

**LONG ISLAND POWER AUTHORITY  
MINUTES OF THE 190th MEETING  
HELD ON MAY 29, 2008**

**Pursuant to notice dated May 23, 2008, the Long Island Power Authority (the "Authority") was convened for the one hundred and ninetieth time at 11:06 AM at the Omni Teleconference Center, in Uniondale, NY.**

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

**James Larocca, Chairman  
Howard Steinberg, Vice Chairman  
Cristofer Damianos  
Lawrence Elovich  
John Fabio  
Nancy Nugent  
Susan Gordon Ryan  
Jonathan Sinnreich  
Suzette Smookler**

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

**Michael Affrunti  
Anthony Bonomo  
Michael Fragin  
Harriet Gilliam  
Jim Herrmann**

Representing the Authority were Kevin S. Law, President and Chief Executive Officer; Lynda Nicolino, General Counsel and Secretary, Elizabeth McCarthy, Senior Vice President and Chief Financial Officer, and Michael Hervey, Vice President-Operations. Also present were; Michael Deering, Vice President-Environmental Affairs, Edward Dumas, Vice President-Communications; Bruce Germano, Vice President-Retail Services; and James Peterson, Director of Power Markets Contracts.

Chairman Larocca addressed the audience and called the meeting to order.

The Chairman stated that this is the May 29<sup>th</sup> meeting of the Long Island Power Authority pursuant to notice duly given.

Chairman Larocca requested that a moment of reflection be observed for our troops. (A moment of reflection is taken)

After leading the audience in the pledge of allegiance, the Chairman noted the presence of a quorum for the record.

Chairman Larocca stated that the first order of business is the minutes of the April 30, 2008 meeting of the Board of Trustees.

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

**870. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE APRIL 30, 2008 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY**

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**RESOLVED**, that the Minutes of the meeting of the Authority held on April 30, 2008 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 Larocca stated that he has no specific report to make and he will join in as part of the President's report.

President Law stated that there are several things to update the Board on. He continued that yesterday was the tenth anniversary of the date that LIPA took over LILCO and a lot has happened since then. He indicated that the Chairman and he are interested in doing some strategic organizational planning and that they have agreed that they will commence that over the summer. He further indicated that they will invite some Board members to participate with them as well as some folks from the outside, in order to help them figure out where they see LIPA five or ten years from now.

President Law reported that with respect to LIPA's Energy Master Plan, LIPA held two public hearings, one in Nassau County and one in Suffolk County. He continued that LIPA received some terrific comments, both verbal and written, and he believes the period for submitting written comments is now closed. President Law stated that LIPA will be finalizing the outline next week which will be shared with the Board. He added that he hopes to have a draft plan done in the fall of this year.

President Law reported that with respect to the LIPA Solar RFP that Governor Paterson and he announced the issuance of a couple of weeks ago, LIPA recently had a proposers' conference. He continued that over forty companies showed up at the proposers' conference, so obviously there is a lot of interest. He noted that LIPA received a lot of good suggestions from the industry and he may actually extend the deadline for the submission of responses by a couple of weeks in order to address some of the comments that LIPA received. He added that LIPA is very excited about the response so far.

President Law reported that LIPA is looking to begin the SAPA process to explore commercial net metering which will begin in a couple of weeks. He indicated that LIPA already does net metering for residential customers, so the SAPA process will be only for commercial customers with regard to instituting net metering. He added that this is all in an effort to try to expand the amount of

renewables in LIPA's portfolio and have commercial customers doing what LIPA's residential customers are already doing.

President Law reported that with respect to LIPA's repowering studies, LIPA stakeholders' meetings continue to go very well and LIPA has received terrific feedback on the openness and transparency of the process.

President Law reported that Senator Schumer made an announcement yesterday suggesting to National Grid what they should do with the money that they received on the sale of the Ravenswood Plant with regard to repowering. He indicated that LIPA invites National Grid to continue to participate with LIPA on the stakeholders' meetings because LIPA is definitely interested in repowering.

President Law reported that when the Management Services Agreement between LIPA and National Grid was modified, LIPA had an option to acquire four different plants owned by National Grid: the E.F. Barrett Facility, as well as the Rockaway, Shoreham and Wading River facilities. He further reported that LIPA is continuing to do its due diligence on those plants. He indicated that he was briefed by the LIPA staff on the matter and that he had a lot of questions, which he assumed the Board would have as well. He added that he asked staff to do some additional analysis, primarily financial, on those matters and that LIPA has asked National Grid for an extension through the end of the year, which they have agreed to.

President Law stated that LIPA staff will not be making a presentation on, or asking the Board to make any decision on exercising that option at this time. He continued that LIPA's commitment is there and LIPA has reached out to the people in the communities who are hoping that LIPA was going to make a decision on that. He indicated that they all understood and acknowledged that they would rather that LIPA make the right decision, not a rushed decision. He added that they understood that LIPA needs more time to examine the financial issues associated with repowering, and that the LIPA staff will be back to the Board, probably in the early fall, with its recommendation on exercising the option for those facilities.

President Law reported that LIPA's Efficiency Long Island program received many good editorial responses and some mixed reaction from some elected officials. He continued that LIPA will begin the SAPA process this summer and have public hearings on that project. He indicated that LIPA staff will present the matter to the Board, probably in the early fall.

President Law reported that in June, LIPA staff will be coming to the Board with the capital budget which will include, as discussed at the last meeting, a component for the initial implementation of LIPA's "Smart Meters." He continued that LIPA is going to start the implementation in an industrial park in Nassau and one in Suffolk, as well as in some residential communities surrounding those industrial parks.

President Law reported that LIPA staff and he met with the Newsday Editorial Board, as well as the Suffolk Life Editorial Board, the New York Times and the Long Island Business News. He continued that they all have been commending LIPA on the changes that LIPA has been trying to make, and the direction that they are trying to move LIPA in when it comes to expanding its portfolio of efficiency and renewables, repowering and reforming the way LIPA manages itself. He noted that all of those meetings went well and LIPA received some good editorials in Newsday. He added that he hopes to see the same in the other newspapers that they met with.

President Law reported that he met with Steve Holiday, Chairman of National Grid, as well as Tom King, President of the USA component of National Grid, to continue their dialogue. He indicated that since National Grid is LIPA's partner and they manage LIPA's system, they agreed to meet regularly. He further indicated that they also had a senior staff meeting between LIPA's top staff and National Grid's top staff to ensure that they are well prepared for the summer. He noted that they will be having an upcoming drill on Hurricane Preparedness and they already had a drill for a planned heat wave.

President Law reported that the relationship with National Grid has never been better. He continued that the dialogue, the communication and the coordination is there, and that is really what the key is. He further indicated that he is happy to share that despite the change in the name of LIPA's partner and

the replacement by a new company that is now LIPA's partner, the relationship is getting stronger each week.

President Law reported that LIPA's top staff also met with the top staff of the New York Power Authority, and they talked about opportunities to coordinate their efforts together, especially when it comes to efficiency. He continued that NYPA already does a lot of efficiency for municipalities and they talked about dovetailing their efficiency program with their programs to help Long Island's school districts, as well as our village and town buildings. He indicated that it was a good working meeting with NYPA and that is the first time that this has been done in a very long time with the respective staffs.

President Law reported that since the Board's last meeting, he has made a number of presentations with all of LIPA's major account customers, who are LIPA's largest clients. He continued that he has spoken before the Village Officials Association, the Long Island Water Conference, and he also went up to the Northeast Efficiency Professionals last week at Hartford to make a presentation. He indicated that just yesterday, LIPA took part in a disaster plan conference with Nassau and Suffolk Counties and New York City emergency personnel.

President Law stated that on a personal note, both Richard Kessel and he were members of the Board of the Long Island Association ("LIA"). He continued

that he initially agreed to be a member of the Board but then felt there was sort of an ethical issue for him if he was on the Board. He indicated that he did not think it was appropriate since he is technically part of the Governor's cabinet and the LIA needs to take positions that are sometimes inconsistent with what is going on in Albany, which he felt uncomfortable with. He added that he thought it was best to resign and he sent them a letter and they understood and accepted. He stated that since LIPA will not be paying any dues or fees to the LIA any longer, LIPA will actually save some money.

President Law stated that with respect to his update on the Southampton Project, over the last six months LIPA has had an incredible number of meetings with them. He continued that it turned into litigation and then cooler heads prevailed. He indicated that they worked out a resolution that met all of LIPA's objectives regarding the Board's concerns, and LIPA reached a settlement with the Town. He further indicated that the judge "so ordered" that settlement and the construction of an entirely underground transmission line is underway. He added that the Town will be paying for the cost differential in that project, which will now be one hundred percent underground.

President Law reported that the Town has agreed to indemnify LIPA to the extent that LIPA wanted. He continued that LIPA will begin the SAPA process, to allow for the special visual benefits charge that will be on the Southampton residents' bills. He added that the SAPA process will take place over the summer

and LIPA staff will be back to the Board with a resolution most likely at the September meeting.

President Law stated that it was a long six or seven month process to try to show that LIPA can work with the community. He indicated that he thinks the good news is that LIPA helped establish a precedent for circumstances where the community will have to monetarily pay when they want LIPA to do something that is inconsistent with the way that LIPA typically does things. He thanked the Board for their indulgence over the last six months and LIPA's efforts to try and show that, as a public utility, it can indeed work with the communities and the local officials and the towns and villages, and that is what LIPA did. President Law then concluded his report.

After thanking President Law for his report, Chairman Larocca then stated that the Board members were given a copy of LIPA's Annual Certification of Compliance with the Code of Conduct and that if they have not already submitted it, they should do so. He indicated that this is the Annual Certification and it is also related to LIPA's annual filing that goes through the State's compliance process.

Chairman Larocca stated that on this tenth anniversary of the founding of this body in its current form, the Board is meeting in the midst of an extraordinary international energy crisis. The Chairman continued that as summer dawns, we

find most people are seeing their attention drawn to this matter at the pump where numbers seem to keep going north. He indicated that between fill ups we see the price of petroleum going up, and it bears on everything we do. He further indicated that the matter of these international forces that are now in crisis from both a cost point of view and a supply point of view, at least in some people's vision, is very serious and one which guides LIPA's concerns in terms of the delivery of energy to Long Islanders. He noted that it is also serious in the larger picture of a secure and safe energy system. He added that this is an extraordinary time and as we go into our next ten years he thinks that the leading challenge that they face will be in discharging their duties at LIPA.

Chairman Larocca stated that for the last couple of meetings the Trustees did not discuss the Southampton settlement negotiations in open session because once the matter went into litigation, they were obliged to be more cautious in their public comment. He further stated that he does want everyone to know that in those discussions, this Board was very firm on a couple of important considerations. He indicated that the most important consideration was that LIPA should, with enthusiasm, try to work with any community that has a particular concern on any project or issue that LIPA is involved in, and that LIPA should work openly and diligently and in good faith, which LIPA did here. He further indicated that where there were costs associated with an accommodation to a community that could not be justified as a cost imposed on all ratepayers, the community would be asked to develop a method for

addressing any additional cost, and that is what happened here. He added that some of the details of that got a little lumpy as they went along, but the outcome was that they were able to accommodate this community and the community was able to come forward with a financing method that offset the additional costs of the project.

Chairman Larocca stated that in their discussions, many Trustees had concerns about the precedent that they would be setting by this. He indicated that the precedent that he takes the most comfort in, is trying to be responsive to the community and that cost recovery would be an essential part of any settlement, and they achieved that. He added that he would like the record to show that they achieved their desires here both in terms of the policy and good faith and in dealing with the community and in cost recovery, which is a precedent that LIPA can live with.

Chairman Larocca stated that since all of this began, there are a couple of projects out East where the developer is endeavoring, for aesthetic and other purposes, to bury the power lines to service new developments. The Chairman continued that LIPA is happy to cooperate in that so long as the costs are recovered. He indicated that he would like the record to reflect the good work and the support the Board gave LIPA in getting this done.

Prior to moving forward with the next agenda item, Trustee Fabio asked the Chairman if he could make some comments, which was agreed to.

Trustee Fabio stated that with respect to the Southampton project and regarding the power and responsibility of the CEO to carry forth and conclude agreements such as this one that they are discussing, he is a bit disappointed that the Board will not, as a matter of policy, have the opportunity to formally vote on this matter. He continued that it would seem contrary to the whole spirit of transparency that has characterized this new era of LIPA leadership. He added that he hopes that perhaps in the future, the Board can address this as a policy question as to whether or not matters of this nature should be brought before the Board and formally approved when proffered by the President and CEO.

Trustee Fabio further stated that while he believes that there is merit to undertake selective underground projects, he also believes it is unwise to take an ad hoc approach to specific communities when service reliability is not the overriding concern. He continued that in this particular instance, he fears that LIPA is sending the message that if your community has the ability to pay, you get undergrounding, and if it does not, then it is doubtful that the request would be honored.

Trustee Fabio stated that this raises a very legitimate concern of economic justice for one community versus another. He continued that he believes LIPA

should develop a comprehensive, long-term capital plan that addresses the need for selective undergrounding based on a number of identified criteria, the most important of which should be improving service reliability. He indicated that this was supported by the recommendations presented in a report done in 2003 by the North Carolina Public Staff Utilities Commission regarding undergrounding. He indicated that three of their recommendations were as follows: identify the overhead facilities in each region that repeatedly experience reliability problems based on measures such as number of outages or the number of customer hours out of service; determine whether conversion to underground is the cost effective option for improving the reliability of those facilities, and if so, develop a plan for converting those facilities to undergrounding in an orderly, effective manner taking into account the outage histories and the impact on service reliability. He added that once undergrounding determinations are made by listing objective analyses and not based on community pressure or political influence, then LIPA could proceed working with the affected municipality to craft an implementation plan, including a cost sharing agreement, so as not to place an undue burden on all of the ratepayers, which he believes would be a more prudent approach to undergrounding.

Trustee Sinnreich stated that he would like the record to show his complete agreement with Trustee Fabio's comments. He continued that he would just add that LIPA acted without any prior thought-out policy or analysis of the

implications of this kind of action. He indicated that he was promised such an analysis months ago and he is still has not received it.

Chairman Larocca stated that the agreement to examine a broader, longer-term undergrounding policy was accepted in good faith, but not promised in this time frame.

Trustee Sinnreich stated that he is talking about his request, for an analysis of the implications of responding to community demands to pay for departures from what LIPA's environmental analysis recommends as the chosen route or other form of a facility. He continued that he asked for that because he thinks, as Trustee Fabio said, that there are potential precedents being set that LIPA has not fully thought through. He indicated that he is not talking about the undergrounding issue per se; rather, he is talking about the accommodation issue and the policy of allowing individual communities to purchase, or in effect, subsidize changes from what LIPA's own environmental consultants had originally recommended.

Chairman Larocca stated that he will take responsibility for that, because he understood that to be a subsidiary question to this larger question that LIPA can look at in terms of an established policy. The Chairman continued that the staff is not at fault there, but in any event he understands Trustee Sinnreich's request and LIPA will act on it.

Chairman Larocca stated that as far as bringing a litigation settlement to the Board, this reminds him of his time at the Department of Transportation, where he found that as the Commissioner he was sued almost every day of the year. The Chairman continued that when he came back to Long Island after time in Albany and applied for a mortgage, the credit report said that he seemed to be a really decent credit risk except that he is a defendant in a billion-and-a-half dollars worth of lawsuits. He indicated that it is not the practice here, to necessarily bring litigation matters to the Board for ratification or acceptance. He noted that in this case the sequence was that the Court had this before it, so he would resist the idea that settlements per se require Board action. He added that he thought that the reporting that they have been doing on it was sufficient in that regard.

Chairman Larocca stated that regarding this economic justice argument, he has said in the course of this discussion that in an ideal world LIPA would have an underground system. The Chairman continued that the last time the State undertook a system-wide examination of the question was following the ice storm in the winter of 1977, which probably had the worst impact on the system, even discounting some of the hurricanes, in terms of what it means to be above ground. He indicated that the costs then were staggering and he does not remember what billions were assigned to it at that time, but it was understood that the desired system is just not achievable economically.

Chairman Larocca stated that what we have seen in the modern development of the Island is that for development after development, the private sector does seek to underground their subdivisions and LIPA does cooperate and assist in that, but on a cost recovery basis. The Chairman continued that he thinks that this is a good policy, and the net effect is a good one for the system because the more it is underground, the more those advantages are achieved. He indicated that the reference to Carolina, he thinks, makes many of the good points for undergrounding systems; but, all of this has to be measured against cost and other considerations at the time of a genuine crisis in costs. He added that LIPA is hesitant to do anything that imposes costs on a system-wide basis.

Chairman Larocca stated that he thinks that out of respect to the communities, when communities do come forward with the desire to invest and to have their constituencies invest in the system, LIPA should hear that with an open mind. The Chairman continued that he thinks this is what LIPA did in this case. He indicated that he hears and respects the comments that have been made and he thinks that LIPA has learned some lessons here. He noted that LIPA is going to address these larger questions over time, but in the meantime, he thinks that LIPA has achieved a result here that does not impose on it in any way, but in fact, gives LIPA a precedent that it can point to in dealing with other communities.

Vice Chairman Steinberg stated that clearly LIPA has established a precedent, but he shares the concerns of other Trustees that it is difficult for LIPA to have to deal with these situations on an ad hoc basis. He continued that a question has been raised a number of times as to whether or not it would be useful for the staff to at least give some thought about developing a formalized policy for when LIPA will consider undergrounding, and then a policy for what LIPA's requirements are for the cost reimbursement and the cost recovery so that LIPA avoids the situation it faced with Southampton where there was contention around the issue of what LIPA's requirements were with respect to indemnification and so forth. He indicated that he thinks there may be some real value in establishing a formalized policy that LIPA can present to communities when they come to LIPA, or to a developer if they come to LIPA, and say these are LIPA's requirements for cost recovery and so forth and you have to meet this or the project does not get done.

President Law stated that he agrees with Vice Chairman Steinberg and LIPA is working on it. He continued that he apologizes as well for not having that to the Trustees sooner. He indicated that he has a draft on his desk and he has not gotten to it, but LIPA is working on a policy.

President Law stated that he respects the positions of Trustee Sinnreich and Fabio too, but he wants to put this issue to bed. He indicated that he has two important points: first, that LIPA knew that this was not the most preferable

project to use with regard to establishing a better process. He indicated that this was sort of the one that snuck in before LIPA had a policy in place, and if LIPA could have avoided or postponed this project and gotten the process in place first, it would have been preferred. He further indicated that this was a project that LIPA needed to complete before the Fourth of July, so everyone knew that this was going to be the one that got in before the official policy was adopted. He noted that LIPA staff is working on the policy and they will share that with the Board.

President Law stated that he respects Trustee Fabio and his commitment to this Board, but he did not like the implication of one of his comments regarding transparency and his efforts to improve that here. He continued that if there is one issue that has been so transparent before this Board over the last seven months, it has been Southampton. He indicated that they have had more meetings, more dialogue, more communications, more media coverage on this issue than on any other issue in the last seven months and everybody was kept in the loop every step along the way, so there were no surprises.

Trustee Smookler stated that she agrees that the amount of communication that took place certainly demonstrates transparency, but going back to a comment that Trustee Fabio made referencing what is brought to the Board for a vote and what is not, certainly there are some items that are brought to the Board

to vote on in the terms of settlement. She asked what criteria brings some items forward and others not.

Ms. Nicolino responded that in the context of settlement of litigation, there are no strict criteria as to when the Board needs to give prior approval for entry into settlement of litigation since that power is vested in the President and CEO. She continued that as a matter of policy and practical application, there have been occasions, for example, with respect to the settlement of the Riverhead litigation, where the funding of \$2 million dollars was a component part of the settlement, and the matter was brought to the Board for prior approval with the understanding that it was in the company's best interest to do that. She indicated that based upon comments received from the Board, LIPA staff has committed to reviewing that policy and creating workable criteria that provide for reasonable parameters that give the Board comfort that LIPA staff is not acting without their knowledge and consent, but that allows LIPA to conduct the day-to-day business vis-à-vis the voluminous amount of litigation that LIPA is involved with. She added that they will be putting that together over the summer and probably bring that back to the Board in the fall.

Hearing no other comments, Chairman Larocca stated that the next item on the agenda is the Operating Report to be delivered by Mr. Hervey.

Mr. Hervey stated that last month he reported that LIPA had not, in fact, had a storm for the entire month. He continued that LIPA did have a storm on the twelfth of this month, and prior to that LIPA went almost six weeks without a storm on the system. He indicated that a storm in LIPA's context is a parameter that is defined by LIPA having more than 15,000 customers out for more than 24- hours or more than 150 jobs in that 24-hour period. He further indicated that going nearly six weeks without one of those events is a bit of a milestone for LIPA that it is clearly dependent on the weather, but which also goes to the strength of LIPA's system to withstand minor weather events. He added that in this most recent storm on the twelfth of May, there were approximately 9,000 customers affected during the 24-hour period, and at the peak of that, LIPA had 2,679 customers affected and LIPA deployed 125 restoration crews to restore power during that storm.

Mr. Hervey advised that he had been reporting to the Board with respect to the trends on the SAIFI, which is the months between interruptions, and CAIDI, which is the average duration of interruptions. He indicated that with respect to SAIFI, LIPA has been seeing a long-term, adverse trend. He continued that over the last year, that has been decreasing somewhat and indicating worse performance. He indicated that he had also been reporting that over the past few months that LIPA staff expected that to level out and to turn out. He further indicated that in fact, in April it had come from a levelized line over the past three months and it started to turn back up. He added that all these numbers for the

past year, including the present performance, are within LIPA's current expectations and LIPA does manage this on a daily basis. He stated that he previously reported that LIPA had accelerated some tree trimming, to bring the particular metric back into play.

Mr. Hervey reported that with respect to LIPA's CAIDI, which is the average duration of interruptions, that after going down slightly for several months in a row, the number has leveled back out and is following a fairly level trend. He indicated that with respect to LIPA's distribution tree trim miles for 2008, LIPA has in fact, accelerated the tree trim program this year. He further indicated that LIPA expects to have completed the entire 2008 program in September, rather than in December of this year. He added that this change in the tree trim program is the primary reason for improvement in the frequency of interruptions. Mr. Hervey then concluded his report.

Hearing no questions, Chairman Larocca stated that the next item on the agenda is the Finance Report to be delivered by Ms. McCarthy, followed by a report by President Law on some initiatives that LIPA is taking.

Ms. McCarthy reported that for the four months ended April 30, 2008, LIPA had an excess of expenses over revenues of \$82 million, as compared to a budget of \$70 million. She continued that revenues for the period were \$1.03 billion, which is \$40 million or four percent below budget, primarily due to lower-

than-budgeted growth and average consumption. She indicated that milder-than-normal weather conditions also contributed somewhat to these lower revenues.

Ms. McCarthy reported that overall sales for the period were 3.5 percent below budget. She continued that fuel and purchase power costs were only 1 percent or \$6 million under budget as the impact of the lower sales were almost fully offset by higher-than-budgeted net commodity costs. Ms. McCarthy reported that operations and maintenance expenses for the period were \$11 million or 4 percent below the budget, primarily due to timing differences. She continued that also reflected in the period results was a \$6 million dollar non-cash gain resulting from the termination of two offsetting interest rate swap agreements and a \$4 million extraordinary non-cash charge relating to the early redemption of \$200 million of insured auction rate securities. She noted that interest expense for the period was 3 percent or \$3 million under budget.

Ms. McCarthy reported that at April 30, 2008, LIPA had cash and cash equivalents of \$844 million, \$428 million of which is counter-party collateral held by LIPA related to positive positions in its fuel and power derivatives. She continued that also included in this balance is LIPA's \$250 million Rate Stabilization Fund. She indicated that cash and cash equivalents were invested in a variety of instruments with 98 percent having a maturity of 3 months or less.

Ms. McCarthy reported that from a fuel and power hedging perspective, on May 27, 2008, LIPA had hedges for 84 percent of its expected oil, natural gas and power consumption for the remainder of 2008. She continued that LIPA's hedged position for 2009, 2010 and 2011 are 72 percent, 40 percent and 7 percent respectively. She indicated that for the first 4 months of 2008, LIPA's hedges have saved its customers \$56 million in fuel and purchase power costs and the current unrealized gains in the hedge portfolio are approximately \$750 million. Ms. McCarthy then concluded her report.

Vice Chairman Steinberg stated that he thinks that sometimes what gets lost in the fog of some of these numbers is the importance of running this organization in a fiscally prudent way, and he thinks that Ms. McCarthy is to be congratulated on doing a superb job of accomplishing that along with President Law and other members of the Board who participated. He continued that he thinks that it is very important to emphasize that without fiscal prudence in running this organization, ultimately rates would increase dramatically. He indicated that it is very important for LIPA to be running this organization in a sound way that complies with LIPA's bond covenants and complies with the requirements of LIPA's rating agencies and so forth.

Hearing no other comments, Chairman Larocca turned the floor over to President Law.

President Law reported that once the Public Service Commission and the New York State Comptroller signed off on the National Grid/KeySpan merger, some money would be freed up from National Grid and KeySpan to LIPA. He continued that some of that money that had been in dispute and some of the other monies were coming to LIPA as a result of the agreements. He indicated that LIPA staff is making a recommendation to the Board today on what to do with that money.

President Law stated that there is a total of \$213 million as a result of the approval of that acquisition. He indicated that LIPA staff has several suggestions. He indicated that when LIPA put together the 2008 budget, the Board had already approved LIPA's taking \$36 million out of this pot to include in LIPA's 2008 budget to help LIPA mitigate the Power Supply Charge. He further indicated that LIPA staff is also recommending that LIPA pay down the Shoreham debt by another \$25 million. He added that LIPA staff is looking to use \$1 million of this for the continuing powering analysis of the Port Jefferson plant and the other plants that LIPA has options on, including the E.F. Barrett facility.

President Law reported that LIPA is setting aside another \$1 million to fund its evaluations of the 50-megawatt Solar RFP and to help LIPA commence its Commercial Net Metering Program. He indicated that most importantly, LIPA staff will be recommending to the Board, perhaps at its June meeting, that a new \$10 million fund be created to assist low income senior citizens who are struggling to

pay their high energy utility costs caused by reasons beyond LIPA's control. He noted that the number one issue that comes across his desk whether in the form of an email, letter or phone call, is with respect to low-income seniors who are struggling and living on fixed incomes. He added what he would like to do and what he recommends to this Board is that LIPA create this \$10 million fund to assist low-income seniors with their utility bills.

President Law stated that he met with LIPA staff and they have concluded that it is best that LIPA utilize a non-profit organization here on Long Island to help LIPA administer that program. He suggested that LIPA will loosely follow the guidelines of the HEAP Program, and it will be income based and there will be some requirements. He indicated that he is also going to reach out to County Executives Tom Suozzi and Steve Levy. He added that perhaps LIPA will utilize their respective Offices of the Aging as well to assist LIPA, but LIPA staff thinks it is best if it is administered by a not-for-profit.

President Law stated that he is excited about this because it meets a need. He continued that this is a source of funds that LIPA can use to address that need, and LIPA will be suggesting that to the Board for approval. He indicated that the great majority of the money, over \$140 million, will go towards, over the next 30 months, mitigating the Power Supply Charge. He further indicated that he would like to do that in the form of a credit on LIPA's ratepayers' bills, and LIPA staff is looking at the feasibility of that. He added that LIPA staff recommends

that the bulk of the money go toward this mitigation, in light of the record sky-high cost of fuel which is confronting not only people at the gas pump, but certainly LIPA as well.

President Law stated that this source of funds is separate from the synergy savings that LIPA received from National Grid. He continued that LIPA received \$91 million dollars, five of which is already included in the 2008 budget. He indicated that LIPA decided it makes sense to take that over a period of six years as opposed to taking it in a lump sum because the net present value and the discount were significant. He added that these are the funds that LIPA is entitled to as a result of the KeySpan/National Grid merger, which are different than the synergy savings.

Chairman Larocca stated that he would add that as this has developed, he sees it as a very good mix of initiatives and uses of this money that delivers some significant benefit to LIPA's ratepayers as a result of that transaction, with the emphasis on the mitigation of what people will see in their bills, and at the same time, being especially attuned to the needs of some of our most vulnerable citizens. The Chairman continued that he thinks that LIPA can stand behind these initiatives. He added that the Board can come back to it in June in detail, but in terms of the overall strategy behind it, he thinks that it is a good program.

Chairman Larocca asked for comments from the Trustees.

Vice Chairman Steinberg stated that he thinks that the public should understand that the fiscally conservative thing to do here is to use the bulk of these funds to pay down debt, and what LIPA is proposing today really is rather an extraordinary ratepayer relief effort because these are very difficult times. He continued that it is important to emphasize the fact that the Authority is going out of its way here to mount an aggressive, robust program for ratepayer relief.

Trustee Smookler stated that she agrees with Vice Chairman Steinberg. She asked how LIPA would go about educating the public on demonstrating this intent, because she always gets the sense that no good deed goes unpunished and no matter what the effort is, there is a large group of people out there that does not seem to fully grasp the concept.

Chairman Larocca answered that he filled up two cars this week and all the education he needs about what is going on in the world is demonstrated every time he goes to the pump. The Chairman indicated that he broke through \$4 ten days ago for a gallon of gas, and then he hit \$4.09 and he paid \$4.25 the other day. He further indicated there is another station in his town that charges \$4.49 and there is one all the way out in Montauk that was at \$4.69 for regular. He noted that when you look at these numbers, he thinks it is driven home and the people do understand.

Chairman Larocca stated that this goes back to the history of utilities which are always an easy target and it is easy to shoot at what happens on the electric side. The Chairman continued that what has happened in this current international crisis is that the effect is across the board. He indicated that people who are looking at home heating oil bills from this spring, and depending upon what kind of contract they have going into the fall, are well advised to try and fill up and have their home heating oil tanked up at summer prices to the extent they may be better than what they are looking at next winter. He further indicated that those who are natural gas customers are seeing the counterpart to much of this because of the interconnection of pricing in the world and in this country.

Chairman Larocca stated that the basic education is occurring, but that people do not understand the efforts that a utility makes in the complicated business of how rates are derived, particularly a utility in a community that twenty years ago elected to discontinue Shoreham and to take the cost of that onto its books. He indicated that this is still a significant part of this financial architecture.

Chairman Larocca stated that he thinks people do get it, and he thinks that the reason the education really has pay-off potential now, perhaps in a way that it has not in the past, is because these numbers have ramped-up vertically so fast that everybody's attention is now focused. The Chairman continued that he thinks some of the relief measures that are talked about here, including the

energy efficiency measures that were laid out at the last meeting, will find a much more attentive and responsive ratepayer who is now driven to embrace programs that perhaps in earlier times they were not inclined to do. He indicated that apparently, for many years people thought that \$2 a gallon gasoline would change our culture and it did not. He further indicated that people thought \$3 would change it and it did not. He added that perhaps \$4 is now having the effect that it was earlier thought that the other prices might have and he thinks that there are counterparts in home and commercial energy consumption and so forth.

Trustee Ryan indicated that the senior energy assistance program is a wonderful initiative. She asked how LIPA would go about choosing a not-for-profit for that and whether that would be a contract with a not-for-profit.

President Law answered that LIPA will probably procure it and solicit proposals. He continued that he knows that there are a couple of not-for-profits out there that have similar types of programs, including weatherization programs and low-income heating oil assistance programs to administer. He indicated that LIPA will be reaching out to a couple, but LIPA will make sure that it is competitive.

**Trustee Sinnreich asked what is contemplated in terms of the mitigation of the Power Supply Charge and whether it is to accounts across the board or only certain accounts such as residential.**

**Ms. McCarthy answered that it would be to accounts across the board.**

**Trustee Sinnreich stated that he would like to have some detail about exactly how LIPA is going to be allocating and applying the proposed credits across the range of customers, when the matter is proposed to the Board in June.**

**Ms. McCarthy answered that LIPA will do that.**

**Chairman Larocca stated that the next item on the agenda is Board consideration of the approval to extend the Power Purchase Agreement with PPL EnergyPlus, LLC. The Chairman entertained a motion, which was seconded, and indicated that the matter will be presented by Ms. Nicolino.**

**Ms. Nicolino stated that the Trustees are being requested to approve and adopt a resolution authorizing the President and CEO, or his designee, to execute an amendment extending and modifying the Power Purchase Agreement dated December 28, 2001, between PPL EnergyPlus, LLC and LIPA. She continued that the agreement was extended and modified by amendment dated November 19, 2004 and they both relate to the Brentwood project that is owned by PPL. She**

indicated that the project is a 79.9 megawatt general electric LM6000 facility that bids the capacity energy and ancillary services from the project into markets administered by the New York ISO and from which LIPA purchases the full output. She further indicated that the PPA currently expires on October 31, 2008 and because of the very high availability factor to that project, has provided significant reliability and economic value to LIPA, and is dispatched by LIPA substantially more often than the other generation plants constructed in 2002.

Ms. Nicolino stated that if the PPA were to expire in October without an extension, it would become a merchant facility and bid its energy into the markets. She continued that PPL has indicated that absent an additional extension of the PPA with LIPA, it is not optimistic about the continued economic viability of such an operation. She indicated that in light of the projected high property taxes that PPL would have to pay on the property, and the decreasing capacity values on Long Island attributable to both the Neptune Cable and the Caithness Combined Cycle Power Plant, PPL advises that it would be forced to decommission the project and relocate it to a different state.

Ms. Nicolino stated that accordingly, LIPA staff and PPL have been discussing an additional extension of the PPA. She continued that PPL originally proposed capacity pricing which did not provide economic value to LIPA. She indicated that after substantial negotiations led by Mr. Peterson, LIPA's Director of Power Market Contracts, PPL has agreed to a substantial reduction in the

capacity charge of more than 40 percent from the current charge, in exchange for a ten year extension of the PPA. She noted that all of the terms and conditions of the PPA as amended, would remain intact.

Ms. Nicolino stated that further extending the PPA is in LIPA's interest from both an economic and reliability perspective. She continued that the project's quick start capability is particularly valuable to LIPA in system emergencies and its generation is relatively economical during peak periods. She added that since the project contributes to local reliability, LIPA would need to immediately reinforce the transmission system in Brentwood at an estimated cost of \$8 million if PPL Energy Plus were to take the project out of service. She stated that based on the foregoing LIPA staff recommends approval of the extension and modification of the PPA.

Chairman Larocca asked if there were any questions for counsel.

After noting that there were none, the Chairman called for a vote on the motion. Upon motion duly made and seconded, the following motion was approved unanimously:

**871. AUTHORIZATION TO EXECUTE AMENDMENT TO POWER PURCHASE AGREEMENT WITH PPL ENERGYPLUS, LLC FOR BRENTWOOD PROJECT**

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**WHEREAS, LIPA and PPL EnergyPlus (“PPL”) are parties to a December 28, 2001 Power Purchase Agreement (“PPA”), as amended on November 19, 2004, which provides for, among other things, LIPA’s purchase of the full output of a 79.9 MW generating facility installed by PPL in Brentwood; and**

**WHEREAS, the PPA, as amended, is scheduled to expire on October 31, 2008; and**

**WHEREAS, absent an extension of the PPA beyond October 31, 2008, PPL has indicated that it will remove the generating facility from service; and**

**WHEREAS, LIPA and PPL have negotiated an amendment which provides for a ten year extension of the PPA and a more than 40 percent reduction in the capacity charge under the PPA; and**

**WHEREAS, extending the PPA as proposed is in the interest of LIPA’s ratepayers from both an economic and reliability perspective;**

**NOW THEREFORE, BE IT RESOLVED, that the President and Chief Executive Officer or his designee be, and hereby is, authorized to execute an amendment with such terms and conditions as he deems necessary or advisable and as are consistent with the basic terms set forth in the preceding Memorandum.**

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**Chairman Larocca stated that the next item on the agenda is consideration of approval of revisions to the LIPA guidelines regarding the use of awarding, monitoring and reporting of procurement contracts, to be delivered by Ms. Nicolino.**

**Ms. Nicolino stated that the Trustees are being requested to adopt revised Long Island Power Authority guidelines regarding the use, awarding, monitoring and reporting of procurement contracts. She continued that section 2879 of the**

Public Authorities Law requires the Authority to amend, from time to time, its existing guidelines with respect to procurements. She indicated that LIPA most recently did this in June of 2007 and LIPA staff is proposing some revisions to those existing guidelines to further reflect changes in the law and to otherwise reflect LIPA's existing and improved procurement practices. She noted that specifically, the changes are as summarized and set forth in the memo and there are no substantive changes, but with respect to Article II.H.2, the guidelines are being amended to reflect, in further compliance with the Public Authorities Accountability Act, the split between the offices of Chairman and President and CEO. She added that based on the forgoing, LIPA staff recommends that those guidelines be updated as presented at this time.

Chairman Larocca stated that the reference is to the 2005 Act which required the separation of the Chairman and CEO positions. After calling for a motion on the matter, the Chairman called for any questions or comments, of which there were none.

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

**872. APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY GUIDELINES REGARDING THE USE, AWARDED, MONITORING AND REPORTING OF PROCUREMENT CONTRACTS**

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WHEREAS, the Long Island Power Authority (the "Authority") is required by Section 2879 of the Public Authorities Law to periodically review and adopt

**guidelines which detail the Authority's use, awarding, monitoring and reporting of Procurement Contracts and all other contracts; and**

**WHEREAS, the Authority wishes to revise its existing Procurement Guidelines to further reflect changes in the law, and to otherwise reflect the Authority's current and improved procurement practices;**

**NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves and adopts the "Long Island Power Authority Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts (May 29, 2008)" in the form presented at this meeting; and be it further**

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

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**Chairman Larocca stated that the next item on the agenda is consideration of approval of the Energy Research and Development Authority Sponsorship Agreement for Substratum Intake System Technology, to be delivered by Ms. Nicolino.**

**Ms. Nicolino stated that the Trustees are being requested to approve and adopt a resolution authorizing the President and CEO, or his designee, to enter into a co-funding agreement with National Grid, under which the Long Island Power Authority's subsidiary, LIPA, and National Grid would each provide up to \$600,000 in funding to EEA, Inc. for a pilot demonstration project using, as the Chairman noted, the Substratum Intake System, commonly referred to as SIS, at the Shoreham site. She continued that this request is being made in accordance**

with an Executive Directive issued by the President and CEO in December of 2007, requiring research development and demonstration projects in excess of \$250,000 to be brought to the Board for their prior approval.

Ms Nicolino stated that SIS is a patented emerging technology, potentially capable of reducing environmental compliance costs and providing energy efficiency improvements for generating stations employing once-through cooling systems. She added that SIS will utilize surface water filtered through a natural sand bed via underwater well fields, thereby eliminating impingement and entrainment of fish and wildlife. She continued that in the near future, generation stations in New York will be required to meet more stringent regulations related to intake cooling water and SIS is a proposed method of potentially meeting these new cooling water regulations. She stated that SIS uses a unique method of pre-filtering intake water, and it is already listed as a best available technology in Massachusetts. She indicated that to date, SIS has not been tested in a large-scale application or in the Long Island Sound environment. She further indicated that based on preliminary indications, SIS could provide a cost effective means of meeting the more stringent regulations related to intake cooling systems. She added that its use of cold geothermal, cooling increases condenser efficiency that will reduce stack emissions and fuel consumed while producing the same amount of energy.

**Ms. Nicolino stated that the pilot project is expected to operate on National Grid's property at the Shoreham site for a period of up to twelve months. She continued that it will be a prototype operating model with lateral SIS pipes, pump support system and a condenser simulator. She added that pursuant to the terms of the agreement, if the SIS technology proves to be commercially feasible, a license to the technology would be provided to LIPA at no cost with respect to the six National Grid power stations on Long Island under contract to LIPA. She added that EEA would provide progress reports to LIPA and will be available for certain meetings related to progress, a final report of which will be issued upon conclusion or termination of the project.**

**Ms. Nicolino stated that it should be noted that the agreement is contingent on EEA's receipt of a signed grant with NYSERDA for an additional \$120,000, and it is also subject to approval by the New York State Attorney General and State Comptroller in accordance with LIPA's contracting requirements. She indicated that based upon the foregoing, LIPA staff recommends approval of this funding at this time.**

**After calling for a motion on the resolution, which was seconded, Chairman Larocca entertained comments or questions on the matter.**

**Vice Chairman Steinberg stated that he has a problem with this proposal because it just seems to him that at a time when LIPA is facing extraordinarily**

rising costs, LIPA should not be in the business of funding other peoples' R&D projects. He continued that the amount of money involved here is relatively small, but he thinks there is a broader issue. He indicated that he is not convinced that this project would not be funded by others if LIPA did not step up to the plate and he does not see the clear benefit to LIPA ratepayers from this project. He added that he thinks that LIPA has to be, at this particular time, extraordinarily careful about the expenditure of its funds. Vice Chairman Steinberg stated that R&D is not LIPA's principal mission and these projects always involve other players, including, in this instance, National Grid. He indicated that he believes that National Grid would step up to the plate if LIPA did not, and if they did not, others would, because other people receive benefits from these kinds of projects that are direct financial benefits. He added that he is opposed to LIPA's being in the R&D business at this particular time.

Trustee Fabio stated that in connection with Vice Chairman Steinberg's point, he was going to make it with regard to the next agenda item, as Vice Chairman Steinberg is raising a much broader question. He continued that the point that he was going to make regarding perhaps this and the next agenda item, is that LIPA does have a Board committee on energy efficiency, and he was wondering if there might be a role that the committee could play in determining the relative merits of R&D policies or projects such as the ones being considered today and maybe making some recommendations to the overall Board.

Chairman Larocca stated that he thinks that it goes very close to the heart of one of the things that the Board wants the committees to do. The Chairman continued that as we have evolved the new leadership of the Authority and looked at the R&D history and the scope of activity, it is hard for him to reconcile everything into some systematic, thought-through R&D undertaking. He indicated that he hears and respects Vice Chairman Steinberg's observation. He noted that LIPA also has a history of having voluntarily been a significant contributor to NYSERDA over the years, in an amount of approximately \$1.6 million per year. He added that what President Law and he have already discussed is that over the course of the next couple of months, LIPA will do a bottom-up review of this R&D activity, and he believes the project numbers are approximately 1,404, which is a significant number.

Chairman Larocca stated that if LIPA wants to be more systematic and thoughtful from a policy and top-down approach with regard to how it conducts this business, then he thinks that review is necessary and it will happen. The Chairman continued that he would ask the Board to bear with them on this and the next item, as matters that were well-entrained as they come before the Board today, but against the promise that LIPA will be presenting a fundamental sort of zero-based review of all of this activity to determine where it fits. He indicated that he thinks that there is statutory support for LIPA's being involved, if LIPA can see a nexus and a payoff to its ratepayers, and just in casual review of the

project, one can fairly readily see what the nexus is, as opposed to other cases, where one has to really examine to see what it is and why LIPA is in it.

President Law stated that he issued an Executive Directive earlier this year regarding Research and Development, requiring staff to assemble the information, to bring projects before the Board which historically did not go before the Board, to improve both accountability on LIPA's part and transparency as well. He continued that he wanted those reports done by May 31<sup>st</sup>, and he received a draft, but he was not satisfied with the compilation of the information in the draft. He indicated that it was tough to follow and he wanted it put in a better form. He added that he chose not to have that presented to the Board and that is when he pulled it from the agenda today. He added that perhaps it will be presented at the June meeting and LIPA will continue to evaluate it over the summer.

Chairman Larocca stated that the ultimate objective in any R&D activity is to achieve value for all of LIPA's ratepayers.

Trustee Fabio stated that part of the resolution speaks to providing progress reports to LIPA. He continued that he understands that this is a project of a relatively short duration of twelve months. He asked whether LIPA would want to specify any interval of time that it would have these reports done to LIPA.

Chairman Larocca stated that he presumes that they are in the contract. The Chairman indicated that it is pretty standard operating procedure for LIPA's contracts to specify the requirement of progress reports and their respective intervals.

Ms. Nicolino stated that her recollection is that there are periodic requirements that are set forth in the terms of the contract and that would be LIPA's standard practice. She indicated that she does not have the dates off the top of her head, but certainly she can get back to Trustee Fabio on that.

Vice Chairman Steinberg stated that he does not wish to belabor his point that LIPA should not be in the business of doing R&D because of the financial condition that LIPA faces with increased costs. He continued that he would ask on any R&D projects that do get presented to the Board in the future, that there be a much clearer picture than the Board has been given, on what the specific ratepayer benefits are. He indicated that the Board is always told what the costs are, but it is never very clear, at least to him, as to what the ratepayer benefits are. He added that he thinks that unless LIPA can clearly show the ratepayer benefits, LIPA should not even be considering these things.

President Law stated that he does not disagree with Vice Chairman Steinberg; in fact, he was quite surprised that LIPA did not already have a summary of all the reports and projects in the form he requested. He indicated

that LIPA would get there one step at a time and develop the proper criteria. He noted that Vice Chairman Steinberg is right, and the project is going to need to have either a ratepayer benefit, an environmental benefit or an efficiency benefit for LIPA, but LIPA will develop criteria as well for which projects it will decide to participate in and which ones it will not.

After requesting a motion on the matter, Chairman Larocca called for a vote on the motion.

Upon motion being duly made the following resolution was approved, with Vice Chairman Steinberg opposing.

**873. AUTHORIZATION TO ENTER INTO ENERGY RESEARCH DEVELOPMENT SPONSORSHIP AGREEMENT WITH NATIONAL GRID AND EEA, INC.**

**WHEREAS, EEA, Inc. (“EEA”) has invented and conceptually developed the Substratum Intake System (“SIS”), a technology for which it was granted a patent, which utilizes surface water filtered through a natural sand bed via underwater well fields as a method to pre-filter intake water at power plants and eliminate impingement and entrainment of fish and wildlife; and**

**WHEREAS, in the near future, generating stations in New York will be required to meet more stringent regulations related to intake cooling water, and SIS technology is a proposed method of potentially meeting these new cooling water regulations; and**

**WHEREAS, based on preliminary indications, SIS could provide a cost effective means of meeting the more stringent regulations related to intake cooling systems, and additionally, uses cold geothermal cooling to increase condenser efficiency, which could reduce stack emissions and fuel consumed, while producing the same amount of energy; and**

**WHEREAS, LIPA, National Grid and EEA negotiated a co-funding agreement under which the Long Island Power Authority's subsidiary, LIPA ("LIPA"), and National Grid would each provide up to \$600,000 in funding to EEA for a pilot demonstration project utilizing SIS at the Shoreham site (the "Agreement") for a period of up to 12 months, contingent on EEA's receipt of a signed grant with NYSERDA for an additional \$120,000; and**

**WHEREAS, the pilot demonstration project would be a prototype operating model with lateral SIS pipes, pump support systems and a condenser simulator; and**

**WHEREAS, pursuant to the terms of the Agreement, if the SIS technology proves to be commercially feasible, license to the technology would be provided to LIPA at no cost with respect to the six National Grid power stations on Long Island under contract to LIPA, and in addition, EEA would provide progress reports and a final report outlining the results of the demonstration to LIPA upon conclusion or termination of the project;**

**NOW THEREFORE, BE IT RESOLVED, that the President and Chief Executive Officer or his designee be, and hereby is, authorized to execute an agreement with such terms and conditions as he deems necessary or advisable and as are consistent with the basic terms set forth in the preceding Memorandum.**

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**Chairman Larocca stated that the next item on the agenda is Board consideration of approval of Funding for a Combined Heat and Power Fuel Cell Project for the Perry B. Duryea State Office Building. He noted that the request for approval is being made in accordance with President Law's 2007 Executive Directive. After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Ms. Nicolino.**

**Ms. Nicolino stated that the Trustees are being requested to approve a resolution authorizing the Long Island Power Authority and its subsidiary, LIPA, to fund money for a Combined Heat and Power Fuel Cell demonstration project**

undertaken by the New York Power Authority on behalf of its customer Perry B. Duryea, Jr. State Office Building, located in Hauppauge, New York. She continued that this request is being made in accordance with the Executive Directive issued by the President in 2007. She indicated that in April 2006, NYPA announced that it was embarking on a three phase, \$18 million energy efficiency and research and development project for the Duryea building, which will help to make it among the most efficient state government buildings on Long Island.

Ms. Nicolino stated that in the third phase of the project, the research, development and demonstration phase, a 200-kilowatt fuel cell and a 570-kilowatt natural gas generator will be installed for operation in a combined heat and power mode. She continued that this combined heat and power technology is expected to supply 25 percent of the building's electricity, enhance its overall energy efficiency, reduce emissions and greatly reduce the carbon footprint of the building. She added that phase III of the project will require NYPA to interconnect the combined systems to LIPA's grid which will be done in accordance with LIPA's interconnection requirements.

Ms. Nicolino stated that LIPA would contribute funding to the \$5.8 million third phase of the project through an agreement between NYPA and LIPA which would be subject to approval by the State Attorney General and Comptroller. She further stated that under this agreement, LIPA would receive progress and financial reports related to this phase and would further be entitled to technology

rights related to project information, data, inventions and discoveries developed during the course of the demonstration. She indicated that LIPA's contribution would be in the form of cash, in the minimum amount of \$200,000 if neutral reactors are not required for the interconnection to LIPA's grid, and in the maximum amount of \$310,000 if such reactors are required. She added that once the project is commissioned and voltage measurements can be taken by LIPA on the grid, LIPA would be able to determine whether or not such reactors would be necessary.

Ms. Nicolino stated that LIPA's staff believes that it is desirable to proceed with funding this portion of the project at this time. She continued that Phase III combines two distributed generation technologies and is a demonstration which is expected to yield valuable information regarding the interaction between a fuel cell and a co-generation unit, both in relation to each other and the distribution system. She indicated that the knowledge gained through participation in this phase of the project will enable LIPA to better assess future installations of these technologies and will provide a path to development of criteria to incorporate them into LIPA's system.

Ms. Nicolino stated that if the demonstration is successful and the combined technologies are able to provide back-up power, the Duryea building could serve as an emergency response center in Suffolk County in the event of a regional emergency. She continued that the existence of such an emergency

response center is expected to be beneficial to the surrounding community, the majority of which are LIPA customers. She indicated that LIPA will also be helping certain State goals and requirements, namely the Renewable Portfolio Standard, the Energy Efficiency Portfolio Standard and Executive Orders 111 and 5, related to energy efficiency in State facilities. She added that based on the foregoing, LIPA staff is recommending that the authorization to fund Phase III of this project be approved at this time.

Chairman Larocca stated that he would incorporate into this discussion, the discussion of the prior matter because he thinks that it is similarly relevant. The Chairman requested any other comment and discussion on the matter.

Trustee Sinnreich stated that he is going to vote in favor of this in deference to the Chairman's statement about developing a future R&D policy, although he shares Vice Chairman Steinberg's concerns. He continued that, in addition, he personally views this as nothing but a back door subsidy to the State of New York, and he does not see why LIPA should be in the business of subsidizing the State of New York.

Chairman Larocca stated that as a relatively new Chairman, he brings forward some of these items that have a history before the current leadership was in effect. He continued that he hears the comments, but also notes that some of these things reach back to prior administrations, and it has been their practice

not to overly concern themselves about that. He further stated that they are trying to be institutionally faithful to their predecessors while at the same time bringing what may be seen as improved policy and process to bear. He indicated that some of these things do have their antecedents and commitments that date back. He noted that he hears Trustee Sinnreich's comments and LIPA is developing a policy that will make the Board more comfortable.

Trustee Sinnreich stated that he agrees with the Chairman and he understands that, and none of this is directed at him. He continued that the reason that he is voting for it is exactly because it is not Chairman Larocca's baby and the Chairman had indicated that LIPA is now proceeding in the right direction.

Trustee Ryan stated that she thinks there is a role in systemizing the R&D. She continued that in order to serve its customers, LIPA needs to be on the cutting-edge in terms of new technology. She added that she thinks that the concept of working on this is very well taken and it is a good direction for LIPA to proceed in.

President Law stated that he is simply amazed that reports like this and proposals did not come before the Board in the past, and prior to his Directive asking for all this information to be assembled and requiring that it comes to the Board, this would still not be coming before the Board today. He continued that

he takes this seriously and he does not want to be wasting any money. He indicated that he wants to be sure that LIPA is investing its money wisely, because he does believe that there will be projects that LIPA should support. He added that he is trying to get his arms around this and reform the way LIPA does things, and improve its transparency and its accountability. He stated that he looks forward to the Board's help with that process as LIPA moves on.

Vice Chairman Steinberg asked how the project relates to other fuel cell projects that LIPA has funded and how much LIPA has previously invested in fuel cell projects.

Mr. Zaweski, LIPA's Assistant Vice President of Energy Efficiency and Distributed Generation answered that the fuel cell projects that LIPA had done in the past were predominately on small-scale fuel cells-five kilowatts size fuel cells that were developed for residential installation. He continued that the total amount of spending on those fuel cell demonstrations in their various phases and generations, was approximately \$17 million. He indicated that the fuel cell that is being utilized in this application is a 200kw fuel cell which is different than the ones that were used in the residential applications. He added that those fuel cells were polymer electro-membrane fuel cells with the longest life cycle being approximately 18 months in LIPA's demonstrations, and these are molten-carbonate fuel cells with a little bit of a longer operating history.

Mr. Zaweski stated that this fuel cell, in certain applications, has so far run ten years. He continued that in LIPA's service territory this is really the first application that they have had with the fuel cell. He indicated that three of these fuel cells are installed in the Verizon building in Garden City, which was done as a private investment so LIPA does not have any knowledge of how they operated. He indicated that this is really a commercial scale fuel cell being done in a unique application.

Vice Chairman Steinberg asked what the benefits were that LIPA's ratepayers received for its \$17 million investment in fuel cells. Mr. Zaweski answered that LIPA gained first-hand application knowledge as to how LIPA may begin to incorporate them into the grid once they become commercially available. He continued that when LIPA started the demonstrations with those fuel cells, there were claims by most of the fuel cell manufacturers at that point in time back in 2000 and 2001, that there would be fully commercial products in the marketplace by 2005. He indicated that a lot of the work LIPA did with those small distributed generation fuel cells was premise work that goes into the Smart Grid or Intelligrid, which Mike Hervey spoke to the Board about last month. He further indicated that some of the premise was how you would start to incorporate all of these small distributed generation assets at locations throughout the grid that could either export on or take off from the grid.

Mr. Zaweski stated that LIPA also saw different generation, in that it started out with plain fuel cells and LIPA had ones that then went into combined heat and power systems. He continued that eventually LIPA had fuel cells that were combined heat and power as well as backup generation systems. He indicated that it also worked with the State's procurement and vision of a hydrogen roadmap.

Hearing no other comments or questions, Chairman Larocca entertained a vote on the motion, which was approved as follows, with Vice Chairman Steinberg opposing.

**874. APPROVAL OF FUNDING RELATED TO COMBINED HEAT AND POWER FUEL CELL PROJECT FOR PERRY B. DURYEY JR. STATE OFFICE BUILDING**

WHEREAS, the New York Power Authority ("NYPA") announced that it was embarking on a three phase, \$18 million energy efficiency and research and development project for its customer, the Perry B. Duryea Jr. State Office Building (the "Duryea Building" or "Building") in Hauppauge, New York (the "Project"), which will make it among the most energy-efficient state government buildings on Long Island; and

WHEREAS, Phases I and II of the Project have been completed and involved the installation of energy efficiency measures to the Duryea Building; and

WHEREAS, the \$5.8 million Phase III of the Project involves the installation of a 200 kilowatt fuel cell and a 570 kilowatt natural gas generator for operation in a combined heat-and-power mode, which is expected to supply roughly 25% of the Building's electricity, enhance its overall energy efficiency, reduce emissions and greatly reduce the carbon footprint of the Building; and

WHEREAS, Phase III of the Project will require NYPA to interconnect the combined systems to LIPA's grid, which will be done in accordance with LIPA's interconnection requirements; and

**WHEREAS, Phase III of the Project is expected to yield valuable information regarding the interaction between a fuel cell and a co-generation unit both in relation to each other and the distribution system; and**

**WHEREAS, LIPA staff believes that the knowledge gained through Phase III will enable LIPA to better assess future installations of these technologies and will provide a path for development of criteria to incorporate them into our system; and**

**WHEREAS, if the demonstration is successful, and the combined technologies are able to provide backup power, the Duryea Building could serve as an emergency response center in Suffolk County in the event of a regional emergency, to the benefit of the surrounding community, a majority of which are LIPA customers; and**

**WHEREAS, LIPA's contribution to the Project will also help to promote certain State goals and requirements, namely the Renewable Portfolio Standard, the Energy Efficiency Portfolio Standard and Executive Order Nos. 111 and 5; and**

**WHEREAS, LIPA staff believes that it is appropriate to participate in Phase III of the Project and contribute funding through an agreement between LIPA and NYPA, under which LIPA would receive progress and financial reports related to the demonstration, and would further be entitled to technology rights related to project information, data, inventions and discoveries developed during its course; and**

**WHEREAS, LIPA's contribution would be in the minimum amount of \$200,000, if neutral reactors are not required for the interconnection to LIPA's grid, and in the maximum amount of \$310,000, if such reactors are determined to be required by LIPA;**

**NOW, THEREFORE, BE IT RESOLVED, that the Trustees authorize the President and Chief Executive Officer or his designee to provide funding in the minimum amount of \$200,000 and the maximum amount of \$310,000 to NYPA pursuant to an agreement with such terms and conditions as are consistent with the basic terms set forth in the preceding Memorandum.**

**Chairman Larocca then entertained public comment, noting that there would be no Executive Session of the Board held at that time.**

Following public comment, President Law stated that he wants the record to reflect that he had to leave the room to be interviewed by News 12 when the Board was discussing the PPL matter. He continued that he wanted to let the Board know that when he was in private practice, his firm and he did work for PPL. He indicated that he actually worked on this project, but he was not involved in the agreements. He noted that he did some environmental and land use work for that project, not the agreements that were renegotiated by Mr. Peterson on behalf of LIPA.

Chairman Larocca thanked President Law for that disclosure and then entertained a motion to adjourn.

Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 12:29 p.m.

Respectfully submitted,

Lynda Nicolino