benefit of the hedging program as successful. Ms. McCarthy answered affirmatively.

Deputy Chairman Foye thanked Ms. McCarthy, Mr. Feldman, Mr. Horowitz and LIPA's financial staff for providing an exhaustive and complete briefing on LIPA's budget.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to adopt the 2004 operating budget and 2004-2005 capital budget. The Chairman continued that the proposed 2004 operating budget and 2004-2005 capital budgets for the Long Island Power Authority and its subsidiary, LIPA, set forth the revenue as well as operating capital expenditure forecasts for the respective years ending December 31. He added that the budgets incorporate the continuation of the current operation and maintenance

programs, as well as initiatives planned for 2004 to address system growth, safety and reliability.

Chairman Kessel stated that revenues are forecasted at \$2.710 billion or five percent higher than projected levels for 2003. The Chairman continued that the proposed 2004 operating budget would increase the fuel surcharge by 4.5 percent or \$4.41 a month for the average residential bill. He added that the proposed budget reflects significant cost constraining efforts by LIPA's staff. The Chairman further indicated that LIPA staff identified several minor modifications to the proposed budget. He added that the changes will not further increase the fuel surcharge over the 4.5% increase.

Chairman Kessel stated that the capital expenditures primarily concern construction and removal projects. The Chairman continued that the expenditures are budgeted at \$234.7 million for 2004, which is a decrease of \$16.3 million or 6.5 percent from 2003. He indicated that LIPA's capital budget for 2005 is \$233.7 million, which is a \$1 million or .4 percent decrease from the 2004 capital budget.

Chairman Kessel stated that spending programs contained in the capital budget continue to underscore LIPA's commitment to provide safe and reliable electric service, and to expand and upgrade the T & D system. The Chairman indicated that five-year projections of revenues and expenses and sources and uses of cash are being presented for the first time, and they reflect LIPA's focus on long-term financial planning. He added that the projections assure that base

rates will remain the same, and they indicate that LIPA's surcharges will require modest increases in the years 2005 through 2008.

Chairman Kessel indicated that LIPA staff in an agenda item related to the budget recommends Board approval of a modification with respect to the fuel surcharge to spread the recovery of \$70 million of deferred 2003 excess fuel and purchased power costs over 10 years. The Chairman continued that the proposed resolution is limited to changing from a one-year recovery in 2004 to a ten year recovery period commencing in 2004.

Chairman Kessel stated that LIPA's tariff includes a fuel and purchased power cost adjustment mechanism to automatically adjust LIPA's bills to reflect changes from the cost of fuel and purchased power embedded in base rates. The Chairman continued that in February 2003, the Board approved changes to the mechanism to eliminate its lag feature, which involved a one-year or more delay in the recovery or refund of any cost differences. He added that the current mechanism operates on a real-time basis and allows for LIPA to achieve a target of \$20 million net income each year.

Chairman Kessel stated that as part of the transition to a real-time fuel cost recovery mechanism, the Board approved the deferral of \$70 million of 2003 excess fuel costs for recovery in 2004 and an additional \$300 million for recovery over a ten-year period commencing in 2004. The Chairman continued that recovery of the \$70 million over that ten-year period instead of all in 2004 will benefit LIPA's customers by avoiding a significant spike of over seven percent in

the surcharge this year. He added that the proposal appropriately provides for the smooth recovery of all deferred 2003 excess fuel costs. He added that even with all of the deferrals, LIPA's bills will be stable for the next four to five years, absent an extraordinary event.

Chairman Kessel thanked Ms. McCarthy, Mr. Feldman, Mr. Kane and LIPA's financial team for their great work on the budget. The Chairman continued that a 4.5 percent increase in the fuel surcharge is difficult for some and the economy has been performing poorly. He indicated that the increase would have been as much as 14 percent had LIPA followed the approach of other utilities.

Chairman Kessel stated that LIPA wants to keep bills as low as possible, and even with this increase, customers will be paying less for electricity than six years before under LILCO, which is an extraordinary achievement. The Chairman indicated that few major items are less costly today than six years ago, certainly not other energy products, cable television service and taxes. He added that the real-time recovery of higher fuel costs will help keep LIPA financially strong.

Chairman Kessel indicated that LIPA has gone to extraordinary lengths to cut its internal budget and expenses for services performed by KeySpan. The Chairman stated that LIPA will need the continued cooperation of KeySpan to resolve some outstanding issues. He thanked Chairman Catell and KeySpan's senior staff for working with LIPA during the budget process.

Chairman Kessel stated that he presided over four public hearings concerning the budget proposal. The Chairman continued that a total of four people attended, and all were more interested in other matters. He indicated that he thinks the public recognizes that LIPA is doing a good job in keeping bills low and providing high quality service.

Chairman Kessel stated that LIPA for the first time is projecting long-term revenues and expenses. The Chairman indicated that this will provide targets for the staff to work with, and it will provide the public with a sense of where bills are going over the next four to five years. He reiterated that despite the deferrals, LIPA's bills for the next five years are expected to be stable, with slightly more than a one percent increase next year and no increase in the following year.

Chairman Kessel indicated that there is confusion regarding the difference between the fuel surcharge and the base rates. The Chairman continued that the base rates were set in 1998 based upon existing fuel cost projections. He added that no one expected the extent of the fuel cost increases that have occurred since that time.

Chairman Kessel stated that he has requested LIPA staff to work on a draft proposal to adjust the base rates and fuel surcharge to reflect the current cost of fuel without affecting the total amount of customer bills.

Chairman Kessel stated that LIPA recently received the report of an audit from the New York State Comptroller's Office concerning LIPA's budgeting

practices, which audit was performed in cooperation with LIPA. The Chairman indicated that there are many factual errors in the report, and LIPA staff disputes many of the issues raised by the Comptroller. He added that there are some very important recommendations that LIPA has agreed to implement, and LIPA is working with the Comptroller to resolve issues relating to its audit.

Chairman Kessel stated that the electricity component of total energy costs has increased less than all other components, including natural gas, heating oil and gasoline. The Chairman indicated that electricity is still a good bargain on Long Island, and he noted that the budget reflects thoughtful work. He thanked the Board for its work to keep LIPA financially strong and to benefit LIPA's customers.

Trustee Nugent inquired whether the proposal for LIPA staff to examine the option of changing the base rates essentially involves a change in how LIPA's charges are characterized. Chairman Kessel responded affirmatively.

Deputy Chairman Foye stated that he is in favor of the budget. He noted three items of caution: first, that the cost reductions require actions of third parties such as KeySpan; second, that LIPA is at risk in the areas of fuel costs and variable debt; and third, that LIPA may need to revise the budget going forward to meet its \$20 million net income target if there are problems in areas such as the cost of fuel, the cost of money or with respect to LIPA's agreements. Chairman Kessel agreed.

Chairman Kessel stated that LIPA will end 2004 with \$20 million net income. The Chairman indicated that LIPA will watch the fuel costs closely and is hopeful that adjustments will not have to be made. He indicated that the fiscal integrity of the Authority must be maintained. He added that he intends to report quarterly to the Board regarding the amount of fuel costs and the possible need to make changes to the budget, and noted that there will be prior notice to the public and the Board well before any increase in the fuel surcharge.

Trustee Fabio asked whether LIPA reached its goal of reducing the budget by \$150 million. Chairman Kessel responded that LIPA reduced costs by approximately \$160 million.

Chairman Kessel stated that LIPA reviewed many options to reduce costs. The Chairman continued that LIPA discussed ending postage-paid envelopes, but decided against it when KeySpan would not drop its postage-paid envelopes. He indicated that LIPA also considered closing some customer service offices, but LIPA decided instead to slightly reduce staff in the customer call center, particularly at times of less impact, such as overnight hours.

Chairman Kessel stated that LIPA slightly reduced tree-trimming expenses without impacting service. The Chairman indicated that LIPA has also reduced costs this year in the areas of Clean Energy programs, legal expenses, travel expenses, and charitable contributions; and that LIPA has instituted a hiring freeze.

Chairman Kessel stated that LIPA is avoiding a compounding problem by not deferring expenses into subsequent years. The Chairman indicated that LIPA employs approximately 80 people to run a \$2.7 billion utility, which is extraordinary. He added that LIPA has the lowest paid utility staff in the United States, and LIPA must compete with other utilities to obtain high-quality employees.

Chairman Kessel stated that LIPA has made extraordinary sacrifices and LIPA's employees will continue to work hard. The Chairman continued that LIPA is doing more with less.

Deputy Chairman Steinberg stated that there were extraordinary circumstances that delayed the preparation of the LIPA budget. He indicated that it would be helpful to deal with the budget on a more timely basis.

Deputy Chairman Steinberg stated that he urges caution in the possible consideration of changing the base rates relative to the fuel surcharge. He further indicated that the value of the surcharge is that it reflects the reality of the marketplace and the variable costs, which LIPA does not control.

Deputy Chairman Steinberg asked what percentage of LIPA's total budgeted costs are attributable to labor costs related to the current KeySpan negotiations. Ms. McCarthy responded that the total MSA fees are approximately

\$245 million out of total revenues of 2.7 billion, of which approximately 40 percent are labor costs.

Deputy Chairman Steinberg asked whether the budget reasonably anticipates the labor costs with respect to the current negotiations. Ms. McCarthy stated that it does from a materiality perspective, but the benefits area will have to be more closely examined.

Deputy Chairman Steinberg stated that it is disturbing that LIPA is somewhat enslaved by the KeySpan contract. He observed that LIPA personnel cannot attend conferences, while LIPA must fund conferences for KeySpan employees. He added that LIPA must continue to evaluate its relationship with KeySpan.

Chairman Kessel stated that there are important conferences that both LIPA and KeySpan personnel attend, particularly in the areas of clean energy, retail sales and marketing, and new technologies. The Chairman continued that LIPA and KeySpan have separate budgets, and there is greater pressure on LIPA to reduce costs. He thanked Mr. Grilli for his great job in finding ways to reduce costs.

Chairman Kessel stated that LIPA has a unique relationship with KeySpan under the MSA, which LIPA will continue to look at carefully. He indicated that the public part of the relationship is under the microscope more so than the KeySpan part.

Chairman Kessel stated that LIPA would come to the Board before any request for PSC approval to adjust base rates. The Chairman further indicated that LIPA will continue to have an adjustable fuel surcharge mechanism.

Deputy Chairman Foye asked whether LIPA has reason to believe it is being improperly charged by KeySpan under the Management Services Agreement (“MSA”) for such items as vehicles and conferences. Chairman Kessel answered no.

Deputy Chairman Foye asked whether KeySpan incurs certain costs on LIPA’s behalf that are passed along to ratepayers. Chairman Kessel answered affirmatively.

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

667. APPROVAL OF THE 2004 OPERATING BUDGET AND 2004 AND 2005 CAPITAL BUDGETS

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

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

WHEREAS, the Authority released its proposed 2004 Operating Budget and 2004 and 2005 Capital Budgets on January 22, 2004; and

WHEREAS, the Authority conducted public hearings on the proposed 2004 Operating Budget and 2004 and 2005 Capital Budgets on January 27 and February 5, 2004; and

WHEREAS, the Authority proposed the modifications to the 2004 Operating Budget set forth in Schedule A, which is attached hereto;

NOW, THEREFORE, BE IT RESOLVED, that the 2004 Operating Budget, as modified by Schedule A, and the 2004 and 2005 Capital Budgets, all of which are attached hereto, are hereby approved; and be it further

RESOLVED, that the Authority intends to finance the requirements of the 2004 and 2005 Capital Budgets through a combination of internally-generated funds and the issuance of tax-exempt debt of the Authority, to the extent permitted by law.

*** * ***

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

668. APPROVAL OF AMORTIZATION OF YEAR 2003 FUEL AND PURCHASED POWER COSTS

WHEREAS, the Long Island Power Authority's ("Authority") staff issued a proposal concerning recovery of year 2003 fuel and purchased power costs ("Proposal"); and

WHEREAS, regarding \$70 million of LIPA's 2003 fuel and purchased power costs that have not been recovered through LIPA's base rates ("Excess Fuel Costs"), the Board in February 2003 approved the recovery of those costs entirely in 2004 through LIPA's Fuel and Purchased Power Cost Adjustment ("FPPCA"); and

WHEREAS, the Proposal recommends that the above-mentioned \$70 million of costs be recovered instead over a ten-year period amortization period commencing in 2004, through the FPPCA; and

WHEREAS, this recommended change in timing of Excess Fuel Cost recovery would avoid a spike in LIPA's FPPCA for 2004, and the more levelized recovery of fuel and purchased power costs would result in more appropriate and economic price signals being given to energy consumers; and

WHEREAS, following issuance of public notice (with publication in Newsday on January 22, 2004), two public hearings were held on the Proposal on January 27, 2004, another two public hearings on the Proposal were held on February 5, 2004, the public has been given opportunity to submit written comments, and LIPA has not received any comments that address or warrant a change to the specific Proposal presented;

NOW, THEREFORE, BE IT RESOLVED, that for the reasons set forth herein and in the preceding Memorandum, the Proposal is hereby adopted and approved.

*** * ***

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve a settlement agreement that resolves issues pending before the Department of Energy (“DOE”) and the Federal Energy Regulatory Commission (“FERC”) during the period the DOE emergency order issued in August 2002 was in effect, as well as miscellaneous construction-related claims. The Chairman continued that the resolution also authorizes the Chairman to enter into an Interim Firm Transmission Capacity Purchase Agreement (“FTCPA”) that establishes the price and terms for the use of the Cross Sound Cable (“Cable”) during the duration of the DOE orders issued in August 2003.

Chairman Kessel stated that in August 2002 LIPA entered into a Firm Transmission Capacity Purchase Agreement with Cross Sound Cable, LLC’s (“CSC LLC”) predecessor for construction, operation and use of the Cable, which was required to be in service on May 1, 2002. The Chairman continued that the installation of the Cable did not meet all of the depth requirements for the applicable permits, and the State of Connecticut blocked CSC LLC’s attempts to operate and correct the depth deficiencies. He indicated that as a result CSC LLC

was unable to meet all of the conditions precedent to make the Cable commercially operational, and thereby trigger the service provisions of the FTCPA.

Chairman Kessel stated that in the summer of 2002, LIPA experienced new peak demands that strained its capacity. The Chairman continued that LIPA applied to DOE for an emergency order to allow for the operation of the Cable, and an order was issued for the period of August 16, 2002, until October 1, 2002. He indicated that the Order did not establish terms for compensation.

Chairman Kessel stated that during the fall of 2002, LIPA and CSC, LLC were unable to reach an agreement on the appropriate compensation for the energization of the Cable. The Chairman continued that the compensation issue was referred to FERC, and the matter was set for a hearing.

Chairman Kessel stated that a catastrophic blackout occurred during August of 2003, and DOE issued an emergency order authorizing the energization and use of the Cable for approximately two weeks. The Chairman indicated that DOE issued another order on August 28, 2003 which extended the operational authority indefinitely on the basis that an emergency continues to exist on Long Island. He added that the emergency continues to exist today.

Chairman Kessel stated that LIPA and CSC, LLC have negotiated an interim FTCPA ("IFTCPA"). The Chairman continued that under the IFTCPA the price for LIPA's firm service reflects a 20 percent rate reduction from the firm transmission

rate to account for the limitation on LIPA's ability to enter into long-term power purchase contracts. He added that the term is coextensive with the current DOE emergency order.

Chairman Kessel stated that the settlement agreement and IFTCPA greatly benefit LIPA by resolving lingering financial claims and disputes between LIPA and CSC, LLC. He noted that by the settlement agreement, LIPA has negotiated an amount to be paid by LIPA that is just over \$1 million or 10% of CSC, LLC's original claim. The Chairman stated that he hopes that the Cable will be allowed to operate for commercial purposes without the need for a federal emergency order.

Chairman Kessel stated that the Attorney General of Connecticut opposed the regular operation of the Cable and the construction of a new gas pipeline, which would benefit Long Island, but the Attorney General supports the dumping of dredging spoils into the Long Island Sound, which is extraordinarily more harmful. The Chairman continued that it is hypocritical for the State of Connecticut to impose moratoriums on lines traversing the Long Island Sound to prevent damage to the environment, while condoning the dumping of dredging spoils. He added that any environmental harm will come from that dumping, not the Cable.

Chairman Kessel indicated that he will send a letter to the Attorney General of the State of Connecticut asking him to explain his position. The Chairman continued that to date there is no evidence that any species or organism has

been damaged by the continued operation of the Cable. He added that Connecticut should include the dumping of dredging spoils in the moratorium, if it is going to extend it.

Trustee Fabio asked whether the resolution addresses LIPA's preservation of its right to pursue liquidated damages in the future. Mr. Klimberg responded that the memorandum to the Board indicates that LIPA is not foregoing any rights to pursue claims related to the delay in commercial operation. Mr. Klimberg continued that this point is not specifically reflected in the resolution, but could be. Trustee Fabio stated that LIPA should preserve its right going forward to pursue liquidated damages incurred during the suspension of operation of the line and that this should be reflected in the resolution.

Upon motion duly made and seconded, the following amendment was approved, with Trustee Sinnreich opposing:

669. RESOLUTION TO AMEND RESOLUTION APPROVING SETTLEMENT AGREEMENT AND INTERIM FIRM TRANSMISSION CAPACITY PURCHASE AGREEMENT WITH CROSS SOUND CABLE COMPANY, LLC

RESOLVED, that the proposed resolution approving the Settlement Agreement and Interim Firm Transmission Agreement with Cross Sound Cable Company, LLC be amended to state that LIPA's entry into both of those agreements would in no way prejudice any legal rights LIPA may have with respect to any claims, such as for liquidated damages, arising from the delayed commercial operation of the Cable under the Firm Transmission Capacity Purchase Agreement between LIPA and Cross Sound Cable Company, LLC.

* * *

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

670. RESOLUTION APPROVING SETTLEMENT AGREEMENT AND INTERIM FIRM TRANSMISSION CAPACITY PURCHASE AGREEMENT WITH CROSS SOUND CABLE COMPANY, LLC

WHEREAS, in August 2002, the United States Department of Energy (“DOE”) issued Order No. 202-02-1 (“2002 DOE Order”) requiring Cross Sound Cable Company, LLC (“CSC LLC”) to energize and permit LIPA to use the Cross Sound Cable (“Cable”) on an emergency basis under Section 202(c) of the Federal Power Act (“FPA”) but did not specify the compensation for such energization and use; and

WHEREAS, in response to CSC LLC’s request to DOE to determine appropriate compensation for energization of the CSC pursuant to DOE Order No. 202-02-1 and DOE’s referral of that request to the Federal Energy Regulatory Commission (“FERC”) under FPA §202(c), (Docket Number ER03-246-000), LIPA and CSC LLC negotiated a settlement of the appropriate compensation for operation under the 2002 DOE Order as well as certain construction-related claims raised by CSC LLC (“Settlement Agreement”); and

WHEREAS, in response to the August 14, 2003 catastrophic blackout in the Midwestern and Northeastern United States, the DOE issued Emergency Order No. 202-03-01 authorizing energization and temporary use of the Cable and DOE renewed and extended that authorization in Order No. 202-03-02 (“2003 DOE Order”) for an indefinite period of time; and

WHEREAS, LIPA and CSC negotiated an Interim Firm Transmission Capacity Purchase Agreement (“IFTCPA”) to establish price and terms for use of the CSC during the duration of the 2003 DOE Order because the service provisions of the long-term Firm Transmission Capacity Purchase Agreement (“FTCPA”) between the parties have not yet become effective; and

WHEREAS, the IFTCPA provides LIPA with a reduced firm transmission rate for use of the Cable (as compared with the price under the FTCPA) as well as providing necessary terms and conditions of service during the indefinite duration of the 2003 DOE Order; and

WHEREAS, LIPA’s entry into both the Settlement Agreement and the IFTCPA would in no way prejudice any legal rights LIPA may have with respect to any claims, such as for liquidated damages, arising from the delayed operation of the Cable under the FTCPA;

NOW, THEREFORE, BE IT RESOLVED, that the Settlement Agreement between LIPA and CSC LLC is approved in the form presented and that the Chairman be, and hereby is, authorized to enter into the Settlement Agreement; and

BE IT FURTHER RESOLVED, that the Interim Firm Transmission Capacity Purchase Agreement between LIPA and CSC LLC is approved in the form presented, and that the Chairman be, and hereby is, authorized to enter into the IFTCPA.

*** * ***

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve amended LIPA investment guidelines. The Chairman noted that Section 2925(6) of the Public Authorities Law requires LIPA to periodically review and approve investment guidelines that detail the Authority's operative policy and instructions regarding the investing, monitoring and reporting of funds of the Authority. He added that the guidelines were last amended in June 2002.

Chairman Kessel stated that the proposed changes include a more detailed definition of permitted investments; a specific identification of prohibited investments; a clear definition of the investment objectives and their priority; a definitive asset allocation and counterparty limits; definitive final maturity limits for investments other than those of U.S. Government Obligations and Guaranteed Investment Contracts; and an increase in the limit on the portion of the investment portfolio that may be invested in "A" rated securities. The Chairman continued that the format of the proposed investment guidelines has been changed to enhance their clarity, and to better organize and highlight the structure of internal controls and reporting.

Deputy Chairman Foye stated that he is impressed by the work of Ms. McCarthy and her staff. He indicated that he is strongly in favor of these investment guidelines.

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

671. APPROVAL OF LONG ISLAND POWER AUTHORITY INVESTMENT GUIDELINES

WHEREAS, the Long Island Power Authority (the "Authority") is required by Section 2925(6) of the Public Authorities Law, as amended, to periodically review and approve investment guidelines which detail the Authority's operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the Authority; and

WHEREAS, the Authority wishes to amend its existing Investment Guidelines to reflect the Authority's current investment needs and practices and to make certain other amendments;

NOW THEREFORE IT IS RESOLVED, that the Authority hereby approves and adopts the "Long Island Power Authority Investment Guidelines (February 10, 2004)" in the form presented at this meeting; and

BE IT FURTHER RESOLVED, that such Investment Guidelines as amended are to be effective with respect to all Investment Securities, as defined in such Investment Guidelines, purchased after the date hereof.

* * *

Chairman Kessel stated that he wishes to recognize the extraordinary job that Mr. Murphy has done for LIPA. The Chairman continued that Mr. Murphy is retiring from LIPA. He indicated that Mr. Murphy was one of the early pioneers of LIPA, who helped put the organization together.

Chairman Kessel stated that he wishes to congratulate Deputy Chairman Foye on being named President and Chief Executive Officer of the United Way on Long Island. He indicated that Mr. Foye will do a great job.

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:

672. 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 11:45 a.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 12:15 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 at 12:45 PM.

Respectfully submitted,

Stanley B. Klimberg