

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE 156th MEETING**

**HELD ON JUNE 26, 2003**

Pursuant to notice dated June 19, 2003, the Long Island Power Authority (the "Authority") was convened for the one hundred and fifty-sixth time at 11:00 AM at the Sheraton Hotel in Smithtown, NY.

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

**Richard M. Kessel, Chairman  
Patrick Foye, Deputy Chairman  
Michael Affrunti  
Harvey Auerbach  
John Fabio  
Edna Gerrard  
James Herrmann  
Robert Maimoni  
Nancy Nugent  
Vincent Polimeni  
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Bruce Germano, Vice President – Retail Services, Richard Bolbrock, Vice President – Power Markets, Bert Cunningham, Vice President – Communications, Edward P. Murphy, Jr., Chief Administrative Officer, Kenneth Kane, Controller, Michael Hervey, Director of Transmission & Distribution, and Kathleen Stella, Secretary to the Board of Trustees.

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

Chairman Kessel stated that the first item on the agenda is approval of the minutes of the May 29 Board meeting. Upon motion duly made and seconded, the following resolution was approved unanimously.

**648. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE MAY 29, 2003 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 May 29, 2003, are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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

Mr. Hervey reported that LIPA's SAIFI results continue to improve, with there being as much as 12.5 months between interruptions. He indicated that with typical weather this summer, there may be as much as 15.5 months between interruptions.

Mr. Hervey reported that LIPA has major interconnections, including the Y-50 and Y-49 cables. He continued that the Y-50 cable was de-rated due to

concerns about the addition to the cable in Con Edison's territory. He added that LIPA replaced portions of the cable in its territory, and a failure in the underwater portion caused it to be run in a de-rated state last year.

Mr. Hervey reported that the Y-50 cable is currently operating at its full 650 MW capacity, but there has been a decrease in the power coming to LIPA due to Con Edison's exercise of a contractual option. He stated that an additional 63 MW will now go to Con Edison.

Mr. Hervey reported that the Y-49 line was struck by an Iroquois Gas contractor's barge anchor during the winter. He continued that LIPA's portion is currently operating at full capacity, but without the benefit of a spare cable. He added that the three remaining cables have operated reliably.

Mr. Hervey reported that the NUSCO cable was stricken by the same company last November. He indicated that the cable was repaired, and it is ready for service. He noted that the cable has not yet been placed into service because LIPA was notified of a defective phase-shifting transformer connected to the line at its Northport yard. He added that the cable will be in service by July 1 after the old transformer is reconnected.

Mr. Hervey indicated that LIPA has performed a great deal of substation maintenance to prepare for this summer, and LIPA has performed major overhauls on both the Y-49 and Y-50 facilities. He further indicated that these facilities are ready for service.

**Mr. Hervey reported that the capital projects targeted for this summer were completed. He continued that LIPA also completed the installation of additional capacitors, which will support the voltage on the transmission system during very hot days. He added that the capacitors provide greater margin from an operating perspective.**

**Mr. Hervey indicated that as part of LIPA's transformer load management program, small size transformers are being replaced with larger transformers, which can better handle the growing load. He further indicated that LIPA is investing in the development of better computer modeling systems to more accurately predict where transformers will overload.**

**Mr. Hervey reported that LIPA has held storm restoration drills over the past several months. He continued that LIPA is able to deploy up to 1,270 employees to substation sites in order to act and react quickly in the event of a storm.**

**Mr. Hervey reported that LIPA front-loaded its tree trimming program this year to improve the system's storm performance. He further indicated that LIPA has so far met its goals. He added that LIPA's CAIDI continues to improve, and LIPA should approach the top rank in the State this summer.**

**Mr. Hervey stated that the PSC reliability comparisons for New York State utilities reflect that LIPA had a good first quarter. He indicated that LIPA intends**

to remain first in the State for electric service restoration and among the top utilities in overall reliability measures.

Mr. Hervey stated that LIPA has performed a thorough analysis with KeySpan concerning the Memorial Day weekend outages on Fire Island. He continued that LIPA has installed additional capacity for transformers at Fair Harbor, which should be able to weather the type of failure that occurred on Memorial Day.

Mr. Hervey indicated that there were problems concerning the installation of the new cable to Ocean Beach. He further stated that LIPA is working with the manufacturer and the contractor, and is performing tests on the cable. He indicated that the tests have been completed, and the cable may be ready for service within days.

Chairman Kessel stated that LIPA has had the best first quarter in more than 30 years, despite a number of storms, including a blizzard. He indicated that the numbers are better than in 2002 when there were almost no storms. He further indicated that LIPA has reversed some of the negative performance indices.

Chairman Kessel stated that he attributes the success to the terrific performance by the LIPA work force in tough conditions and LIPA's significant capital investments in the system. The Chairman continued that LIPA inherited a system that was decrepit, and which had been ignored for more than a decade.

Chairman Kessel stated that tree trimming, pole replacement, transformer replacement and wire reconductoring have been important. The Chairman indicated that Long Island ratepayers are currently paying less for electricity than five years ago under the former LILCO, while receiving a very high level of service, which is significant. He thanked the Board for its cooperation and motivation.

Trustee Fabio asked why the SAIDI for most utilities rose sharply between 2001 through 2002. Mr. Hervey responded that weather was a primary cause, particularly two large ice storms.

Trustee Fabio asked why a gap exists between LIPA's high reliability results and the bulk of the other utilities. Mr. Hervey responded that the largest single contributor is LIPA's capital program. He continued that restoration time has been decreased by the rapid response of LIPA's work force and a highly automated control system.

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

Mr. Kane reported that LIPA has generated a loss of \$114 million, which is less than the budgeted amount of \$123 million. He continued that revenues are one percent higher than budgeted and fuel costs are below budget. He indicated

that “Operation and Maintenance expense” and PSA fee are slightly higher than budgeted.

Mr. Kane reported that administrative and general expenses were approximately one-half million dollars higher, primarily due to the cost of the review of KeySpan operations by LIPA consultants. He continued that “other income and deductions” were also higher than budgeted, primarily due to proceeds from emissions credits. He added that “interest expense” was lower than budgeted. He further indicated that the Shoreham surcharge becomes effective on June 1, which will add to cash flow.

Chairman Kessel stated that LIPA is in good shape so far during this first heat wave of summer, but LIPA had less than a 250 MW margin, primarily due to the fact that the Northport 3 generating unit was out of service and the new generating units for this summer are not yet available. The Chairman continued that LIPA declared a heightened state of awareness as a result. He indicated that the Northport unit is now back in service, and LIPA projects its supply to be approximately 5,188 MW.

Chairman Kessel stated that LIPA expects two new units to be available shortly, which will add 104 MW to the system. The Chairman continued that the Wading River Turbine is scheduled to be repaired and back in the system by July 1. He added that there will also soon be available 120 MW of temporary generation from TM2500 units being provided by GE.

Chairman Kessel stated that the additional units will add approximately 300 MW to the supply. The Chairman indicated that one major loss can put the system into a low level situation, which could worsen quickly depending upon the weather. He indicated that LIPA's margin is approximately 600 to 700 MW on a normal summer day, compared to 200 MW a couple of years ago. He added that the additional margin is due to LIPA's addition of 500 MW of on-Island generation and the 120 MW of temporary generation.

Chairman Kessel stated that there would have been blackouts on numerous occasions last summer had it not been for the additional generation. The Chairman continued that the Cross-Sound cable is greatly needed. He indicated that Connecticut's moratorium will prevent the cable from being available this summer, absent federal intervention.

Chairman Kessel stated that Governor Pataki's office has been tremendously helpful to LIPA in trying to work with Connecticut. The Chairman stated that LIPA is considering federal action, among other strategies.

Deputy Chairman Foye asked what is Senator Lieberman's position regarding the Cross-Sound cable. Chairman Kessel responded that he opposes it, as does Senator Dodd.

Chairman Kessel stated that Southwestern Connecticut has greater transmission constraints than Long Island. The Chairman continued that LIPA's margin is better than the rest of the State. He added that Long Island's problem

is that in the event of the failure of a major generation or transmission source, it is questionable whether blackouts can be avoided.

Chairman Kessel indicated that Connecticut still opposes the Cross-Sound cable although it can be used to transmit power to areas in Connecticut that have transmission constraints. The Chairman continued that the one-year extension of the moratorium means that the operation of the cable will be delayed for two summers.

Chairman Kessel stated that LIPA held a highly successful proposers' conference recently, regarding its RFP for 250 to 600 MW of on-Island generation, and for transmission and other products. The Chairman indicated that more than 100 persons attended the conference, and there appears to be tremendous interest in this RFP.

Chairman Kessel stated that LIPA informed the proposers that LIPA is considering the construction of a lateral gas transmission line, if needed. The Chairman noted that LIPA's staff is reviewing whether it would be prudent for LIPA to construct, own or have constructed a lateral gas transmission line, which may be a spur off the Iroquois line. The Chairman continued that the problem that Long Island has with base load generation is the inability to transport gas. The Chairman further indicated that LIPA will not seek to enter the retail gas business, but LIPA needs to become involved in the gas transmission business, if future base load generation is to be constructed. He added that the limited gas

transmission system combined with Connecticut's moratorium makes it difficult to get an uninterrupted supply of gas, especially in Suffolk.

Trustee Auerbach asked whether the bulk of the recent RFP interest related to new generation plants or underwater transmission lines. Chairman Kessel responded the former. The Chairman stated that several companies may propose building transmission lines from previously existing off-Island generation. He indicated that there is great interest in LIPA's RFP, due in part to the troubled state of the generation business.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to appoint Elizabeth McCarthy to the Office of Chief Financial Officer of the Authority and LIPA, effective July 7. The Chairman indicated that Anastasia Song has done an extraordinary job as acting CFO, and she is a great asset to LIPA. He hoped that Ms. Song will continue to work on a per diem basis for the Authority and LIPA.

Chairman Kessel stated that Ms. McCarthy was part of the team that engineered the takeover of LILCO when she worked for PricewaterhouseCoopers, and without her the deal would not have happened. The Chairman continued that Ms. McCarthy has substantial industry experience as CFO of another utility and broad accounting experience. He indicated that she works well with LIPA's staff and she is familiar with LIPA and its complex contracts, which is an added benefit.

Chairman Kessel stated that he does not think LIPA could find a better fit than Ms. McCarthy for the position. The Chairman highly recommended that the Board approve the resolution to appoint her.

Deputy Chairman Foye stated that Ms. McCarthy is well within LIPA's tradition of incredible, strong and talented Chief Financial Officers. He indicated that Ms. McCarthy is a highly qualified professional, and will be a welcome addition.

Chairman Kessel thanked Deputy Chairman Foye and Trustee Akeson for their help with the recruitment process. The Chairman noted that it is not easy to recruit people back to the public sector.

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

**649. APPOINTMENT TO OFFICE OF CHIEF FINANCIAL OFFICER**

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**RESOLVED**, that Elizabeth McCarthy be, and hereby is, appointed to the Office of Chief Financial Officer, effective July 7, 2003, until the earlier of her resignation or removal; and be it further

**RESOLVED**, that the incumbent of the Office of Chief Financial Officer 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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Turning to the next agenda item, Chairman Kessel stated that the Board is requested to approve a resolution authorizing the Chairman to engage three firms to provide accounting consulting services on an as-needed basis to the Authority and LIPA. The Chairman indicated that the firms will provide assistance in connection with intermittent reviews and examinations of billings and other periodic financial and operational reports submitted by KeySpan, and any audit, review or other agreed upon procedure related to those billings and reports. He further indicated that the firms will provide LIPA with advice from time to time on certain technical accounting or business issues arising out of the LIPA/KeySpan operating agreements and other LIPA matters.

Trustee Sinnreich asked for more detail on how many accounting firms are working for LIPA in various capacities, and what each of the new firms will do. Mr. Clark answered that LIPA is in the process of hiring an external auditor to replace PricewaterhouseCoopers. He continued that Virchow Krause, which was hired under the last RFP, performs a larger quality assurance review of KeySpan. Mr. Clark stated that under the last RFP, LIPA hired a couple of other firms for various purposes such as performing some financial analyses and certain IT functions.

Mr. Clark indicated that under the current RFP, LIPA seeks specialized accounting firms to help with the auditing of routine KeySpan bills. He continued that LIPA received proposals from a broad spectrum of different kinds of accounting firms, and LIPA believes that it can receive value from a regional firm with lower rates.

Trustee Sinnreich asked whether the principal function of the firms will be to help monitor KeySpan's various bills to LIPA. Mr. Clarke responded that monitoring KeySpan will be a major role.

Trustee Sinnreich asks how it is cost effective to out-source rather than perform the service in-house. Mr. Clark responded that it is cost effective because the billings are not continuous. He stated that LIPA may ratchet up and down depending upon the nature and extent of its activity.

Chairman Kessel added that LIPA has a hiring freeze. The Chairman stated that the only person hired recently is Ms. McCarthy.

Trustee Sinnreich stated that he does not oppose LIPA staff's recommendation, but he is concerned about the number of firms that LIPA has to perform certain accounting functions. Chairman Kessel stated that he will ask the Audit and Finance Committee to monitor this.

Deputy Chairman Foye asked whether Ms. Song was involved in the evaluation of the RFP responses. Chairman Kessel responded affirmatively.

Trustee Maimoni asked whether there are any fiscal limitations on the fees for the accounting consultants. Chairman Kessel answered that it is within the approved external consulting budget. Trustee Maimoni asked what the budget amount is. Mr. Feldman replied approximately \$250,000.

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

**650. ENGAGEMENT OF FIRMS TO PROVIDE ACCOUNTING CONSULTING SERVICES**

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**RESOLVED**, that the Chairman be, and hereby is, authorized to engage the following firms to provide accounting consulting services to the Authority and LIPA, with the contract terms to be four years:

**Weiser LLP  
KPMG LLP  
Tronconi, Segarra & Hore LLP**

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to engage four firms to perform Information Technology (IT) consulting services for the Authority and LIPA. The Chairman continued that an RFP was issued in March of 2003 and twenty-five firms responded. He indicated that four firms were recommended to fulfill the Authority's needs: Unique Comp. Inc., Parity Americas, Epicor Software Corp., and IBM Global Services.

Ms. Malhotra stated that LIPA currently has no IT consultants nor back-up staff. She indicated that there are three different areas of service involved in this RFP, namely administrative services, maintenance of LIPA's accounting software, and IT policy and procedure services.

Trustee Maimoni asked whether LIPA already received IT services from the accounting firms. Ms. Malhotra responded yes but noted that the work is focused on the KeySpan matter and not general IT services.

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

**651. ENGAGEMENT OF FIRMS TO PROVIDE INFORMATION TECHNOLOGY CONSULTING SERVICES**

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**RESOLVED**, that the Chairman be, and hereby is, authorized to engage the following firms to provide Information Technology consulting services as needed by the Authority and LIPA, with the contract terms to be four years:

Unique Comp, Inc.  
Parity Americas  
Epicor Software Corporation  
IBM Global Services

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to authorize the Chairman to engage Meyers-Reynolds & Associates, Inc. as LIPA's risk management consultant. The Chairman continued that in April 2003, LIPA issued an RFP for risk management services and three firms responded. He stated that it was determined that Meyers-Reynolds & Associates, Inc. is best suited to fulfill LIPA's needs.

Chairman Kessel stated that Meyers-Reynolds is LIPA's current consultant/broker and is familiar with LIPA's present and future risk management needs. The Chairman continued that Meyers-Reynolds has extensive knowledge

and experience in the energy/utility field and an impressive record in developing creative risk management solutions.

Mr. Murphy stated that LIPA's current contract with Meyers-Reynolds is due to expire. He continued that Meyers-Reynolds helps to police the work at KeySpan in the risk management area, in addition to placing insurance and providing consulting services.

Deputy Chairman Foye stated that a series of helpful conference calls regarding this RFP were conducted by Mr. Murphy and Ms. Malhotra with various Trustees. He continued that LIPA staff offered a fairly long explanation of the RFP process, and questions were satisfactorily answered.

Trustee Auerbach asked for assurance that there are no political connections associated with this firm. Chairman Kessel responded with such assurance. Mr. Murphy stated that Meyers-Reynolds is based in Oklahoma.

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

#### **652. ENGAGEMENT OF RISK MANAGEMENT CONSULTANT**

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**RESOLVED**, that the Chairman be, and hereby is, authorized to engage Meyers-Reynolds & Associates, Inc. as risk management consultant to assist the Long Island Power Authority in the management of appropriate levels of insurance and other risk mitigation approaches, with the contract term to be four years.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to continue LIPA's charitable contributions program for two years. The Chairman indicated that in June 2001, the Board approved a two-year extension of a program under which LIPA makes charitable contributions of approximately \$125,000 per year to non-profit, tax-exempt organizations that play active roles in the service area in matters of health and welfare, environmental and civic improvement, cultural enrichment, education, and community development. He further stated that applications to receive contributions are accepted by LIPA throughout the year, and these are reviewed by LIPA's contributions committee.

Chairman Kessel stated that any customer who does not wish for part of their payment for electric service to be used for charitable contributions may elect to receive a bill credit equal to their proportionate share of the total cost of the annual contributions. The Chairman requested that Ms. DeMaio offer further information concerning the ability for customers to opt out of the charitable contributions program. He congratulated Ms. DeMaio for her promotion to Director of Customer Relations, and indicated she has done a great job.

Ms. DeMaio stated that a bill insert is sent out once a year, and it provides a telephone number that customers may call to opt out of the program. She continued that last year approximately 4,400 customers opted out of the program, and each received a credit of 15 cents, for a total of \$662.

Deputy Chairman Foye stated that LIPA's tariff does not allow contributions to political organizations nor to religious organizations for religious purposes. He further stated that Ms. DeMaio has performed great work in the area of customer service.

Mr. Fabio asked how frequently the list of organizations receiving charitable contributions is updated. Chairman Kessel responded that the list is updated monthly.

Trustee Polimeni stated that he would like to see the ability to opt out made simpler by checking off an item on the bill rather than requiring a phone call. Ms. DeMaio stated that the matter will be reviewed. Chairman Kessel indicated that under such a procedure the opt out response may decrease. Trustee Polimeni replied that as long as customers can see clearly that they have the option, it is fine. Chairman Kessel stated that it is a good idea to examine the idea further.

Trustee Polimeni asked who is on the committee that analyzes the applications for contributions. Mr. Cunningham responded that the committee consists of himself, Mr. Murphy, Ms. Schwantner, Mr. Davidson, Mr. Grilli, Mr. Hulkower and Mr. Germano. He continued that the committee meets monthly and reviews the numerous submissions. Chairman Kessel added that Ms. Raso is also on the committee.

Trustee Fabio asked whether there is a limitation on the maximum amount for contributions to an entity. Mr. Cunningham responded that there is no official

limitation, but the committee tries to limit the amount to a reasonable number and no entity is given contributions for more than two successive years.

Chairman Kessel asked whether applicants who are rejected receive responses from the committee. Mr. Cunningham indicated that a response letter is sent.

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

**653. APPROVAL OF CONTINUATION OF CHARITABLE CONTRIBUTIONS PROGRAM**

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**WHEREAS, a Proposal to Continue Charitable Contributions Program (“Proposal”) (attached hereto) was issued for public comment in March 2003; and**

**WHEREAS, in said Proposal, it is proposed that the Authority’s Charitable Contributions Program be continued for an additional two years; and**

**WHEREAS, notice of the proposed action was published in the State Register on April 2, 2003 and the public comment period has expired with no comments having been received; and**

**WHEREAS, for the reasons set forth in the preceding Memorandum and the Proposal, the Proposal is in the public interest;**

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

**RESOLVED, that the attached revised Tariff Leaf reflecting our action is approved.**

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Trustee Auerbach stated that on behalf of the Trustees, he would like to congratulate Chairman Kessel and wish him the best of luck in his coming marriage.

Chairman Kessel entertained a motion to go into executive session to discuss litigation and personnel issues.

At 12:55 PM the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 1:20 PM the executive session was adjourned and the open session was reconvened.

After noting that no votes were taken in executive session, Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 1:21 PM.

Respectfully submitted,

Stanley B. Klimberg