

LONG ISLAND POWER AUTHORITY
MINUTES OF THE 167th MEETING
HELD ON MARCH 24, 2005

Pursuant to notice dated March 17, 2005, the Long Island Power Authority (the "Authority") was convened for the one hundred and sixty-seventh time at 10:00 AM at the Long Island Power Authority Assembly 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
Nancy Nugent
James M. Shuart
Jonathan Sinnreich

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Elizabeth McCarthy, Chief Financial Officer, Bruce Germano, Vice President – Retail Services, 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 he would like to designate Trustee Auerbach as Deputy Chairman for this meeting.

Chairman Kessel stated that the first item on the agenda is the adoption of the minutes of the Board's last meeting held on January 26, 2005.

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

**730. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE
JANUARY 26, 2005 MEETING OF THE BOARD OF TRUSTEES OF THE
LONG ISLAND POWER AUTHORITY**

RESOLVED, that the Minutes of the meeting of the Authority held on January 26, 2005 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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Chairman Kessel stated that since the last Board meeting LIPA has been very busy due to a number of storms. The Chairman continued that there were no ice storms, and the number of outages has been kept to a minimum. He noted

that any time a storm occurs, it is a very harrowing job to restore service outages, and he thanked LIPA's work force for their great work during the difficult weather.

Chairman Kessel stated that recently there was a sudden storm with wind gusts in excess of 50 miles per hour. The Chairman continued that LIPA called in extra crews, who worked overnight and outside facing these difficult elements, and they are a great group of people.

Chairman Kessel thanked Mr. Hervey, Mr. Cunningham, Mr. Lowndes and LIPA's staff who worked very hard during the storm. The Chairman indicated that LIPA's transmission & distribution system is performing extremely well. He added that during storms, the number of outages has decreased significantly, which is a testament to LIPA's investment in the electric system.

Chairman Kessel stated that he continues to be concerned over the rising price of oil and natural gas, which is a major threat to the financial stability of LIPA and other utilities, as well as to the average customer. The Chairman continued that it is stunning that oil and natural gas prices continue to climb to unprecedented levels, and it has a harsh financial impact upon LIPA and other utilities. He added that if oil prices continue to climb, there will be a devastating impact on Long Island's economy due to the heavy dependence on oil and natural gas.

Chairman Kessel stated that higher fuel prices will not only impact LIPA, and ultimately its customers, but will also impact many of the major industries on

Long Island. The Chairman continued that the tourism industry is localized, and it depends largely upon people being able to drive. He added that Long Island has one of the heaviest concentrations of cars per household, and rising gasoline prices are a real threat to Long Island and LIPA's customers.

Chairman Kessel stated that the high price of oil and natural gas has increased heating costs this winter. The Chairman continued that the current price for oil is approximately 50 dollars per barrel, and it does not appear that the price will drop significantly during the remainder of the year. He indicated that an incident such as a terrorist strike may cause oil prices to reach unprecedented levels, and LIPA will keep a close eye on it.

Chairman Kessel stated that as of the close of trading on March 22, 2005, residual fuel and natural gas prices have risen 30 percent from the beginning of 2005. The Chairman continued that LIPA is currently 25 percent over budget for oil, and 14 percent over budget for natural gas. He added that there is a commensurate rise in the cost of purchased power.

Chairman Kessel stated that 90 percent of all electricity produced on Long Island is generated from oil and natural gas, and the impact of rising prices is significant. The Chairman continued that if the prices of oil and natural gas continue at current levels, LIPA will under-recover fuel costs by approximately \$50 million,

Chairman Kessel stated that LIPA's commodity exposure is 63, 35 and 22 percent hedged for 2005, 2006 and 2007, respectively. The Chairman continued that the current mark to market gain on the hedge positions is \$190 million dollars, and \$110 million relates to 2005. He indicated that through February, LIPA's hedges have saved approximately \$9.5 million.

Chairman Kessel stated that price trends for 2006 and 2007 are tracking higher than current price trends for 2005. The Chairman continued that there are a number of factors for the price increases, which are occurring during a time of plentiful supplies of oil and natural gas. He added that OPEC has increased production several times.

Chairman Kessel stated that the price of oil increased more than one dollar per barrel the last time OPEC announced an increase. The Chairman continued that supplies of refined products such as gasoline are plentiful and at a level they should be. He noted that the price of oil is unabated. He stated that the price of oil has been detached from the supply and demand, and this seems to be related to trading practices that are speculative in nature. The Chairman indicated that there may also be profiteering.

Chairman Kessel stated that the laws of demand no longer seem to apply to the prices of oil and gas. The Chairman continued that now it is so speculative, and there are so many different factors behind the price fluctuations, that it is difficult to get a handle on this area. He indicated that this poses a threat

to the economy of Long Island, particularly with respect to tourism and the cost of food.

Chairman Kessel stated that LIPA's budget currently reflects LIPA's hope that electric bills, including fuel surcharges, will not increase this year. The Chairman continued that although LIPA will try not to increase bills, if prices do not begin to come down or if they continue to rise, LIPA will not be able to hold its bills at the current level without negatively impacting its financial integrity. He added that he has asked Ms. McCarthy and LIPA's staff to take a hard look at the budget to see whether additional cuts can be made.

Chairman Kessel stated that if oil prices do not drop to \$50 per barrel or below, it will be difficult to come up with the necessary \$50 million in budget cuts. The Chairman continued that if LIPA had to increase bills, the increase would be somewhere between one and two percent. He added that the later that LIPA waits to act, the fewer months there will be in the year to recover the costs, and the higher the increase will be.

Chairman Kessel stated that LIPA will have to make some budget reductions and sacrifices. The Chairman continued that LIPA will not sacrifice having sufficient resources for the summer, nor will LIPA defer maintenance, including tree trimming, pole replacement and preparations for the summer season.

Chairman Kessel stated that since LIPA's last Board meeting, Moody's upgraded LIPA to the A category for the first time, and they are talking about an additional upgrade. The Chairman continued that LIPA's finances are critically important, and LIPA must balance this with the needs of LIPA's customers. He added that although the price per barrel of oil rose more than 200 percent since LIPA acquired LILCO in 1998, LIPA's bills, including the fuel surcharge, are approximately the same as LILCO's were seven years ago.

Chairman Kessel indicated that you cannot buy a major service today for the same dollar amount that you were spending in 1997 and 1998. The Chairman continued that had LILCO remained Long Island's electric company, the difference between LIPA's rates and where LILCO's rates would be today is about 30 to 40 percent less for LIPA. He added that LIPA will not increase bills unless it is absolutely essential to protect LIPA's financial integrity.

Trustee Sinnreich asked whether LIPA has the ability to ensure that KeySpan is cutting costs and achieving maximum savings. Chairman Kessel responded that LIPA worked with KeySpan last year when faced with a similar problem, and LIPA has to be able to reduce the contractual costs to some extent. The Chairman indicated that LIPA will take a hard look at this. Trustee Sinnreich stated that KeySpan should also be taking a hard look at their own costs, regardless of whether there are contractual issues, to ensure that they are achieving every savings. Chairman Kessel indicated that LIPA should discuss this with KeySpan.

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

Mr. Hulkower stated that it is early in the year to be discussing how LIPA will do against its goals, noting that projections are based largely on commitments from customers. He indicated that economic development, electro technologies and the night light program are close to their goals.

Mr. Hulkower stated that LIPA has commitments at this point of 15 MW of added load, against a goal of 31 MW. He continued that the coincident peak reduction year-to-date actual is at 1.979 MW, and the year-end goal is 10.415 MW.

Deputy Chairman Foye asked how LIPA is doing against expectations with respect to the cost per kilowatt hour. Mr. Hulkower responded that LIPA's results are at about the levels targeted. He stated that LIPA is at 9.3 cents per kWh for energy affordability and 6.8 cents per kWh for HVAC. He indicated that LIPA's residential lighting and appliances program is at 1.7 cents per kWh, which is cost effective. He added that the Solar Pioneers program is more expensive, but LIPA is committed to the program.

Mr. Hulkower reported that LIPA's goal with respect to NYISO demand response goals is a 415 MW reduction. He continued that LIPA has not yet begun to sign up customers for peak load reduction programs, but he expects that LIPA will hit the same target as last year.

Mr. Hulkower reported that LIPA's e-News subscriptions are down, due to the effects of spam legislation on its distribution. He indicated that LIPA is looking at the regulations to find ways to communicate the information to customers.

Mr. Hulkower reported that residential arrears continue to be high and they are up by approximately the same percentage as LIPA's total revenues. He indicated that 30-day and 60-day commercial arrears are down by 5.1 percent and 4.5 percent, respectively, but 90-day commercial arrears are up by 8.5 percent.

Trustee Fabio asked whether there has been a determination as to what is collectible and what is uncollectible. Mr. Hulkower answered that LIPA has a write-off rate of four-tenths of one percent, which is very low. He indicated that LIPA is paying close attention to this matter.

Mr. Hulkower reported that LIPA continues to meet its SAIFI targets regarding frequency of interruptions in all operating areas, and LIPA's CAIDI regarding duration of interruptions is also meeting acceptable performance levels. He continued that February results were better than the five-year average. He added that March was a difficult month, and the statistics will not be favorable.

Chairman Kessel stated that through February, LIPA customers on average experienced .837 outages per year, compared to an average of 1.128 for other overhead utilities. The Chairman continued that LIPA's CAIDI of 62 minutes is

approximately one-half the average of 117 minutes for other overhead utilities, which is a great credit to LIPA's investment in the system and the excellent work of LIPA's work force.

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

Ms. McCarthy reported that for the two months ended February 28, 2005, LIPA had a deficit of \$39.5 million, which is approximately \$900,000, or two percent, higher than projected. She continued that the deficit is driven by the fact that revenues are approximately \$900,000 below budget, due primarily to lower than budgeted residential sales growth, and higher than expected growth in the commercial customers' participation in the Customer Choice Program.

Ms. McCarthy reported that fuel and purchased power costs through February 28, 2005 were approximately \$2.9 million lower than budgeted, due primarily to lower than budgeted prices for natural gas delivered, as offset by higher than budgeted fuel oil prices. She continued that payments in lieu of taxes are approximately \$2.5 million above budget for the two-month period, due to higher than expected increases in school taxes. She indicated that the year end impact may be approximately \$6 million.

Ms. McCarthy stated that at the end of February, LIPA had approximately \$390 million in cash, with \$250 million in the rate stabilization fund, and with the other \$140 million in operating funds. She continued that those funds are

invested in a variety of instruments, with approximately 83 percent having a term of less than three months.

Trustee Sinnreich asked what accounts for the higher than expected school taxes. Ms. McCarthy responded that LIPA assumed that the increase in school taxes would moderate this year from the double digit increases in the last couple of years and the amount was underestimated.

Trustee Akeson stated that the combined Finance and Audit Committee held a thorough meeting today. She continued that she appreciates the discussion concerning the impact of rising gas and oil prices, and all that Ms. McCarthy and LIPA's staff are doing to make sure that LIPA's finances are sound.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve the execution and delivery of an agreement providing for the extension of the date by which the Authority may exercise its right under the Generation Purchase Right Agreement (GPRA) to purchase all of the outstanding interests in KeySpan Generation LLC. The Chairman continued that this will be the last extension, and the agreement provides that the parties will work in good faith to resolve various issues.

Chairman Kessel stated that prior to the Authority's acquisition of LILCO, KeySpan purchased LILCO's non-nuclear electric generating facilities and transferred them to KeySpan Generation. The Chairman continued that pursuant to the GPRA terms, the Authority obtained the right to purchase from KeySpan all

of the interests in KeySpan Generation LLC, the owner of the former LILCO's generating plants, at fair market value. He added that the GPRA, as amended in 2002, provides that the right must be exercised on or before May 28, 2005, and LIPA has concluded that it will be beneficial to extend the date by which the right may be exercised in order to provide additional time to fully assess the implications of various alternative business structures potentially available to the Authority prior to making a decision.

Chairman Kessel stated that he appreciates that KeySpan has graciously agreed to such an extension. The Chairman continued that both parties have agreed that the extension will also afford additional opportunity to continue to discuss issues affecting the Authority and KeySpan. He added that this agreement will extend the date by which the right under the GPRA must be exercised to December 15, 2005, and it will memorialize the agreement of the parties to work in good faith to resolve various issues, including a possible settlement under the GPRA.

Chairman Kessel stated that he believes this agreement is in the best interest of the Authority and its customers. The Chairman indicated that the agreement provides for no further extensions, and LIPA will enter into discussions with KeySpan regarding settlement of the GPRA.

Chairman Kessel stated that there is an opportunity to discuss a settlement that would involve the purchase of some, but not all, of the generation and possibly at a set price that is acceptable to both parties. The Chairman continued

that the extension will give LIPA the ability to discuss settlement, while also allowing LIPA to look at the ownership of generation in the context of what the energy picture should look like on Long Island following LIPA's strategic review.

Chairman Kessel thanked Mr. Catell and KeySpan for their willingness to agree to the extension. The Chairman indicated that it is a straightforward agreement, and he reiterated that he believes it is in the best interest of LIPA and its customers.

Deputy Chairman Foye asked whether LIPA paid consideration for this extension. Chairman Kessel answered that nothing was given from LIPA other than goodwill.

Trustee Affrunti asked if this is going to take place before December 15, 2005. Chairman Kessel responded that it will have to, and LIPA will need to conclude its strategic analysis by Labor Day.

Trustee Sinnreich stated that he strongly opposed the prior extension, but given that LIPA is undertaking a study concerning LIPA's own future, it makes eminent sense.

Chairman Kessel thanked the members of LIPA's strategic review group for their help. The Chairman indicated that the group has worked closely not only on the extension, but on some of the alternatives that are being considered.

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

731. RESOLUTION AUTHORIZING THE CHAIRMAN TO ENTER INTO AN AGREEMENT WITH KEYSpan CORPORATION EXTENDING THE DATE BY WHICH THE GENERATION PURCHASE RIGHT AGREEMENT MAY BE EXERCISED AND SETTING FORTH AN AGREEMENT TO WORK IN GOOD FAITH TO RESOLVE CERTAIN ISSUES

WHEREAS, the Generation Purchase Right Agreement (“GPRA”), dated as of June 26, 1997, as amended, provides for a one-time right (the “Right”) to purchase all of the Interests (as defined in the GPRA) in KeySpan Generation LLC, which Right may be exercised by delivering written notice to KeySpan Corporation (“KeySpan”) on or before 12:01 a.m. May 28, 2005; and

WHEREAS, for the reasons set forth in the accompanying Memorandum, it is proposed that an agreement be entered into with KeySpan which extends the date by which the Right to purchase all of the Interests in KeySpan Generation LLC may be exercised to December 15, 2005, and sets forth the agreement of the parties to work in good faith to resolve various issues including a possible settlement under the GPRA as well as other issues which may impact the future of LIPA and KeySpan, including KeySpan’s future relationship and contracts with LIPA; and

WHEREAS, the Right, if exercised, will be exercised by Long Island Lighting Company d/b/a LIPA, as assignee of the Authority;

NOW, THEREFORE, BE IT RESOLVED, that (i) the Chairman in his capacity as Chairman of LIPA or his designee be, and hereby are, authorized to enter into the above-noted agreement, (ii) the Authority’s assignment of the GPRA and the Right to LIPA is hereby ratified and confirmed, and (iii) the authority granted to the Chairman hereunder shall be deemed to include the authority to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman, to effectuate the foregoing.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to accept the Draft Environmental Impact Statement (DEIS) for the Caithness Bellport Energy Center, and authorize the Chairman or

his designee to release the DEIS for public review under the New York State Environmental Quality Review Act (SEQRA). The Chairman continued that LIPA recognizes the need for additional power to be generated on Long Island or to be transmitted from off-Island sources. He added that LIPA's staff projects that peak demand will grow each year by approximately 70 to 80 MW between now and 2012.

Chairman Kessel stated that LIPA also recognizes the need to increase competition within its service area in order to diversify its base of suppliers to meet its need for additional resources. The Chairman continued that in response to LIPA's request for proposals to provide energy, capacity and ancillary services, Caithness Bellport, LLC proposed to site, install and operate a combined cycle combustion turbine generator with output of approximately 350 MW, and other associated equipment on an approximately 15-acre site within a 96-acre parcel in the Town of Brookhaven's Empire Development Zone.

Chairman Kessel indicated that the project will include state-of-the-art combustion and emission control technology with air cooled condensers, and it will be fueled by natural gas with a 30-day liquid fuel back-up supply. The Chairman continued that LIPA will use the plant's capacity, energy and ancillary services to help meet Long Island's load.

Chairman Kessel stated that in view of the size and magnitude of the project, on November 18, 2004, the Board approved the issuance by LIPA of a positive declaration and authorized the preparation of a DEIS for the project

under SEQRA. The Chairman continued that in early December 2004, LIPA publicly released a draft scope of work describing the types of studies that LIPA will conduct as the lead agency. He added that LIPA held a public meeting on the draft scope on January 5, 2005.

Chairman Kessel stated that after extending the period for written comments, the final scope of work for the DEIS was released on January 12, 2005. The Chairman continued that based on the final scope, Caithness Bellport, LLC has prepared a DEIS with the assistance of LIPA staff and its consultants. He indicated that the DEIS fully describes the project and site, and it examines all areas of potential environmental concern.

Chairman Kessel stated that the DEIS concludes that the operation of the project will not individually nor cumulatively have a significant adverse impact on the environment. The Chairman continued that construction of the project may result in significant traffic levels for an appropriately three-month period during an approximately 26-month construction period, but the DEIS concludes that the impact is not significant because the increased traffic levels will occur over a relatively short period of time. He added that no mitigation is required.

Chairman Kessel stated that a public hearing is proposed to be held on the DEIS on or about April 20, 2005, and LIPA will accept written comments through May 4, 2005. The Chairman continued that Caithness Bellport, LLC is currently in the process of filing applications with the New York State Department of Environmental Conservation, the New York State Department of Public Service,

the United States Environmental Protection Agency and the Town of Brookhaven for approval to construct and operate the project. He indicated that he recommends approval of the resolution.

Chairman Kessel asked Ms. Brechter, LIPA's Manager of Environmental Affairs, to make a presentation concerning the DEIS.

Ms. Brechter stated that in June 2004, LIPA selected the Caithness Project as part of a diverse portfolio of resources to develop. She indicated that LIPA's staff and consultants have been working carefully to prepare the DEIS. She added that LIPA relied on field studies, technical reviews, analyses and professional expertise.

Ms. Brechter stated that LIPA staff believes the DEIS is adequate in scope and content to be released for public review. She indicated that LIPA staff believes there are no potentially significant environmental impacts associated with this project. She added that it is well-sited, well- designed and any potential environmental impact is properly mitigated.

Ms. Brechter stated that Caithness has been working hard with LIPA to reach out to the community and government officials. She continued that she believes that the effort has worked well to educate and inform the community. She indicated that LIPA will consider the public comments, and incorporate them into the final EIS.

Chairman Kessel commended LIPA's staff and Caithness for the work they have done in preparing the DEIS. The Chairman indicated that the facility will be the cleanest and most efficient power plant on Long Island and it will be a benefit to the environment over a long period of time. He indicated that he hopes that this project and several of the newer projects will replace some of the older generating plants. He continued that the ultimate goal will be to replace some of the older generating plans by either closing them down or repowering them and making them cleaner. The Chairman indicated that this project may give LIPA a cushion, along with other resources, to focus upon repowering one or more of the older generating units. He added that he appreciates the support from the Town of Brookhaven officials and the community.

Deputy Chairman Foye thanked Ms. Brechter for her clear and comprehensive summary of the DEIS. He asked whether the DEIS will likely withstand legal attack. Ms. Brechter responded that it is very comprehensive and she has no reason to believe it will not survive legal challenge. Deputy Chairman Foye asked whether she believes that the DEIS complies with the rules, regulations and prior precedents. Ms. Brechter responded affirmatively.

Chairman Kessel noted that the DEIS is only a draft document, and the Board would ultimately be asked to approve a final EIS at the June meeting.

In regard to the environmental justice issue, Trustee Sinnreich asked whether there has been any strong opposition to the location of the plant. Ms. Brechter answered that LIPA did an environmental justice analysis which

followed certain methodologies prescribed by the EPA. She indicated that LIPA evaluated air quality, traffic, noise and other impacts to the minority community, which is located more than one mile away from the site. She added that there will be no disproportionate impact, but LIPA will continue to work with the community.

Trustee Sinnreich asked what the view of the community is towards the project, if it has expressed one in an organized way. Ms. Brechter answered that the community has not been tremendously organized, but representatives of the community have indicated that they wish to learn more about the project before making a judgment.

Chairman Kessel stated that several community members reached out to the Long Island Progressive Coalition. The Chairman continued that he offered to arrange a meeting with some of the community members, the developer and himself, but the community has not shown an interest because they are still getting a lot of information. He added that LIPA is continuing its outreach on all projects.

Trustee Sinnreich asked whether LIPA requires its developers to have MWBE goals for construction and permanent jobs. Mr. Klimberg answered that all of LIPA's contracts require the counterparties, such as a developer, to meet an MWBE goal in their subcontracting. Trustee Sinnreich asked whether that is for construction jobs or permanent jobs. Mr. Klimberg answered that the goal is for subcontracting, not for employees. Trustee Sinnreich asked if LIPA has any

requirement in terms of permanent employee goals. Mr. Klimberg responded that LIPA does not. Trustee Sinnreich stated that this is a matter LIPA should consider.

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

732. ACCEPTANCE OF DRAFT ENVIRONMENTAL IMPACT STATEMENT FOR THE CAITHNESS BELLPORT ENERGY CENTER UNDER THE STATE ENVIRONMENTAL QUALITY REVIEW ACT

WHEREAS, the Long Island Power Authority (“LIPA”) is committed to providing reliable and efficient electric service to its customers on Long Island; and

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

WHEREAS, in order to meet the electricity needs of LIPA’s customers and statewide and location generation requirements established by the New York Independent System Operator (“NYISO”) and the New York State Reliability Council, it is necessary to secure additional sources of power supply from generation located within LIPA’s service area, to be in operation on or around the summer of 2008; and

WHEREAS, the maintenance of a continuous and reliable supply of dependable electric power and energy is an essential matter of urgent public concern and requires action at this time; and

WHEREAS, after analyzing all responses to its May 30, 2003 Request For Proposals to Provide Energy, Capacity and/or Ancillary Services (the “Baseload RFP”), LIPA selected the Caithness Bellport Energy Center proposed by Caithness Bellport, LLC (the “Project”) to help provide the needed additional electrical supply required by LIPA to meet customer needs and NYISO requirements; and

WHEREAS, in view of the size and scope of the Project, LIPA, as the lead agency, determined that the Project might result in one or more significant

adverse impacts on the environment, and accordingly issued a Positive Declaration under the State Environmental Quality Review Act (“SEQRA”); and

WHEREAS, LIPA released for public review a Draft Scope of Work in December 2004 and a Final Scope of Work in January 2005 and Caithness Bellport, LLC has prepared the proposed Draft Environmental Impact Statement (“DEIS”), dated March 2005, pursuant to that Final Scope; and

WHEREAS, LIPA staff and consultants have participated in the preparation of and have reviewed the proposed DEIS and have advised the Trustees that such DEIS is adequate with respect to its scope and content for purposes of commencing public review under SEQRA; and

NOW, THEREFORE, BE IT RESOLVED, that LIPA hereby (i) accepts the DEIS for the Project as adequate with respect to its scope and content for purposes of commencing public review; (ii) authorizes the Chairman or his designee to release the DEIS for public review and comment, including the scheduling and holding of a public hearing as required under SEQRA; and (iii) authorizes the Chairman or his designee 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.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to authorize the Chairman and Chief Financial Officer to proceed with the issuance of up to \$850 million principal amount of Electric System General Revenue Bonds for the purpose of refunding certain outstanding bonds and thus lowering the debt service obligations of the Authority. The Chairman continued that those outstanding bonds include the Electric System General Bonds, Series 1998A, 1998B, 2001A, 2003C and Series 2004A. He indicated that the Authority may seek to lower the debt service cost of the specified bonds by issuing variable rate refunding bonds and entering into related interest rate swap agreements, or by issuing fixed rate refunding bonds, or both.

Chairman Kessel stated that the Authority proposes to issue up to \$100 million of new money bonds for the purpose of directly funding the cost of system improvements, reimbursing such costs already incurred or refunding commercial paper issued by the Authority to fund such costs. He continued that the Authority may seek to lower the effective debt service cost by entering into interest rate swap agreements related to the proposed new money bonds.

Chairman Kessel stated that the use of interest rate swaps does result in certain risks being borne by the Authority. The Chairman further stated that the Chief Financial Officer, after consultation with the Authority's financial advisor, has concluded that such risks are manageable and are reasonable in relation to the benefits achievable by entering into interest rate swap agreements in the manner contemplated.

Ms. McCarthy stated that the timing of this will be dependent on market conditions, as well as on LIPA's strategic review.

Deputy Chairman Foye stated that materials concerning this proposed financing were distributed to the entire Board in advance and a series of telephone conference calls was held with Ms. McCarthy and her staff, during which the issue was discussed exhaustively and comprehensively.

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

733. LONG ISLAND POWER AUTHORITY RESOLUTION ADOPTING RESOLUTIONS RELATING TO THE ISSUANCE OF ELECTRIC SYSTEM GENERAL REVENUE BONDS FOR THE PURPOSE OF REFUNDING ALL OR A PORTION OF CERTAIN OUTSTANDING AUTHORITY BONDS AND FOR THE PURPOSE OF FUNDING THE COST OF SYSTEM IMPROVEMENTS, AND THE EXECUTION OF ONE OR MORE INTEREST RATE SWAP AGREEMENTS

WHEREAS, Long Island Power Authority (the "Authority") is authorized by the Long Island Power Authority Act (the "Act") to issue its bonds for any purposes authorized thereby and to adopt bond resolutions establishing the contract with its bond and note holders; and

WHEREAS, on May 13, 1998 the Authority adopted its Electric System General Revenue Bond Resolution (the "General Resolution"), which, consistent with the Act, authorizes bonds of the Authority, designated as "Electric System General Revenue Bonds" (the "Bonds"), as special obligations of the Authority in accordance with the terms thereof for, among other purposes, refunding other Bonds and other obligations of the Authority and funding the Cost of System Improvements (as defined in the General Resolution); and

WHEREAS, the Authority may sell Bonds on a negotiated basis to one or more underwriters for resale to the public or by private placement to one or more investors at such price or prices as the Authority shall determine; and

WHEREAS, Section 205 of the General Resolution requires that the issuance of each series of Bonds by the Authority shall be authorized by a supplemental resolution or resolutions of the Authority adopted at or prior to the time of issuance, subject to further delegation to certain officers to establish the details of the terms of such Bonds; and

WHEREAS, the Authority's outstanding obligations include, among others, the Electric System General Revenue Bonds, Series 1998A, 1998B, 2001A, 2003C and Series 2004A (together these five series are referred to herein as the "Specified Bonds"); and

WHEREAS, the Authority wishes to authorize the issuance of Bonds (the "Refunding Bonds") for the purpose of refunding all or a portion of the Specified Bonds and Bonds (the "New Money Bonds" and collectively with the Refunding Bonds, the "Authorized Bonds") for the purpose of funding the Cost of System Improvements and for various related purposes, which Authorized Bonds shall be in an aggregate principal amount not to exceed \$950,000,000, of which no more than \$100 million shall be New Money Bonds; and

WHEREAS, in order to achieve such purposes there has been prepared and submitted to the Trustees a form of Ninth Supplemental Resolution (the “Ninth Supplemental General Resolution”); and

WHEREAS, the General Resolution 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 the Authority has 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, under current market conditions the Authority has been advised that it may achieve significant debt service savings by entering into one or more such interest rate swap agreements relating to all or a portion of the Refunding Bonds and the New Money Bonds pursuant to which the Authority and the counterparties thereto would agree to make payments to one another based principally upon certain indices, formulae or methods to be specified therein; and

WHEREAS, the decision as to which specific strategy or strategies to be employed and the indices or methods to be used in calculating payments to be made to the Authority or the counterparties will be made by the Chairman or Chief Financial Officer, based upon market conditions and the advice of the Authority’s Financial Advisor as to which approach will be most likely to achieve the greatest expected debt service savings, or in the case of the New Money Bonds result in the lowest expected debt service cost, in each case consistent with interest rate and other risk considerations;

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

1. The Ninth Supplemental General Resolution, in the form presented to this meeting and made a part of this resolution as though set forth in full herein, is hereby approved and adopted. The Chairman of the Authority is hereby authorized to deliver the Ninth Supplemental General Resolution to The Bank of New York, as the Trustee for the Bonds, with such amendments, supplements, changes, insertions and omissions thereto as may be approved by the Chairman, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.

2. The Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to sell all Bonds issued pursuant to the Ninth Supplemental General Resolution either on a negotiated basis (i) to one or more underwriters for resale to investors or (ii) by private placement to one or

more investors at such price or prices as they shall determine to be the most cost effective and advantageous for the Authority.

3. Each Authorized Representative (as defined in the General Resolution) is hereby authorized with respect to each series of the Authorized Bonds, to execute and deliver a Bond Purchase Agreement (as defined in the Ninth Supplemental General Resolution) in substantially the form of the bond purchase agreement executed by the Authority in connection with the issuance of the Authority's Electric System General Revenue Bonds, Series 2004A, with such modifications thereto as any Authorized Representative of the Authority, upon the advice of counsel to the Authority, approves, which approval shall be conclusively evidenced by the execution thereof by such Authorized Representative.

4. Each Authorized Representative (as defined in the General Resolution) is hereby authorized and directed to execute and deliver any and all documents, including but not limited to the execution and delivery of one or more official statements or other disclosure documents and instruments and to do and cause to be done any and all acts necessary or proper for carrying out each Bond Purchase Agreement, the issuance, sale and delivery of the Authorized Bonds and for implementing the terms of each Bond Purchase Agreement, and the transactions contemplated thereby, the Ninth Supplemental General Resolution and this resolution.

5. The Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to enter into interest rate swap agreements relating to the Refunding Bonds and the New Money Bonds 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 \$950,000,000 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 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, formula or method 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 interest rate swap agreements entered into by the Authority in relation to other 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 interest rate swap agreements, including those outlined in the Chairman's memo submitted to the Trustees relating thereto and the advice of the Authority's financial advisor relating to the use of the proposed interest rate swap agreements, that (a) the use of such interest rate swap agreements will, in the judgment of the Authority, result in lowering the effective rate of interest payable in connection with the Authority's indebtedness, (b) the risks of the proposed interest rate swap agreements are both manageable and reasonable in relation to

the potential benefits; and (c) the proposed interest rate swap agreements are necessary or convenient in the exercise of the power and functions of the Authority under the Act.

6. 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 proposed interest rate swap agreements and this resolution and each of the documents authorized thereby and hereby.

7. This resolution shall take effect immediately.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution approving a partial waiver of LIPA's tariff for electric service to authorize a new charge to Photocircuits Corporation necessary to retain it as a LIPA customer on Long Island. The Chairman continued that the resolution will also authorize the Chairman or his designee to enter into a new contract with Photocircuits for electric service including that charge.

Chairman Kessel stated that under LIPA's Service Classification 13 tariff, LIPA provides electric service to qualifying large commercial customers that are considering relocating 500 KW or more electric load outside of LIPA's service territory. The Chairman continued that in order to retain these customers on Long Island, the tariff allows LIPA to negotiate an SC 13 contract with a charge less than the standard tariff level.

Chairman Kessel stated that Photocircuits has been a manufacturer of circuit boards since 1951, and employs more than 1,050 people at its plant in Glen Cove, Long Island. He indicated that without a significantly lower energy charge

from LIPA than allowed for under the tariff, Photocircuits will have to shut down its operations on Long Island and relocate to Georgia, which would have devastating effects on the Long Island economy. The Chairman indicated that there would be a loss of more than 1,050 jobs and \$80 million in wages.

Chairman Kessel stated that at its December 2004 meeting, the Board authorized LIPA to issue a proposal to charge Photocircuits a new price for electric service less than the tariff minimum level, with that price to be part of a new SC 13 contract. The Chairman continued that the discounted energy charge will be an important component of a statewide package of economic development benefits for the customer, to be provided by not only LIPA, but the New York State Department of Economic Development, the City of Glen Cove and the New York Power Authority.

Chairman Kessel stated that LIPA staff has negotiated the terms of a proposed new SC 13 contract with Photocircuits that includes an energy charge less than the minimum charge in the tariff, and which is designed to foster the retention and growth of the customer on Long Island. The Chairman continued that the term of the contract will be five years, commencing only upon verification that Photocircuits has shut down its operations outside New York State and is consolidating operations at its Glen Cove facility. He added that the contract will terminate if Photocircuits relocates its Glen Cove facility in whole or part outside of LIPA's service territory, and LIPA will be entitled to recoup the difference between the discounted energy charge and the standard tariff charge.

Chairman Kessel stated that this is an unusual tariff item, and it is necessary. The Chairman commended Governor Pataki for getting involved in this matter, and bringing together the many entities that will provide relief. He thanked County Executive Suozzi and Glen Cove Mayor Holtzcamp for their efforts.

Chairman Kessel stated that LIPA needs to be flexible to retain business on Long Island, especially a manufacturing company. He continued that this resolution and the commitment made by Photocircuits will help to retain an important company and one of LIPA's largest customers.

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

734. APPROVAL OF PARTIAL WAIVER OF LIPA'S TARIFF TO AUTHORIZE NEW CHARGE FOR ELECTRIC SERVICE TO PHOTOCIRCUITS CORPORATION; AND AUTHORIZATION TO ENTER INTO CONTRACT WITH PHOTOCIRCUITS CORPORATION FOR ELECTRIC SERVICE

WHEREAS, LIPA's Service Classification ("SC") 13 Tariff allows for LIPA to negotiate a customer-specific contract with an energy charge less than the standard Tariff level, but not less than LIPA's additional costs plus a one cent per kWh contribution to LIPA's fixed costs; and

WHEREAS, Photocircuits Corporation ("Photocircuits" or "Customer") has indicated that without a significantly lower energy charge from LIPA than it receives under its current SC 13 contract, the Customer will be required to shut down its manufacturing operations on Long Island, which would have devastating impacts on the Long Island economy; and

WHEREAS, the Long Island Power Authority ("Authority") Board of Trustees authorized LIPA to issue a proposal ("Proposal") to partially waive LIPA's Tariff to allow for that Customer to receive a new energy charge less than the minimum Tariff level; and

WHEREAS, following Public Notice in the January 19, 2005 State Register, two public hearings were held on the Proposal on March 1, 2005; written comments were received from three parties, all of whom strongly supported the Proposal; no other comments have been received; and the time for submitting comments has expired; and

WHEREAS, for the reasons indicated in the preceding Memorandum, the Proposal is in the public interest; and

WHEREAS, in accordance with the Proposal, the Authority staff has negotiated the terms of a proposed new SC 13 contract with the Customer for electric service that includes an energy charge less than the minimum Tariff level, and enables Photocircuits to remain a LIPA customer on Long Island; and

WHEREAS, for the reasons indicated in the preceding Memorandum, such new SC 13 contract with Photocircuits is in the public interest;

NOW, THEREFORE, BE IT RESOLVED, that the Proposal is hereby adopted and approved; and be it further

RESOLVED that the Chairman or his designee be and hereby are authorized to execute and effect the above-noted new SC 13 contract with Photocircuits and other related agreements and arrangements and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee to ensure that the foregoing is carried out.

Chairman Kessel stated that LIPA will hold an energy summit on July 28, 2005 to bring together the energy community and various business, civic and environmental groups to discuss various strategies on how to deal with Long Island's excessive dependence on oil and natural gas. He indicated that Long Island's energy future is an important issue, almost as significant as taxes.

Chairman Kessel stated that LIPA will take the lead to have the first island-wide summit, and he has received commitments from both county executives and other government and business representatives to participate. The Chairman

continued that LIPA will put together an agenda and some of its goals. He added that he encourages the entire Board to participate.

Chairman Kessel stated that the next item on the agenda is a presentation concerning electrical utility undergrounding, to be delivered by Mr. Hulkower.

Mr. Hulkower stated that a report was prepared by Navigant Consulting for LIPA concerning the undergrounding of electric facilities, which is publicly available on the LIPA website. He continued that Navigant and its predecessor, RMI, prepared two prior reports on the issue, which concluded that the cost of undergrounding was very high. He indicated that the current report has better information concerning the cost to underground the system, and it concludes that it may cost as much as \$27.5 billion, and undergrounding will raise rates by approximately 154 percent over a 25 year period.

Mr. Hulkower stated that the undergrounding costs do not include the additional costs of undergrounding the cable or telephone service, the costs to remove the poles and wires, and the costs to home and business owners to rewire and change out the meter pans. He continued that the study examined practices and policies throughout the country, and the primary driver for undergrounding was found to be aesthetics, which comes at an enormous cost. He added that undergrounding is ten times the cost of overhead placement for new construction.

Mr. Hulkower stated that the reliability benefits are surprisingly limited. He continued that the reduction in the number of outages is offset by the additional time it takes to restore an outage, and there is almost no difference in the average duration of outages the customers experience over the course of a year. He added that underground systems are not impervious to storms.

Mr. Hulkower stated that 90 percent of LIPA's customer interruptions concern problems with the overhead distribution system and 78 percent of LIPA's distribution system is overhead. He indicated that LIPA's transmission system has a higher degree of reliability, and it is a robust system as currently constructed.

Mr. Hulkower stated that LIPA has examined what the industry has done, and LIPA staff will come to the Board with some future recommendations concerning selective undergrounding. He continued that LIPA is looking at developing a methodology that will identify the worst performing circuits, and the costs and benefits of undergrounding those particular circuits. He added that LIPA is also examining the concept of underground assessment areas.

Mr. Hulkower stated that LIPA is establishing a methodology to identify the worst performing circuits and the methodology for a cost/benefit analysis. He continued that he is working on developing a draft policy or standards for placing facilities underground.

Chairman Kessel commended Mr. Hulkower, Mr. Hervey and the Navigant team for putting together this comprehensive study. The Chairman indicated that from a reliability perspective, undergrounding nets few benefits. He added that there would be significantly fewer outages following a hurricane if LIPA had an underground system, but the duration could be significantly longer, and working conditions for underground repairs would be more difficult.

Chairman Kessel stated that LIPA considers a general undergrounding policy to be cost-prohibitive, given the expense of more than \$33 billion, the length of time for the undergrounding work to be performed, and the fact that all of Long Island will have to be dug up. The Chairman continued that the report recommends several approaches, and he has asked Mr. Hulkower, Mr. Hervey and Navigant to look at policies, including the targeting of some areas for reliability purposes, and setting up a system where there is cost sharing or a surcharge where a village, community or business improvement district requests undergrounding. He added that it is important to be well-informed now, rather than to wait for a crisis.

Mr. Hulkower indicated that it is interesting to observe Florida as an example, since hurricanes strike there on a regular basis. Chairman Kessel stated that LIPA has already been discussing the issue with Florida Power & Light.

Trustee Fabio asked what is LIPA's policy regarding undergrounding for new developments. Mr. Hulkower answered that any subdivision of five homes or

more is built with underground facilities and new subdivisions are built with underground facilities. Trustee Fabio asked what the reliability has been with respect to these subdivisions. Mr. Hulkower answered that they have fewer interruptions, but it takes longer to restore service. He added that across the system, the average number of minutes that service is out is about the same. Trustee Fabio asked whether LIPA tracks separately the subdivisions that have undergrounding. Mr. Hulkower answered that LIPA is able to isolate those statistics for separate circuits, but many of those communities are fed by partial circuits. He indicated that those customers get lumped into the whole circuit average.

Trustee Akeson asked whether the third party vendors such as the telephone and cable companies would subsidize the costs of undergrounding. Mr. Hulkower stated that they indicated to LIPA that they are not interested, due to the costs they would ultimately absorb through their shareholders or pass through in their rates.

Deputy Chairman Foye asked how much better is the underground service to new developments, given that the power lines to them are all overhead. Mr. Hulkower responded that they are still subject to whatever the risks are of the primary service.

Chairman Kessel stated that even underground facilities can be affected by the weather. He continued that LIPA will work further on this issue, and LIPA should establish policies and be proactive and flexible in this area.

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:

735. 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 12:55 p.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 1:14 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 1:15 PM.

Respectfully submitted,

Stanley B. Klimberg