

**LONG ISLAND POWER AUTHORITY  
MINUTES OF THE 175th MEETING  
HELD ON APRIL 27, 2006**

**Pursuant to notice dated April 20, 2006, the Long Island Power Authority (the "Authority") was convened for the one hundred and seventy- fifth time at 11:05 AM at the Omni Teleconference Center, in Uniondale, NY.**

**The following Trustees of the Authority were present:**

**Richard M. Kessel, Chairman  
Howard Steinberg, Deputy Chairman  
Michael Affrunti  
Nancy A. Akeson  
Harvey Auerbach  
John Fabio  
Edna Gerrard  
James Herrmann  
Robert Maimoni  
Nancy Nugent  
Jonathan Sinnreich**

**Also representing the Authority were Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Elizabeth McCarthy, Chief Financial Officer, Richard Bolbrock, Vice President – Power Markets, Bert Cunningham, Vice President – Communications, Kenneth Kane, Controller, Campbell Ayling,**

**Assistant General Counsel and Kathleen Stella, Secretary to the Board of Trustees.**

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

**The Board tabled resolutions to adopt the minutes of the January 26, 2006 and March 8, 2006 meetings of the Board of Trustees.**

**Chairman Kessel stated that the Authority currently has approximately \$525 million in Electric System Subordinated Revenue Bonds, Series 1 through 3. The Chairman continued that they are secured by letters of credit issued by various banks. He added that the Authority's Commercial Paper Program currently has approximately \$100 million of Series CP-1 outstanding, which is also secured by letters of credit issued by various banks.**

**Chairman Kessel stated that a total of \$300 million of Commercial Paper notes may be issued, if secured by a corresponding amount of letters of credit, and the Authority has the opportunity to extend the term of the existing letters of credit under favorable terms. The Chairman continued that LIPA staff requests that the Trustees approve and adopt a resolution that would authorize the execution and delivery of one or more reimbursement agreements providing for the extension and amendment of certain credit facilities supporting the Series 1-3 Bonds and/or the Commercial Paper notes. He added that the Series 1-3 Bonds were issued in 1998 and are currently secured by \$525 million of letters of credit.**

Chairman Kessel stated that the Commercial Paper Program was established in 2001, and it is currently secured by \$200 million of letters of credit issued by various banks. The Chairman continued that all such letters of credit expire on June 15, 2006, and the Authority is seeking to extend the letters of credit supporting the Series 1-3 Bonds and Commercial Paper notes, keeping the current letter of credit banks in place, except for one. He indicated that Bayerische Hypo-und Vereinsbank will be replaced with State Street Bank and Trust Company as the letter of credit bank for Series CP-3 commercial paper notes.

Chairman Kessel stated that the term of the JP Morgan Chase Bank, N.A. and State Street Bank will be increased by five years and the remaining German Bank syndicate members will increase their term to six years by waiving their next cancellation rights in the year 2009. The Chairman continued that in addition to these extensions, the Authority wishes to increase the Series CP-1 and CP-3 letters of credit by \$50 million each to provide letter of credit backing for an additional \$100 million of Commercial Paper notes, for a total authorized limit of \$300 million for the program.

Ms. McCarthy stated that the Authority seeks to extend the term of the expiring letters of credit for five years, which will give the Authority the flexibility to keep the support for the subordinated debt, the variable rate debt, as well as the Commercial Paper Program. She continued that this will also increase the facility for \$100 million in orders for the Authority to get the support for its full

**\$300 million Commercial Paper Program. She added that the pricing is favorable to the current pricing, and it should result in a savings to the Authority of \$2.3 million per year.**

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

**768. ADOPTING CERTAIN RESOLUTIONS RELATING TO THE EXTENSION AND AMENDMENT OF THE LETTERS OF CREDIT ASSOCIATED WITH THE SERIES 1-3 BONDS AND THE COMMERCIAL PAPER PROGRAM**

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**WHEREAS, the Long Island Power Authority (the “Authority”) adopted its Electric System General Subordinated Revenue Bond Resolution on May 20, 1998, as amended and supplemented from time to time (the “Subordinated Resolution”), which authorized bonds of the Authority designated as “Electric System Subordinated Revenue Bonds” and notes of the Authority designated as “Commercial Paper Notes”; and**

**WHEREAS, on May 28, 1998, pursuant to the Subordinated Resolution the Authority issued \$1,500,000,000 of its Electric System Subordinated Revenue Bonds, portions of which are now designated as Subseries 1A, 1B, 2A, 2B, 3A and 3B (the “Series 1-3 Subordinate Lien Bonds”); and**

**WHEREAS, in 2001 pursuant to the Subordinated Resolution, the Authority created a Commercial Paper program under which it may issue Commercial Paper Notes in an aggregate principal amount not to exceed \$300 million, which are now designated as Series CP-1, CP-2 and CP-3 (the “Commercial Paper Notes”); and**

**WHEREAS, portions of the Series 1-3 Subordinate Lien Bonds are currently secured by Irrevocable Transferable Letters of Credit (the “Series 1-3 Letters of Credit”) dated as of May 23, 2003 issued respectively by Baryersiche Landesbank and Landesbank Baden-Württemberg (securing Subseries 1A), State Street Bank and Trust Company (securing Subseries 1B), WestLB AG (securing Subseries 2A), Bayerische Landesbank (securing Subseries 2B), JPMorgan Chase Bank N.A. (as successor to JPMorgan Chase Bank) and Landesbank Baden-Württemberg (securing Subseries 3A), and WestLB AG (securing Subseries 3B); and**

**WHEREAS, the Commercial Paper Notes are currently secured by Irrevocable Transferable Letters of Credit (the “CP Letters of Credit”) issued by JPMorgan Chase Bank N.A. (as successor to JPMorgan Chase Bank) (securing**

**\$100 million of Series CP-1), HSH Nordbank (as successor to Landesbank Schlewig-Holstein Girozentrale a.k.a LB-Kiel) (securing \$50 million of Series CP-2), and Bayerische Hypo-und Vereinsbank AG (securing \$50 million of Series CP-3); and**

**WHEREAS, the Authority wishes to extend the term of the CP Letters of Credit and the Series 1-3 Letters of Credit (hereinafter referred to as the "Letters of Credit") keeping all of the current banks in place except for Bayerische Hypo-und Vereinsbank which the Authority wishes to replace with State Street Bank and Trust Company as the letter of credit bank for the Series CP-3 Commercial Paper Notes; and**

**WHEREAS, the Authority also wishes to increase the Series CP-1 Letter of Credit and the Series CP-3 Letter of Credit by \$50 million each to provide Letter of Credit backing for an additional \$100 million of Commercial Paper Notes bringing the combined CP Letters of Credit coverage up to the programs \$300 million authorized limit; and**

**WHEREAS, authorization is being sought to execute and deliver amendments (the "Amendments") to the Reimbursement Agreement dated as of May 21, 2003 relating to the Series 1-3 Letters of Credit and the CP Reimbursement Agreement and a Reimbursement Agreement dated as of May 1, 2003 relating to the CP Letters of Credit for the purpose of providing for the extension and amendment of the Letters of Credit as more particularly set out in the attached memorandum submitted to the Trustees;**

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

**1. The Chairman and Chief Financial Officer of the Authority are hereby authorized to execute the Amendments with such amendments, supplements, changes, insertions and omissions thereto as may be approved by the Chairman or Chief Financial Officer, which amendments, supplements, 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 Subordinated Resolution) is hereby authorized and directed to execute and deliver any and all agreements, documents and instruments and to do any and all acts necessary or proper including making any necessary conforming changes to related documents for carrying out the extension of the Letters of Credit and for implementing the terms of the Amendments and this resolution and each of the documents authorized thereby and hereby.**

**3. This resolution shall take effect immediately.**

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to authorize the Chairman and the Chief Financial Officer to proceed with the issuance of Electric System Revenue Bonds for the purposes of refunding certain outstanding bonds and thus lowering the effective debt service obligations of the Authority, and funding the cost of System Improvements. The Chairman continued that the Trustees will be asked to adopt resolutions providing for the issuance of up to \$1.350 billion aggregate principal amount of Electric System General Revenue Bonds and/or the execution and delivery of one or more interest rate swap agreements as described below. He added that the Authority proposes to issue a portion of the Authority Bonds to refund a portion of the Authority's outstanding bonds including the Electric System General Revenue Bonds, Series 1998A, 1998B, 2001A, 2001L, 2003B, 2003C and Series 2004A. These are now referred to as the "Specified Bonds."

Chairman Kessel stated that the Authority may seek to lower the effective debt service cost of the Specified Bonds by issuing fixed rate Refunding Bonds, by also issuing variable rate Refunding Bonds and entering into related interest rate swap agreements, and by entering into interest rate swap agreements relating to the Specified Bonds, or any combination of the foregoing. The Chairman continued that up to \$200 million of the Authorized Bonds will be issued for the purpose of directly funding the cost of System Improvements, reimbursing such costs already incurred, or refunding commercial paper issued by the Authority to fund such costs. He indicated that the Authority may seek to lower the effective debt service cost of the New Money Bonds by entering into interest rate swap agreements relating to the proposed New Money Bonds.

Chairman Kessel stated that the Authorized Bonds will be sold either on a negotiated basis to one or more underwriters for sale to investors, or

directly to one or more investors at such price or prices as they shall determine to be the most cost effective and advantageous to the Authority. The Chairman continued that under current market conditions, it is expected that any refundings and interest rate swap agreements relating to the Refunding Bonds could result in an estimated gross savings of as much as three percent of the principal amount of the related bonds. He added that LIPA has looked at some of the risks associated with the interest rate swaps, and LIPA's Chief Financial Officer, after consultation with the Authority's financial advisor, has concluded that such risks are manageable and reasonable in relation to the benefits achievable by entering into interest rate swap agreements in the manner contemplated, and it is expected that the form of any such agreements and related opinions and certifications would be substantially similar to those utilized in other interest rate swap transactions entered into by the Authority.

Chairman Kessel requested that Ms. McCarthy offer a brief description of the resolution.

Ms. McCarthy stated that this proposal provides LIPA with the authorization, depending on market conditions, to refund some of LIPA's outstanding debt and to issue up to \$200 million of new money issuance to fund LIPA's construction program for 2006, which is in line with what was in LIPA's proposed budget for 2006. She continued that the ultimate amount of the refunding will depend on market conditions at the time as well as the structure. She added that whether LIPA will use derivatives will depend on market risk and LIPA will be weighing appropriately the risk factors as LIPA looks forward to that, as LIPA hopes to complete this in the June time frame before the summer is completed and deliver, with respect to the Refunding Bonds, a minimum of three percent savings by series.

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

**769. ADOPTING RESOLUTIONS RELATING TO THE ISSUANCE OF ELECTRIC SYSTEM GENERAL REVENUE BONDS FOR THE PURPOSES OF REFUNDING ALL OR A PORTION OF CERTAIN OUTSTANDING AUTHORITY BONDS AND FUNDING THE COST OF SYSTEM IMPROVEMENTS, AND THE EXECUTION OF ONE OR MORE INTEREST RATE SWAP AGREEMENTS**

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

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

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

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

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

WHEREAS, the Authority wishes to authorize the issuance of (i) Bonds (the "Refunding Bonds") for the purpose of refunding all or a portion of the Specified Bonds and (ii) Bonds (the "New Money Bonds" and collectively with the Refunding Bonds, the "Authorized Bonds") for the purpose of funding the Cost of System Improvements and for various related purposes, which Authorized Bonds shall be in an aggregate principal amount not to exceed

**\$1,350,000,000, of which no more than \$200 million shall be New Money Bonds; and**

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

**WHEREAS, the General Resolution permits the Authority to enter into Financial Contracts (as defined therein), which include interest rate caps or collars and forward rate, future rate and certain swap agreements with Qualified Counterparties (as defined therein); and**

**WHEREAS, the Authority has determined that the use of such swap agreements is appropriate in certain circumstances but recognizes that certain risks can arise in connection with their use and the Authority has adopted guidelines (the “Guidelines”) for the use of such agreements in order to assure that such agreements are used for appropriate purposes and to assure that the risks potentially associated with such agreements are effectively managed and minimized; and**

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

**WHEREAS, the Authority has entered into interest rate swap agreements relating to certain of the Specified Bonds and, to the extent that such Specified Bonds are refunded, it is anticipated that such interest rate swap agreements will either be reallocated to other bonds of the Authority or terminated, as determined by the Chairman or Chief Financial Officer; and**

**WHEREAS, the decision as to which specific strategy or strategies to be employed in connection with such new or existing interest rate swap agreements and the indices, formulae or methods to be used in calculating payments to be made to the Authority or the counterparties will be made by the Chairman or Chief Financial Officer, taking into account market conditions and the advice of the Authority’s Financial Advisor, with the intention of lowering the effective rate of interest payable in connection with the Authority’s indebtedness consistent with interest rate and other risk considerations;**

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

**1. The Tenth Supplemental General Resolution, in the form presented to this meeting and made a part of this resolution as though set forth in full herein, is hereby approved and adopted. The Chairman of the Authority is hereby authorized to deliver the Tenth Supplemental General Resolution to The Bank of New York, as the Trustee for the Bonds, with such amendments,**

supplements, changes, insertions and omissions thereto as may be approved by the Chairman, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.

2. The Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to sell all Bonds issued pursuant to the Tenth Supplemental General Resolution either on a negotiated basis (i) to one or more underwriters for resale to investors or (ii) by private placement to one or more investors at such price or prices as they shall determine to be the most cost effective and advantageous for the Authority.

3. Each Authorized Representative (as defined in the General Resolution) is hereby authorized with respect to each series of the Authorized Bonds, to execute and deliver a Bond Purchase Agreement (as defined in the Tenth Supplemental General Resolution) in substantially the form of the bond purchase agreement executed by the Authority in connection with the issuance of the Authority's Electric System General Revenue Bonds, Series 2006A and B, with such modifications thereto as any Authorized Representative of the Authority, upon the advice of counsel to the Authority, approves, which approval shall be conclusively evidenced by the execution thereof by such Authorized Representative.

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

5. The Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to enter into interest rate swap agreements relating to the Authorized Bonds or the Specified Bonds with such Qualified Counterparties (as defined in the General Bond Resolution) as such officers may select in accordance with the Guidelines, which agreements shall (i) relate to a notional amount of not more than \$1,350,000,000 in the aggregate, provided that, in applying such aggregate limit, basis swaps entered into in connection with or after entering into other interest rate swaps shall not be taken into account, (ii) commence on such date or dates as the Chairman or Chief Financial Officer specifies, (iii) have a term ending on or prior to the anticipated final maturity of the bonds to which they relate, as the Chairman or Chief Financial Officer specifies, (iv) provide for payments to the Authority determined based upon such index, formula or method as may be approved by the Chairman or Chief Financial Officer, and (v) otherwise be in accordance with the Guidelines and substantially in the form of interest rate swap agreements entered into by the Authority in relation to other interest rate swap transactions, with such changes and additions to and omissions from such form as such authorized executing officer deems in his discretion to be necessary or appropriate, such execution to

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

6. As and to the extent that Refunding Bonds are issued for the purpose of refunding Specified Bonds with respect to which there are existing interest rate exchange agreements, the Chairman and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to allocate such interest rate swap agreements to such other outstanding Authority bonds or to terminate such agreements as such officer may determine appropriate so as to permit the Authority to obtain the benefit of such interest rate exchange agreements or to minimize the cost associated with the refunding.

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

8. This resolution shall take effect immediately.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve amended Long Island Power Authority Investment Guidelines. The Chairman continued that the Authority is required by Section 2925(6) of the Public Authorities Law to periodically review and approve Investment Guidelines that detail the Authority's operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the Authority, and they were last submitted in September of 2004. The Chairman continued that LIPA wants to make several modifications, including the

modification of Section 2.4 (Portfolio Diversification) to increase the limit for mutual fund investments with any one issuer from 25 to 50 percent of total investment funds, in order to provide increased liquidity through investments in money market mutual funds while maintaining appropriate safety standards; and, two, to add Section 3.7 under Section 3 (Operating Parameters and Controls) to formalize the required notification of the Authority's Chief Financial Officer in the event that the Investment Guidelines are violated. He added that there are minor modifications to tighten up the guidelines.

Deputy Chairman Steinberg asked whether the guidelines been reviewed by the Finance and Audit Committee. Ms. McCarthy answered that LIPA staff briefed the Committee on this earlier today.

Deputy Chairman Steinberg asked where LIPA currently stands on equity investments as a percentage of the portfolio. Ms. McCarthy answered that in the Nuclear Decommissioning Portfolio only LIPA has equity investments of approximately twenty-five percent of that. She added that LIPA's Operating and the Rate Stabilization Funds do not have equity investments.

Deputy Chairman Steinberg asked whether LIPA is maxed out on the twenty-five percent. Ms. McCarthy answered that this is the authorization that LIPA currently has from the Board.

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

**770. APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY INVESTMENT GUIDELINES**

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**WHEREAS, the Long Island Power Authority (the “Authority”) is required by Section 2925(6) of the Public Authorities Law, as amended, to periodically review, amend and adopt investment guidelines which detail the Authority’s operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the Authority; and**

**WHEREAS, the Authority wishes to amend its existing Investment Guidelines to reflect the Authority’s current investment needs and practices;**

**NOW, THEREFORE, BE IT IS RESOLVED, that the Authority hereby approves and adopts the “Long Island Power Authority Investment Guidelines (April 27, 2006)” in the form presented at this meeting; and**

**BE IT FURTHER RESOLVED, that such Investment Guidelines as amended are to be effective with respect to all Investment Securities, as defined in such Investment Guidelines, purchased after the date hereof.**

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**Chairman Kessel stated that the next item on the agenda is a resolution to adopt revisions to LIPA's Tariff that would include a revised financial target in LIPA's Fuel and Purchased Power Cost Adjustment, and to adopt several other minor changes to the Tariff leaves to more specifically describe and update the fuel and purchased power cost components consistent with those currently included in the fuel and purchased power mechanism. Chairman Kessel continued that the adjustment is designed to pass through to LIPA's customers a portion of LIPA's actual fuel and purchased power costs that are not recovered in base rates. He added that the attached proposal prepared by LIPA’s staff, discussed at prior meetings and included in LIPA’s budget, recommends that the fuel price adjustment mechanism be revised so that it passes through that portion of LIPA's Excess Fuel costs necessary to achieve a financial target of a level of revenues over expenses of \$75 million, plus or minus a tolerance band of \$50 million.**

Chairman Kessel stated that the current target is \$20 million, and the proposed reserve target of \$75 million, and the \$100 million tolerance band would provide LIPA and its customers with a necessary and appropriate financial cushion to cover increased volatility in fuel and purchased power costs. The Chairman continued that the proposal would also mitigate customer bill impacts from changes in fuel and purchased power costs, and the changes would be less frequent, more smooth and predictable over time. He added that LIPA is also making several other minor changes to the Tariff leaves to more specifically describe and update the fuel and purchased power cost components consistent with those currently included in the fuel and purchased power mechanism, and these changes will provide clarity and transparency.

Chairman Kessel stated that LIPA issued a public notice in The State Register on January 25, 2006, and LIPA held two public hearings on March 15, 2006, and an additional one on April 12, 2006. The Chairman continued that one member of the public spoke at all of these hearings and took no position on the proposal, and no other comments were received from the public. He indicated that the public comment period under SAPA has expired.

Chairman Kessel stated that LIPA discussed this issue before, and this was something that LIPA talked about last fall in connection with LIPA's budget. The Chairman continued that he wishes that this was something that LIPA had last year, because it probably would have helped LIPA, and LIPA would not have had to raise the fuel surcharge at the end of last year, which was very painful. He indicated that he recommends that this resolution be adopted.

Chairman Kessel stated that this will make LIPA more financially secure, and it will protect LIPA's ratepayers. The Chairman continued that with

the world the way it is now, no one knows for sure when LIPA may have to meet a small target and to raise rates or bills through the fuel adjustment mechanism, and the increase on an annual basis has to be squeezed into a few months. He indicated that this resolution deals with that, and it is very beneficial to the Authority, its finances and its customers.

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

**771. APPROVAL OF REVISED FUEL AND PURCHASED POWER COST  
ADJUSTMENT FINANCIAL TARGET**

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WHEREAS, LIPA's Fuel and Purchased Power Cost Adjustment ("FPPCA") or "fuel price adjustment" mechanism is designed to pass through to LIPA's customers a portion of LIPA's actual fuel and purchased power costs that are not recovered in base rates (i.e., "Excess Fuel Costs"); and

WHEREAS, LIPA's staff issued a Proposal that the fuel price adjustment mechanism be revised so that it passes through that portion of LIPA's Excess Fuel costs necessary to achieve a financial target consisting of a level of revenues over expenses, i.e. "reserve", of \$75 million, plus or minus a tolerance band of \$50 million, which target would replace the present targeted reserve of \$20 million with no tolerance band; and

WHEREAS, the proposed reserve target of \$75 million and the \$100 million tolerance band would provide LIPA and its customers with a necessary and appropriate financial cushion to cover increased volatility in fuel and purchased power costs, which target and band are fairly modest, representing respectively about 2% and 2.7% of LIPA's annual revenues; and

WHEREAS, the Proposal recommends that several additional changes to LIPA's FPPCA Tariff Leaves be made, primarily to more specifically describe and update the fuel and purchased power cost components consistent with those currently included in the FPPCA mechanism; and

WHEREAS, following the issuance of public notice in the State Register on April 5, 2006, two public hearings on the Proposal were held on March 15, 2006 and an additional public hearing held on April 12, 2006; one member of the public spoke at one of these hearings, but took no position on the Proposal; no other comments were received from the public, and the public comment period under SAPA has expired.

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

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

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve the LIPA Ratepayer Protection Plan. The Chairman continued that in January of 2006, the Board approved on an interim basis, a resolution adopting LIPA's Ratepayer Protection Plan which includes the issuance to LIPA's customers of one-time rebate checks in the amount of \$35 per customer account at a cost of \$40 million, and which will be funded from incremental cash resulting from the resolution of certain issues relating to LIPA's Operating Agreements with KeySpan. He added that the Plan would also use approximately \$25 million to help pay down Shoreham related debt and achieve debt service cost savings; use approximately \$1 million to fund LIPA's 2006 Solar Roof Initiative; use \$250,000 to create a fund to assist low-income electric heating customers with winter heating bills; and use \$23 million in cost savings, together with existing reserves and credits received as a result of the resolution of certain issues relating to LIPA's Operating Agreements with KeySpan, to create a Fuel Cost Reserve Fund of approximately \$100 million to help stabilize bills this year and next year.

Chairman Kessel stated that LIPA already took action pursuant to the State Administrative Procedure Act, and notice of that action was published in The State Register on January 25, 2006. The Chairman continued that two public hearings were held on March 15, 2006, and a third was held on April 12, 2006. He added that one member of the public came and spoke, but took no position on this plan, and no other comments were received.

Chairman Kessel stated that the public comment period under SAPA has now expired, and he asks that the Trustees approve this resolution. The Chairman indicated that there is a legitimate concern that since the Ratepayer Protection Plan was approved by this Board, there has been an announcement of an acquisition of KeySpan by National Grid, and the approval process has been halted by the New York State Attorney General pending LIPA's review of that transaction. He added that there is a desire that the Board should amend this resolution to indicate that this is subject to approval of a new agreement by both the LIPA Board and the various State regulatory authorities.

Trustee Maimoni stated that the Ratepayer Protection Plan does not happen, unless the National Grid agreement with KeySpan is approved. Chairman Kessel stated, "That's correct."

Ms. McCarthy stated that it would also occur under the existing agreement with KeySpan. Chairman Kessel agreed.

Deputy Chairman Steinberg asked if depending on the outcome of discussions, the Ratepayer Plan could end up being amended. Chairman Kessel stated that it could be amended, and possibly enhanced significantly.

Chairman Kessel stated that he would amend the resolution to provide that in order for the Ratepayer Protection Plan to be adopted, the matter would have to come before the Board again for approval for an amended plan, if, in fact, one is made between LIPA, KeySpan and National Grid, and that that plan would also be subject to approval at the LIPA Board, the New York State Attorney General and the New York State Comptroller.

**Deputy Chairman Steinberg asked if the Board may defer this, since it may have to come before the Board again for approval in any event.**

**Chairman Kessel asked whether there is a reason why LIPA needs to approve the resolution at this time. Mr. Ayling answered that the Board can defer action on it until a later date.**

**Chairman Kessel asked whether the SAPA process is protected if the Board was to approve an amended plan or any version at a later time. The Chairman indicated that he would like the Board to table this resolution at this point. He asked whether there is a time limit regarding the SAPA process which would require the Board to have to go through the whole hearing process all over again. Mr. Ayling answered that it is possible, if the proposal is substantially changed.**

**Deputy Chairman Steinberg asked whether the Authority would not have to go through the hearing process again if the proposal stays the same. Mr. Ayling answered the hearings have already been held on this.**

**Deputy Chairman Steinberg asked whether the Board could defer it, and then if the Board passes the proposal in its current form, it is not an issue, and LIPA does not have to go through the process again. Mr. Ayling answered, "That's correct."**

**Upon motion duly made and seconded, the Board unanimously approved a motion to table the resolution.**

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve the creation and appointment of the office of Vice President of Operations of the Authority and LIPA. The Chairman continued that the Vice President of Operations would be responsible for managing LIPA's electric T&D assets and operations throughout LIPA's service area, and would be the day-to-day executive interface between LIPA and KeySpan on all operational matters including the MSA and pending Amended MSA approved by the Board in January. He added that he also recommends that Michael Hervey be appointed Vice President of Operations, as he is eminently qualified to serve in that position.

Chairman Kessel stated that Mr. Hervey has been an invaluable person at LIPA, and he has worked very well in conjunction with Mr. Hulkower on the operational side. The Chairman continued that not only does Mr. Hervey know the system well, but he knows how to deal with KeySpan in the right way and to get things done. He added that Mr. Hervey will be working at KeySpan, watching them day-to-day, and LIPA has never had that physical presence before.

Chairman Kessel stated that Mr. Hervey is the one who responds whenever there are problems. The Chairman indicated that he thinks that Mr. Hervey is the right person for the position, and this is something very timely.

Mr. Hervey thanked Chairman Kessel, the rest of the LIPA staff and the Board for their confidence in him to nominate him to this position.

**772. APPOINTMENT TO OFFICE OF VICE PRESIDENT OF OPERATIONS**

**RESOLVED**, that Michael D. Hervey be, and hereby is, appointed to the Office of Vice President of Operations, until the earlier of his resignation or removal; and be it further

**RESOLVED, that the incumbent of the Office of Vice President of Operations shall be an officer of the Long Island Power Authority (“Authority”) and its subsidiary, LIPA, within the meaning of the Authority’s enabling legislation (Chapter 517 of the Laws of 1986), as amended, including Section 1020-bb of the Public Authorities Law, and all other applicable laws.**

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**Chairman Kessel stated that next item on the agenda is Board consideration of a resolution to authorize the Chairman or his designee to execute an Amendment to the Energy Management Agreement extending its term with respect to the System Power Supply Services portion of the agreement. The Chairman continued that the management of LIPA's power supply is currently provided by KETS under the Energy Management Agreement dated as of June 26, 1997, and while the Physical Fuel Management Services portion of the EMA remains in effect until 2013, the System Power Supply Services portion is scheduled to expire on May 28th of this year. He added that KETS manages over \$3 billion of transactions annually and performs the valuable services necessary for providing reliable and continuous service to LIPA's customers.**

**Chairman Kessel stated that in order to ensure that the System Power Supply Services continue beyond the term of the expiring portion of the EMA, LIPA issued an RFP in December of 2004. The Chairman continued that it was reissued on March 28, 2005, to clarify the scope of the services seeking proposals from experienced firms. He indicated that LIPA's staff has conducted reviews of the proposals offered in response.**

**Chairman Kessel stated that a recommendation regarding selections has not yet been formulated for presentation to the Board; however, it is expected that a recommendation will be presented to the Board later this year. The Chairman continued that as the vital System Power Supply Services portion of**

the EMA is scheduled to expire on March 28, 2006, it is imperative that arrangements be made to continue such services pending the implementation of any new agreement resulting from that RFP process. He added that to that end, an amendment to the EMA extends the term of the System Power Supply Services portion to December 31, 2006 and thereafter on a month-to-month basis subject to termination by LIPA on sixty days notice, but in no event later than December 31, 2007.

Chairman Kessel stated that KETS has agreed to provide the services during the extended term under the same pricing, terms and conditions as in the EMA. The Chairman continued that LIPA is merely extending the Energy Management Agreement on the System Power Supply Services end, so that LIPA can continue to review the proposals that have been put forward. He added that this is a subject of discussions that LIPA will talk about with the Board in the future as we go forward, since it may impact LIPA's future relationship with KeySpan and/or National Grid.

Chairman Kessel stated that this does not change the terms of that agreement in any way, but rather it just continues it. He added that it gives LIPA some additional time and leverage.

Trustee Auerbach asked whether LIPA has a right to terminate it at any time, if the merger or the takeover of National Grid occurs prior to the December date and LIPA is not happy with National Grid as the manager. Chairman Kessel answered, "Yes". The Chairman added that LIPA has the right to terminate it upon change of control, and his expectation is that the National Grid transaction will probably not be approved until a year from now, at the earliest.

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

**773. AUTHORIZATION TO EXTEND TERM OF ENERGY MANAGEMENT AGREEMENT REGARDING SYSTEM POWER SUPPLY SERVICES**

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WHEREAS, under the Energy Management Agreement dated as of June 26, 1997 (“EMA”), KeySpan Energy Trading Services LLC (“KETS”) is responsible for, among other things, the scheduling, dispatch, purchase and sale of all power supply resources available to LIPA (“System Power Supply Services”); the System Power Supply Services portion of the EMA is scheduled to expire on May 28, 2006; and

WHEREAS, LIPA previously issued a Request for Proposals (“RFP”) for System Power Supply Services (and other services) provided under the EMA; LIPA’s staff has conducted reviews of the proposals offered in response to the RFP; a recommendation regarding selections has not yet formulated for presentation to the Board; and

WHEREAS, it is imperative that arrangements be made to continue the vital System Power Supply Services pending the implementation of any new agreement(s) resulting from the RFP process; and LIPA has restructured with KeySpan an amendment to the EMA (“EMA Amendment”) that would extend the term of the System Power Supply Services portion of the EMA to December 31, 2006 and thereafter on a month-to-month basis, subject to termination by LIPA on sixty (60) days notice to KETS, and with pricing at the same level as the current EMA;

NOW, THEREFORE, BE IT RESOLVED, that for the reasons set forth in the preceding Memorandum and herein, the Chairman or his designee be and hereby are authorized to execute and effect the EMA Amendment 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 assure that the foregoing is carried out.

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Chairman Kessel stated that the price of fuel is going through the roof, and prices for oil have hit \$75.00 a barrel. The Chairman continued that the

ratepayer does not have to be surprised any time they go to the pump and fill up with gasoline, as gasoline prices on Long Island have gone up between thirty and forty cents in the last three weeks. He added that as a result LIPA has made a commitment as part of the KeySpan deal with LIPA that LIPA would freeze its bills this year, but that agreement is obviously not in effect.

Chairman Kessel stated that thanks to the conservative budgeting that LIPA has undertaken, to LIPA's aggressive but prudent hedging strategy that this year is going to save LIPA about \$160 million, and to some extent to natural gas prices that are tracking so far below oil, which allows LIPA to burn more natural gas, LIPA will not increase its bills, or any of its rate or charges, including the fuel adjustment, for the remainder of this year, absent a major catastrophe that LIPA cannot control or a Katrina type hurricane. The Chairman continued this is an extraordinary accomplishment. He indicated that a few months ago, the Board was criticized and sued because of the rising charges on LIPA's bills from last year, and he indicated at the time that LIPA does not make a profit, and all of the money that LIPA was collecting was coming from higher oil prices that occurred mostly after Hurricane Katrina.

Chairman Kessel stated that the environment has changed for the worse, and LIPA is in the midst of probably the greatest energy price crisis in the history of the country with no end in sight. The Chairman continued that LIPA's customers are paying at the gas pump thirty or forty cents more than they did just a few weeks ago, and a dollar more per gallon in many instances than they were paying less than a year ago. He added that he expects that oil and gasoline prices are going to continue to increase and volatility is also present.

Chairman Kessel stated that he thinks that there will be increases in electric charges all over the country. The Chairman indicated that there are utilities in this region that are proposing increases in excess of seventy percent, and for LIPA to be in a position where it can say that absent an extraordinary event, LIPA is not going to raise its bills this year is a great accomplishment. He added that it gives LIPA's customers some sense of stability and security.

Chairman Kessel stated that earlier today Exxon Mobil reported a profit in the first quarter of about \$8 billion after reporting a profit of \$37 billion last year. The Chairman continued that it is his personal opinion that this is an outrage. He indicated that are legitimate reasons why prices have increased, such as the fear factor and some of the world events that are occurring, but in his view, the Federal government has to take action to rein in the oil companies and the profiteering that is going on.

The Chairman continued that he is glad to hear that today's announcement from Exxon Mobil has prompted a number of Congressional representatives from both sides of the aisle to consider taking action, and he thinks that it needs to be taken. The Chairman continued that the future for prices for fuel, not just for electricity, over the new few years is disastrous. He added that prices may come down temporarily, but the volatility in the market, the increasing oil prices, and the fact that the United States is ninety-six percent dependent on oil and gas to produce electricity really is the perfect energy storm.

Chairman Kessel stated that it is not just LIPA, but all of the electric companies, the gas companies, the heating companies, gasoline, food prices, transportation, airfares and the MTA. The Chairman continued that it is extraordinary in its reach.

Deputy Chairman Steinberg stated that he thinks that it has been a strategic priority for LIPA to look to alternative fuel sources, and he cannot emphasize enough the importance of making this an absolute strategic priority. He indicated that no alternative fuel source ought to be off the table for LIPA's consideration. Chairman Kessel agreed.

Deputy Chairman Steinberg stated that he completely disassociates himself from the Chairman's critical comments concerning Exxon Mobil. He continued that he does not think that this is the appropriate forum for a discussion of the relative profitability of specific oil companies, which is a complex issue outside of the Board's mandate and expertise.

Chairman Kessel stated that those are his personal comments. The Chairman indicated that it is not just Exxon Mobil, but all of the oil companies. He further indicated that in his opinion, they should be ashamed of themselves for what they are doing.

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

Mr. Hulkower reported that the Neptune Project will connect to LIPA's system, which has necessitated a lot of other reinforcement work, and LIPA is doing projects going from the Newbridge Substation both east and west with transmission lines that are capable of operating at 345 kV. He continued that the cable is rather sizeable, and it weighs approximately 40 to 60 pounds per foot. He added that LIPA has been very active on that project.

**Mr. Hulkower reported that one of the other projects that LIPA has been doing, also coming out of the Newbridge Substation, is a reconductoring project from Newbridge to Syosset, and LIPA is replacing transmission poles that were originally set when there were no homes. He continued that LIPA cannot get to the transmission poles due to the houses that now exist, except by using a 300-foot tall crane and lifting the new towers and poles over the homes and placing them in. He added that LIPA even looked at using helicopters to set these in, but LIPA could not work that out.**

**Mr. Hulkower reported that LIPA is replacing transmission poles with other stronger transmission poles, and in some cases taller transmission poles, right in people's backyards. He continued that this project has been going along very well, and LIPA has worked very closely with the community on this.**

**Mr. Hulkower reported that LIPA's target for added megawatts for 2006 is 46.28 megawatts. He continued that at this point LIPA has commitments for 20.1 megawatts of additional load.**

**Mr. Hulkower reported that with respect to LIPA's Customer Care Programs, he is glad to report that the total enrollment in balanced billing has finally started to go up. He continued that LIPA is up to 394,520 customers, which is an increase from the 387,000 customers that LIPA had at the end of 2005. He indicated that despite the increase, it does not meet LIPA's goal.**

**Mr. Hulkower reported that with respect to subscriptions to LIPA's electric newsletters, LIPA has 84,000 customers registered, against a goal of 71,000. He indicated that LIPA is making inroads, and LIPA will keep promoting these programs.**

Mr. Hulkower reported that the arrears compared to 180 days sales as a percent of 12 month revolving revenues is down to about .46 percent, and LIPA is showing some good progress there. He indicated that LIPA will continue to push on that. He added that with the size of LIPA's revenues the total arrears is significant, but as a percent of total revenues, the number is starting to drive down.

Mr. Hulkower reported that LIPA had 51 percent fewer outages in March 2006 than March 2005, and 26 percent lower than LIPA's five-year average. He continued that this helped LIPA drive to a SAIFI number of 14.9 months. He added that LIPA is now operating within its target band for reliability programs.

Mr. Hulkower reported that LIPA is in the midst of its tree-trim program, and LIPA has activities going on in all four divisions. He continued that the most tree-trim activity, as always, is the Central Division, which is the western half of Nassau County. He added that this is LIPA's mostly heavily-treed population, but LIPA also doing a lot of work this year out in Eastern Nassau.

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

Ms. McCarthy reported that for the three months ended March 31, 2006 LIPA had revenues over expenses of \$25 million, which was approximately \$68 million ahead of the budget. She continued that this was driven primarily by lower fuel and purchased power costs. She added that fuel and purchased power costs were \$71 million below budget, primarily due to lower natural gas costs in

the first quarter of this year than what was in the budget, as a result of the mild weather and high levels of supply in the natural gas area.

Ms. McCarthy reported that not only did LIPA enjoy those lower prices, but LIPA was also able to switch most of the generation that was burning oil prior to this quarter back to natural gas, which now is at a lower price than fuel oil. She continued that Revenues were about three percent or \$24 million below budget, primarily due to the mild weather. She indicated that there was also lower usage per customer in general on a weather normalized basis, particularly in the residential area which LIPA believes is a response to price.

Ms. McCarthy reported that operation and maintenance expense is approximately \$12 million below budget. She indicated that some of that is timing, but there is a piece which relates to the lower MSA fees for the Amended Management Service Agreement that LIPA has with KeySpan. She added that although the agreement has not been formally approved by the State Comptroller or the Attorney General, LIPA has an agreement that we are operating as if it were in place because once approved, it will operate retroactively.

Ms. McCarthy reported that LIPA is seeing some of that savings as well as some timing differences between the times that LIPA is doing capital work. She continued that the mild weather allowed LIPA to do a lot more capital work in the first quarter than normal. She added that there has been some lower spending on LIPA's Clean Energy Program, which is related to timing.

Ms. McCarthy reported that the other more significant variance was in the area of Payments in Lieu of Taxes, which were below budget by about five percent or \$2 million for the quarter. She continued that Payments in Lieu of

Property Taxes were lower than anticipated. She noted that the increase was lower than LIPA had anticipated in the budget for Nassau County and Suffolk County towns as well.

Ms. McCarthy reported that Other Income and Deductions is higher than forecast, driven by some sales revenues from increased emission allowance, as well as higher cash balances in the period as a result of collateral that LIPA is holding from its derivative program. She continued that Cash for the period ended at about \$545 million, which is \$295 million in LIPA's operating funds, in addition to the \$250 million LIPA holds in its Rate Stabilization Fund. She added that those are invested in a variety of interest instruments and are all predominantly held relatively short-term right now given the liquidity challenges of fuel and power prices, as well as the flatness of the investment yield curve at this point.

Deputy Chairman Steinberg indicated that the swing from budget to actual is about \$68 million, which is a significant number. He asked how much of that is going to recur in the balance of the year, or in the alternative, whether LIPA expects a swing the other direction.

Ms. McCarthy answered that most of that swing came about as a result of the natural gas coming in which mostly was supply-driven, due to the mild weather. She continued that right now LIPA is coming out of the winter season with the highest level of gas in storage in the nation than has ever occurred, so there should continue to be some downward pressure on natural gas. She added that unfortunately, oil has risen significantly, and as LIPA gets into our higher demand periods, LIPA may have to use the oil as well.

**Ms. McCarthy stated that for the year LIPA expects to be able to be within its target band of between \$25 and \$125 million. She indicated that oil could push this, and if there is any kind of hurricane event that affects natural gas supply, these numbers could move quite quickly.**

**Deputy Chairman Steinberg asked whether LIPA is doing any hedging as to gas. Ms. McCarthy responded that LIPA does hedge natural gas as well as oil, and LIPA's composite hedge position for 2006 is right now at approximately eighty percent.**

**Trustee Akeson stated that the Board is not remunerated for its duty, but she does not think it reflects on their commitment as Trustees. She continued that Ms. McCarthy and her team gave a briefing this morning for an hour-and-a-half, which occurs monthly, even if the Authority does not have its monthly Board meetings. She added that Ms. McCarthy always explains what is going on with LIPA's financials.**

**Trustee Akeson stated that not only did they thoroughly discuss all of the resolutions on the agenda today, which there were many, but also the budget and actual results. She indicated that they also asked the same questions that were raised at this Board meeting. She thanked Ms. McCarthy and her staff for their excellent work.**

**Trustee Akeson thanked Trustee Shuart for his contributions. She continued that although he was a new member of the LIPA Board, he really did contribute to the Finance and Audit Committee in delving into certain areas which they had not addressed previously.**

**Chairman Kessel stated that being under budget for fuel is certainly good, but he would not get too excited about it either. The Chairman continued that he would be shocked if in the end LIPA wound up significantly under budget for the year, due to the volatility that is still out there. He added that one of the reasons that LIPA is able to indicate that LIPA will keep its bills where they are for the rest of the year is that LIPA is below budget, but LIPA also has to take into account fuel prices going forward, and this is something LIPA is taking a hard look at.**

**Upon motion duly made and seconded the Board voted unanimously to adjourn the meeting at 12:01 PM.**

**Respectfully submitted,**

**Stanley B. Klimberg**