

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 197th MEETING

HELD ON MARCH 26, 2009

Pursuant to notice dated March 23, 2009, the Long Island Power Authority (the "Authority") was convened for the one hundred and ninety seventh time at 11:09 AM at the Omni Teleconference Center, in Uniondale, NY.

The following Trustees of the Authority were present:

**Howard Steinberg, Acting Chairman
Laurence Belinsky
Cristofer Damianos
Lawrence Elovich
John Fabio
Michael Fragin
Christopher Hahn
James Herrmann
Susan Gordon Ryan
Jonathan Sinnreich
Suzette Smookler
Lawrence Waldman**

The following Trustees of the Authority were absent:

Harriet Gilliam

Representing the Authority were Kevin S. Law, President and Chief Executive Officer; Lynda Nicolino, General Counsel and Secretary; and Elizabeth McCarthy, Senior Vice President and Chief Financial Officer. Also present were Edward Dumas, Vice President-Communications; Michael Hervey, Vice President-Operations; and Sam Lee, Acting Department Head of Power Markets.

Acting Chairman Steinberg addressed the audience and called the meeting to order.

The Acting Chairman stated that this is the March meeting of the Long Island Power Authority pursuant to notice duly given. He led the Board in a moment of silence, followed by the Pledge of Allegiance.

Acting Chairman Steinberg made a motion to accept the minutes of the February 26, 2009 meeting of the Board of Trustees. He asked if there were any changes or deletions.

Upon noting that there were none, a motion was duly made and seconded, and the following resolution was approved.

915. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE FEBRUARY 26, 2009 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 26, 2009 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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Acting Chairman Steinberg stated that LIPA has not yet received any federal stimulus monies, but is hopeful to use the funding to support LIPA's clean energy and renewable programs, for which LIPA has become a leader. He continued that President Law has been putting a great deal of effort into assembling LIPA's programs and has done a spectacular job.

Acting Chairman Steinberg stated that he is hopeful that with the good offices of Governor Paterson and the well-intentioned efforts of Long Island's Congressional Delegation that LIPA will see meaningful stimulus money for some of its clean and renewable energy projects, which are shovel-ready. He added that he believes that LIPA has done the work that will make it possible for it to receive the money, which it will use very constructively.

Acting Chairman Steinberg stated that President Law has worked hard at putting together a leadership program in promoting clean and renewable energy and energy efficiency. He continued that those issues only account for two of the

three legs under LIPA's stool. He added that the third area that LIPA needs to focus on is energy affordability. He stated that it is an issue that has been coming up recently with greater intensity at the Board level and from the public for understandable reasons. He noted that in this difficult economic climate, LIPA's high electric rates are more troublesome to a lot of people for obvious reasons.

Acting Chairman Steinberg stated that he believes that there is great determination on the part of the Board and on the part of the President to find ways to mitigate the high cost of LIPA's electricity. He continued that LIPA cannot do this in its present form, and that he thinks it is clear that a long term restructuring of the way LIPA operates is going to be necessary. He noted that President Law has said repeatedly that everything is on the table, and that LIPA and the Board are looking very carefully at all of the options.

Acting Chairman Steinberg stated that when he says that restructuring is required, it is important to note that no decisions have been made. He continued that anything that might be done will be very complex and require a tremendous amount of work. He added that it is clear to the Board, and it should be clear to the public, that as long as LIPA continues to carry its high debt load, which shows no sign of being able to be paid down meaningfully in the near or medium term, and continues to pay high levels of taxes, LIPA's rates are going to stay high. He noted that the Board is not comfortable with that, that long term high

rates are not acceptable, and that the Board and staff are looking at ways to address the issue.

Acting Chairman Steinberg stated that President Law is planning to present LIPA's Master Plan to the Board of Trustees for approval in June. He continued that all options are being examined and that hopefully, there will be more to say about the issue in June. Acting Chairman Steinberg turned the meeting over to President Law for his report.

President Law reported that he has a number of issues on which to update the Board. He stated that as for the stimulus monies, LIPA is doing a number of things. He continued that he has Mike Deering, LIPA's Vice President of Environmental Affairs, and Matt Cohen, LIPA's Government Relations Director, assisting him at both the Albany and Washington, D.C. levels.

President Law reported that he serves on Governor Paterson's Stimulus Cabinet. He continued that there are several working groups in which Mr. Deering and Mr. Cohen are participating. He added that LIPA is participating in all groups that are relevant, making sure that LIPA is in the loop and in a position to access monies that flow through to the State.

President Law reported that LIPA will be taking the same initiative with the Department of Energy. He continued that most of the stimulus funds as they

relate to energy will be flowing through the Department of Energy. He stated that he had the privilege of meeting with Secretary Steven Chu at Brookhaven National Labs recently to discuss LIPA's initiatives in the areas of efficiency, solar, and wind. He noted that LIPA is at least on Secretary Chu's radar regarding what stimulus funds LIPA will be applying.

President Law reported that he met with Senator Charles Schumer two weeks ago and discussed the same issues with him. He added that LIPA is continuing to work with its Congressional Delegation, primarily, through Steve Israel, and that he will keep everyone in the loop as things progress. President Law noted that many items are still fluid in terms of applications and the procedures and processes that will be in place for receiving stimulus funds. He continued that LIPA is in daily contact with those administering the funds and will apply for as much money, and to as many programs, as LIPA is entitled to.

President Law reported that regarding LIPA's future, staff and the Board are looking at LIPA's business model. He continued that the staff will be updating the existing Strategic Report and looking at what the best business model for LIPA may be, and that it will take time. He clarified that it is not actually going to be part of the Master Plan, but more of a strategic organizational plan that is proceeding on a parallel path. He noted that he is working with Ms. Nicolino and Ms. McCarthy on getting assistance to update the report, and that he will keep everyone posted on the progress of the business model analysis.

President Law noted that with respect to the Master Plan, a draft plan was already submitted to the Board. He continued that Mr. Parmelee and other staff did a terrific job putting the plan together. He added that Mr. Parmelee briefed the Board two meetings ago on where LIPA was going with the plan, and indicated that the draft is now complete. President Law also reported that he will be hosting three public hearings in the first week of April, during which LIPA will solicit input, obtain feedback, and address questions and comments raised regarding the plan. He continued that he envisions coming back to the Board in June for consideration of adoption of the plan.

President Law reported next that he obtained a 90-day extension on LIPA's option to purchase the E.F. Barrett Plant in Island Park. He stated that LIPA held a community meeting two weeks ago to discuss the option, which was very well attended. He continued that at the meeting, he explained the pros and cons related to the option and the challenges that lay before LIPA in making such a big decision. He added that the reason that he asked for a 90-day extension, which National Grid granted last night, was because LIPA is also exploring whether it should get into the generation business as a whole and whether LIPA should buy all of the plants that National Grid owns.

President Law indicated that while LIPA will not have all of the answers or due diligence done by the end of June, he envisions, as he explained to Tom King at National Grid, that within 90-days, LIPA will have a better indication as to

whether it is interested in continuing with its inquiry into entering the generation business. He added that there is a lot of support for re-powering, not only in Island Park, but also in Port Jefferson and Northport, where LIPA also met with the communities and their stakeholder groups. He continued that it requires a lot of money to repower these plants, and while he will certainly pursue stimulus funds, it is not clear whether they will be available for those efforts. President Law reported that he will keep everyone up to date on this issue and envisions having an indication as to what LIPA should do globally, as well as a decision on the E.F. Barrett Plant, by the June meeting.

President Law continued that along those lines LIPA is looking to reach out to the consultants who currently assist LIPA in making some of the decisions. He added that there are a lot of financial and environmental considerations which need investigating. He also indicated that LIPA needs to be sensitive to the concerns of the current workforce who have spent their entire lives doing a terrific job for LIPA, working at and taking care of the plants. He noted that with all of these issues factored in, this will be up for discussion in June, and in the interim, he will keep everyone in the loop on any updates.

President Law reported that since the last meeting, LIPA has introduced smart meters onto Long Island. He stated that Congressman Israel delivered an appropriation of \$700,000 for the Smart Meter Pilot Program. He continued that it is the first time that LIPA has ever received a federal appropriation. He noted that

while LIPA has received some monies in terms of the R&D it has jointly performed with other agencies, this is the first time that LIPA has received a federal appropriation on its own. He noted that he is excited about this, but that it is a drop in the bucket in terms of the overall cost of implementing smart meters on Long Island. He further noted that this is something else that LIPA could use as it solicits stimulus funds because it shows that the Federal Government has already made an investment in the LIPA service territory, and that they should continue and build upon that.

President Law reported that there are great expectations tied to a smart grid. He continued that the technology has been demonstrated in commercials recently, of which IBM has some great ones. He explained that a smart grid is not going to happen over night, and that it is going to be very costly. He stated that a smart grid entails laying a communications infrastructure over the electric grid, where there are smart meters in the home. He noted that there are many different pieces to the puzzle, and that LIPA needs to be planning ahead because a smart grid is where the entire industry will be heading. He stated that he will keep everyone in the loop as LIPA continues to make progress on these efforts.

President Law continued that two days ago, he and Bruce Germano attended a meeting at IBM with a lot of the major utilities, General Electric, and some state agencies regarding New York's efforts to head toward a smart grid. He stated that there is a lot of planning going on, and that LIPA needs to be doing its

own planning, including planning for its service territory, determining what its resource needs are, and deciding how those needs will be met. He continued that LIPA is part of the state energy planning process, as well as part of this smart grid planning process. He noted that since LIPA is the owner of the transmission system, he serves on the Transmission Owners Committee of New York State, which is also performing a transmission planning study for the entire state.

President Law reported that LIPA is in the loop on all of these developments and needs to plan for its system while making sure that it is taking steps consistent with where the State and Country will be heading. He noted that people are looking up to LIPA because LIPA has shown leadership on so many of these issues. He added that people are looking to LIPA to continue being a leader in these areas, and to the extent that LIPA can be an incubator for the rest of the country, if people are willing to give money to LIPA, he will have his hand out for those opportunities.

President Law reported that the Board had been briefed via email and a press release regarding the potential for an offshore wind project with Con Edison. He indicated that LIPA and Con Edison performed an interconnection study, which showed that such a project is operationally feasible, albeit with some cost to upgrading LIPA's transmission and distribution system. He stated that he envisions continuing to do further analysis on the environmental and economic impacts of a possible project. He added that LIPA intends to issue a

Request for Expression of Interest by June to learn from the wind industry itself. He continued that based on those responses, the next step would be to issue a Request for Proposals, at which time LIPA can solicit the level of interest in performing such a project and determine what the cost would be. He added that ultimately, this would be brought to the Board, which would have final say as to whether LIPA participates.

President Law reported that there are a lot of people on both sides of the aisle on the wind issue with opinions on whether LIPA should do it. He stated that there are a lot of different issues that LIPA should be looking at, including the feasibility and cost of trying to import wind from upstate by building a transmission line from upstate down to Long Island and the greater New York City area. He added that it might be cheaper to do something in the ocean, bringing wind energy directly to Long Island and New York City, than trying to import it from elsewhere.

President Law reported that if one were to do a strict economic analysis, the energy generated from wind is certainly going to be more expensive than the power generated from traditional power plants. He stated that at the same time, there are public policy objectives to reduce dependence on foreign oil, mitigate climate change, and take advantage of economic development opportunities. He noted that it is tough to put a price tag on these public policy objectives.

President Law reported that LIPA is going to have an open mind about all of these issues. He stated that LIPA will continue to perform its due diligence and will report back to the Board. He continued that people have asked how this wind project compares to the proposed Jones Beach project, which was shelved. He explained that there are a number of differences, which is why he is comfortable exploring this with Con Edison. He stated that the Jones Beach project was too small and too expensive, as well as too secretive, in that numbers were not being shared with the public, which generated a lot of other concerns. He noted that the project with Con Ed would be further out in the ocean and larger, so there would be economies of scale. He further noted that this project would be very transparent, and that Con Ed and LIPA would be launching a website to keep people in the loop on the possibility of the project.

President Law reported that he had attended a number of meetings in Albany last month, including participating in the Governor's stimulus cabinet meeting as well as representing LIPA at the Governor's quarterly energy sub-cabinet meeting. He continued that he met with Assemblyman Brodsky on a proposed bill seeking to reform the market clearing price mechanism used by the NYISO to determine wholesale electric prices. He added that he shared LIPA's comments with the Assemblyman, but that he did not have to testify at the meeting.

President Law reported that he met recently with Assemblyman Kevin Cahill, the new Chairman of the Energy Assembly Committee, and briefed him on all of the things that LIPA is doing. He continued that he did the same with Senator Kevin Parker, the Senate Energy Committee Chairman, after which the Assemblyman requested that President Law brief the Senate Energy Committee, which he did.

President Law reported that everybody in Albany is quite aware of what LIPA is doing, the challenges it faces, and how it is trying to meet those challenges. He added that they are now more informed about some of the big projects that LIPA will be participating in.

President Law reported that he had also spoken last month at the Hauppauge Industrial Association, the Advancement for Commerce and Industry, and the Long Island Association's Environment and Energy Committee.

President Law stated that people are still coming up to him after meetings and saying that for the first time they understand the difference between LIPA and National Grid. He added that this makes his participation worthwhile because these are businessmen and women on Long Island who are just as confused as some of LIPA's regular customers.

President Law turned next to addressing some of the criticism about the solar project that LIPA announced and for which the Board authorized contract negotiations. He continued that the criticism has been that the possible contracts are with foreign companies. He added that he was interviewed on CNN the other night, and that the criticism has been primarily from disgruntled bidders who did not make it into the top four companies that were chosen. He explained that all of the companies, with which the Board authorized negotiations, have American based operations, in locations such as Maryland and California. He noted that their parent companies happen to be European based, similar to how National Grid is located in London.

President Law stated that the world is flat. He explained that Iberdrola is taking over upstate energy, but that all of the work is going to be done here in the States. He continued that the local work will be done by Long Island contractors. He added that legally, LIPA is not allowed to discriminate against companies just because their parents happen to be foreign corporations. He noted that LIPA did everything that it was legally obligated to do and believes that the decisions made were in the best interest of the customers in terms of quality and quantity of the bids. President Law concluded his report.

Acting Chairman Steinberg called for questions from the Board, and after hearing none, requested that Ms. McCarthy present the financial report.

Ms. McCarthy reported that KPMG, LIPA's independent auditors, have completed their audit of the financial statements for the year ended December 31, 2008. She added that they will be issuing an unqualified opinion with respect to those financial statements. She noted that KPMG found that in connection with reviewing the financial statements and the controls surrounding the preparation of those, that there were no material weaknesses in LIPA's financial statement controls. She thanked Ken Kane, Donna Mongiardo, and the accounting department staff for all of their hard efforts in getting the audit completed in a timely manner and with an unqualified opinion. She added that KPMG met with the Finance and Audit Committee last week and presented the results of their exam and addressed questions from the Committee at the meeting.

Ms. McCarthy stated that for the one month ended January 31, 2009, LIPA had an excess of expenses over revenues of \$9.9 million, which was \$3.7 million higher than budgeted. She continued that revenues for the period were \$3.1 million, or one percent, higher than budgeted primarily as a result of the colder than normal weather experienced in the month of January. She added that fuel and purchased power expenses for the period were \$6.6 million, or four percent, over budget. She explained that \$3.8 million of that was the result of the higher sales volume and the remainder was due to higher than budgeted commodity costs as LIPA drew oil from inventory for the period.

Ms. McCarthy reported that operations and maintenance expense was \$1.5 million, or three percent higher than budgeted, also as a result of the higher than normal or budgeted sales volume, which impacts LIPA's Management Services Agreement fees.

Ms. McCarthy reported that PILOTs for the period were \$1.1 million, or six percent lower than budgeted, but that was due to a timing difference, which will catch up as the year progresses.

Ms. McCarthy reported that other income and deductions was \$1 million below budget, which was due to lower than budgeted investment earnings. She added that interest expense for the period was also lower than budgeted by \$1.3 million, or five percent, primarily due to the timing of LIPA's new money debt issuance, which did not close until the end of January.

Ms. McCarthy reported that at January 31, 2009, LIPA had \$506 million in cash and cash equivalents. She continued that \$153 million of that was in LIPA's Rate Stabilization Fund, \$75 million was in the Debt Service Fund which was used on March 2, 2009 to redeem the final portion of LIPA's outstanding auction rate securities, and the remaining \$278 million was in LIPA's Operating Funds. She added that the cash is invested in a variety of instruments with 98 percent having a maturity of three months or less. Ms. McCarthy concluded her report.

Acting Chairman Steinberg stated that he just wanted to make a quick point, which is something that bears repeating from time to time so as to not lose sight of it. He continued that LIPA operates on a break-even basis. He explained that LIPA is not a profit making organization, but rather a break-even enterprise. He added that if one were to look at the numbers for the year just ended, on December 31, 2008, one would see that LIPA had an excess of revenues of about \$26 million on a revenue base of about \$3.7 billion. He noted that it is important for the public to keep in mind that LIPA is operating on a break-even basis.

Acting Chairman Steinberg then asked Mike Hervey to present the operating report.

Mr. Hervey reported that he would briefly address the reliability of the electric system. He continued that reliability has been an issue, which LIPA has been discussing on an on-going basis and spending quite a lot of time watching over the past several months. There were some concerns raised back in the middle of last year, namely, that some of the indicators were headed in the wrong direction. He continued that he has shared with the Board some of the actions taken to bring these numbers back into line and the success of these actions.

Mr. Hervey reported that the Interruption Frequency Index, which is the number of interruptions per year that the average customer experiences on the electric system, is trending in the correct direction. He explained that during the

past month, the performance of the electric system has come into what is contractually considered to be superior performance. He noted that based on the March numbers, this trend is continuing. He stated that this marks the all-time best performance in LIPA's history in the Frequency of Interruptions on the electric grid. He added that he expects that this will be coming back into the normal range toward the middle of the year, but at the present time, the system is performing better than ever from a Frequency of Interruptions standpoint.

Mr. Hervey reported that with respect to the Duration of Interruptions, also called the Customer Average Interruption Duration Index ("CAIDI"), it is also gradually tending downward in January and February. He continued that this was one of the metrics about which LIPA was concerned. He stated that Long Island has experienced an exceptional period of very good weather from an electrical systems standpoint, as there has been very little storm activity since the third week in December, including the type of wind storms and adverse weather conditions that would affect the electric system. He noted that colder than normal temperatures do not affect the electric system, but that wind storms do, and that therefore, the good weather has contributed to the good numbers.

President Law noted that this makes up for the three thunderstorms a week that Long Island experienced during the summer and fall.

Mr. Hervey agreed and stated that it is affected by the variability of the weather, which ultimately drives everything. He continued that the momentary interruptions that a customer experiences, which was trending up towards the third quarter of last year, is now trending back down into the normal range of around five and a half momentary outages per year, per customer.

Mr. Hervey reported that LIPA still does not have final information from the other in-state overhead utilities regarding their position at the end of the year. He added that he remains confident that LIPA will be among the top, if not the top performer, when all of the in-state information is received, and LIPA can make that comparison. Mr. Hervey concluded his report.

Acting Chairman Steinberg asked Mr. Hervey to clarify whether LIPA is above the five-year average with regard to momentary average interruptions.

Mr. Hervey stated that is true. He explained that last year, LIPA was above the five-year average during the entire year, but that in January and February of this year, LIPA is trending back toward the five-year average. He added that this has been a particular area of concern, and as described before, LIPA put several maintenance and capital programs in place in the middle of last year to address some of these adverse trends. He noted that all of the changes put into place last year are now yielding positive results.

Acting Chairman Steinberg asked if LIPA is continuing with its robust tree trimming program and system hardening.

Mr. Hervey explained that the normal tree trimming program is an operations and maintenance expense that is expended and managed by National Grid as part of LIPA's monthly payment. He added that in order to manage this, National Grid has put additional money into the program. He stated that Grid put in an additional \$1.5 million last year and approximately \$2 million this year.

Mr. Hervey stated that in the normal budgeting cycle, LIPA did pull back somewhat on its tree trimming program. He continued that from a storm hardening standpoint, which is a stand-alone program that LIPA started a few years ago, LIPA has also pulled back this year, but he added that LIPA is watching these efforts carefully, and plans to put that money back into the program next year.

Acting Chairman Steinberg stated that this is not something that should be sacrificed. He asked Mr. Hervey to clarify that these are LIPA's decisions, and that National Grid is just executing on them.

Mr. Hervey explained that on the maintenance of the system, the policy is LIPA's decision, but the actual execution is a National Grid expense. He noted that in the case of tree trimming, it is a National Grid expense.

Acting Chairman Steinberg asked, whether in terms of what the program looks like and how and to the extent that it is being carried out, the decision is LIPA's or National Grid's.

Mr. Hervey stated that ultimately, the way that the system is maintained and the way that it is built out, is LIPA's decision.

President Law stated that he and Mr. Hervey sat down last week to figure out the supplemental funds that LIPA spends, in addition to the monies that Grid spends on tree trimming. He added that while the tree trimming did receive cutbacks in the budgeting process in December, LIPA is looking at ways to restore that program. He continued that LIPA can spend as much money as it puts into the program as there are more than enough trees out there that need trimming, and that it should be seen as an investment in taking care of the system for when the weather turns bad.

Trustee Fabio stated that Mr. Hervey's report indicates that the major causes of the increase in CAIDI were situations where entire trees and tree limbs fell over on wires. He continued that LIPA pays a price whenever it makes these budgetary decisions about reductions in expenditures. He added that he thinks everyone should be cognizant of the possible consequences when those cuts are made.

Acting Chairman Steinberg stated that the next item on the agenda is the consideration of the approval of the engagement of a financial advisor for the Authority. After requesting a motion on the matter, which was seconded the Acting Chairman indicated that the matter would be presented by Ms. McCarthy.

Ms. McCarthy stated that the Trustees are being requested to approve a resolution authorizing the President and CEO, or his designee, to engage Public Financial Management, Inc. (“PFM”), to provide financial advisory services to the Authority for a forty eight month term, which is terminable by LIPA upon written notice.

Ms. McCarthy continued that in January 2009, the Authority issued a Request for Proposals from experienced firms to act as LIPA’s financial advisor. She added that in early February, LIPA received responses to the proposal from five firms. She explained that a selection committee comprised of Authority Finance Department staff members, evaluated those proposals, determined that all but one met LIPA’s threshold criteria with respect to experience, and then evaluated the remaining four proposals against LIPA’s RFP criteria.

Ms. McCarthy continued that based on that evaluation, the Committee selected two firms for interviews. She noted that based on the written submissions, oral presentations, and an assessment of LIPA’s needs, the Selection Committee determined that PFM is best suited to fulfill those needs.

Ms. McCarthy stated that some of the strengths of PFM include its in-depth working knowledge of the Authority and its understanding of the Authority. She noted that PFM has been serving as LIPA's interim financial advisor since the resignation of Bear Stearns in April of last year as a result of its merger with JP Morgan Chase. She continued that PFM also demonstrated extensive knowledge and experience in public finance and specialization in the public power field and is currently serving as financial advisor to numerous other large public power entities. She added that PFM agreed to provide the service at a fee of \$70,000 per month for the entire 48-month period, which is terminable at the Authority's discretion upon written notice.

Ms. McCarthy stated that the Finance and Audit Committee reviewed the qualifying proposal as well as the staff procurement memo. She continued that at the Finance and Audit Committee meeting last week, the Committee adopted a resolution recommending that the Trustees adopt the resolution for the engagement of PFM.

Ms. McCarthy added that based on the foregoing, staff recommends that the Trustees adopt the resolution.

Acting Chairman Steinberg requested questions or comments.

Trustee Sinnreich asked if it was the case, that at any given time, LIPA has only ever had one financial advisor in place.

Acting Chairman Steinberg stated that he believes that has generally been the case.

Ms. McCarthy concurred.

Trustee Sinnreich asked if there is a reason for that. He added that he understands that cost is always a reason, but given the times and the importance of these issues, is there any advantage to having more than one voice advising LIPA or is there a reason that this cannot be done.

Ms. McCarthy stated that the investment banks with which it is working, provide recommendations and proposals on activities that LIPA might consider. She continued that LIPA utilizes the financial advisor to help evaluate those various proposals. She added that LIPA is constantly receiving input from a large group of experts in the area, and it is the financial advisor that helps LIPA evaluate those proposals and determine the best need for the Authority.

Ms. McCarthy noted that all financing activity, in addition to being approved by the Board in broad authorizations, is approved by the Public Authorities Control Board. She added that it is also approved by the Office of State Comptroller, which uses a financial advisor as well.

Trustee Sinnreich stated he understands what Ms. McCarthy explained. He further asked if the financial advisor has an evaluative rather than a creative role in terms of coming up with ideas for LIPA to consider.

Ms. McCarthy stated that the advisor will sometimes do that or LIPA will request that they help evaluate a situation and come up with a recommendation. She noted that often times it is helping LIPA evaluate options that are out there.

Trustee Belinsky stated that he would like to commend Ms. McCarthy and her staff on the procurement process for the financial advisor. He continued that as Ms. McCarthy had said, the Finance and Audit Committee, including Trustees Fragin and Waldman, were deeply involved in the review of the proposals. He added that from where LIPA started this process to where it ended up, the Authority is in a much better place, particularly since it got the best financial advisor in PFM from the list of proposers. He noted that Ms. McCarthy and her team were able to negotiate a reduced rate from the original proposed rate. He further noted that he believed this to be the lowest monthly rate that LIPA had paid going back in history, and that this was a win-win for the Authority. He thanked Ms. McCarthy.

Acting Chairman Steinberg thanked Trustee Belinsky and asked for any further comments from the Trustees or questions from the public.

After hearing none, Acting Chairman Steinberg called for a vote on the motion, which was approved unanimously.

916. ENGAGEMENT OF FIRM TO PROVIDE FINANCIAL ADVISORY SERVICES

RESOLVED, that the President and Chief Executive Officer or his designee be, and hereby is, authorized to engage Public Financial Management, Inc. to provide financial advisory services to the Long Island Power Authority (the "Authority"), at a fee of \$70,000 per month for a term of 48 months, terminable at the Authority's discretion upon written notice.

Acting Chairman Steinberg stated that the next item on the agenda is the consideration of the approval of the engagement of a firm to conduct an independent evaluation of LIPA's fuel and purchased power cost adjustment, which the Acting Chairman indicated would be presented by Ms. Nicolino.

Ms. Nicolino stated that the Trustees are being requested to approve a resolution authorizing the engagement of a firm to conduct an independent evaluation of LIPA's fuel and purchased power cost adjustment ("FPPCA").

Ms. Nicolino explained that in response to concerns raised over the last several years regarding the types and categories of costs contained in LIPA's FPPCA, and in an effort to improve customers' understanding of LIPA's bills, in January of this year, LIPA requested and the Department of Public Service ("DPS") agreed, to assist LIPA with the procurement of an independent evaluator.

She continued that the scope of such review would include, among other things, assessing the reasonableness of the costs listed in the FPPCA and determining whether the range of costs that the PSC has allowed one or more investor-owned utilities to recover through automatic adjustment clauses is similar to the types of costs recovered through LIPA's FPPCA.

Ms. Nicolino stated that on January 26, 2009, with the assistance of DPS staff, LIPA issued an RFP seeking experienced firms to conduct the evaluation. She continued that the RFP was affirmatively distributed to a list of 53 vendors selected by DPS and LIPA. She added that it was advertised in the New York State Contract Reporter and posted on LIPA's website in the ordinary course of LIPA's procurement process.

Ms. Nicolino stated that on February 16, 2009, fourteen firms responded to the RFP. She continued that a selection committee comprised of LIPA and DPS staff members carefully examined each proposal, first reviewing the proposals for compliance with the terms of the RFP and then evaluating and scoring the qualifying proposals against the cost and non-cost criteria. She added that based on the total scores, the committee conducted interviews of the four highest-scoring firms in order to more fully assess each proposal. She noted that on March 17, 2009, the top four firms were interviewed, and that based upon the written proposals and the interviews, it was determined that "The Liberty

Consulting Group” (“Liberty”) was the successful proposer and best-suited to perform the services.

Ms. Nicolino noted that Liberty has more than twenty years of experience providing utility management services for more than 40 energy utilities and 37 state utility regulatory authorities, including the Public Services Commission and the Office of the State Comptroller in New York. She continued that Liberty also demonstrated substantial expertise related to fuel and purchased power clauses in particular, and has performed 40 fuel and energy cost-related audits in various jurisdictions, including many involving New York utilities such as Con Edison, NYPA, NYSEG and Central Hudson Gas & Electric. She added that the team members proposed by Liberty to perform the evaluation have more than 25 years of utility experience each, and include three former utility regulatory commission staffers, one of whom spent 28 years working for the DPS in New York.

Ms. Nicolino explained that it is anticipated that this evaluation will be conducted at an approximate cost of \$122,000 over a six month term, and that it would result in a report that would be provided simultaneously to LIPA and the DPS. She noted that once the evaluation report is produced and reviewed, DPS will solely be providing comments as to whether the consultant complied with the scope of the RFP and will not be providing any substantive opinions on the reasonableness or appropriateness of LIPA’s fuel clause, rates or practices or

other findings contained in the report. She added that LIPA intends to provide the State Comptroller with a copy of the evaluation once it is concluded.

Ms Nicolino stated that based on the foregoing, staff is recommending approval of the engagement of Liberty at this time.

Acting Chairman Steinberg thanked Ms. Nicolino, asked for a motion on the matter, which was seconded, and then stated that there is a long history to this. He continued that over the years a lot of questions have been raised about the way LIPA calculates and executes on its fuel and purchased power costs. He added that President Law has been very up front since day one, stating that LIPA is willing to be transparent. He continued that President Law has had conversations with a number of government agencies. He thanked the agencies, including the Comptrollers Office, for coming in and reviewing this.

Acting Chairman Steinberg stated that LIPA has finally concluded that this is the most sensible and effective way to bring in an outside third party to review the matter. He continued that the results will be released to the public, and that the public can evaluate what LIPA has been doing.

President Law stated that there have been allegations over the years that LIPA has put things in the power supply charge that really belong in the delivery charge in order to avoid going to the PSC for review. He continued that if LIPA's

base rate goes up two and a half percent or more, LIPA would have to go the PSC for approval.

President Law stated that he wanted the issue on the table and wanted it examined. He added that he had asked the OSC and the PSC to do it. He explained that the OSC said they were not geared up to do it, and that the PSC could not do it because they had no jurisdiction over the matter. He continued that LIPA decided that it would hire an independent consultant to do it with assistance from the PSC. He noted that LIPA is very comfortable that this group has done work for both the PSC and the OSC, so that neither agency can question the qualifications of the company.

President Law stated that this is not something that is going to lower rates. He continued that LIPA has about 11 or 12 different components in the power supply charge. He explained that the evaluating company will be looking at whether all of the components are indeed consistent with what the PSC allows other independently owned utilities to do or with utility practice in general. He added that to the extent there is something in the power supply charge that is not appropriate, then it is going to go into the delivery charge. He noted that this is not going to lower costs, but will just be moving a charge from one pot to the other.

President Law stated that LIPA needs to address the issue, and that this is the purpose of the audit. He added that LIPA needs to get the study underway, and that he will report back to the Board when he has something. He noted that it is not going to be a long, drawn-out process, so that hopefully in a couple of months, he will have an assessment for the Board.

Acting Chairman Steinberg thanked President Law and asked if there were any comments from the Trustees.

Trustee Fabio stated that, as Ms. Nicolino indicated, the selection committee was comprised of both LIPA staff and DPS staff. He continued that as Ms. Nicolino stated, Liberty certainly has the background and experience to undertake this task. He noted that one of the members from Liberty also spent 28 years at the DPS, which he expressed might give the appearance of some preferential consideration in the selection process. He asked Ms. Nicolino to comment.

Ms. Nicolino stated that the Committee believed that the prior experience working for the DPS was a benefit to the organization, but noted that Liberty was not the only firm to have a prior DPS staffer on board. She explained that the committee believed that the experience strengthened the organization, and further noted that there were no associated conflicts. She continued that this particular individual left the DPS in 2003, and that the committee is not aware of

any post-employment restrictions that would create a conflict and prohibit this individual from working on this engagement.

President Law added that it is his belief that if the company selected had nothing but DPS staffers, it would be to LIPA's advantage.

Trustee Fabio commented that he understands, but simply wondered whether other bidders might have an issue with it.

Trustee Fragin asked if, with regard to the four finalists, Ms. Nicolino could give a range as far as where their bids came in as to cost.

Ms. Nicolino stated that Liberty's cost proposal, out of the top four, was the lowest. She continued that the highest was approximately \$660,000, which represents a pretty wide spread in costs.

Trustee Fragin asked if the OSC had been willing to do this, would they have done it for free or would LIPA have had to pay. He clarified that he is trying to see the relative costs of LIPA having to go outside in order to perform the watchdog function, which is essentially what this is. He added that LIPA is asking the ratepayers to pay for it, which is a bit unfortunate.

President Law stated that if LIPA was regulated by the PSC, it would have to pay for the privilege of being regulated as well. He added that nothing comes free. He explained that the DEC charges LIPA for certain reviews of applications. He noted that everybody is recovering their costs in one way or another, and that Trustee Fragin is correct in that the OSC would have likely done the same.

Acting Chairman Steinberg stated that as President Law had said, LIPA did try to see if it could get agencies to do it at zero cost or reduced cost. He added that he thinks LIPA did the best it could.

The Acting Chairman called for public comments on the issue.

After the conclusion of the public comments, Acting Chairman Steinberg called for a vote on the motion, which was approved unanimously:

917. ENGAGEMENT OF FIRM TO CONDUCT INDEPENDENT EVALUATION OF LIPA'S FUEL AND PURCHASED POWER COST ADJUSTMENT

RESOLVED, that the President and Chief Executive Officer or his designee be, and hereby is, authorized to engage The Liberty Consulting Group to conduct an independent evaluation of LIPA's recovery of costs through its fuel and purchased power cost adjustment, for a term of 6 months.

* * *

Acting Chairman Steinberg stated that the next item on the agenda is the consideration of the approval of the financial report in the 2008 annual report.

After requesting a motion on the matter, which was seconded, the Acting Chairman indicated that the matter would be presented by Ms. McCarthy.

Ms. McCarthy stated that the Trustees are being requested to approve the summary financial information, which is comprised of a summary statement of revenues and expenses, changes in net assets, and a summary balance sheet. She added the Trustees are requested to approve this in accordance with Section 2800(1) of the Public Authorities Law.

Ms. McCarthy stated that the Public Authorities Accountability Act of 2005 amended the Public Authorities Law to enact broad reforms to corporate governance of public authorities and public benefit corporations. She continued that among other things, Section 2800(1) of the Act now requires that the Authority submit to the Governor, the Chairman and ranking minority member of the Senate Finance Committee, the Chairman and ranking minority member of the Assembly Ways and Means Committee, and the State Comptroller, within ninety days after the end of the Authority's fiscal year, an annual report setting forth a number of items, including the summary financial information.

Ms. McCarthy stated that Section 2800(3) of the Act states that the summary financial information submitted thereby should be certified in writing by the Chief Executive Officer and Chief Financial Officer and approved by the Trustees. She continued that the summary financial information submitted in

accordance with the Act, referred to therein as the “Financial Report,” has been reviewed by the Finance and Audit Committee of the Board, and so certified in writing by President Law and herself.

Ms. McCarthy stated that the Finance and Audit Committee, at its meeting last week, approved a resolution recommending that the Trustees adopt the proposed Financial Report for inclusion in the annual report. She stated that based on the foregoing, she recommended that the Trustees adopt the resolution.

Trustee Belinsky stated that he wanted the Trustees to know that at the last Finance and Audit Committee meeting, he, Trustee Waldman, and Trustee Fragin, spent almost two hours with KPMG going through their audited financials and their presentation to the Committee, which was well organized and very informative. He added that he would again like to commend Ms. McCarthy, her staff, Mr. Kane, and Ms. Mongiardo, all of whom have done a very good job with respect to the audit process and going back and forth with KPMG.

Trustee Belinsky stated that while the Trustees are only being asked to approve two pages of financial data, which is the requirement for the State, the Committee and staff reviewed many pages of financial data. He added that staff is preparing to send out to the Trustees copies of the KPMG presentation, which the Finance and Audit Committee has reviewed, so that everyone can be informed as to the extent of the audit.

Trustee Belinsky stated that he would also like to note that the Committee met alone in executive session with KPMG, and that there was nothing discussed during that time that would give any of the Trustees pause as to LIPA's controls or its financial situation. He thanked Trustees Waldman and Fragin for their time and effort over the last couple of weeks on these financial matters.

Acting Chairman Steinberg stated that what Trustee Belinsky said was very important, not only as to the hard work that the Committee put in, but the critically important fact that these are audited financial statements, and that KPMG has issued a clean opinion, noting that there are no material control deficiencies in LIPA's system. He noted that this should be very reassuring to the Trustees and to the public.

Acting Chairman Steinberg asked for public comment. After hearing none, the Chairman called for a vote on the motion which was approved unanimously:

918. APPROVAL OF FINANCIAL REPORT OF LONG ISLAND POWER AUTHORITY 2008 ANNUAL REPORT

WHEREAS, the Public Authorities Accountability Act of 2005 (the "Act") requires public authorities including the Long Island Power Authority (the "Authority") to prepare an annual report; and

WHEREAS, the Act requires that the summary financial information contained in the annual report (the "Financial Report") be certified in writing by the Authority's President and Chief Executive Officer and Chief Financial Officer and approved by the Board of Trustees;

WHEREAS, the summary financial information submitted in accordance with Section 2800(1) of the Act, referred to therein as the "Financial Report," has been so certified in writing by the Authority's President and Chief Executive Officer and Chief Financial Officer; and

WHEREAS, the Finance and Audit Committee has approved a resolution recommending the Trustee's approval of the proposed Financial Report:

NOW, THEREFORE, BE IT RESOLVED, that upon recommendation of the Finance and Audit Committee of the Board, the Trustees hereby approve the Financial Report in the 2008 Annual Report in the form presented at this meeting.

*** * ***

Acting Chairman Steinberg thanked Ms. McCarthy for the report, and for doing such an excellent job over the last five years or so. He continued that as previously mentioned, Ms. McCarthy has decided to move on to greener pastures, and that everyone wishes her all the best in what everyone knows is a certain guaranteed, continued success.

Acting Chairman Steinberg stated that Ms. McCarthy has been a tremendous asset to the Authority over the past five years. He added that he does not know how LIPA would have gotten through these difficult times without her hard work, dedication, communications skills, and ability to comprehend really complicated financial situations, in addition to getting debt issued when it had to be issued, getting debt repaid when it had to get repaid, keeping LIPA's credit rating strong, doing whatever she had to do to get that accomplished, and

implementing a fuel hedging program that has saved hundreds of millions of dollars for the ratepayers. He noted that Ms. McCarthy deserves a tremendous amount of credit.

Acting Chairman Steinberg stated that everyone will miss Ms. McCarthy, and that on behalf of the Trustees, he has a presentation and a plaque for her, which he read as follows:

This plaque is presented to Ms. McCarthy, as Senior Vice President and Chief Financial Officer, by the Board of Trustees of the Long Island Power Authority in grateful recognition of her outstanding contributions to LIPA as its Chief Financial Officer. Your dedicated leadership and complete grasp of complex financial issues facing LIPA resulted in substantial benefits to LIPA and its customers, including upgrading LIPA's credit ratings, the financing of LIPA's capital programs, and producing significant savings on LIPA's debt service. The Trustees express their thanks and appreciation on behalf of LIPA and its 1.1 million customers.

Ms. McCarthy thanked the Trustees for their support and guidance over the years. She stated that their dedication to the Authority is commendable, and that it has been an honor and privilege to work for LIPA. She wished everyone the best.

The Acting Chairman then allowed public comment to be heard, after which he announced that the next Board meeting is scheduled for April 23, 2009 at 11:00 am in Uniondale.

919. 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 property acquisition.

*** * ***

At approximately 12:45 p.m. the open session of the Board of Trustees was temporarily adjourned on motion into Executive Session to discuss a litigation matter.

After noting that no votes were taken in the Executive Session, Acting Chairman Steinberg entertained a motion to adjourn, which was duly made and seconded, after which the meeting ended at 1:23 p.m.

Respectfully submitted,

Lynda Nicolino