

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 154th MEETING

HELD ON MARCH 27, 2003

Pursuant to notice dated March 20, 2003, the Long Island Power Authority (the "Authority") was convened for the one hundred and fifty-fourth time at 10:10 AM at the Omni Teleconference Center in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Michael Affrunti
Nancy A. Akeson
Harvey Auerbach
Harriet Gilliam
James Herrmann
Robert Maimoni
Nancy Nugent
Vincent Polimeni
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Edward Murphy, Chief Administrative Officer, Richard Bolbrock, Vice President – Power Markets, Bert Cunningham, Vice President – Communications, Kenneth Kane, Controller, and Kathleen Stella, Secretary to the Board of Trustees.

Chairman Kessel stated that LIPA is holding this meeting at a unique time, as the United States is engaged in a war in Iraq, and many heroic American soldiers are fighting for freedom. The Chairman continued that a moment of silence is appropriate for those who have lost their lives, and also for wishes that the troops return home safely.

(A moment of silence was observed.)

Chairman Kessel noted the passing of former New York Senator Daniel Patrick Moynihan. The Chairman indicated that Senator Moynihan provided great help that allowed for the LIPA acquisition of LILCO, and which included his work with the United States Senate and the Senate Finance Committee to adopt the tax legislation that made possible the electric rate relief on Long Island.

Chairman Kessel stated that although Senator Moynihan was the key Washington figure who enabled public power to come to Long Island, he never took much credit for it. The Chairman continued that the Senator showed tremendous class and grace when appearing on Long Island several years ago to be acknowledged for the first time for his contributions. He indicated that Senator Moynihan should receive some permanent recognition for his work, and that LIPA is a lasting legacy for this brilliant and terrific man.

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

Chairman Kessel stated that the first item on the agenda is approval of the minutes of the January 21 Board meeting. Upon motion duly made and seconded, the following resolution was approved, with Deputy Chairman Foye abstaining:

638. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE JANUARY 21, 2003 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on January 21, 2003, are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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Chairman Kessel stated that the next item on the agenda is approval of the minutes of the February 27 Board meeting. Upon motion duly made and seconded, the following resolution was approved unanimously:

639. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE FEBRUARY 27, 2003 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on February 27, 2003, are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

* * *

Chairman Kessel stated that at the February 27 Board meeting a resolution was approved providing for the review within 60 days of an all-underground route to be submitted by the Town of Riverhead for the Riverhead transmission line upgrade project. The Chairman noted that LIPA has not yet received that proposal from the Town. He indicated that Mr. Hervey recently met with the Town's representative, and the Town Supervisor has advised that the Town's proposal will be submitted by tomorrow.

Chairman Kessel stated that LIPA intends to seriously review the Town's proposal, but LIPA first needs to receive it. The Chairman continued that the proposal is a month overdue, and there is a timing issue involved. Mr. Hulkower indicated that LIPA will remain on schedule as long as the route chosen by the Town remains consistent with the one conveyed to Mr. Hervey; otherwise, LIPA will be hard pressed.

Chairman Kessel stated that he would like to keep on schedule, and noted that if there is further delay, the matter will not be ready for the next Board meeting. The Chairman recognized that in fairness to the Supervisor, the matter is more technical and difficult than initially thought by the Town.

Trustee Polimeni stated that any extension of the deadline is a matter that should be brought before the Board for consideration. Chairman Kessel agreed, noting that it should be done at the appropriate time, and that LIPA wants to do a thorough job before making a decision.

Mr. Hulkower stated that LIPA is studying an all-underground route in addition to what the Town may propose. Chairman Kessel indicated that the point of the resolution is to give the Town the opportunity to submit its best option. The Chairman further indicated that if the Town does not submit a proposal by the end of the week, or if the Town's option does not fit with prior discussions, a resolution will be considered at the next Board meeting for an extension of time.

Trustee Gilliam asked whether LIPA is conducting an independent study concerning the underground option. Mr. Hulkower responded that LIPA is not conducting an independent study, but LIPA is analyzing an entirely underground route in addition to the hybrid routes that are already being considered.

Trustee Gilliam asked whether LIPA's analysis is being shared with the Town. Mr. Hervey answered that LIPA did discuss the matter with the Town, and information was provided on the all-underground route that LIPA is considering, but the options are limited. Chairman Kessel thanked Mr. Hervey for his terrific work on the matter.

Chairman Kessel stated that LIPA is currently observing the national condition orange alert, and both LIPA and KeySpan are working together to coordinate stepped-up security measures at electric facilities throughout Long Island. The Chairman continued that he is satisfied that appropriate protective measures have been taken for LIPA's T & D system. He thanked Mr. Hulkower,

Mr. Germano, Mr. Hervey and all others who helped prepare LIPA's security plans.

Chairman Kessel stated that LIPA has identified a number of key facilities that are being inspected and patrolled, and law enforcement agencies are watching the system closely. The Chairman indicated that no threats have been made against the regional electric system, and LIPA is coordinating the matter closely with the NYISO. He further indicated his confidence that although the entire system cannot be completely protected, LIPA is taking the appropriate steps to protect its major electric facilities.

Chairman Kessel thanked Mr. Grilli for coordinating security with local, State and Federal law enforcement authorities. The Chairman indicated that KeySpan has done a very good job in this area and has worked closely with LIPA to bolster security.

Chairman Kessel stated that although the reliability of LIPA's system continues to be excellent, some of the reliability statistics are not as positive as LIPA would like, due to the weather and other factors. The Chairman indicated that the extraordinary level of service reliability is due to the terrific work by LIPA's employees and LIPA's capital investment in the electric system. He noted that during the recent blizzard on President's Day, LIPA had fewer than 3,500 outages, which is also extraordinary. He added that even when outages occurred, LIPA was usually able to restore power in less than an hour, including the time it took for crews to travel in heavy, blinding snow.

Chairman Kessel stated that LIPA needs to continue to examine areas where the system is not performing as well as LIPA would like. The Chairman requested that Mr. Hulkower make a presentation concerning the reliability of the system, as well as LIPA's improvements to it.

Mr. Hulkower stated that the Y-49 transmission line was knocked out of service on February 27 after one of four cables filled with dielectric fluid was struck by the anchor of an Iroquois Gas contractor's work barge. He continued that this same contractor was involved in the damage to the NUSCO cable last November. He added that LIPA and KeySpan worked closely with NYPA to restore the Y-49 line to service, and it was repaired within approximately 10 days. Mr. Hulkower stated that LIPA has held extensive talks with Iroquois about their work practices, and further discussions are being scheduled.

Mr. Hulkower stated that there were 21 storms in 2002, as opposed to only 12 in 2000 and 9 in 2001, and the increase is reflected in LIPA's reliability statistics. He indicated that major storms, i.e., those impacting 10 percent or more of a division for more than 24 hours, are excluded from the SAIFI calculations on a division-by-division basis. He added that transmission and substation outages are down significantly, and storm events are the primary driver in the number of interruptions.

Mr. Hulkower indicated that interruptions of the distribution system are associated primarily with trees, and this continues to be a focus of LIPA's capital

program. He stated that exit cables from substations showed some problems in 2002. He continued that this is a reflection of the aging system, and is also a large focus of LIPA's capital program.

Mr. Hulkower stated that LIPA's use of SAIFI and CAIDI statistics is consistent with the practice of other utilities throughout the State. He indicated that LIPA continues to lead overhead utilities in CAIDI statistics by quite a margin. He further indicated that for SAIFI, LIPA is ranked third in the State, and expects to improve this standing.

Mr. Hervey observed that to some extent LIPA can take actions to counteract the effects of nature on reliability. He indicated that the largest single problem for LIPA during storms is trees, and LIPA has re-prioritized the tree-trimming program to first target the worst performing circuits rather than have the work force spread across the Island at one time. He stated that while this approach is a little more costly, it is more effective. He continued that LIPA has developed a hazardous tree removal program for dead or dying trees that are likely to affect lines during a heavy wind storm. He stated that LIPA hopes to avoid major outages in the future.

Mr. Hervey stated that LIPA is addressing heat related outages arising from load growth and overloaded equipment. He indicated that LIPA is implementing a program to analyze the origin of the load growth, and LIPA is developing a modeling capability to aggressively address some of the overloads before a major outage may occur.

Mr. Hervey indicated that electric contacts with animals, although decreasing in number, remain a problem. He stated that LIPA is directing additional resources to this problem along with enhancing the tree-trimming program.

Mr. Hervey stated that LIPA is studying its transmission lines and their performance, and a new maintenance program has been launched. He continued that KeySpan created a new Transmission Reliability Group, which will actively apply the same successful methods that have been employed by the Distribution Reliability Group.

Mr. Hervey indicated that LIPA initially concentrated on fixing the distribution system, since that is what most directly affects customers. He continued that the transmission system needs the same type of attention over the next several years. He added that the increase in inadvertent trips of transmission lines must be addressed.

Mr. Hervey stated that substation exit cable problems involve aging of the cables and their deterioration due to prior overloads. He indicated that to address overloading, LIPA has increased funding to replace the cables more frequently with larger sizes.

Mr. Hervey stated that LIPA is working with EPRI to create a device called a Distribution Fault Anticipator that will give pre-warning of certain types of faults.

He continued that with this device LIPA will be able to repair the fault before an actual interruption may occur. He added that LIPA is working to automate network systems and to have remote monitoring of those systems in order to be aware of the condition of the equipment at all times.

Mr. Hervey indicated that weather will always be the single largest driver of outages. He continued that LIPA is likely to improve its SAIFI by the end of the year to the level of 15 to 16 months between interruptions.

Chairman Kessel asked whether LIPA has identified the substations that are experiencing problems. Mr. Hervey answered affirmatively. He added that early last year LIPA replaced the entire Rockaway Beach substation, which was one of the substations in the worst condition, and LIPA has also systematically replaced the transmission lines throughout the Rockaways. He indicated that Fire Island is also a concern, and LIPA will spend approximately \$13 million to improve the T & D system there.

Mr. Hervey stated that issues such as high substation loadings have affected other areas, such as the North Shore of Suffolk County. He continued that LIPA will reconfigure the distribution lines to minimize interruptions during the summer. He indicated that LIPA is thoroughly evaluating every area showing a trend toward deterioration, and LIPA plans to apply the capital program to the problems.

Chairman Kessel asked whether LIPA is on schedule regarding the new cables to Fire Island. Mr. Hervey responded affirmatively, but noted that LIPA cannot adhere to the schedule if the permit from the Army Corps of Engineers is not received. He continued that the Village of Ocean Beach and the Town of Islip are supportive of the work. He added that LIPA will closely monitor the Fire Island situation and, if necessary, take extraordinary steps to prevent another serious incident this summer.

Trustee Maimoni asked why there are no storm events indicated for 2003 in the report to the Board. Mr. Hulkower responded that a storm event is basically defined as involving more than 150 restoration jobs or 15,000 customers impacted, so even the President's Day storm did not qualify under the criteria. Mr. Hervey indicated that although the storms were tough for the people enduring them, they did not become a large problem for LIPA since there were not high winds.

Chairman Kessel stated that it is hard to compare storms because of variations in snow characteristics. The Chairman noted there was a storm during the early years after the LIPA takeover that left approximately 8 inches of snow, but it caused 60,000 to 70,000 outages because the snow was heavy and wet. He stated that the problem was compounded by the deteriorated condition of the system and the lack of tree-trimming at the time. He noted that the fact the 2003 President's Day storm did not rise to the level of a storm event for purposes of reliability statistics represents an accomplishment for LIPA.

Deputy Chairman Foye thanked Mr. Hulkower and Mr. Hervey for their expeditious provision of a detailed report in response to the Board's request, and noted that the report should serve as a model for presentations to the Board. Deputy Chairman Foye asked whether a projection will be offered regarding the system's performance, given the 50 percent increase of the capital budget in this area for 2003 as compared to 2002. Mr. Hulkower responded affirmatively and indicated that some bounds based upon different weather situations will be provided. He added that LIPA is still having problems with the Central Division, which is located in the eastern portion of Nassau County, and LIPA will concentrate on this area.

Trustee Nugent asked how factors such as reliability and ease of repair compare for underground as opposed to overhead lines. Mr. Hervey stated that overhead T & D lines are relatively quick, easy and inexpensive to repair, with an average repair time being approximately 60 minutes as compared to approximately 6 hours for underground lines. He continued that to repair underground facilities, LIPA first has to find something that cannot be seen, and then unearth and usually replace it. He added that it may take days to locate an underground fault. He continued that the testing is very meticulous and technical, and occurs on both ends of the line since the workers cannot observe the fault.

Mr. Hervey noted that underground distribution lines do not last as long as overhead lines, which are expected to last 50 to 70 years. He further stated that

there is a greater up-front installation cost for the underground lines, and replacement occurs approximately twice as often.

Trustee Nugent asked what the major disruptive factors are for buried lines. Mr. Hervey responded that moisture must be kept out of the cables. He continued that one accidental overloading can reduce the life of an underground line by half, which is not a problem for overhead lines as long as the overloading is not dramatic. Mr. Hulkower added that contacts caused by such activities as contractor work near underground transmission lines are a large cause of failure. Chairman Kessel stated that the frequency of contacts is greater for underground than overhead lines.

Trustee Herrmann asked which cables require more frequent maintenance. Mr. Hervey responded that overhead lines need to be repaired more frequently than identical underground lines. He added that the volume of overhead line repairs is higher, since LIPA's overhead facilities constitute approximately 80 percent of the T & D system.

Chairman Kessel stated that the overhead system is more vulnerable to storms. He continued that the ability to repair becomes more difficult underground than overhead. He indicated that LIPA studied the possibility of undergrounding the entire system and concluded that the benefits do not outweigh the costs.

Chairman Kessel thanked Mr. Hulkower and Mr. Hervey for a valuable presentation. The Chairman stated that the reliability of the system is very good and LIPA needs to constantly attend to it. He indicated that weather is a critical factor, but capital improvements can make a difference in reliability.

Chairman Kessel stated that much of LIPA's early focus was on the deteriorated distribution system, but LIPA is now beginning to examine some of the broader T & D issues, including substations. The Chairman indicated that LIPA's tree-trimming program has been instrumental in reducing outages, although it has been unpopular at times. He continued that LIPA has worked closely with the local villages and officials to coordinate tree-trimming work, and has been increasingly sensitive to this area, which has substantially reduced complaints.

Chairman Kessel stated that the next item on the agenda is the Financial Report to be delivered by Mr. Kane.

Mr. Kane reported that PricewaterhouseCoopers concluded its financial audit, and there were no findings that required adjustments to LIPA's financial statements. He continued that he is extremely proud LIPA's books and records were in such good shape that no adjustments were required.

Mr. Kane reported that the KeySpan revenue error resulted in a \$9.7 million adjustment to LIPA's opening retained earnings balance. He continued that the

net incomes for 2001 and 2002 were very similar, \$20.5 million and \$20.1 million respectively.

Mr. Kane reported that the finance group has been busy with a plan to remarket some Series 8C Bonds in April, and the Board will be asked today to vote on two resolutions relating to the refunding of some LIPA bonds on which there is insurance capacity. He indicated that Mr. Christopher Fink and Mr. Michael Colton are present today from Morgan Stanley, which is LIPA's financial advisor on this matter, and Mr. Steven Turner and Mr. Jeremy Colgan are also present from Hawkins, Delafield & Wood, LIPA's bond counsel.

Mr. Kane reported that LIPA has finished above budget for the month of February, primarily due to hedges in LIPA's fuel positions. He continued that LIPA has unrealized gains of \$24 million and realized gains of \$13 million. He added that LIPA's forecast will be completed soon for the first quarter of this year.

Chairman Kessel reported that LIPA met with two of the three major rating agencies, and it is expected that LIPA's ratings will be upgraded next week. The Chairman continued that the rating agencies will be issuing reports, and both were comfortable with LIPA's restatement. He indicated that the rating agencies seem to be satisfied with the manner in which the KeySpan revenue error was handled by LIPA, and the fact that has been resolved.

Chairman Kessel stated that there are other issues concerning LIPA's relationship with KeySpan that are being reviewed. The Chairman thanked Mr. Kane, Ms. Horigan and the LIPA staff and consultants who helped move LIPA beyond the issue of the KeySpan error. He also thanked Morgan Stanley, Mr. Grilli, Ms. Song and Mr. Klimberg for their terrific work with the rating agencies.

Chairman Kessel stated that the next item on the agenda concerns a request for the Board to approve a resolution adopting and ratifying the determination that the construction and use of a new barge berth next to the bulkhead at the Jamaica Bay Energy Center in Far Rockaway will not have a significant adverse impact on the environment, and does not require any revision or rescission of, or further supplement to, the negative declaration that was previously approved. The Chairman indicated that this item supplements the previous environmental assessment with respect to the Jamaica Bay Energy Center. He requested that Mr. Steven Kass make a presentation concerning the resolution.

Mr. Kass stated that he is from the firm of Carter, Ledyard & Milburn, which is environmental counsel to LIPA for this project. He continued that the Board previously approved a negative declaration for the Jamaica Bay Energy Center in November 2002, but during the construction of the project in 2003, it was learned through engineering inspections that the existing bulkhead is not in shape to receive barge deliveries. He added that it has now been determined to be necessary to build a new barge berth using two monopiles, each being approximately 40 square feet.

Mr. Kass indicated that LIPA required the developer to provide information as to the potential environmental effects, since it involved new construction in the water. He further indicated that the firm of Allee, King, Rosen & Fleming, LIPA's environmental consultant, prepared a detailed technical memorandum demonstrating there will be no adverse environmental effects that would require the reopening of the previous negative declaration. He stated that the resolution confirms the staff determination.

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

640. RESOLUTION ADOPTING AND RATIFYING STAFF DETERMINATION WITH RESPECT TO POTENTIAL ENVIRONMENTAL IMPACTS OF NEW BARGE BERTH FOR JAMAICA BAY ENERGY CENTER PROJECT

WHEREAS, based on a comprehensive assessment of the potential environmental impacts of the proposed Jamaica Bay Energy Center Project, the Authority, as lead agency under the State Environmental Quality Review Act ("SEQRA"), determined that that Project would not have any significant adverse environmental impacts and, accordingly, on November 14, 2002 issued a Negative Declaration for the Jamaica Bay Energy Center Project; and

WHEREAS, the Authority has now been advised that, based on recent information concerning the condition of the site's existing bulkhead, the project requires construction of a new barge mooring berth to permit barge deliveries of fuel oil to the facility; and the Authority's staff and environmental consultants have reviewed the potential environmental impacts of the construction of the proposed new barge berth and the use of that facility for barge deliveries of fuel oil to the Jamaica Bay Energy Center and have concluded, for the reasons set forth in the annexed Memorandum from Edward J. Grilli and the Technical Memorandum prepared by AKRF, Inc. and its Attachments, that construction and use of such barge berth for fuel oil, utilization and deliveries for the Jamaica Bay Energy Center would not result in any significant adverse environmental impacts;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts and ratifies the determination of the Authority's staff that the construction and use of the proposed new barge mooring berth, including fuel barge deliveries to such

facility, as part of the Jamaica Bay Energy Center Project would not have any significant adverse environmental impacts and does not require any revision or rescission of, or further supplement to, the Negative Declaration previously issued by the Authority for the Jamaica Bay Energy Center Project.

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Chairman Kessel stated that the Jamaica Bay Energy Center is an important project, and he thanked Mr. Kass for his work. He further thanked Assemblywoman Pfeffer and Queens Borough President Marshall who have been extremely cooperative with LIPA on this project in the Rockaways.

Chairman Kessel stated that the next item on the agenda concerns the request for Board approval of the resolutions necessary to implement LIPA's plan of finance relating to the refunding of certain maturities of the Series 1998A Bonds, Series 1998B Bonds and Series 2000A Bonds, the refunding of all or a portion of the Series 1-3 Electric System Subordinated Revenue Bonds, and the reimbursement or funding of certain capital expenditures of LIPA and relating to the refunding of the Series 1998A Electric System Revenue Bonds maturing in 2029. The Chairman continued that the Trustees are also being asked to consider a resolution authorizing the Chairman and Chief Financial Officer to enter into one or more floating-to-fixed rate interest rate swap agreements to effectively reverse an existing fixed-to-floating interest rate swap agreement between LIPA and Lehman Brothers Derivative Products Inc. He requested that Mr. Christopher Fink of Morgan Stanley make a presentation regarding the resolutions.

Mr. Fink stated that the LIPA plan of finance has three different parts. He indicated that the first part concerns the swaption, which was previously approved by the Board. He indicated that UBS/PaineWebber exercised their option in early February and, as a result, there are two sets of bonds that must be issued by LIPA to fulfill the terms of the swaption.

Mr. Fink stated that the first set of bonds is a Series of fixed rate refunding bonds, which refund some of LIPA's outstanding debt in the range of \$587 to \$600 million in order to free up bond insurance capacity. He continued that the second set of bonds is an issuance of variable rate debt. He added that the insurance freed as a result of the first set of bonds will be used to insure the variable rate bonds. Mr. Fink noted that this is not new debt, but merely bonds which refunded the Authority's 2029 maturity in a like amount, and that approximately \$80 million was saved by LIPA.

Mr. Fink stated that the second part of the 2003 financing plan is the issuance of \$200 million of new money bonds. He continued that LIPA previously financed capital expenditures from revenues, but this year some will be bonded in order to keep cash at proper levels. He added that LIPA's debt service coverages are anticipated to double due to the fuel cost recovery action and the non-issuance of debt, which have been applauded by the rating agencies.

Mr. Fink stated that the third part of the 2003 financing plan is the restructuring of existing debt. He indicated that since 1998, LIPA has held a letter of credit of approximately \$1 billion supporting variable rate bonds and

commercial paper, and that this letter of credit will come up for renewal on May 23, 2003. He continued that a three-year extension of the letter of credit has been negotiated at favorable rates, and some of the restrictive covenants that had financially restrained LIPA are being eliminated.

Mr. Fink indicated that approximately \$316 million of current variable debt will be fixed, as there has been concern with LIPA's higher ratio of variable debt to gross debt of 21 percent, i.e., 12 percent on a net basis. He continued that LIPA will take advantage of low fixed rates.

Mr. Fink indicated that LIPA will reduce the letter of credit from \$1 billion to \$900 million and issue fixed rate bonds. He continued that LIPA will also enter into a swap back to a fixed rate for another \$100 million, and that a previously entered swap that put LIPA into variable rate debt will now be reversed. He added that LIPA will receive a payment of approximately \$9 million in cash from the unwinding of that swap, due to the movement of interest rates.

Mr. Fink stated that the variable rate debt will be reduced from 21 percent to 17 percent of gross debt, i.e., from 12 percent to 8 percent on a net basis. He added that LIPA will unwind the swap with Lehman Brothers by entering an offsetting swap with another party, which will benefit LIPA by an additional \$1.3 million.

Chairman Kessel stated that the plan of finance places LIPA in a more solid financial position, especially as it reduces the variable rate debt load and thereby

provides more stability and security going forward. The Chairman continued that the two-year transition to a real-time fuel cost collection mechanism will also provide significant stability going forward, and will help LIPA keep down some capital costs. He noted that achieving this long-term financial stability represents an important accomplishment by LIPA in these very difficult times.

Chairman Kessel stated that LIPA previously had tremendous pressure on its cash position due to the deteriorated condition of the electric system, the new power plants and increased interconnection costs. The Chairman continued that the need to have smaller power plants installed is ending, other than the Freeport project, which will hopefully be completed next year.

Mr. Fink indicated that the primary issue for the rating agencies concerns the fuel cost recovery mechanism. Chairman Kessel stated that after this issue, the most important factor in bringing stability to LIPA has been the resolution of the Shoreham settlement agreement litigation. He stated that under the agreement, LIPA is to begin collecting the \$620 million agreed-upon settlement amount on June 1, 2003 via a surcharge in Suffolk County. The Chairman noted that this is a collection process for Suffolk County, since LIPA assisted Suffolk County and the other Shoreham taxing jurisdictions by issuing bonds on their behalf to fund their \$620 million settlement obligation. He added that LIPA prefers to collect the settlement from Suffolk County in cash and LIPA is willing to discuss the issue with Suffolk County prior to imposing a surcharge.

Trustee Auerbach asked what is the difference between the current variable rate of interest and the new interest rate on fixed rate debt. Mr. Fink responded that current short term variable rates are in the 1.3 to 1.6 percent range, and the cost of fixed rate debt to be locked in for 25 years will probably be in the 4.00 or 4.25 percent range. He continued that the short-term variable rate index has averaged in the 3.7 percent range over the last 10 years.

Trustee Maimoni asked for clarification on the cost of fixed rate debt. Mr. Colton explained that the cost would be about \$2.5 million for each \$100 million, and about \$8 million for the total amount of \$300 million.

Chairman Kessel thanked the Finance and Audit Committee for their work on these items.

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

641. ADOPTING RESOLUTIONS APPROVING THE ISSUANCE OF ADDITIONAL GENERAL REVENUE BONDS FOR THE PURPOSE OF REFUNDING CERTAIN MATURITIES OF THE SERIES 1998A, SERIES 1998B AND 2000A, ALL OR A PORTION OF THE SERIES 1-3 BONDS AND FINANCING CAPITAL EXPENDITURES, THE ISSUANCE OF ADDITIONAL GENERAL REVENUE BONDS FOR THE PURPOSE OF REFUNDING A MATURITY OF THE SERIES 1998A BONDS AND THE REMARKETING OF THE SERIES 8C BONDS, AND AUTHORIZING THE SALE OF BONDS IN ACCORDANCE WITH THE SIXTH AND SEVENTH SUPPLEMENTAL GENERAL RESOLUTIONS

WHEREAS, on May 13, 1998 the Long Island Power Authority adopted its Electric System General Revenue Bond Resolution (the "General Resolution") which, consistent with the Long Island Power Act, authorizes bonds of the

Authority, designated as “Electric System General Revenue Bonds” (the “General Revenue Bonds”), as special obligations of the Authority in accordance with the terms thereof for, among other purposes, refunding other bonds of the Authority and funding the Costs of System Improvements; and

WHEREAS, Section 205 of the General Resolution requires that the issuance by the Authority of any series of bonds 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 details of the terms of such bonds; and

WHEREAS, on May 28, 1998, the Authority issued \$3,449,527,638.05 of its Electric System General Revenue Bonds, Series 1998A (the “Series 1998A Bonds”); and

WHEREAS, on November 12, 1998, the Authority issued \$1,313,800,000 of its Electric System General Revenue Bonds, Series 1998B (the “Series 1998B Bonds”); and

WHEREAS, on May 3, 2000, the Authority issued \$325,165,278.85 of its Electric System General Revenue Bonds, Series 2000A (the “Series 2000A Bonds”); and

WHEREAS, on May 28, 1998, the Authority issued \$750,000,000 of its Electric System Subordinated Revenue Bonds, Series 1 through 3 (the “Series 1-3 Bonds”), \$700,000,000 of which are currently outstanding; and

WHEREAS, the Authority plans to issue up to \$1,600,000,000 principal amount of bonds for the purpose of refunding certain maturities of the Series 1998A, 1998B and 2000A Bonds, refunding all or a portion of the Series 1-3 Bonds, and reimbursing the Authority for, or funding, the Cost of System Improvements incurred in 2001, 2002 and 2003 in an amount up to \$200,000,000 (“Capital Expenditures”); and

WHEREAS, the Authority wishes to modify the Sixth Supplemental Electric System General Revenue Bond Resolution adopted by the Trustees on February 27, 2003, by increasing the aggregate principal amount of senior lien bonds authorized hereunder from \$1,000,000,000 to \$1,600,000,000, and modifying the purposes for which Bonds may be issued hereunder; and

WHEREAS, on May 28, 1998, the authority issued \$3,449,527,638.05 of its Electric System General Revenue Bonds, Series 1998A, of which \$587,225,000 principal amount mature on December 1, 2029 (the “2029 Bonds”); and

WHEREAS, pursuant to a Trustee resolution adopted on August 29, 2002 the Authority entered into an option for a floating-to-fixed rate swap agreement with UBS AG, Stamford Branch (“UBS”) for a notional amount of \$587,225,000 on September 25, 2002 (hereinafter referred to as the “Swap Agreement”) which Swap Agreement related to a planned refunding of the 2029 Bonds; and

WHEREAS, such option has been exercised by UBS, and the Authority plans to issue up to \$700,000,000 principal amount of General Revenue Bonds to refund the 2029 Bonds in accordance with the Swap Agreement; and

WHEREAS, in order to achieve such purposes there has been prepared and submitted to the Authority's trustees a form of amended and restated Sixth Supplemental Electric System General Revenue Bond Resolution heretofore adopted (as so amended, the "Sixth Supplemental General Resolution") and a form of a Seventh Supplemental Electric System General Revenue Bond Resolution (the "Seventh Supplemental General Resolution"); and

WHEREAS, on November 24, 1998, pursuant to authority granted in the Second Supplemental Subordinated Resolution adopted on October 20, 1998 the Authority issued \$27,300,000 principal amount of the Authority's Electric System Subordinated Revenue Bonds, Series 8 (Subseries 8C) (the "8C Bonds"); and

WHEREAS, the initial Interest Period applicable to the 8C Bonds will expire on March 31, 2003 and the Authority intends to effect a change in the interest rate mode applicable to the 8C Bonds from the Term Rate Mode to the Fixed Rate Mode and to remarket such 8C Bonds as of April 1, 2003 (the "Remarketing"); and

WHEREAS, in connection with the Remarketing there has been prepared and submitted to the trustees of the Authority, a form of a remarketing memorandum (the "Remarketing Memorandum") which will supplement the Official Statement dated November 19, 1998; and

WHEREAS, the Authority wishes to appoint lead underwriters for each of the bond issues referred to above and to authorize the sale of such bonds to such underwriters and to appoint a new remarketing agent for the Series 8C Bonds;

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

1. The Sixth Supplemental General Resolution, the Seventh Supplemental General Resolution and the Remarketing Memorandum in the forms presented to this meeting and made a part of this resolution as though set forth in full herein are hereby approved and adopted. The Chairman of the Authority is hereby authorized to deliver such documents to all relevant parties, including but not limited to, The Bank of New York, as trustee, which amendments, supplements, changes and insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.

2. Each Authorized Representative (as defined in the General Resolution) is hereby authorized and directed to select the underwriters and/or remarketing agents for each of the bond issues referred to above and to execute and deliver any and all other documents, including but not limited to the execution and delivery of one or more official statements or other disclosure documents and instruments, bond purchase agreements and remarketing agreements and to do and cause to be done any and all acts necessary and

proper for carrying out the Sixth Supplemental General Resolution, the Seventh Supplemental General Resolution, this resolution, and the issuance, sale and delivery of each of the bond issues referred to above and in the plan of finance adopted by the Trustees on February 27, 2003, as amended hereby.

3. The Plan of Finance contemplated under the related resolutions adopted by the Trustees on February 27, 2003, as amended by this resolution and the authorizations set forth therein are hereby affirmed.

4. This resolution shall take effect immediately.

* * *

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

642. APPROVAL OF FLOATING-TO-FIXED INTEREST RATE SWAP AGREEMENTS

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

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

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

WHEREAS, on May 23, 2001, the Authority issued \$116,000,000 of its Electric System Subordinated Revenue Bonds, Series 2001L (the "Series 2001L Bonds"); and

WHEREAS, on May 25, 2001 the Authority entered into a fixed-to-floating interest rate swap agreement with Lehman in the notional amount of \$116,000,000

pursuant to which the Authority pays to Lehman a variable rate of interest based on the BMA Index in return for receipt from Lehman of the fixed interest rate of 5.1875% (the "Existing Swap Agreement"), the economic effect of which transaction was to make the Series 2001L Bonds variable rate bonds; and

WHEREAS, under its plan of finance for 2003 the Authority intends to reduce the variable rate debt exposure of the Authority from current levels; and

WHEREAS, the Authority plans to enter into one or more floating-to-fixed interest rate swap agreements to, in effect, reverse the Existing Swap Agreement; and

WHEREAS, if the Authority is able to terminate the Existing Swap Agreement, or to modify the fixed rate payable by Lehman under the Existing Swap Agreement in conjunction with a reversal of the modified swap with another counterparty, upon terms as favorable as it is advised is likely to result from a reversal of the Existing Swap Agreement as described above, the Authority may choose to proceed instead with one of those alternatives;

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

1. The Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to enter into fixed-to-floating rate swap agreements in connection with the Existing Swap Agreement 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) be for the same term as the Existing Swap Agreement, (ii) be in the same aggregate notional amount as the Existing Swap Agreement, (iii) have the floating rate based upon the BMA Index, (iv) have affixed interest rate not higher than 5.1875%, and (v) be consistent with the Guidelines and substantially in the form of the floating-to-fixed rate swap agreement entered into by the Authority with UBS AG, Stamford Branch, on September 25, 2002, 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.

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

3. This resolution shall take effect immediately.

* * *

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to execute a power purchase agreement and related agreements, and to undertake such actions as may be necessary to continue LIPA's purchase of power from the Fitzpatrick Nuclear Facility for a 5-year period beginning January 1, 2004. The Chairman continued that LIPA presently purchases energy generated by the Fitzpatrick Nuclear Facility pursuant to a 1975 "Contract UD-3 for the Sale, Transmission and Distribution of Power" originally executed between LILCO and NYPA. He added that the contract obligates NYPA to supply electric energy from the Fitzpatrick plant at a level of 124 MW in the winter and 160 MW in the summer, and to support such energy deliveries through the provision of transmission service to the Niagara Mohawk Power Corporation's Edic Substation.

Chairman Kessel stated that the UD-3 contract is also the basis for the award by the NYISO to LIPA of grandfathered transmission congestion contracts (TCCs), which are valuable financial instruments that can be used to hedge fluctuations in the price of energy. The Chairman continued that the NYISO requires the underlying power supply obligation to be in effect in order for LIPA to maintain its right to such TCCs.

Chairman Kessel indicated that NYPA sold its interest in Fitzpatrick to Entergy in March of 2000, and that as part of this transaction Entergy and NYPA entered into an interim arrangement by which deliveries of energy will continue

through December 31, 2003. The Chairman continued that LIPA's staff analyzed the available options, including the continuation of energy purchases from Fitzpatrick by NYPA's assignment of Contract UD-3 energy supply obligations to Entergy, entering power purchase agreements with other suppliers, and purchasing equivalent amounts of energy in the NYISO markets on a day-ahead or real-time basis. He indicated that based on an evaluation of current market conditions, the value of maintaining LIPA's grandfathered Fitzpatrick TCCs, and a comparison of Entergy's energy pricing proposal to other potential power purchase options, LIPA's staff concluded that the best available approach is a continuation of power purchases from Fitzpatrick.

Chairman Kessel stated that NYPA has agreed to assign its energy supply obligations under the UD-3 contract to Entergy while continuing to provide transmission service to LIPA to support energy purchases from Fitzpatrick. The Chairman indicated that it is proposed that LIPA and Entergy execute Contract UD-3S to set the rates and terms of LIPA's continued receipt of energy from Fitzpatrick from January 1, 2004 to December 31, 2008. He added that LIPA will receive energy deliveries at present UD-3 levels.

Deputy Chairman Foye asked what the effect on LIPA's rates will be since this is more expensive than the existing contract. Mr. Chu answered that whenever commodity costs rise, it has a similar impact upon rates, but this is the most favorable alternative. Deputy Chairman Foye asked how much LIPA's costs and/or rates will rise as a result. Mr. Chu responded that the cost increase from the old contract will be about a third of a percent.

Chairman Kessel asked what the total dollar amount will be. Mr. Chu answered that it will amount to approximately \$11 million for the 142 MW. He continued that it is the least expensive option. Deputy Chairman Foye thanked Mr. Chu and Mr. Horowitz for their work on this analysis, and stated it is critical that study of the impact on LIPA's rates be included with all such analyses presented to the Board.

Chairman Kessel stated that this not only concerns an impact upon LIPA's costs but an impact upon LIPA's finances. The Chairman continued that an increase in costs to LIPA does not necessarily translate into a rate increase, and the ultimate decision as to how to recover LIPA's costs is up to the Board.

Deputy Chairman Foye asked what costs would not ultimately be recovered in LIPA's rates. Chairman Kessel responded that all costs are ultimately recovered, but not necessarily at the same time as they are incurred. The Chairman continued that capital costs are not recovered dollar for dollar in rates, but are paid for over time. Deputy Chairman Foye stated that there is no expense that will not ultimately be borne by the ratepayer in rates. Chairman Kessel agreed.

Trustee Polimeni asked what costs are increased regarding the nuclear power plant that would justify an increase in the rate charged to LIPA. Mr. Chu responded that the principal driver for the increase is labor costs. He continued that another driver is the terms upon which the power from the facility can be

sold on the open market. Chairman Kessel noted that LIPA is simply purchasing power from Fitzpatrick, and there is no LIPA ownership or investment in this facility.

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

643. AUTHORITY TO EXECUTE AND EFFECT THE CONTRACT UD-3S AND OTHER RELATED AGREEMENTS FOR THE CONTINUATION OF POWER PURCHASES BY LIPA FROM THE FITZPATRICK NUCLEAR FACILITY

WHEREAS, the Long Island Power Authority (Authority) and its subsidiary, LIPA, are committed to serving the customers of Long Island by providing reliable electric service that ensures the economic well-being, health and safety of the residents of Long Island as well as their commerce and industry; and

WHEREAS, since 1975, the customers of Long Island have been served, in part, by energy supplies from the Fitzpatrick Nuclear Facility under a Contract UD-3 for the Sale of Power from the New York Power Authority (“NYPA”); and

WHEREAS, in March, 2000, NYPA sold its interest in the Fitzpatrick Nuclear Facility to Entergy Nuclear Fitzpatrick, LLC (“Entergy-Fitzpatrick”); and

WHEREAS, as part of the sale/purchase transaction, Entergy-Fitzpatrick entered into an interim arrangement by which deliveries of energy from the Fitzpatrick Nuclear Facility to NYPA (on LIPA’s behalf) were continued through December 31, 2003; and

WHEREAS, in order to ensure continuation of LIPA’s purchase of energy from the Fitzpatrick Nuclear Facility beyond December 31, 2003, it is necessary to modify the existing Contract UD-3 to transfer NYPA’s energy supply obligations to Entergy-Fitzpatrick; and

WHEREAS, all transmission service arrangements supporting the delivery of energy from the Fitzpatrick Nuclear Facility will remain effective and NYPA will continue to retain responsibilities to support such energy deliveries under those portions of Contract UD-3 which are not assigned to Entergy-Fitzpatrick; and

WHEREAS, LIPA and Entergy-Fitzpatrick have concluded good faith, commercial negotiations on the development of a Contract UD-3S which will

continue the delivery of energy from the Fitzpatrick Nuclear Facility through December 31, 2008;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect the Contract UD-3S for the Sale of Power to the Long Island Lighting Company d/b/a LIPA 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 implement LIPA's continued receipt of energy from the Fitzpatrick Nuclear Facility.

* * *

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:

644. 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 12:03 PM the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 12:17 PM 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 vote unanimously to adjourn the meeting at 12:17 PM.

Respectfully submitted,

Stanley B. Klimberg