

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 178th MEETING
HELD ON DECEMBER 14, 2006**

Pursuant to notice dated December 7, 2006, the Long Island Power Authority (the "Authority") was convened for the one hundred and seventy-eight time at 9:38 AM at the Omni Teleconference Center, in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Howard Steinberg, Deputy Chairman
Michael Affrunti
Nancy A. Akeson
Harvey Auerbach
Anthony Bonomo
Lawrence Elovich
John Fabio
James Herrmann
Robert Maimoni
Nancy Nugent
Jonathan Sinnreich
Suzzette Smookler**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Elizabeth McCarthy, Chief Financial Officer, Richard Bolbrock, Vice President – Power

Markets, Kenneth Kane, Controller, 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 he would like to introduce two new Trustees who have been appointed to the Authority's Board of Trustees. The Chairman continued that the first is Suzette Smookler, who was appointed by Senate Majority Leader Joseph Bruno, and the second is Anthony Bonomo, who was appointed by Governor Pataki. He added that they have been appointed within the last couple of months, and he looks forward to working with them.

The Chairman stated that the first item on the agenda is approval of the minutes of the October 18, 2006 meeting of the Board of Trustees.

Deputy Chairman Steinberg asked whether the reference concerning the new refunding bonds in the draft minutes of the October 18, 2006 meeting to "650 million in savings" is a typo. Ms. McCarthy stated that it should read as "650 million in refundings".

Chairman Kessel asked that Deputy Chairman Steinberg propose an amendment to the minutes to correct the typographical error.

Upon a motion duly made and seconded, the following resolution was approved, with Trustees Maimoni and Nugent abstaining:

789. APPROVAL OF MODIFICATION OF DRAFT MINUTES OF OCTOBER 18, 2006 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Draft Minutes of the meeting of the Authority held on October 18, 2006 are modified to reflect that with respect to the resolution concerning the issuance of Electric System General Revenue Bonds for the purpose of refunding certain outstanding bonds, the authorization would allow LIPA to achieve up to another "\$650 million of refundings".

Upon a motion duly made and seconded, the following resolution was approved, with Trustees Maimoni and Nugent abstaining:

790. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE OCTOBER 18, 2006 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on October 18, 2006 as modified are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

Chairman Kessel stated that this has been a tough year for LIPA and its employees, and he wants to report to the Board that Michael Collins, who was one of LIPA's former employees, suddenly passed away several months ago. The

Chairman indicated that Mr. Collins was a terrific and thoughtful person, who had done much for LIPA. He added that a moment of silence should be held.

A moment of silence was held.

Chairman Kessel stated that he wants to report that since the Board's last meeting, LIPA experienced a number of very difficult wind storms, including two major ones that occurred toward the end of October. The Chairman continued that he wants to report that the work that was done by LIPA and KeySpan in partnership concerning these emergencies was extraordinary. He added that LIPA experienced many outages due to the two storms and also 24,000 outages during a recent wind storm.

Chairman Kessel stated that great work was done at all levels. The Chairman continued that he commends Mr. Hulkower, Mr. Hervey and their counterparts at KeySpan for working together and preparing several days in advance for these storms. He indicated that LIPA had extra personnel working throughout those weekend storms, and things went very well.

Chairman Kessel stated that LIPA and KeySpan were able to restore electric service very quickly, which is a credit to the employees of both. The Chairman continued that when the winds are howling and the rain is pouring, LIPA's workers are up in bucket trucks restoring the power. He indicated that the personnel at the Call Center do a great job as well, and on at least two occasions, approximately fifty people worked into the night and overnight at the Call Center.

Chairman Kessel stated that when Long Island has severe storms, it matters most to LIPA's customers that LIPA is prepared and ready. The Chairman added he commends LIPA's employees for their great work.

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

Mr. Hulkower stated that with respect to sales and marketing load revenue growth, LIPA projects to finish the year at approximately 42.5 MW of added load, against a goal of 46.28 MW. He continued that the shortfall is largely due to slower economic growth than anticipated. He added that LIPA is waiting to close on the Calverton property, which will add that load to LIPA's system.

Mr. Hulkower stated that with respect to LIPA's Clean Energy Initiatives, LIPA expects to exceed its MWh goal, but LIPA also anticipates that it will fall approximately five megawatts short of its megawatt goal.

Mr. Hulkower reported that with respect to revenue collections, LIPA is at a historical low for arrears greater than 180-days as a percentage of 12-month revolving revenues. He continued that he is also glad to report that the total is also down to \$114.6 million.

Mr. Hulkower reported that LIPA's SAIFI at the end of November was at nearly sixteen months. He continued that LIPA staff projects that LIPA will finish the year at approximately sixteen months, which is at or near LIPA's historic high.

Mr. Hulkower reported that unfortunately, LIPA's CAIDI will be approximately 79 minutes, which is below LIPA's historic performance. He continued that part of the reason for this number is that LIPA has done a good job of cutting out a lot of short duration outages at substations. He added that these short duration outages formerly helped the average to come down, and those outages that remain take longer to restore.

Mr. Hulkower reported that LIPA expects to end the year as the best in SAIFI and CAIDI for the entire state. He added that all 1,600 miles of tree trim have been completed for the year.

Trustee Fabio asked which areas were not meeting acceptable performance levels with respect to the CAIDI. Mr. Hulkower answered that the two divisions are the Queen-Nassau and the Central Division.

Trustee Fabio asked what the reason is for the areas not meeting acceptable performance levels. Mr. Hulkower answered that it is largely due to the trees, but part of the reason is that LIPA has gotten rid of some of the short term outages that had lowered its CAIDI. He continued that LIPA has been working with KeySpan on staffing levels in those divisions to ensure that they are sufficient, and LIPA will remain focused on this in the coming year.

Trustee Fabio asked whether LIPA expects some improvement going forward on this. Mr. Hulkower answered, “Yes”.

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

Ms. McCarthy reported that LIPA recently did a \$518 million bond offering to refund some existing debt, which produced a net present value debt service savings of \$28.5 million. She continued that when added to the three prior refundings, there will be a total net present value savings of \$115 million achieved in refundings this year.

Ms. McCarthy reported that LIPA has an excess of revenue over expenses of approximately \$173 million, which is significantly above budget. She continued that revenues have been below budget by approximately one percent, primarily due to weather. She indicated that despite the hot weather in August and late July, it has been a very mild year on average.

Ms. McCarthy stated that fuel and purchased power costs are approximately \$48 million or three percent below budget. She continued that this is driven by lower commodity costs, particularly natural gas, which has continued throughout the October period. She added that these numbers also reflect the accrual of regulatory liability related to excess fuel recoveries, which are being

given back to customers through the recent reduction in the power supply charge.

Ms. McCarthy reported that operation and maintenance costs are approximately two percent below budget, due in part to lower MSA fees as a result of the restructured agreement with KeySpan. She added that this also due to larger spending in the clean energy area than planned and the timing of the 75 MW Energy Efficiency Program.

Ms. McCarthy reported that other income and deductions are at approximately \$65 million or thirty percent above budget, due to higher investment income from higher cash balances throughout the year, higher rates and some higher than expected emission sales. She continued that interest expense is below budget, due to lower than anticipated variable rate debt and some of LIPA's refunding throughout the year.

Ms. McCarthy reported that at the end of October, cash was at \$842 million, with \$250 million in LIPA's Rate Stabilization Fund, and the remainder in operating funds. She continued that it is invested in a variety of instruments with maturities of predominately these months or less.

Chairmen Kessel stated that the excess in the fuel area is not being held by LIPA, rather it is being returned to LIPA's customers directly in the form of lower power supply charges, which result in a lower bill. The Chairman continued that LIPA estimates that \$161 million will be returned by the end of 2007 through the

lowering of LIPA's bills. He indicated that the Board decided to return the money to LIPA's customers through a bill reduction, rather than issue a refund check because the Board felt that it was important and prudent public policy to lower bills on a more permanent basis, rather than a one-shot fix.

Chairman Kessel stated that he thinks that it is important to make it clear that the money is being returned directly to the customers in the form of a 7.6 percent reduction in the power supply charge, which results in a four percent reduction in the bill. The Chairman continued that the reduction will carry through all of next year. He added that in January, LIPA will review the end-of – the-year results, and if there are further excesses LIPA would return those as well.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve LIPA's 2007 Operating Budget and 2007/2008 Capital Budgets. The Chairman continued that the Trustees are requested to adopt a resolution approving the proposed 2007 Operating Budget, as modified by the attached Schedule A and the proposed 2007 and 2008 Capital Budgets for the Long Island Power Authority and its subsidiary, LIPA. He added that the proposed budgets set forth the revenue as well as operating capital expenditures forecasts for the respective years, ending December 31.

Chairman Kessel stated that the budgets incorporate the confirmation of current operation and maintenance and capital improvement programs, as well as initiative planned for 2007 and 2008 to accommodate system growth and to

further improve levels of reliable services provided to LIPA customers. The Chairman further stated that revenues are forecasted at \$3.6 billion, or 1.6 percent lower than the projected level for 2006. He indicated that the decrease reflects reduction in the power supply charge which was lowered by 7.6 percent, effective October 16, 2006, and which is projected remain at that level throughout 2007.

Chairman Kessel stated that LIPA conducted a public hearing on November 29, 2006 to obtain public input on the proposed budget. The Chairman continued that there were no statements from the public in opposition to the adoption of the proposed budgets.

Chairman Kessel stated that capital expenditures are budgeted at \$317 million for 2007, which is an increase of \$31 million or 11 percent versus 2006. The Chairman continued that they are comprised primarily of construction and removal projects. He indicated that the Capital Budget for 2008 is \$291 million, which represents a decrease of \$26 million or eight percent compared with the proposed expenditure level for 2007.

Chairman Kessel stated that five-year projections of revenues and expenses, and sources and uses of cash present an indication of LIPA's longer term financial position. The Chairman continued that the information is based upon assumptions, particularly with respect to fuel and purchased power costs and commodity costs, which may or may not occur. He added that the projections also assume no change with respect to LIPA's contractual

relationships, and any future agreements with KeySpan and/or National Grid would be reflected.

Chairman Kessel stated since the public release of the budget, certain events have occurred and LIPA has replaced certain projections with more timely ones. The Chairman continued that attached to the budget as required by regulations issued by the State Comptroller in 2006, is a certification signed by Seth Hulkower, LIPA's Chief Operating Officer. He indicated that it certifies that to the best of his knowledge and belief after reasonable inquiry, the budget information and financial projections for the years ending December 31, 2007, and through December 31, 2011, has been developed based upon reasonable assumptions and methods of estimation and that the requirements of such regulations have been satisfied.

Chairman Kessel requested that Ms. McCarthy offer a report to the Board concerning two modifications that were made to the Budget.

Ms. McCarthy reported that the first modification is a reduction in the budget for the estimate of professional services in the legal area due to a reduction in the expected level of activity in that area and based upon results as the year progressed. She continued that the second adjustment relates to Nine Mile Point 2 and the operating and fuel related costs for that plant. She added that LIPA had only preliminary information at the time that the proposed budget was published, and LIPA now knows more firm information, which will result in an overall reduction to the proposed budget of approximately \$1.1 million.

Chairman Kessel asked what the total budget is at now. Ms. McCarthy answered that the total budget would be at \$3.6 billion after including the \$1.1 million reduction in operating expenses.

Chairman Kessel stated that he wants to thank Ms. McCarthy, Mr. Feldman, Mr. Conroy, Mr. Kane and LIPA's budget staff for their great work as team. The Chairman continued that it is one of the largest budgets of a municipal utility in the United States, and it takes a lot of work.

Chairman Kessel stated that this is a good and solid budget, which maintains LIPA's strong financial position. The Chairman continued that it also brings some rate relief to LIPA's customers, who have been burdened by increases in LIPA's power supply charge due to the huge increases in oil and natural gas prices over which LIPA has no control. He added that because of the drop in oil and natural gas prices this year, LIPA is able to produce a budget that actually lowers the bill through all of next year, in that it lowers the power supply charge by 7.6 percent and the bill by four percent.

Chairman Kessel stated that many utilities in the region are looking at huge increases next year, and in some instance the proposed increases in electric bills are as high as thirty percent. The Chairman continued that if some of the pending increases were to take effect in Connecticut, they would vault Connecticut right below New York in terms of electric bills. He indicated that while LIPA's bills may be high, LIPA's bills are going down as all those around LIPA are vaulting up.

Chairman Kessel stated that a lot of this is due to the prudent financial work that the Board has done collectively and through the Finance and Audit Committee. The Chairman indicated that this is a good news budget for LIPA's customers, and he urges its adoption.

Deputy Chairman Steinberg stated that he compliments Ms. McCarthy and LIPA's staff on doing a great job in putting this budget together. He continued that there have been a number of workshops that have been held for the Trustees to take them through the budget and to get their input. He added that the staff has assured that the Authority's paramount goal of maintaining system reliability will not be impacted by the decrease in the capital budget.

Chairman Kessel agreed. The Chairman indicated that reliability was also an important issue for Deputy Chairman Steinberg last year when the Board discussed the budget, and the Authority has maintained that system reliability.

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

791. APPROVAL OF THE 2007 OPERATING BUDGET AND 2007 AND 2008 CAPITAL BUDGETS

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 2007 Operating Budget and proposed 2007 and 2008 Capital Budgets on November 16, 2006; and

WHEREAS, the Authority conducted a public hearing on the proposed 2007 Operating Budget and proposed 2007 and 2008 Capital Budgets on November 29, 2006; and

WHEREAS, the Authority Staff proposed the modifications to the proposed 2007 Operating Budget set forth in Schedule A, which is attached hereto;

NOW, THEREFORE, BE IT RESOLVED, that the proposed 2007 Operating Budget, as modified by Schedule A, and the proposed 2007 and 2008 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 2007 and 2008 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 Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to execute and effect an agreement for the acquisition of real property necessary to construct the Bohemia Substation project in the Town of Islip. The Chairman continued that in order for LIPA to continue to ensure timely, adequate and reliable electric services to its customers, LIPA staff has determined that it is necessary to build a new substation on an approximately two-acre industrially zoned parcel in the Bohemia section of the Town of Islip. He added that the property, which is located southwest of Long Island MacArthur Airport, is proposed to be acquired by LIPA for the consideration of \$755,000.

Chairman Kessel stated that as demand for electric supply has grown at a rate of approximately three percent per year in the areas supplied by the nearby Ronkonkoma Sayville and MacArthur Substations a new electric distribution substation is required to eliminate existing and forecasted electric service interruption problems. The Chairman continued that the Town of Islip property is ideally located to serve this purpose, and that feeding the area load from the proposed Bohemia Substation will reduce feeder exposure lengths, improve service reliability to customers, reduce line losses and improve voltage stability. He added that the alternative of expanding one of the neighboring substations requires the installation of long and costly underground feeder circuit exit cables, which decreases the power quality and increases the risk of cable failures.

Chairman Kessel stated that in order to determine the appropriate purchase price for the property, LIPA obtained appraisals of the property from the firms of Given Associates and Rogers & Taylor Appraisers, Inc. The Chairman continued that the \$755,000 purchase price was arrived at based upon the two appraisals and negotiations with the Town of Islip. He added that at LIPA's request, KeySpan's Real Estate unit has reviewed the appraisals and KeySpan has advised LIPA that the proposed purchase price is reasonable.

Chairman Kessel stated that at LIPA's request, the Town of Islip served as the lead agency under the State Environmental Quality Review Act ("SEQRA") and conducted the environmental review for the proposed construction of the Bohemia substation project, and the Town also approved a subdivision and site

plan for the property. The Chairman continued that the Town of Islip's Department of Planning and Development determined that the Project will not result in any significant impact on the environment and issued a Negative Declaration to that effect on April 18, 2006. He added that as an involved agency, LIPA is bound by the Town's determination of significance, and in any event, LIPA Staff have also reviewed the potential environmental impacts from the Project and concur with the Town's determination that the construction of the Bohemia substation on the approximately 2-acre site will not result in any significant adverse impacts to the environment and therefore no Environmental Impact Statement need be prepared for the Project.

Trustee Herrmann asked whether LIPA did Phase I and II Environmental Assessments. Mr. Hervey responded that LIPA did a Phase I and an expanded Phase I that mirrored the town's environmental review.

Upon motion duly made and seconded, the following resolution was approved with Trustee Sinnreich abstaining.

792. AUTHORIZATION TO ENTER INTO AN AGREEMENT TO PURCHASE REAL PROPERTY AND UNDERTAKE RELATED ACTIVITIES IN CONNECTION WITH THE BOHEMIA SUBSTATION PROJECT

WHEREAS, the Long Island Power Authority ("LIPA") is committed to providing reliable electric service to its customers on Long Island; and

WHEREAS, the growing Long Island economy and other factors have resulted in an increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, LIPA Staff have concluded that in order to ensure timely, adequate and reliable electric service to LIPA's customers and meet reliability criteria, it is necessary for LIPA to acquire real property to promptly site, undertake and complete the Bohemia Substation Project proposed to be located on real property currently owned by the Town of Islip located on Veterans Memorial Highway in the Town of Islip (the "Project"); and

WHEREAS, the maintenance of a continuous and reliable supply of dependable electric power and energy is an essential matter of urgent public concern and requires immediate action; and

WHEREAS, on April 18, 2006, the Town of Islip, the lead agency for a coordinated review under the State Environmental Quality Review Act, determined that the Project will not have any significant adverse environmental impacts and, accordingly, adopted a Negative Declaration for such Project;

WHEREAS, LIPA was an involved agency in the coordinated review of the Project and is bound by the Town of Islip's Negative Declaration;

WHEREAS, in order to determine an appropriate purchase price for the Town of Islip real property, two appraisals were conducted, and based upon the appraisals and negotiations with the Town of Islip, LIPA Staff concluded that \$755,000 was a reasonable amount to pay for the real property; and

WHEREAS, it is in the best interest of LIPA to meet the immediate need for electric power and energy by entering into an agreement with the Town of Islip for the purchase of the necessary real property to site the Project;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect an agreement for the acquisition of the real estate needed for the Project and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to implement the Project in order to ensure timely, adequate and reliable electric service to LIPA's customers and meet reliability criteria.

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Chairman Kessel wished the Board, the public, LIPA's staff and all of the ratepayers very happy holidays. The Chairman indicated that this is a good time of year, and he wants to wish everyone good health and happiness.

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

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

793. EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation and personnel matters.

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At 10:13 a.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 11:52 a.m. the executive session was adjourned and the open session was reconvened.

After noting that no votes were taken in the executive session, Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 11:53 a.m.

Respectfully submitted,

Stanley B. Klimberg

