

**LONG ISLAND POWER AUTHORITY  
MINUTES OF THE 174th MEETING  
HELD ON MARCH 8, 2006**

**Pursuant to notice dated March 2, 2006, the Long Island Power Authority (the "Authority") was convened for the one hundred and seventy-fourth time at 4:12 PM 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  
James Hermann  
Robert Maimoni  
Nancy Nugent  
James M. Stuart  
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 because of the developments announced last week by KeySpan and National Grid, he and a number of Trustees thought it was important to schedule this meeting to talk about the key issues related to this transaction. The Chairman continued that Deputy Chairman Steinberg could not attend, due to a long-planned business trip, but he indicated that Deputy Chairman Steinberg is supportive of the Board going forward and doing what is necessary to protect the ratepayers of Long Island. He added that he would brief the Deputy Chairman personally upon his return.

Chairman Kessel stated that it is difficult to schedule a meeting around everyone's schedule, since all of the Trustees have other occupations in life. The Chairman continued that he wants to thank everyone on the Board for their patience in trying to work with the Authority to have this meeting.

Chairman Kessel stated that last Monday, National Grid and KeySpan jointly announced that National Grid would purchase KeySpan in a very complicated transaction. The Chairman continued that once the transaction is completed, National Grid would own all of the assets and rights that KeySpan currently holds.

Chairman Kessel stated that there are three big issues regarding Long Island and LIPA: the gas system; the KeySpan generating plants that were formerly owned by LILCO and some additional plants built by KeySpan subsequent to LIPA's acquisition of LILCO; and the contracts the Authority has with KeySpan, namely the Management Services Agreement (MSA), the Power Supply Agreement and the Energy Management Agreement. The Chairman continued that the regulatory process has not formally started but the clock has begun ticking. He added that this is an issue of great significance to Long Island, and LIPA wants to do whatever possible to protect its customers.

Chairman Kessel stated that LIPA has indicated to National Grid that it will begin its due diligence of National Grid, and there are many questions to be asked. The Chairman continued that the first issue concerns what commitments National Grid will make to ensure that this transaction is worthwhile for Long Island. He added that the second issue concerns what is in it for the ratepayers of the LIPA.

Chairman Kessel stated that the key question is whether Long Island and its electric customers will be better off under this transaction than they would have been had things remained the same. The Chairman continued that if the answer to this question is no, then the issue concerns whether significant benefits can be achieved that will put Long Islanders in a position where they are significantly better off than before. He added that he thinks Long Island would be worse off if the transaction was done today and nothing changed, and Long

Island would be worse with a simple change of control to a non-Long Island company.

Chairman Kessel started that the next question is what steps LIPA can take to achieve benefits for its customers from both a financial and performance perspective. The Chairman continued that last week LIPA had a productive meeting with National Grid and KeySpan, in which LIPA basically told them what he has just said publicly. He added that National Grid has agreed to sit down with LIPA staff to begin to discuss what benefits LIPA can achieve for its customers.

Chairman Kessel stated that the Authority's basic concerns are what the benefits will be to the Long Island electric ratepayers. The Chairman continued that LIPA is concerned as to what recurring significant rate reductions will be achieved for the customers and what standards will be followed to make sure that LIPA can maintain reliable service. He added that LIPA is also concerned that the work force, both union and non-union, is protected.

Chairman Kessel stated that an additional concern is what the environmental benefits to Long Island will be, particularly as they relate to the generating plants that would be owned by National Grid. The Chairman continued that LIPA is concerned as to what assurance it will have that LIPA is not in a position where at some later time National Grid may be sold to an entity that LIPA is not comfortable with. He indicated that LIPA will look at these issues methodically and carefully.

Chairman Kessel indicated that the New York State Attorney General's Office has sent LIPA a letter indicating that it has suspended review of the new agreement with KeySpan based on the transaction announcement, until they hear back from LIPA. The Chairman stated that this is an appropriate action, since the agreement was entered into with KeySpan, and a new company will now take their place. He added that this puts responsibility on LIPA to do its due diligence and get answers to all of the questions, so that LIPA can report back to the Attorney General as to whether LIPA wants to stick with it or take other actions.

Deputy Chairman Foye stated that the Board ought to ask Mr. Klimberg and outside counsel to advise them on the legal standards that apply to the Board's review of this transaction in light of the KeySpan documents. He continued that the analysis ought to inform staff's review of the contracts in its discussions with National Grid, as well as advising the Board as to what standards ought to apply when the time comes. Chairman Kessel stated that is an excellent suggestion.

Chairman Kessel requested that Ms. McCarthy offer a brief overview on the status of the negotiations with National Grid and KeySpan.

Ms. McCarthy stated that there is a kick-off meeting scheduled this Friday, and attending for National Grid will be their CFO, General Counsel, leader of Northeast Operations, Chief Engineer and a Retail Services representative. She continued that LIPA will have comparable representation at the meeting. She added that LIPA will also discuss their proposed post-merger organizational structure, and management and staffing obligations.

**Ms. McCarthy stated that LIPA will raise the issue of public and regulatory conflicts, given the different ownership structures and owner's assets. She continued that the specific areas LIPA will be looking at are their service performance history, system reliability, customer satisfaction, storm response and emergency preparedness, and LIPA wants to look at that over a period of time to see how their performance has held up, especially during periods of rate freezes. She added that LIPA will also look at regulatory performance and relationships, and LIPA will set up meetings with the various regulators and some of National Grid's top customers.**

**Ms. McCarthy stated that National Grid's asset management philosophy and capital allocation policies are also important. She indicated that other concerns include their employee relationships, vendor relationships, environmental compliance record and the relationship to their commitment to energy efficiency, as well as their energy marketing and training capabilities. She added that the objective of the meeting is to start the dialogue, but specific topics will be addressed later and a detailed plan will be set forth, while LIPA concurrently works on how to evaluate its existing contracts and how to capture benefits for LIPA's ratepayers.**

**Trustee Nugent stated that currently LIPA and KeySpan employees handle both the payment of bills and questions related to them in-house, which is a benefit that LIPA needs to protect. She indicated that National Grid handles**

questions concerning bills separately from the payment of bills, so that one must dial an outside company that is not part of National Grid.

Chairman Kessel stated that LIPA will look at that. The Chairman continued that one of LIPA's concerns is that when National Grid announced the transaction, they indicated that there will be \$200 million in synergy savings. He questioned where that would come from. Chairman Kessel stated that at times LIPA worries about lower staffing at the Call Center, especially after storms. The Chairman continued that he will have real problems with outsourcing functions such as the Call Center. He added that the employees have a large impact on service levels, in combination with the nearly \$1.75 billion investment in the system.

Chairman Kessel stated that one of the things LIPA must look at is the appropriate staffing level for the different functions that are performed on the electric side of the business. The Chairman further stated that the people that LIPA deals with are important, and the relationships between LIPA and KeySpan on the operational side are for the most part excellent. He indicated that he has called every manager in the electric business unit to tell them what a great job they have done together with LIPA during storms, blizzards and the blackout. Chairman Kessel stated that it is not only the level of staffing that is important, but who the staff will be, because the customer has to continue to see high quality service. The Chairman continued that LIPA will take this seriously.

Trustee Fabio stated that given the magnitude of the deal, he suggests that a representative Trustee be a member of the project team. Chairman Kessel stated that LIPA has a special committee that has been reviewing the matter, which will need to convene to discuss this. The Chairman continued that LIPA wants to keep the Board actively involved. He added that the Board ought to reactivate its committee that examined the options for LIPA's future, and utilize this committee to work with LIPA's staff.

Trustee Sinnreich stated that without prejudicing the merits of what LIPA's due diligence will show, he feels that there was a bait and switch that occurred concerning the announcement of the merger following so hard upon LIPA's announcement of the contract resolution with KeySpan. He continued that it is very hard to believe that this merger or another merger like it was not on the table already in KeySpan's business plan, which is not necessarily a bad thing. He further stated that he would like to add to Deputy Chairman Foye's request that Mr. Klimberg and outside counsel take a look at the deal and determine whether KeySpan owes LIPA any duty in connection with that deal to advise LIPA of its preendency and what its consequences might be.

Chairman Kessel stated that LIPA will look at this, and it is a legitimate point. The Chairman continued that this attitude is shared not just by the Board and those who participated in the process, but by many important people throughout the State.

Chairman Kessel stated that LIPA's review of this matter will cost a lot of money, and LIPA hoped that when the KeySpan deal was negotiated, this would all be put behind LIPA, other than some of the other challenges. The Chairman continued that the investigation of the issues raised and the due diligence will cost the Authority millions of dollars, and these costs should not be borne by the Authority. He added that LIPA has a team of persons, both internal and external, who have been directed to segregate all of these costs, which the Authority intends to recover from either KeySpan or National Grid.

Chairman Kessel stated that he felt that LIPA did a great job on the agreement with KeySpan, and it worked for LIPA's future, KeySpan's future and the workers' future. The Chairman continued that this announcement occurred suddenly and out of nowhere, and a tremendous burden has been placed on LIPA and some of its staff. He added that LIPA has some core missions to deal with, and the cost of due diligence is great, so he hopes that the Board supports the notion that the costs for this due diligence be ultimately charged to KeySpan or National Grid.

Deputy Chairman Foye asked whether LIPA can get a commitment that it be paid up front as a condition of starting the process. Chairman Kessel answered that this is an interesting suggestion that LIPA ought to take a look at.

Trustee Nugent asked whether LIPA already has a relationship of sorts with National Grid if LIPA and National Grid and formerly Niagra Mohawk are part owners of a nuclear power plant in upstate New York. Chairman Kessel

responded that he believes that National Grid does not have any ownership interest anymore. Mr. Hulkower added that Niagara Mohawk and three other companies sold their shares in the Nine Mile Two plant to Constellation Energy, and Constellation is now an 82 percent owner, and they are also the operator of the plant.

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:

**767. EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW**

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**RESOLVED**, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation and personnel matters.

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At 5:10 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 7:20 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 7:21 p.m.

Respectfully submitted,

Stanley B. Klimberg