

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 160th MEETING
HELD ON MARCH 24, 2004**

Pursuant to notice dated March 17, 2004, the Long Island Power Authority (the "Authority") was convened for the one hundred and sixtieth time at 11:10 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
Robert Maimoni
Nancy Nugent
Vincent Polimeni
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, 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 indicated that the first item on the agenda is the adoption of the minutes of the February 10 , 2004 Board meeting.

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

673. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE FEBRUARY 10, 2004 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on February 10, 2004 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 he commends the LIPA and KeySpan staffs for the outstanding job that they have done in maintaining the system and keeping the lights on during a very difficult winter. The Chairman indicated that the investment in the system has paid off tremendously. He further indicated that LIPA's capital investment in the T&D system has made LIPA's system the best

overhead electric system in the State of New York, and one of the best in the country.

Chairman Kessel stated that there were less than five hundred outages in LIPA's service territory during a recent wind storm, which is less than on many normal days. The Chairman continued that LIPA has exceeded its goal to improve service reliability. He added that LIPA's performance is extraordinary when you look at the statistics for the frequency and duration of outages.

Chairman Kessel stated that LIPA and other utilities continue to experience skyrocketing fuel prices. The Chairman continued that the country has not seen an energy price crisis like this since the Arab oil embargo in the 1970's. He indicated that Long Islanders may pay in excess of \$2.50 a gallon for gasoline in certain areas.

Chairman Kessel stated that energy prices will be the most significant challenge to Long Island, especially during the spring and summer. The Chairman continued that this will affect not only the energy sector, but all industries. He added that Long Islanders stand to suffer more than the rest of the nation, due to a dependence on automobiles as a form of travel and the limited supply of electricity.

Chairman Kessel stated that LIPA reluctantly implemented a 4.5 percent surcharge adjustment recently, in order to track the higher cost of fuel. The Chairman continued that the increase was made only after LIPA did a very

significant and targeted review of budget reductions. He indicated that LIPA reduced its budget by more than \$150 million to keep down the necessary surcharge increase under the tariff.

Chairman Kessel stated that through the first two months of the year fuel costs have risen more significantly than projected, which indicates that the crisis is worsening. The Chairman indicated that some of the driving factors for the higher cost of oil are OPEC production cuts, a low inventory of gasoline, increasing demand, the weak dollar and terrorist threats. He added that LIPA projects there may be a further shortfall of between \$55 and \$60 million in recovery of fuel costs. The Chairman continued that no one could have anticipated some of the recent world events, but LIPA needs to ensure that it meets its fuel budget, while maintaining a \$20 million net income. He added LIPA must deal with the issue, just as Suffolk County is dealing with a potential \$250 million shortfall for next year.

Chairman Kessel stated that LIPA will again look at some of the potential budget cuts that were not previously implemented, such as a hiring freeze, the closing of customer service offices, the imposition of a residential service activation fee, further reduction of LIPA's Clean Energy budget, elimination of postage paid envelopes and the imposition of a late payment charge. The Chairman indicated that LIPA will do all that it can to try and hold the bills where they are for the rest of the year. He added that LIPA will implement budget cuts to try to make up for the shortfall, but LIPA cannot be put in a financially precarious position.

Chairman Kessel stated that a rate increase is a last resort, but it must be considered as an option to keep LIPA financially stable. The Chairman stated that he wants to see the actual numbers for March and April and review the projections, but LIPA has to act. He added that some of the actions may have to be taken before May 1, 2004.

Chairman Kessel stated that he understands there will be frustration due to the 4.5 percent increase in LIPA's fuel surcharge, but gasoline prices and cable television rates have risen far more dramatically in comparison to electric bills. The Chairman indicated that this summer will be the toughest in the history of Long Island with respect to energy and the economy. He stated that LIPA will take a leadership role in dealing with this problem.

Chairman Kessel stated that Governor Pataki has made a proposal to the EPA to grant New York a waiver from the requirement of adding ethanol to gasoline. The Chairman continued that a waiver will significantly lower the price of gasoline, and it will drive down the prices of oil and natural gas which track the gasoline price to some extent. He added that a waiver will have some immediate impact on the marketplace, and it will ultimately help LIPA.

Chairman Kessel stated that LIPA has been working on an RFP for 200 to 600 MW of on-Island generation, a new transmission line to Long Island or off-Island generation to be transmitted to Long Island. The Chairman indicated that a selection has not been made, but is likely that LIPA staff will soon recommend

two projects to the Board, namely a transmission line and an on-Island generating plant.

Chairman Kessel stated that this is a major decision that potentially involves billions of dollars, and it is an intense and competitive process. The Chairman continued that this is the biggest decision that LIPA faces since the takeover of LILCO in 1998. He thanked Mr. Grilli, Mr. Kendall and Mr. Peterson for their extraordinary work.

Chairman Kessel stated that LIPA issued an RFP for small, combined cycle plants for the summer of 2005, and LIPA received fifteen responses. The Chairman continued that due to the need to have these facilities on-line for the summer of 2005, a recommendation will likely be made to the Board in either May or June of this year.

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

Mr. Hervey reported that LIPA's reliability, as measured by the frequency of interruptions, has improved by approximately ten percent since 2003. He indicated that approximately a year-and-a-half ago, reliability was decreasing, primarily due to bad weather. He further indicated that LIPA infused additional money into the system at that time, and the improvement in the reliability statistics is due to a combination of the additional investment in the system and the improved weather.

Mr. Hervey reported that LIPA's reliability indicators show an improving trend. He further reported that LIPA's system continues to show good performance with respect to minutes of customer interruption, with an average interruption duration of approximately 64 minutes, compared to the statewide average of 108 minutes. He noted that the statewide average is also typical for other utilities in the northeast.

Mr. Hervey reported that momentary interruptions continue to decrease. He indicated that LIPA averages approximately six momentary interruptions per customer. He added that unlike other utilities that work to improve only one or two areas at a time, LIPA and KeySpan have addressed all of the indicators at the same time without letting any area suffer.

Chairman Kessel thanked Mr. Hervey for his extraordinary work on LIPA's T&D system. He indicated that LIPA is fortunate to have someone as talented as Mr. Hervey, as well as the many other talented people working in the background.

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

Ms. McCarthy reported that for the period ended February 29, 2004, LIPA is approximately \$14 million under budget. She further reported that despite very strong sales as a result of cold weather in January and continued strong residential, commercial and industrial growth, fuel and purchased power costs

were well above budget and continue to give pressure. She indicated that the O & M expense was approximately \$5 million above budget, due mostly to the timing of the maintenance work versus capital expenditures.

Ms. McCarthy reported that LIPA's cash position at the end of February was approximately \$350 million, which is \$100 million in excess of LIPA's targeted rate stabilization fund balance. She indicated that the amount is invested in multiple instruments with varied maturity periods.

Deputy Chairman Foye thanked Ms. McCarthy for her work in preparing a productive session with LIPA's outside auditors and financial advisors at the last Finance and Audit Committee meeting.

Chairman Kessel stated that the next item on the agenda is Board consideration of a proposal to adopt revised LIPA guidelines regarding the use, award, monitoring and reporting of procurement contracts. The Chairman continued that Governor Pataki recently announced a proposed reform package for all State Authorities. He indicated that at the request of the Governor and also at the direction of John Cahill, the Governor's Chief of Staff and Secretary, LIPA is proposing to adopt revised guidelines regarding the use, awarding, monitoring and reporting of procurement contracts.

Chairman Kessel stated that LIPA is proposing to revise its guidelines in several ways, including the addition of a requirement to follow and incorporate by reference the Governor's Executive Order Number 127, and a requirement that

any proposals in response to LIPA procurements certify that they have not and will not employ or retain any individual or entity for the purpose of soliciting or securing any contract or modification thereto, pursuant to an agreement or understanding for receipt of compensation that is contingent or dependent upon the award of a contract with the Authority. He added that these provisions will make LIPA one of the first authorities in the State to ban contingency and success fees as part of its procurement process and to require full disclosure of relationships and procurements going forward.

Chairman Kessel stated that LIPA has been far more open than any other utility. The Chairman indicated that the Governor's reforms are unique, innovative and important to the process.

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

674. APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY GUIDELINES REGARDING THE USE, AWARDING, MONITORING AND REPORTING OF PROCUREMENT CONTRACTS

WHEREAS, the Long Island Power Authority (the "Authority") is required by Section 2879 of the Public Authorities Law to periodically review and adopt guidelines which detail the Authority's use, awarding, monitoring and reporting of Procurement Contracts and all other contracts; and

WHEREAS, the Authority wishes to revise its existing Procurement Guidelines to more fully reflect the procurement procedures and requirements that the Authority currently implements in connection with its procurements, as well as to incorporate a specific prohibition on the payment of contingent or "success" fees in connection with all Authority procurements;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves and adopts the “Long Island Power Authority Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts (March 24, 2004)” in the form presented at this meeting; and be it further

RESOLVED, that such Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts are to be effective with respect to the use, awarding, monitoring and reporting of Procurement Contracts and all other contracts, as defined in such Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts, entered into after the date hereof.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution approving and adopting, among other things, the determination that the siting and operation of Cummins Metropower, Inc. mobile power generating units, which would provide 44 MW at each of two sites, will not have significant adverse impact on the environment and will not require the preparation of an Environmental Impact Statement. The Chairman continued that the resolution also authorizes the issuance of a Negative Declaration with respect to such action. He indicated that there is a need for additional electric generating capacity to meet the growing energy needs and reliability requirements in the LIPA service area this summer and in future years.

Chairman Kessel stated that LIPA forecasts peak demand to grow between 80 and 90 MW each year from the summer of 2004 until 2012. The Chairman further stated that he believes the projections are extremely conservative. He added that the New York Independent System Operator recently increased its on-Island location reliability requirement from 95 to 99 percent, which requires LIPA to obtain an additional 194 MW of generating capacity on-Island by this summer.

Chairman Kessel thanked Trustee Polimeni and Deputy Chairman Foye for their input, which led the Authority to issue a Request for Proposals (RFP) for Mobile Generating Units. The Chairman indicated that proposals were submitted by a number of companies and Cummins was selected to provide twenty-four trailer mounted power generation units at sites in Holtsville and Shoreham.

Chairman Kessel indicated that the units will burn ultra low sulfur distillate oil, and they will be equipped with selective catalytic reduction for control of nitrogen oxides. He added that an oxidation catalyst will be used for control of carbon monoxide, volatile organic compounds and particulate matter.

Chairman Kessel stated that the units will be used only in an emergency during the peak demand season, and their daily use would be restricted to the hours between noon and 8:00 PM. The Chairman continued that the project and the two sites are fully discussed in a detailed Environmental Assessment of the potential environmental impacts of the facility that LIPA has prepared as lead agency under SEQRA. He indicated that the Environmental Assessment concludes that the proposed mobile generating units will not individually or cumulatively with other projects have a significant adverse impact on the environment, and thus will not require the preparation of an Environmental Impact Statement under SEQRA.

Chairman Kessel stated that he recommends that the Board approve this resolution to confirm LIPA's lead agency status under SEQRA for the LIPA Mobile

Generating Units Project, adopt the comprehensive Environmental Assessment for the Project and authorize the filing and publication of a Negative Declaration for the Project. The Chairman asked Mr. Grilli to make a presentation concerning the environmental impacts and the reasons for the Negative Declaration.

Mr. Grilli stated that at the request of the Board, LIPA sent out a Request for Proposals to approximately 150 firms. He indicated that LIPA received six responses. He added that following an extensive evaluation by a committee composed of LIPA's staff and consultants, Cummins Metropower, Inc. is being recommended to the Board as the supplier of the Mobile Generating Units to LIPA.

Mr. Grilli commended Mr. Peterson, Ms. Barish-Strauss and the LIPA procurement team for their hard work. He indicated that LIPA continues to discuss permitting issues with the DEC regarding the projects. He further indicated that LIPA is also reaching out to the communities where the projects are proposed to be located.

Mr. Kendall stated that LIPA's staff identified a need for the mobile generation for the Island for this summer and possibly the next four years. He continued that LIPA had 228 MW provided by GE mobile generating units in the summer of 2002 and 137 MW in the summer of 2003. He added that LIPA staff proposes that 88 MW be supplied by Cummins Metropower for this coming summer and possibly for the next four years.

Mr. Kendall stated that the Request for Proposals for Mobile Generation Units was initiated by LIPA in October of 2003. He continued that LIPA allowed the units to be as small as one megawatt and as large as 79.9 MW. He added that LIPA received six proposals, three of which were competitive.

Mr. Kendall stated that after an extensive analysis of the proposals, LIPA staff recommends that Cummins Metropower, Inc. be selected as the firm to provide the Mobile Generating Units. He continued that Cummins has been in the power generation business for more than 60 years, and they are a major provider for large mobile generation projects. He added that Cummins proposed the lowest cost for the project by a considerable margin, and a portion of the lease payments may be applied to the purchase price if LIPA opted to purchase the units.

Mr. Kendall stated that Cummins Metropower is a local company, and the proposed units are the most mobile and efficient units of those that were proposed. He continued that the units may be used at other sites in the future to solve reliability problems and to relieve overloaded distribution circuits. He indicated that Cummins Metropower had few exceptions to LIPA's contract terms, so it is likely that LIPA can expeditiously finalize a contract to have the units on line for LIPA's summer peak.

Trustee Maimoni asked what the useful life is for the proposed units. Mr. Kendall answered that the typical life of the units is approximately 25 to 30 years.

Trustee Gilliam asked what the extent of the community outreach has been. Mr. Grilli responded that LIPA has begun to reach out to public officials, including Brookhaven Town officials, local public officials and civic associations. He continued that LIPA has previously sited similar mobile generation in the Shoreham/Wading River area and the community has been very cooperative and understanding.

Mr. Grilli indicated that Mr. Kass and Mr. Rosen will discuss the environmental study.

Mr. Kass stated that he is from the firm of Carter Ledyard & Milburn, environmental counsel to LIPA, and he conducted an environmental study for LIPA with Mr. Rosen of AKRF, engineering consultants to LIPA. He continued that he recommends that the Authority adopt a Negative Environmental Assessment. He indicated that the environmental study looked at all relevant areas of environmental concern, both individually and cumulatively, and concluded there will be no adverse impacts under SEQRA.

Mr. Rosen stated that his firm did extensive modeling regarding air quality, and the analyses show that the emission of pollutants will be well below the significant impact levels, and both individually and cumulatively, the facilities would not violate National Ambient Air Quality Standards. He continued that the units will not cause any significant environmental impacts in other relevant areas.

Trustee Sinnreich asked how many hours of operation the study assumes for the units. Mr. Rosen answered that operation of the units is assumed to be limited to a daily maximum running time from noon until 8:00 PM.

Trustee Sinnreich asked whether the maximum possible use of the units is assumed in the study. Mr. Rosen answered affirmatively. He continued that in actuality only twenty-two units will operate at one time, with two spares.

Chairman Kessel stated that LIPA is working out some protocol issues concerning the use of the units during an emergency. The Chairman stated that he will personally authorize the operation of the units only in the event of an emergency or to protect public health and safety.

Trustee Fabio asked whether more information could be supplied regarding noise issues. Mr. Rosen responded that LIPA has requested that Cummins add noise attenuation features on the units. He continued that the units have stack silencers that are not normally used, and which significantly decrease ambient noise levels during the operation of the units.

Trustee Fabio asked whether the location of the units is far enough away from residential communities to prevent any impact. Mr. Rosen responded affirmatively.

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

675. APPROVAL OF NEGATIVE DECLARATION FOR THE LONG ISLAND POWER AUTHORITY MOBILE GENERATING UNITS PROJECT UNDER SEQRA

WHEREAS, the growing Long Island economy and other factors have resulted in a continued increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, the New York Independent System Operator has updated its on-Island locational reliability requirement from 95 to 99 percent, effective May 1, 2004; and

WHEREAS, the Long Island Power Authority (“LIPA”) staff anticipates the need to install approximately 88 megawatts (“MW”) of mobile generating units for Summer 2004 and beyond in order to meet customer needs, ensure system reliability and satisfy reliability criteria during Summer 2004 and thereafter; and

WHEREAS, over the past several months, LIPA’s staff has reviewed proposals submitted in response to its October 24, 2003 Request for Proposals to procure the needed additional capacity from mobile generating units and has recommended the selection of Cummins Metropower, Inc.; and

WHEREAS, LIPA’s staff prepared, with the assistance of environmental engineers, consultants and counsel, a comprehensive Environmental Assessment of the potential environmental impacts of the proposed LIPA Mobile Generating Units Project in order to determine, under the State Environmental Quality Review Act (“SEQRA”), whether that project would or might have any significant adverse environmental impacts; and

WHEREAS, LIPA has advised all other potentially involved agencies that LIPA proposes to serve as “lead agency” under SEQRA in connection with the environmental review of the project, and all such agencies have consented to LIPA’s serving in such capacity; and

WHEREAS, the Environmental Assessment finds that no significant adverse environmental impacts will result from the project and, accordingly, that no environmental impact statement is required under SEQRA;

NOW, THEREFORE, BE IT RESOLVED, that LIPA hereby (a) confirms that it is the “lead agency” for the review of the LIPA Mobile Generating Units Project under SEQRA, (b) approves and adopts the comprehensive Environmental Assessment, dated March 2004, for the project, and (c) for the reasons set forth in and on the basis of such Environmental Assessment, finds and determines that (1) the siting and operation of the LIPA Mobile Generating Units Project at Shoreham and Holtsville in Suffolk County, as described in the Environmental Assessment, and the carrying out of the project will not, either individually or cumulatively with other LIPA projects, have a significant adverse effect on the

environment and (2) an environmental impact statement need not be prepared in connection with such proposed action; and be it further

RESOLVED, that the Chairman or his designee is directed to prepare, file and publish a Negative Declaration, effective immediately, for such proposed action in accordance with the requirements of SEQRA, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to ensure that the foregoing is carried out.

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Chairman Kessel stated the next item on the agenda is Board consideration of a resolution to approve the selection of Cummins Metropower pursuant the Request for Proposals for the Summer Mobile Generation Project, and authorize the Chairman or his designee to execute and effect a four-year lease with an option to purchase agreement, and other related agreements with Cummins to lease and receive services needed for the Project.

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

676. APPROVAL OF THE SELECTION OF CUMMINS METROPOWER, INC., THE SUMMER MOBILE GENERATION PROJECT AND LIPA'S ENTRY INTO AGREEMENT WITH CUMMINS METROPOWER, INC. FOR THE LEASE/PURCHASE OF THE CUMMINS MOBILE GENERATING UNITS

WHEREAS, the growing Long Island economy and other factors have resulted in a continued increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, the New York Independent System Operator has updated its on-Island locational reliability requirement from 95 to 99 percent, effective May 1, 2004; and

WHEREAS, the Long Island Power Authority ("LIPA") staff anticipates the need to install approximately 88 megawatts ("MW") of mobile generating units for

the summer 2004 and beyond in order to meet customer needs, ensure system reliability and satisfy reliability criteria during summer 2004 and thereafter; and

WHEREAS, over the past several months, LIPA's staff has reviewed proposals submitted in response to its October 24, 2003 Request for Proposals to procure the needed additional capacity from mobile generating units and has recommended the selection of Cummins Metropower, Inc.; and

WHEREAS, it is in the best interest of LIPA to meet this immediate need for electric power and energy by entering into a 4-year lease with an option to purchase agreement and other related agreements with Cummins Metropower, Inc.; and

WHEREAS, by separate Resolution, the Trustees have determined that LIPA's Mobile Generating Units Project will not have any significant adverse environmental impacts and, accordingly, have adopted a Negative Declaration for such Project pursuant to the State Environmental Quality Review Act;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect a 4-year lease with an option to purchase agreement and other related agreements and arrangements with Cummins Metropower, Inc., and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to implement LIPA's Mobile Generating Units Project in order to ensure the availability of sufficient additional power supply resources to serve LIPA's customers; and be it further

RESOLVED, that all action taken by the Chairman, the Chief of Staff and the Vice President – Power Markets with respect to the Project referred to in the preceding resolutions are hereby in all respects ratified and approved.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to execute an amendment to the Flynn Capacity Supply Agreement (CSA) between LIPA and the New York Power Authority. The Chairman continued that LIPA currently purchases the full output from the Richard Flynn Combined Cycle Generating Facility in Holtsville pursuant to the CSA. He added that service commenced in May 1994 and is due to expire on April 30, 2014.

Chairman Kessel stated that because of the relatively high cost of gas reflected in the energy charge provision of the CSA, Flynn would have operated at a very low capacity factor when it commenced commercial operation, which was not in the interest of Long Island ratepayers. The Chairman indicated that LIPA has negotiated a revised energy pricing arrangement in the form of Amendment No. 6 to the CSA to ensure that Flynn will operate at a high capacity factor. He added that similar amendments were negotiated on prior occasions.

Chairman Kessel stated that the most recent amendment commenced on January, 2001 and expired on December 31, 2002, but LIPA and NYPA have agreed to extend that amendment on a month-to-month basis pending the outcome of negotiations, which have concluded. The Chairman continued that in addition to the energy charge, the CSA includes a capacity charge and a variable operation and maintenance charge. He indicated that LIPA's staff and NYPA have reached agreement on basic terms, including capacity charges, energy prices, tax, shared savings, reimbursements and expiration, and the agreement will result in an immediate annual reduction of approximately \$3 million to the Flynn capacity charges for a period of at least five years.

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

**677. APPROVAL OF AUTHORIZATION TO EXECUTE AMENDMENT NO. 6 TO
THE FLYNN FACILITY CAPACITY SUPPLY AGREEMENT**

RESOLVED, that the Chairman or his designee be, and hereby is, authorized to execute Amendment No. 6 to the Capacity Supply Agreement between LIPA and

NYPA, with such terms and conditions as he deems necessary or advisable and as are consistent with the basic terms set forth in the attached memorandum.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution approving additions to LIPA's tariff in order to implement LIPA's Green Choice Program. The Chairman continued that LIPA's staff recommends the approval of additions to LIPA's Tariff for Electric Service to establish a new LIPA Green Choice Program, which is designed to foster the development and sale of green power generated from renewable energy sources such as wind, solar and biomass. He added that Governor Pataki has advocated that all utilities adopt a similar program, which will further develop renewable energy generation that benefits the environment.

Chairman Kessel stated that it is important to note that customer participation in the program will be entirely voluntary, and the program is revenue-neutral to LIPA. The Chairman continued that green marketers that meet the eligibility criteria set forth in LIPA's tariff could market environmental attributes to LIPA's retail customers, and they will be entitled to receive billing services from LIPA for which LIPA will recover its costs. He indicated that retail customers will enter into agreements directly with the marketers.

Chairman Kessel stated that this proposal was noticed in the State Register on December 24, 2003 and two public hearings were held on February 26, 2004. The Chairman continued that the public was also given the opportunity to submit

written comments by March 3, 2004. He added that two members of the public spoke in support of the proposal at the hearings, and no other public comments were received by the Authority.

Chairman Kessel stated that the LIPA Green Choice program is a major step forward for LIPA and a part of the Governor's overall program to try to reduce the dependence on fossil fuel by encouraging the sale and investment in green technology. The Chairman continued that in addition to the price of oil, the environmental consequences associated with the use of oil ought to be further examined, and where possible the dependence on fossil fuels should be reduced. He added that he is proud that LIPA will be one of the first utilities in New York State to promote this program.

Chairman Kessel stated that a number of environmental groups are supportive of and have worked on this program. The Chairman continued that this program hopefully will make people more aware of renewables and their importance to LIPA's energy portfolio. He indicated that LIPA cannot meet all of its energy needs through renewable resources, but the more that can be met by renewables, the less dependent LIPA will be on fossil fuels, the better the environment will be, and ultimately the lower the cost will be for LIPA's customers.

Chairman Kessel stated that he is excited about the program. The Chairman thanked Mr. Germano, Mr. Jackson, Mr. Pallotta and LIPA's marketing staff for their hard work on the tariff.

Trustee Nugent stated that the program is phenomenal, but as a companion piece to the program, she wishes to see more emphasis on conservation. Chairman Kessel agreed. The Chairman stated that LIPA has a Clean Energy Initiative, which is the largest in the State. He indicated that LIPA is committed to a ten-year, \$385 million expenditure, and many LIPA programs help people utilize less energy.

Chairman Kessel stated that the idea of promoting conservation as a “quit the habit” campaign is an interesting approach, and he will ask Mr. Cunningham to examine the matter. The Chairman continued that Long Islanders are in the throes of an energy price crisis, the likes of which they have not seen for decades, if ever. He indicated that one solution is to use less energy, including the less frequent use of cars.

Chairman Kessel stated that the average Long Islander will be pinched by the skyrocketing cost of fuel this summer, and world events may worsen the situation. The Chairman indicated that LIPA will emphasize conservation as much as possible this summer.

Trustee Nugent stated that LIPA must evaluate the effectiveness of its conservation programs. She indicated that the ratepayers hold the power to reduce their individual costs of energy. Chairman Kessel agreed.

Chairman Kessel stated that LIPA has recently completed an evaluation of LIPA's Clean Energy Programs, and the results from most of the programs are astounding from energy savings and environmental perspectives. The Chairman indicated that the challenge is the growth in demand that results from increased development. He added that demand is growing faster than LIPA can meet it, and LIPA could save 200 to 300 MW if every customer did one additional thing this summer to conserve energy.

Trustee Fabio stated that there should be a structure whereby a portion of the green marketer's profit would be set aside for the development of more renewable energy resources. He continued that it seems inconsistent to encourage customers to take advantage of programs to foster renewables yet charge more to those customers.

The Chairman noted that there are not many green marketers in existence, and the profit margin is so little that the marketers have limited ability to bear additional costs and survive. He added that he hopes that within a year or two, 10,000 to 20,000 Long Islanders will enroll, and that the volume will ultimately lower the price of renewable energy to a competitive level with fossil fuel generation. He further stated that LIPA has to prepare itself to invest in green energy. He indicated that LIPA's Green Choice program shows that LIPA is taking a leadership role in this State in advancing Governor Pataki's policies, and that LIPA must bear some of the upfront costs associated with renewable technologies.

The Chairman stated that New York is about to adopt a renewable portfolio standard that will require all utilities, including LIPA, to spend a certain amount of money and resources on renewable technologies, even though they are more expensive. He added that if half the money spent to subsidize coal, nuclear, natural gas and oil were applied to renewable technologies, the prices would be competitive. He indicated that LIPA's wind project may be more expensive than a traditional gas-fired plant, but it is highly competitive with and possibly cheaper than other renewables. He also noted that the wind project is good for Long Island because it not only uses an emission-free product, but it is one of the few massive projects that can be sited.

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

678. APPROVAL OF TARIFF REVISIONS TO ESTABLISH LIPA GREEN CHOICE PROGRAM

WHEREAS, the Long Island Power Authority's ("Authority") staff issued a Proposal to make additions to LIPA's Tariff for Electric Service to establish a new LIPA Green Choice Program designed to foster the growth of "Green Power" generated from renewable energy resources in the State; and the program would operate by encouraging eligible "Green Marketers" to sell "environmental attributes" of Green Power to LIPA's customers; and

WHEREAS, those Green Marketers would be entitled to receive billing services from LIPA that entail a single bill rendered by LIPA to its customers separately presenting LIPA's charges for electric service and the Green Marketer's charges for the attributes; and LIPA would provide the billing services pursuant to a Billing Services Agreement ("BSA"), which would be designed to recover LIPA's costs and be the same for each Green Marketer; and

WHEREAS, following Public Notice in the State Register on December 24, 2003, two public hearings were held on the Proposal on February 26, 2004; the public was afforded the opportunity to submit written comments; two members of the public spoke in support of the Proposal at the hearings, and no other public

comments on the Proposal have been received by the Authority; and the time period for submitting public comments has expired; and

WHEREAS, for the reasons set forth in the preceding Memorandum, the Proposal is in the public interest;

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

RESOLVED, that the attached Tariff Leaves reflecting our action herein are approved.

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Deputy Chairman Foye and Trustee Maimoni left the meeting.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution that authorizes the Chairman and the Chief Financial Officer to enter into one or more fixed-to-floating swap agreements in an aggregate notional amount of as much as \$400 million relating to outstanding Electric System General Revenue Bonds for the purpose of securing debt service savings based on historical results, as indicated in the resolution. The Chairman asked Ms. McCarthy to explain the proposed resolution.

Ms. McCarthy stated that Morgan Stanley, LIPA's Financial Advisor, has indicated that it is financially prudent for LIPA to maintain a portion of up to 30 percent of LIPA's interest rate exposure in the form of variable rate instruments in light of LIPA's mix of assets and projected revenues. She continued that Morgan Stanley further advises that LIPA should utilize one or more fixed-to-floating interest rate swaps to achieve that exposure, and that the Authority may achieve

significant debt service savings. She added that the resolution will authorize LIPA to enter into fixed-to-floating interest rate swap agreements for the lesser of a notional amount of not more than \$400 million in the aggregate or such notional amount that together with the notional amount of other floating rate exposure shall not result in a net floating rate exposure in excess of twenty percent.

Ms. McCarthy indicated that the use of interest rate swaps results in certain risks for the Authority, including the risk that the amounts payable on the proposed fixed-to-floating rate swap will prove to be greater than those assumed in calculating the expected savings, and the risk that the counterparty may default. She stated that LIPA's Financial Advisor indicates that the use of fixed-to-floating rate swap agreements will result in a lower rate of interest, the associated risks are manageable and reasonable in relation to the potential benefits, and the proposed swap agreements are necessary or convenient in the exercise of the Authority's powers.

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

679. ADOPTING RESOLUTIONS APPROVING FIXED-TO-FLOATING INTERESTRATE SWAP AGREEMENTS

WHEREAS, the Electric System General Revenue Bond Resolution (the "General Bond Resolution") adopted by the Long Island Power Authority (the "Authority") on May 13, 1998 permits the Authority to enter into Financial Contracts (as defined therein), which include interest rate caps or collars and forward rate, future rate and certain swap agreements with Qualified Counterparties (as defined therein); and

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

WHEREAS, on September 10, 1998, the Authority adopted guidelines (the "Guidelines") for the use of such agreements in order to assure that such agreements are used for appropriate purposes and to assure that the risks potentially associated with such agreements are effectively managed and minimized; and

WHEREAS, the Authority has outstanding several series of fixed rate bonds which include, among others, the Electric System General Revenue Bonds, Series 1998B, Series 2000A, Series 2001A, and Series 2003C (such four series being referred to herein as the "Specified Fixed Rate Bonds"); and

WHEREAS, as part of its plan of finance the Authority intends to increase its variable rate exposure from current levels to improve the matching of its assets and liabilities; and

WHEREAS, as part of such plan the Authority wishes to enter into one or more fixed-to-floating interest rate exchange or swap agreements (each such agreement hereinafter referred to as "Fixed-to-Floating Rate Swap Agreement") in connection with a portion of the Fixed Rate Bonds, which Fixed-to-Floating Rate Swap Agreements would provide for an obligation by the Authority to make payments to the other party thereto based upon a variable rate specified therein and for such other party to make payments to the Authority based upon a fixed rate index to be specified therein; and

WHEREAS, under current market conditions the Authority has been advised that it may achieve significant debt service savings by entering into one or more Fixed-to-Floating Rate Swap Agreements;

NOW, THEREFORE, BE IT RESOLVED BY THE TRUSTEES OF THE LONG ISLAND POWER AUTHORITY, AS FOLLOWS:

1. The Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to enter into fixed-to-floating rate swap agreements with such Qualified Counterparties (as defined in the General Bond Resolution) as may be selected by the Authority in accordance with the Guidelines, which agreements shall (i) relate to a notional amount of not more than \$400,000,000 in the aggregate, (ii) commence on such date or dates as the Chairman or Chief Financial Officer specifies, (iii) have a term ending on or prior to the final maturity of the Fixed Rate Bonds to which they relate, as the Chairman or Chief Financial Officer specifies, (iv) provide for payments to the Authority determined based upon such index or formula as may be approved by the Chairman or Chief Financial Officer, and (v) otherwise be in accordance with the Guidelines and substantially in the form of fixed-to-floating rate swap agreements entered into by the Authority in relation to other fixed-to-floating rate interest rate swap transactions, with such changes and additions to and omissions from such form as such authorized executing officer deems in his discretion to be

necessary or appropriate, such execution to be conclusive evidence of such approval. In connection with the authorizations herein set forth, the Authority has determined, after consideration of the risks inherent in the use of fixed-to-floating rate swap agreements, including those outlined in the Chairman's memo submitted to the Trustees relating thereto, and the recommendation of the Authority's financial advisor relating to the use of the proposed Fixed-to-Floating Rate Swap Agreements, that (a) the use of such Fixed-to-Floating Rate Swap Agreement will, in the judgment of the Authority, result in lowering the rate of interest payable in connection with the Authority's indebtedness, (b) the risks of the proposed Fixed-to-Floating Rate Swap Agreements are both manageable and reasonable in relation to the potential benefits; and (c) the proposed swap agreements are necessary or convenient in the exercise of the power and functions of the Authority under the Long Island Power Authority Act.

2. Each Authorized Representative (as defined in the General Bond Resolution) is hereby authorized and directed to execute and deliver any and all documents and instruments and to do any and all acts necessary or proper for carrying out and implementing the terms of, and the transactions contemplated by, the fixed-to-floating interest rate swap agreements and this resolution and each of the documents authorized thereby and hereby.

3. This resolution shall take effect immediately.

* * *

Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 12:37 PM.

Respectfully submitted,

Stanley B. Klimberg