

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE 194<sup>th</sup> MEETING**

**HELD ON DECEMBER 11, 2008**

Pursuant to notice dated December 8, 2008, the Long Island Power Authority (the "Authority") was convened for the one hundred and ninety fourth time at 11:08 AM at the Omni Teleconference Center, in Uniondale, NY.

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

**James Larocca, Chairman  
Howard Steinberg, Vice Chairman  
Laurence Belinsky  
Cristofer Damianos  
Lawrence Elovich  
Michael Fragin  
Susan Gordon Ryan  
Jonathan Sinnreich  
Suzette Smookler**

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

**Anthony Bonomo  
John Fabio  
Harriet Gilliam  
James Herrmann**

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

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

The Chairman stated that this is the December meeting of the Long Island Power Authority pursuant to notice duly given and then led the Board in the Pledge of Allegiance.

Chairman Larocca made a motion to accept the minutes of the October 23<sup>rd</sup> meeting of the Board of Trustees. He asked if there were any changes or deletions. He noted that there were none.

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

**899. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE OCTOBER 23, 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 October 23, 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 the Board would take a few agenda items out of order to leave time for the budget discussion. He continued that the first item to be addressed is the annual review of the Authority's Investment Guidelines. After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by Ms. McCarthy and Vice-Chairman Steinberg as Chair of the Finance and Audit Committee.

Ms. McCarthy stated that the Trustees are being requested to approve the Long Island Power Authority Investment Guidelines. She continued that the Authority is required by Section 2925(6) of the Public Authorities Law to periodically review and approve investment guidelines and detail the Authority's operating policy and instructions to officers and staff regarding investing, monitoring, and reporting for funding in the Authority. She noted that the guidelines were last amended in October 2007. She added that upon consultation with LIPA's investment advisors, and based upon recommendation of the Finance

and Audit Committee, it is proposed that the Authority's Investment Guidelines be approved in their current form without modification.

Vice Chairman Steinberg stated that the Finance and Audit Committee had reviewed the guidelines with the Chief Financial Officer and believes that the guidelines, as proposed, are appropriate and recommends that the full Board approve the matter.

After noting that there were no comments, the Chairman called for a vote on the motion. Upon motion duly made and seconded, the following motion was approved unanimously:

#### **900. APPROVAL OF LONG ISLAND POWER AUTHORITY INVESTMENT GUIDELINES**

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

**WHEREAS, the Finance and Audit Committee of the Board of Trustees has recommended the adoption of the "Long Island Power Authority Investment Guidelines (December 11, 2008)" in the form presented at this meeting:**

**NOW, THEREFORE, BE IT IS RESOLVED, that the Authority hereby approves and adopts the "Long Island Power Authority Investment Guidelines (December 11, 2008)" in the form presented at this meeting; and**

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

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Chairman Larocca stated that the next item on the agenda is consideration of approval of an interim engagement of a firm to provide corporate and securities legal services. 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 President and CEO, or his designee, to engage the law firm of Morgan, Lewis & Bockius, on an interim basis, to provide corporate and securities legal services to the Authority and LIPA. She continued that in August 2004, pursuant to a competitive solicitation, LIPA engaged the law firm of Thelen, Reid, Brown, Raysman & Steiner, formerly known as Thelen, Reid & Priest, to provide corporate and securities legal services to LIPA on an as-needed basis until July 31, 2009. She added that in late October, however, LIPA was advised that Thelen would be dissolving the firm effective December 1, 2008. She noted that LIPA was also advised that prior to that date, on November 17, 2008, several key members of the energy transactional group assigned to LIPA's account would be joining the firm Morgan, Lewis & Bockius.

Ms. Nicolino stated that in light of this sudden event, LIPA has advanced its plan to re-solicit for corporate and securities counsel and expects to issue an RFP on December 15, 2008. She continued that in order to ensure continuity related to these important services through the pendency of the RFP process, it

is necessary and desirable for LIPA to engage Morgan Lewis on an interim basis at this time. She added that by engaging this firm, LIPA would be able to avail itself of the same lead partner who serviced LIPA's account at Thelen, as well as several other attorneys from the energy group who have worked on LIPA matters. She noted that these attorneys possess substantial expertise that LIPA could not readily duplicate given the current circumstances, and as such, their continued representation of LIPA would provide a great value during this interim period.

Ms. Nicolino stated that Morgan Lewis would be providing as-needed service to LIPA until July 31, 2009 on the same contract terms and conditions as were applicable to Thelen at that time. She added that based on the foregoing, approval of the resolution before the Trustees is recommended.

Trustee Sinnreich asked Ms. Nicolino if the Authority had performed a conflict check with Morgan Lewis.

Ms. Nicolino responded affirmatively and stated that a full conflict check was completed, and that there were no conflicts found with respect to Morgan Lewis, which is a great benefit to the Authority.

After noting that there were no additional comments, the Chairman called for a vote on the motion. Upon motion duly made and seconded, the following motion was approved unanimously:

## **901. INTERIM ENGAGEMENT OF FIRM TO PROVIDE CORPORATE AND SECURITIES LEGAL SERVICES**

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**RESOLVED**, that the President and Chief Executive Officer or his designee be, and hereby is, authorized to engage Morgan, Lewis & Bockius, LLP to provide corporate and securities legal services to the Authority and LIPA, on an as-needed basis, for the period of November 17, 2008 through July 31, 2009.

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Chairman Larocca stated that the meeting would now proceed according to the order on the agenda. He continued that the regular financial report and the budget consideration would be combined. He added that they would be skipping over the regular financial report, and any related questions can be raised at any point. He noted that with regard to the operating report, Mr. Hervey would give an abbreviated report.

Mr. Hervey stated that he would be addressing the System Average Interruption Duration Index (SAIDI), which is LIPA's high level reliability index. He continued that this is an index of LIPA's reliability, which has been watched very closely all year. He added that there have been times when LIPA's contractor, National Grid, has been beyond the contractual penalty limits with regard to this index. He noted that it had been mentioned in the newspapers throughout the year as there had been some public scrutiny on this issue.

Mr. Hervey reported on November performance. He stated that November was the best performing year for the LIPA electric system since records have

been kept, which dates all the way back to the 1960s. He added that as a result, the SAIDI number as of today, is 65.5, which is below the penalty level. He noted that LIPA is expecting to end the year below the penalty level, and that it should be, nationally, a first quartile performance and also perhaps the best performance in the State.

Mr. Hervey reported that the other important reliability number is LIPA's average restoration time. He stated that as of today, it is sitting at 81.3 minutes. He continued that this is beyond the penalty level, and that LIPA will be watching National Grid closely, as they had been all year. He noted that 81.3 minutes is best in the state performance, and that LIPA is expecting to end the year as best in the State in both metrics.

Mr. Hervey reported on one additional item, which is that throughout the past few months, LIPA has been monitoring a situation regarding the Nine Mile Nuclear Power Plant upstate, in which LIPA owns an eighteen percent interest. He stated that Constellation Energy, which is the major owner of the Nine Mile Plant, had fallen victim to some of the credit issues that have gone on over the past few months. He continued that on September 18th, Constellation Energy announced that they would be purchased by Mid-America Energy Holdings Company, a Berkshire Hathaway subsidiary, which owns several power plants and utilities in the Midwest. He noted that it is a well-respected and well-operated utility company.

Mr. Hervey reported that since the buyout, LIPA has been monitoring the operation of the plant very carefully and noticed that there have been no real changes in the management of the plant. He continued that in fact, several key indicators of the plant's performance have improved during this time. He added that a Nuclear Safety Review Board report, issued on November 18th and 19th, indicated that there were no adverse effects on the plant operation from the merger activity. He noted that LIPA will continue to monitor that situation, but it does not expect the merger to have any adverse impact on LIPA's interest. Mr. Hervey concluded his report.

President Law stated that he had a comment with regard to LIPA's relationship with National Grid. He continued that people often ask him about the relationship and how it has been going so far. He continued that the relationship is going very well, and that National Grid is doing a fine job. He noted that the great men and women of IBEW 1049 do a fantastic job of keeping the lights on for Long Island, and that they are out there in inclement weather, like today, and that they are doing a terrific job and should be recognized for it.

Chairman Larocca concurred with President Law's sentiment regarding the work of IBEW 1049. He stated that next up would be the President's report, which will cover all of the routine matters and then roll into a discussion of the year ahead and the 2009 budget. He noted that they would try to keep the presentation moving and clear.

**Chairman Larocca stated that the Board wants to hear from the public and that there is a sign-up process.**

**Chairman Larocca reported that it is an extraordinary time in the economy, and more specifically, in the part of the economy that is directly related to energy. He continued that LIPA finds itself putting together a budget during a time of extraordinary credit pressure, extraordinary global events, and extraordinary downturns in all kinds of measures that affect everything from the cost of bread to energy consumption patterns. He noted that it has been an especially demanding time.**

**Chairman Larocca reported that having been through it with the LIPA team, he observed how much has been accomplished under President Law's leadership and under Ms. McCarthy and her team, supported by Counsel and the other substantive units, including environmental in particular. He continued that he thinks the staff came through with a product that will get LIPA into the future. He noted that he wanted to start with a "well done" to this team for the tremendous effort that they made under the most extraordinary circumstances.**

**Chairman Larocca reported that in terms of the timing, the budget season merged with the credit crisis, so on some occasions, the credit markets were not open. He continued that therefore, staff had to work to get the best value in terms of LIPA's credit cycle, requirement for funding, and refunding of debt. He added**

that the Authority came through the budget season in relatively good order. He noted that this is relative to everything that is going on in the world.

Chairman Larocca reported that President Law would make his report. He continued that the Board would then get a motion up on the table to put the budget of 2009 before the Board and then continue into the budget presentation.

President Law reported that since the last Board meeting, the main focus has been the budget for 2009, but he added that he wanted to bring everyone up to date on a couple of things.

President Law reported on an audit that he had requested on the power supply charge. He continued that staff has been in discussions with the PSC and is still figuring out a scope of work on a memorandum of understanding to have the PSC play a role in the review of the items that are put into the power supply charge.

President Law reported that staff is still evaluating the fifty megawatt solar RFP. He continued that while he had originally hoped to be in a position to make a decision on the RFP in the month of December, it will now be a January item. He noted that the opportunities presented in the RFP responses are exciting.

President Law reported that LIPA continued to work on its technical analysis of a possible offshore wind project with Con Edison. He stated that he hopes to have results on the technical feasibility of the project for the Board in the month of January. He noted that he has a meeting with the President of Con Edison tomorrow to discuss the analysis.

President Law reported that with regard to LIPA's re-powering opportunities with National Grid, concerning the plants that LIPA has the option to purchase, it has asked for an additional three months on the option to give LIPA more time to reach a decision. He continued that because it is a big and important decision to make, and it involves a lot of environmental engineering and financial issues, the staff will take it up early next year. He noted that LIPA has been focused on the credit crisis and the 2009 budget.

President Law reported that staff continues to evaluate responses to the RFP for the Low Income Senior Citizen program. He added that it should be ready for the Board at the January meeting. President Law concluded his report.

Chairman Larocca stated that the next item on the agenda is consideration of approval of the LIPA 2009 operating budget and the 2009-2010 capital budget. After requesting a motion on the matter, which was seconded, the Chairman indicated that the matter would be presented by President Law.

President Law stated that he wanted to set the stage for the 2009 budget and then hand it over to Ms. McCarthy, LIPA's CFO, to go into additional detail and specifics on the budget. He continued that he would like to commend the LIPA staff for working hard over the last couple of months, with many employees working very late hours. He added that LIPA has a dedicated staff, and everyone works hard to try and do the best job they can for LIPA's customers.

President Law reported that as the Chairman had stated, there is so much going on in the world right now, especially with the economy. He continued that given this dynamic, LIPA's challenge becomes a balancing act. He added that while he still wants to see LIPA become a leader in renewable forms of energy, he is also cognizant of customers' ability to pay. He noted that LIPA tries to do its best in meeting both goals.

President Law reported that the overall economy is presenting great challenges to LIPA. He continued that the markets are very disconnected, and it is very challenging to try and forecast where sales or the cost of fuel is going. He added that the volatility seen over the last seven months is unprecedented, and it makes budgeting a challenge. He noted that LIPA is addressing and meeting these challenges.

President Law reported that there are a number of issues that are putting pressure on LIPA for next year. He continued that fixed costs continue to

increase, and since there were no over-collections in 2008, as there were in 2007, LIPA will not be able to soften any potential increase in the power supply charge for 2009. He added that there are no surplus funds in the base delivery portion of the budget that could be used to subsidize the power supply charge, because LIPA's fixed costs are going up. He further stated that LIPA is facing new environmental regulations with which it must comply. He noted that LIPA has to address many different issues, and just like everybody else, LIPA's costs are increasing.

President Law stated that it is important to remember that LIPA is a not-for-profit state entity, and that it gets no money from the State or Federal government. He continued that LIPA has no shareholders from which to withhold dividends, and that unfortunately, LIPA gets all of its money from ratepayers. He noted that LIPA has no choice but to pass through its costs as they increase.

President Law reported that after working hard on the budget, it was released several weeks ago and was immediately posted on the website. He continued that public hearings were held, and letters were sent to the entire New York State Delegation, inviting them to ask questions, to comment, and to attend LIPA's public meetings.

President Law reported that the public hearings were terrific. He continued that while they were not always fun to sit through, they were important because it

got a lot of customers to come down to a public meeting for the first time. He added that while there were many people who appeared and expressed support of LIPA's programs, especially when it came to efficiency and renewables, there were also a lot of customers who came forward with sad and tragic stories, including people who have lost their jobs, have children, and cannot afford to stay on Long Island. He noted that these comments would strike a chord with anybody, and he took them seriously.

President Law reported that he also received comments from the Board of Trustees, who were asking him to be as tidy as possible with the budget. He continued that he spoke with Governor Paterson as well, and the Governor is sensitive to the folks on Long Island. He added that LIPA took all of the comments to heart, and with that understanding, he tried to balance the budget in such a way that it would make LIPA a leader when it comes to renewable energy while also being cognizant of customers' ability to pay.

President Law reported that the budget process was not easy because LIPA does not receive money from anywhere other than from the ratepayers. He continued that since LIPA's only source of funds comes from its customers, it needs to do the best job that it can. He added that while the initial proposed budget had a proposed bill impact of about 4.8 percent, after hearing from the public and from the Governor, LIPA went back to work to try and trim the numbers, ultimately reducing the proposed impact to the bill.

President Law reported that he is happy to share that through a combination of cuts, deferrals, and more updated sales and fuel forecasts, which were not available when the original budget was released, LIPA is in a position to recommend to the Board a reduction in the proposed impact on customers. He continued that the reduction was accomplished through a combination of things, including reducing a couple of positions at LIPA, reducing consultant costs, reducing expenses in research and development, and reducing other administrative costs. He added that the capital budget of 2009 is less than what was proposed and spent in 2008.

President Law reported that he is happy to share that the proposed bill impact has now been reduced by almost a third from 4.8 percent to only 3.2 percent. He continued that this impact will be \$4.98 to the typical LIPA residential customer – less than \$5.00. He added that he would like nothing more than to propose rate reductions. He pointed out that he does not enjoy going to the supermarket, bagel shop and even church and being given a hard time about raising rates. He continued that this is a situation that LIPA has inherited, is faced with, and is dealing with, in order to achieve a balance of committing to renewable energy and to the customers' ability to pay.

President Law stated that as Vice Chairman Steinberg eloquently said a couple months ago, LIPA was built on a mountain of debt; \$7 billion. He continued that the debt impacts every decision that LIPA makes, and that the

mountain of debt is covered with a slippery and volatile fuel market. He added that therefore, it is very difficult to budget and to plan in advance. He noted that LIPA does the best job that it can, and ultimately, he thinks that LIPA does a very good job.

President Law reported that 27 percent of LIPA's budget goes just for debt service and taxes. He continued that LIPA has become a property tax collector for many of the municipalities on Long Island, and it spends over \$450 million on taxes. He added that if LIPA did not pay taxes, it could reduce rates over ten percent. He noted that no other not-for-profit organization is paying taxes.

President Law reported that with all of that background, and with all of the cuts that LIPA has tried to make to the budget, he is still excited about some of the budget highlights, and he would like to share those before handing it over to Ms. McCarthy.

President Law reported that he truly believes that LIPA needs to be investing in and preparing for the future. He continued that while the cost of fuel is low today, it was much higher six months ago. He added that while he hopes it will never go back up that high, reasonable people know that the cost of fuel will continue to increase. He noted that the United States needs to get out of its current economic situation, that the cost of fuel will eventually go up, and that LIPA needs to be prepared and ready for tomorrow.

President Law reported that he is happy to include in his proposal a very significant increase in LIPA's renewable portion of the budget with regard to solar and wind. He continued that in fact, the increase is significant with over a fifty percent increase in the proposed budget for solar power. He added that also, recently, the Town of Islip proposed allowing residents to install wind in their yards. He noted that LIPA now has a small wind renewable program in the budget for next year, and again, he thinks that this is good planning for the future.

President Law stated that when it comes to LIPA's efficiency programs, he has heard a lot of concern from the Board. He continued that he is still committed to LIPA's efficiency program. He added that he serves as a member of the Governor's Renewable Energy Task Force, and that efficiency and renewable energy is a big part of the Task Force's goal.

President Law reported that LIPA is still planning to kick off and implement Efficiency Long Island in 2009. He continued that he has heard the concerns of the Board, and that the funding will be set at the 2008 level. He added that there is no decrease, and that he decided to keep the funding at the 2008 level because he heard the concerns held by many Board members. He noted that it still allows LIPA to begin Efficiency Long Island without any reductions, and hopefully the funding will be restored back to where he would have liked it to be in 2010.

President Law reported that LIPA still has funding in its budget for smart metering, which is where the industry is heading. He continued that he thinks LIPA needs to be planning for that, and in fact, the pilot programs are beginning in Hauppauge and Bethpage this month.

President Law advised that there is still money in the budget for the Shoreham study. He continued that LIPA inherited a huge \$7 billion mausoleum, and LIPA needs to figure out what to do with it. He added that it is a 60-acre waterfront parcel with a plant. He noted that there is money in the budget to help assist with the reuse of the property.

President Law reported that finally, as most people are aware, LIPA's service territory goes from the Rockaways to Montauk Point. He continued that while there are plenty of service centers for LIPA's customers in Nassau and Suffolk Counties, LIPA has never had one in Queens, and for the first time next year, LIPA will have one in the Rockaways. He noted that there is startup money for the Queens office.

President Law stated that after laying out the scenario of what LIPA has been struggling with over the last two months, he knows that he is not going to make everybody happy, but that he is trying to do the best he can with balancing his desires and commitment to renewable energy with customers' ability to pay.

President Law concluded his presentation, and indicated that Ms. McCarthy would review the details of the 2009 proposed budget.

Ms. McCarthy reported that she would like to make a few comments regarding the proposed budget before the Trustees, which includes the proposed 2009 operating budget, as modified, and the proposed 2009 and 2010 capital budgets. She continued that these are the budgets for the Long Island Power Authority and its subsidiary, LIPA, referred to collectively as LIPA. She added that these budgets present the revenue forecast and planned operating expenditures for 2009 and capital expenditures for 2009 and 2010. She noted that the budgets incorporate the continuation of current operation, maintenance and capital programs as well as initiatives planned for 2009, which President Law has just set forth.

Ms. McCarthy reported that electric sales are forecasted at 20,107 gigawatt hours, which represents a decrease of one percent versus the projected normalized sales level adjusted for weather for 2008. She continued that this sales forecast was modified from that which was presented in the first proposed budget because more current economic data was available for the model. She noted that this projection reflects economic data as of November 2008.

Ms. McCarthy reported that revenues, which are forecasted at \$3.84 billion, are 4.5 percent higher than the approved level for 2008. She continued that this

increase reflects, in part, the full year effect in the increase in LIPA's power supply charge, which was implemented in July of 2008, as well as the adjustment in the power supply charge that is necessary pursuant to the LIPA tariff based on the sales and fuel and purchased power costs forecast. She added that, as had previously been mentioned by President Law, the increase in the power supply charge is now forecasted, after these proposed modifications to the budget, to be approximately 3.2 percent or \$4.98 for a typical residential customer's monthly bill.

Ms. McCarthy reported that the capital budget of \$269 million, which is presented for 2009, is projected to decrease by \$16.7 million from the 2008 budget. She continued that this decrease reflects the completion of major capital projects undertaken in 2008. She noted that the capital budget for 2010 is \$295 million, which is a projected increase of 9.6 percent over the proposed 2009 level.

Ms. McCarthy stated that before she walks through the details of the revised budget, she needs to point out, as required by regulations issued by the State Comptroller in 2006, that attached to the budget is a certification signed by President Law, certifying that to the best of his knowledge and belief, after reasonable inquiry, the budget information and financial projections for the years December 31, 2009 through December 31, 2013 have been developed based upon reasonable assumptions and methods of estimation, and that the requirements of such regulations have been satisfied.

Ms. McCarthy stated that she would next highlight some of the modifications that have been made to the budget. She continued that an updated sales forecast was performed, and it reduced LIPA's sales forecast by 300,000 gigawatt hours, which will have a negative impact on marginal revenues or delivery revenues of approximately \$26 million. She added that at the same time that the sales forecast was rerun, LIPA updated its fuel and purchased power cost forecast to reflect the ten-day average of the forward price curve as of November 28th, as opposed to November 12th, which was in the original proposed budget. She noted that since that time, fuel and purchased power costs have continued to decline so that the resultant impact on LIPA customers was a \$67 million reduction in fuel and purchased power costs. She explained that reduction is without consideration of the lower sales volume, and it only reflects lower commodity prices.

Ms. McCarthy reported that there are several other proposed modifications to the budget. She continued that one of these modifications is the elimination of the use of postage paid remittance envelopes for customers, which would result in a savings of \$2.7 million. She stated that another modification is the deferral for ratemaking purposes and amortization over a five year transition period of the transition cost related to LIPA's new power supply management contract. She added that another modification is the deferral or elimination of professional services or use of consultants of \$1.3 million.

**Ms. McCarthy reported additional modifications. She stated that there was a reduction to the proposed R&D spending of \$750,000. She continued that there was also a reduction in program expenditures of the efficiency and renewables programs of \$8 million. She added that finally, there is also the deferral of two positions that were budgeted for 2009 to 2010 as well as a downward adjustment in certain salaries and benefits for a total of \$408,000. She stated that there is also a formula-based impact on the estimate of uncollectables and revenue taxes as a result of lower revenue. She noted that these adjustments total \$70 million, which is what allowed LIPA to lower the projected power supply charge and the bill impact from 4.8 percent to 3.2 percent.**

**Ms. McCarthy reported that all of the modifications have been addressed by either President Law or herself. She concluded her presentation.**

**Chairman Larocca stated that he would like to make a few points. He continued that in life, the only sure things are death and taxes, but when one is looking at LIPA, the only sure things are debt and taxes. He added that he makes this observation without prejudicing or without pointing backwards. He explained that the decisions the community made, going back into the 1980's, to discontinue the Shoreham Nuclear Power Plant and to have ratepayers pay for it, are still with LIPA today. He noted that people still want to debate whether that was the right decision, but that there is no profit in that debate, and the important**

thing to know is that the decision has rolled forward as has the debt from that time period.

Chairman Larocca stated that ten years after the acquisition of Shoreham, LIPA entered into the current arrangement, which involved the division of the gas and electric businesses as well as LIPA stepping up as the primary provider of retail electric services by entering into contracts with elements of the former company. He continued that LIPA entered into this very complicated transaction, which brought with it additional debt. He added that this reality remains, and that LIPA is an \$11 billion enterprise carrying almost \$7 billion in debt. He noted that this is an extraordinary ratio, and would be true in a private sector company or for any other institution of this magnitude.

Chairman Larocca stated that LIPA's tax burden, which also relates back to decisions made in the past, is another reality at LIPA. He continued that some people still want to debate this subject, but there is no profit in having that debate either. He added that while LIPA is a public entity that stepped up as the manager of electric service on Long Island, it is nevertheless taxed, in some aspects, as if it were a private enterprise.

Chairman Larocca stated that LIPA pays property taxes either directly or indirectly through its generation contracts. He continued that LIPA pays property taxes on new facilities and even contributes to some of the taxes that the State

has created from time to time for things such as the MTA. He noted that the Ravitch proposal for the MTA involves an increase in certain taxes to which LIPA would be subject.

Chairman Larocca stated that when you put together the debt that LIPA carries and the taxes that LIPA pays, the resulting figure is a little larger than 27 percent of every dollar that LIPA collects from its customers. He continued that LIPA starts with a very heavy burden, which puts limitations on all that flows from that.

Chairman Larocca stated that his third observation, something that was addressed earlier, is the extraordinary economic conditions LIPA found itself in during the fall of 2008. He continued that the shrinkage of the credit markets has had a profound effect here, as it has everywhere, and both the cost of money and availability of credit have become much more complicated than they once were. He noted that this must be carried into LIPA's deliberations as it is a reality with which LIPA must deal.

Chairman Larocca stated that finally, notwithstanding all of LIPA's burdens and the difficulty of the current economic climate, it is important that LIPA, and everyone as a community, continue to invest in the future. He continued that the Governor made the observation the other day that New York was late to some of the investments that he would like to see in the world of new energy, alternative

energy, conservation, and renewable energy. He added that these are things that everyone has been talking about for thirty years, but that have not been advanced. He noted that an important reality is that, notwithstanding everything else, LIPA will continue to find a way to invest in the future that will bear enormous dividends for everyone as a community, as an economy, and as citizens of the world.

Chairman Larocca stated that the budget, as presented, is an important step in that direction. He added that it is a pretty good budget under all of these extraordinary circumstances. He concluded his comments and invited the Board to comment.

Vice Chairman Steinberg stated that he had a couple of comments. He added that he intends to vote in favor of the budget, but he would first like to make a couple of observations.

Vice Chairman Steinberg stated that in terms of the budget process, he thought that given all of the issues this year, the process was too short. He continued that he discussed this with President Law, and stated that President Law assured him that next year LIPA will have a budget roll-out earlier, which will allow a greater period of time to deliberate and to debate. He added that the annual budget process is not just about numbers, and that it should include a healthy debate between the Board and others as to LIPA's mission and what

LIPA's priorities should be. He noted that this opportunity was not available for this budget season, but he is hopeful that it will be next year. He further noted that President Law assured him that it will, and he expressed that this debate and discussion should not have to wait until next year.

Vice Chairman Steinberg stated that in terms of the budget itself, as he had expressed publicly at previous meetings, he was in favor of a complete austerity budget. He continued that if he had his druthers, he would have eliminated all discretionary expenses, but he does not think that is a practical solution. He commended President Law for doing terrific work in getting the budget down and being responsive to community concerns, the Governor's concerns, and for coming up with a very reasonable compromise of under \$5 a month for most ratepayers. He explained that the reason why he would have eliminated discretionary expenses is very simple: he thinks it is a very tough time, and everyone is deferring expenses this year. He further explained that people are postponing additions on their houses and purchasing new furniture, and he thinks LIPA should have done the same.

Vice Chairman Steinberg stated that deferring expenses at LIPA is not possible because there are different constituencies. He continued that different people have different priorities, and he expressed his understanding and belief that the budget is a reasonable compromise. He added that as both President Law and Chairman Larocca have said, LIPA is suffering under a huge debt burden

and a huge tax burden. He noted that despite this, LIPA has done at least one thing right, which is that it has delivered power and kept the lights on.

Vice Chairman Steinberg stated that LIPA has not done a good job at being able to fulfill the public's expectations that it is going to lower rates. He continued that LIPA has not done that, and in his judgment, unless there are significant structural changes to the way LIPA is set up and operated, it will never happen. He stated that the public needs to understand this because the Board cannot control it. He explained that LIPA has, by law, \$7 billion dollars of debt, related interest payments, and hundreds of millions of taxes to pay, all of which goes into the rate base. He further explained that if customers want their rates to be lower, they have to tell their legislators to take the burden off of LIPA. He noted that if you take the burden away, LIPA will be able to reduce rates, but until that happens, there are not going to be any rate reductions.

Vice Chairman Steinberg stated that while a lot of people are focused on green initiatives, which are great and which he is in favor of, the reality is that a lot of those initiatives amount to unfunded mandates. He explained that certain people are telling LIPA to go out and spend all this money, but they are not going to give LIPA any funds. He continued that LIPA is told to invest in green and alternative energy initiatives but the question is, with what is LIPA supposed to make these investments. He added that LIPA is investing ratepayer dollars, and

what ends up happening is that LIPA ratepayers are subsidizing a handful of people who are doing other things.

Vice Chairman Steinberg stated that it is great to make all of these investments, but that LIPA does not have the money to make a meaningful change. He continued that there are a lot of entities out there with billions of dollars to invest in research and development and new technologies. He expressed that he is a supporter of what these entities do. He added that if someone invents a better technology and gives LIPA the ability to deliver power to its ratepayers at a significantly reduced rate, that is great and LIPA should buy it. He stated that LIPA, by itself, is limited as to the amount of money it can spend, and right now, it just does not have the ability. He noted that when politicians come to LIPA and tell it how to spend money, and when LIPA does not have the money, LIPA should not do it. Vice Chairman Steinberg then commended President Law for doing a great job and concluded his comments.

Trustee Fragin stated that he wanted to thank President Law for his responsiveness to both the community and to the Board as far as cutting back the original budget in an environment where it is very difficult to do that. He continued that he would like to disagree a bit with Chairman Larocca regarding LIPA's tax issue. He stated that the structural issues, as far as taxes go, are really enormous, and that they are unfair and unique to LIPA. He added that he thinks

that starting now, LIPA needs a realistic change in the way Long Islanders pay taxes.

Trustee Fragin stated that eleven cents out of every dollar are going toward taxes of some form, whether they are property or revenue taxes. He continued that as a non-profit entity, it is absurd that LIPA is paying taxes on revenue, and explained that LIPA is taking customer money and paying taxes, without customers getting the benefit of a deduction on their income taxes.

Trustee Fragin stated that LIPA is also making PILOT payments and is paying real property taxes as a pass-through to National Grid. He continued that LIPA is taking customers' money, which could be a local property tax, and giving it over to the various municipalities, but customers are not getting an income tax deduction. He explained that residents get an income tax deduction on most other high Long Island taxes. He added that the tax burden has increased this year about 7.7 percent and at the same time, people expect LIPA to lower rates. He noted that it is impossible with that type of increase in the tax burden.

Trustee Fragin stated that he thinks LIPA should address this issue next year. He continued that LIPA needs to address it both with the State and locally, and there are a number of options available. He stated that currently, LIPA does not have tax certiorari petitions prepared on its power plants, and he has seen some of the information on what LIPA pays vis-à-vis property taxes on some of

the power plants, and it is enormous. He noted that he does not think this has been looked at in the past.

Trustee Fragin stated that most everybody in Nassau County files tax cert petitions, and many of them are successful. He continued that LIPA has not looked into this, nor has LIPA looked at its assessments for many years, and it is something that should be done. He added that LIPA wants to save customers money, and at the same time, LIPA is being looked at as a cash cow. He explained that LIPA does not really have the cash, and therefore, it is just getting it from the customer and handing it over. He expressed that he thinks this is wrong.

Trustee Fragin stated that he thinks that LIPA needs to take the approach of putting the tax issue back on the table. He added that he thinks that LIPA should direct National Grid to look at the tax certiorari process to see how money can be saved in that regard.

Trustee Fragin stated that he also thinks that LIPA needs to talk about its tax burden, whether it is internally on the Board or in conjunction with local, county or state legislative leaders. He expressed that he does not think that LIPA should be a tax collection agency, and it is unfair to the residents of Long Island that LIPA has become one. He reiterated that eleven cents out of every dollar is going towards taxes, and any increases in taxes are being passed along to the

ratepayers. He added that he does not know, specifically, what mechanics LIPA should talk about, but he would like this on the table and addressed.

Trustee Sinnreich stated that he wanted to briefly take issue with something Vice Chairman Steinberg had said, although he generally agrees with most of what the Vice Chairman said. He continued that the rate reduction that LIPA originally promised was a reduction as compared to what rates would be had a private utility, then LILCO, continued to own and operate the electric company on Long Island. He added that it is important not to forget that, and in fact, some of the promised rate reductions, from the partial conversion of this utility to a government-owned utility, were realized and have always been realized in the form of the avoidance of income tax and lower debt costs. He noted that while this might not be sufficient, it is true.

Trustee Sinnreich stated that he has personally always felt that it was a mistake to only go halfway and leave the power plants in private hands because LIPA could have obtained more benefit if they had all been taken over. He continued that he still believes that there are ways in which LIPA could consider doing that. He acknowledged that President Law was quoted as saying that everything is on the table. He added that he seriously suggests that one item that should still be on the table, is the complete conversion of the entire electric system to a government-owned system.

Trustee Sinnreich stated that his second point is that there are really two components to how ratepayers are affected by LIPA's charges. He continued that one is the total amount of charges that LIPA has to collect, and the other is how those charges are distributed and allocated among LIPA's classes of ratepayers. He added that it is his understanding that there are substantial categories of cost driven by high usage, which are not reflected in LIPA's tariff structure such that higher volume users are paying not just more for the usage, but also at higher rates. He offered the example, for clarification, that regarding the cost of the Neptune Cable and the power obtained through it, there is no such rate design that higher usage results in higher marginal costs. He added that LIPA needs to look at this because the impact of these charges is more difficult for the lower end of the economic stratum. He noted that to the extent that they are unfairly not being given a break because they are paying for the higher volume usage of high-end users, LIPA should examine that, as well as the total charges. Trustee Sinnreich added that by looking at rate design next year, LIPA should see if it can bring more relief through rate design to the lower-end users.

Trustee Belinsky commended President Law, Ms. McCarthy, and staff for the work they have done over the past weeks and months in putting together a budget, which is the best that could have been done under the circumstances. He continued that he learned a long time ago that if everyone is a little angry at you, then you probably did a good job. He added that there are tough times out there, and the pain needs to be spread around.

Trustee Belinsky stated that his issue going forward is similar to the concern raised by Vice Chairman Steinberg and Trustee Sinnreich. He continued that he thinks LIPA should bring in its experts, including lawyers, financial advisors, and the Long Island political delegation to really look at a fundamental way for LIPA to exist going forward. He acknowledged that there is history that cannot be rewritten, as Chairman Larocca pointed out, but not so much so that LIPA cannot rewrite the future in which LIPA is forced to live. He noted that he thinks the current economic situation and the pain being felt by Long Islanders and around the country, present an opportunity to look at a new paradigm as to how LIPA is going to exist going forward since the current model is not working. He clarified that LIPA, as an entity, is not controlling a vast majority of the delivery of electricity cost, yet it is responsible for putting together budgets that are impacted by those factors in a declining economic time.

Trustee Belinsky stated that he would really like to see a one or two day meeting to which LIPA invites the Long Island Delegation and the New York Power Authority. He continued that there is a lot that could be done for LIPA if there was a concerted effort on the part of the residents of Long Island and the Delegation to fight to get Hydro-Quebec power down to Long Island. He added that this would help reduce rates as well as assist LIPA in figuring out what should be recommended to the Legislature and the Governor going forward to enhance LIPA's position and give it authority over the business of providing cost effective power to the residents of Long Island.

President Law stated that he wanted to address Trustee Belinsky's comments as well as Trustee Fragin's. He continued that as he told the Board previously, he created an advisory panel – not an oversight of the Board of Trustees – to get some input. He continued that members of the Delegation, three members of the Senate, three members of the Assembly, and top business and financial people on Long Island have agreed to serve on the advisory panel. He added that the panel will take a look at some of the issues raised, so that he can come back to the Board with recommendations regarding whether LIPA is structured the best way possible or if something should be done as Trustee Sinnreich suggested. He noted that he agreed that everything should be on the table, including the items Trustee Fragin discussed.

President Law stated that LIPA must absolutely take a look at the tax situation and figure out ways that it can address it with the Delegation and with a tax certiorari challenge or changes in the laws that may be needed to help LIPA with its tax situation. He continued that he is committed to that and is excited about it. He explained that because it has only been ten years since LIPA took over LILCO, that maybe there were decisions made ten years ago that can be tweaked now to make the situation better. He noted that he is open to everything and anything that makes sense.

President Law pointed out that LIPA is already partnering with NYPA and will be partnering with it on a number of issues next year. He continued that LIPA

will be looking to them for assistance regarding repowering efforts as well. He continued that regardless of with whom LIPA works, whether with state agencies or the private sector, figuring out how LIPA can deliver good, reliable energy services now, and where LIPA should be in five years, and in ten years, is a priority. He noted that he is excited about that and is looking forward to this Board's participation in those efforts.

Chairman Larocca then moved to the public portion of the meeting and entertained public comment.

After the conclusion of all public comments, the Chairman called for a vote on the motion. Upon motion duly made and seconded, the following motion was approved unanimously:

#### **902. APPROVAL OF THE 2009 OPERATING BUDGET AND 2009 AND 2010 CAPITAL BUDGETS**

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**WHEREAS, the Long Island Power Authority ("Authority"), through its wholly owned subsidiary, LIPA, owns and operates the electric transmission and distribution system ("T&D System") serving the counties of Nassau and Suffolk and a small portion of the County of Queens known as the Rockaways; and**

**WHEREAS, the Board of Trustees is required to approve annual budgets for the operation and maintenance of the T&D System and for capital improvements; and**

**WHEREAS, the Authority released its proposed 2009 Operating Budget and proposed 2009 and 2010 Capital Budgets on November 25, 2008; and**

**WHEREAS, the Authority conducted two public input sessions on the proposed 2009 Operating Budget and proposed 2009 and 2010 Capital Budgets on December 4, 2008;**

**NOW, THEREFORE, BE IT RESOLVED, that the proposed 2009 Operating Budget, as modified by Schedule A, and the proposed 2009 and 2010 Capital Budgets, all of which are attached hereto, are hereby approved; and be it further**

**RESOLVED, that the Authority intends to finance the requirements of the 2009 and 2010 Capital Budgets through a combination of internally-generated funds and the issuance of tax-exempt debt of the Authority, to the extent permitted by law.**

**\* \* \***

**Chairman Larocca stated that the final item on the agenda is consideration of approval of a contribution by the Authority to the Electric Power Research Institute (EPRI). He stated that this is consistent with a number of things that were discussed in terms of LIPA's role in research and development and getting the best value for LIPA's dollar. 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 this is in connection with LIPA's research, development and demonstration projects. She continued that LIPA currently has an agreement with EPRI, which expires on December 31, 2008. She added that the staff is recommending that another contract for a three-year term be approved at this time.**

**Ms. Nicolino reviewed the main provisions of the agreement. She continued that LIPA would be agreeing to a minimum spending level of \$668,000 per year in exchange for a fifteen percent discount on the total annual spend for base projects plus the ability to purchase additional research data and results. She added that LIPA would be seeking authorization to spend anywhere from the minimum level up to a maximum of \$1.5 million per year, noting that the annual expenditures would be presented to the Trustees, as they have been here today, in the ordinary course of the budgeting process. She noted that for 2009, LIPA expects to meet the minimum spend level under the agreement, which would be used to address needs related to T&D infrastructure, Plug-In Hybrids, distributed generation and storage, efficiency and demand response.**

**Ms. Nicolino stated that based on the foregoing, staff is recommending approval of the resolution before the Trustees today.**

**President Law stated that this is another area where he asked, and where it was presented to the Board in the budget, for further reductions. He added that this is lower than what was originally proposed during the Board briefings.**

**Chairman Larocca asked if there were any comments. 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:**

**903. AUTHORIZATION OF AGREEMENT WITH ELECTRIC POWER RESEARCH INSTITUTE FOR RESEARCH, DEVELOPMENT AND DEMONSTRATION PROJECTS**

**WHEREAS, Amended Executive Directive No. 1 issued by the President and Chief Executive Officer of the Long Island Power Authority (“LIPA”) dated July 9, 2008 requires, among other things, that all research development and demonstration (“RD&D”) projects that exceed \$50,000 be presented to the Board of Trustees for their prior approval; and**

**WHEREAS, LIPA has been a member of the Electric Power Research Institute (“EPRI”) in connection with RD&D projects since it acquired the LILCO transmission and distribution system in 1998 and currently has a three-year agreement with EPRI which is due to expire on December 31, 2008; and**

**WHEREAS, LIPA’s previous participation with EPRI projects has resulted in significant benefits to LIPA’s customers over the years which warrants its continued participation for another three-year period, from January 1, 2009 through December 31, 2011; and**

**WHEREAS, there are certain ongoing and new EPRI initiatives which Staff believes are desirable to participate in over the next three years under a new three-year agreement with EPRI; and**

**WHEREAS, the proposed three-year agreement would provide for a commitment to spend at least \$668,000 per year in exchange for a 15% discount on the total annual spend for base projects plus the ability to purchase additional research data and results; and**

**WHEREAS, the agreement also provides for a corresponding monetary penalty for each year in which LIPA’s total spending would fall below \$668,000; and**

**WHEREAS, LIPA expects to meet or exceed the minimum spending requirements during the term of the agreement; and**

**WHEREAS, annual expenditures with EPRI will be presented to the Trustees in the ordinary course as part of LIPA’s budgeting process:**

**NOW, THEREFORE, BE IT RESOLVED, that the Trustees authorize the President and CEO or his designee to enter into a three-year agreement with EPRI for RD&D projects 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; and**

**BE IT FURTHER RESOLVED, that prior Trustee approval is required in the event any annual expenditure under the agreement is expected to exceed \$1.5 million.**

**Chairman Larocca stated that the next Board meeting of the Long Island Power Authority would be held on January 22, 2009 at 11:00 a.m. in Uniondale. He wished his colleagues on the Board happy holidays and a happy new year and thanked them for their continuing service.**

**Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 12:58 p.m.**

**Respectfully submitted,**

**Lynda Nicolino**