

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 165th MEETING
HELD ON DECEMBER 16, 2004**

Pursuant to notice dated December 9, 2004, the Long Island Power Authority (the "Authority") was convened for the one hundred and sixty-fifth time at 11:00 AM at the Omni Teleconference Center in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Howard Steinberg, Deputy Chairman
Michael Affrunti
Nancy A. Akeson
Harvey Auerbach
John Fabio
Harriet Gilliam
James Hermann
Robert Maimoni
Nancy Nugent
James M. Stuart**

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

Services, Bert Cunningham, Vice President – Communications, 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 wishes to recognize former Trustee Vincent Polimeni for his huge contribution to LIPA and to the people of Long Island. The Chairman continued that Mr. Polimeni was a member of the LIPA Board since 1995, and his insight and intelligence have been very valuable. He indicated that Mr. Polimeni has agreed to serve as an ex-officio member of LIPA’s Trustee Advisory Group for the strategic review, which is a great credit to Mr. Polimeni and a help to LIPA. The Chairman presented Mr. Polimeni with a plaque in recognition of his great service to LIPA.

Mr. Polimeni thanked Chairman Kessel for the recognition and plaque. He indicated that LIPA has a great Board, and he is sure that everyone will do what is necessary to make LIPA work well. He stated that at first he was unsure whether the Chairman could have the LIPA transaction work on both sides of the political aisle, but the Chairman has been successful in that regard.

Deputy Chairman Foye stated that Mr. Polimeni has played a fundamental role for LIPA, and he has been the financial and cost saving conscience and leader of the Board. He indicated that Mr. Polimeni has done yeoman’s work for

LIPA in terms of financial accountability and cost savings, and he thanked Mr. Polimeni for his service.

Chairman Kessel stated that LIPA looks forward to working with Mr. Polimeni in the future. The Chairman noted that LIPA's Trustee Advisory Group will meet immediately after this Board meeting, and LIPA is thrilled to have Mr. Polimeni as a member.

Chairman Kessel announced that Trustee Shuart has also agreed to serve on the Trustee Advisory Group. The Chairman indicated that Trustee Shuart was formerly President of Hofstra University. He thanked Trustee Shuart for his input and willingness to serve in this capacity.

Chairman Kessel stated that the first item on the agenda is the adoption of the minutes of the Board's last meeting held on November 18, 2004.

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

722. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE NOVEMBER 18, 2004 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on November 18, 2004 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 LIPA and its Trustee Advisory Group have been reviewing strategic options for LIPA's future, including the Generation Purchase Right Agreement option. The Chairman continued that the option period opened after November 28, 2004, and it closes on May 28, 2005. He added that whether LIPA should own the former LILCO generating units would be resolved by LIPA in the context of examining its future structure. He stated that LIPA is working aggressively to put its options together. The Chairman indicated that LIPA is still looking at the three areas he identified last spring, namely maintaining the status quo with some modifications; further **municipalization** of LIPA; or some form of privatization involving the sale or lease of some or all of LIPA's assets. He indicated that LIPA is proceeding with examining these complicated issues as expeditiously as possible, and LIPA does not want to rush a decision.

Chairman Kessel stated that LIPA has numerous issues to consider and much to take into account. The Chairman continued that LIPA has met with approximately a half dozen other utilities to seek their advice. He added that LIPA has held public hearings in Nassau, Suffolk and Far Rockaway to discuss the issues.

Chairman Kessel reported that he recently appeared before the Suffolk Legislature to speak on these issues. The Chairman continued that he has suggested a joint meeting be held with the Nassau and Suffolk Legislatures to

address these issues. He indicated that LIPA is trying to do as much publicly as possible, and accountability is critically important.

Chairman Kessel stated that the status quo of LIPA does not work for the long-term future, due to the structure of the current arrangement, the general direction of the utility industry and the political considerations. He indicated it is critical that any change ensure the reliable provision of electricity and afford rate savings to LIPA's customers. He added that although LIPA's rates are approximately what LILCO's were seven years ago, the high costs faced by LIPA must be stabilized. He also noted that maintaining the extraordinary improvement in reliability attained since the takeover of LILCO is probably the number one issue for LIPA's customers.

Chairman Kessel stated that LIPA must also maintain a strong presence on Long Island. The Chairman continued that LIPA has received a positive reception from public officials on both sides of the aisle. He added that LIPA must also keep its commitment to its terrific work force and continue the energy conservation commitment as directed by Governor Pataki.

Chairman Kessel stated that he expects that LIPA staff will present several options to the Board during the first or second quarter of 2005. He continued that Trustees Affrunti, Akeson, Auerbach, Sinnreich and Shuart and former Trustee Polimeni will be working closely with LIPA staff.

Chairman Kessel stated that he commends LIPA's work force for their great performance during a recent windstorm that had winds as great as 70 miles per hour. The Chairman continued that as a result LIPA's maintenance of the system, there were only 40,000 outages, and all 40,000 were restored the same day. He thanked LIPA's work force for their dedication during the terrible conditions.

Chairman Kessel also thanked the staff of LIPA's call center for doing a great job and exhibiting patience and courtesy. The Chairman further thanked Mr. Hulkower, Mr. Hervey and the LIPA and KeySpan managers for their great work during the windstorm.

Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution to approve the 2005 operating budget and the 2005 and 2006 capital budgets for the Long Island Power Authority and its subsidiary, LIPA. The Chairman continued that those budgets set forth the revenue as well as operating and capital expenditure forecasts for the respective years ending December 31. He indicated that the budgets incorporate the continuation of current operation and maintenance programs, as well as initiatives planned for 2005 to address system growth, safety and reliability.

Chairman Kessel stated that electric sales are forecast at 19.7 million MWh, which represents a 297,615 MWh increase or 1.5 percent growth over projected normalized sales for 2004. The Chairman continued that revenues are forecasted at \$3.028 billion, which is 6.4 percent over the projected level for 2004. He added that budgeted revenues also include the recovery on a current basis of that

portion of LIPA's 2005 fuel and purchased power costs in excess of the level included in base rates, which is necessary to achieve LIPA's excess of revenues over expenses target of \$20 million.

He indicated that capital expenditures, comprised primarily of construction and removal projects, are budgeted at \$277.4 million for 2005, which represents an increase of \$42.6 million, or 18.2 percent, compared to the expenditure level approved for 2004. The Chairman continued that the 2006 capital budget is \$315.5 million, which is an increase of \$38.1 million over the expenditure level approved for 2004. The Chairman stated that the increases reflect the funding requirements for new projects planned for the budget years and beyond.

Chairman Kessel stated that LIPA has added five-year projections of revenues and expenses to its budget presentation. The Chairman continued that the only increase in electric bills that LIPA foresees is the fuel surcharge, assuming that base rates stay the same. He added that LIPA estimates a fuel surcharge of 1.5 percent in 2006 followed by decreases of 2.1 percent, 1.2 percent and 2.0 percent in the following three years, based on preliminary numbers.

Chairman Kessel stated that LIPA is adding the five-year projections to benefit its customers, even though it is difficult to estimate the price of oil and natural gas three and four years down the road. The Chairman indicated that LIPA incorporated the recommendations of New York State Comptroller Alan Hevesi, including earlier release of the budget in a format easier to read in order

to facilitate public review and comment. He further indicated that LIPA appreciates and has followed the Comptroller's recommendations.

Chairman Kessel stated that LIPA conducted public hearings in both Nassau and Suffolk Counties, and no one criticized the budget.

Chairman Kessel stated it is extraordinary that electric bills will remain the same in 2005, absent a worldwide energy crisis, given the uncertainty in world energy markets and skyrocketing fuel costs. The Chairman continued that the steady bills are a testament to the smart budgeting decisions and great work of Ms. McCarthy, Mr. Feldman and LIPA's staff who have worked to keep down the budget. He added that LIPA is making cuts and sacrifices in many areas and LIPA also is delaying some programs.

Deputy Chairman Foye stated that a series of budget workshops was held with LIPA Trustees and LIPA's finance staff. He continued that healthy discussions were held, a number of issues were raised, and modifications to the budget were made.

Deputy Chairman Steinberg stated that he feels the staff followed a thorough, careful and disciplined approach to budgeting. He continued that a lot of effort has produced a responsible budget. He stated that it is great for the ratepayers that LIPA is able to hold down rates.

Chairman Kessel complimented the Board for its smart and tough decisions, which have paid off. The Chairman continued that LIPA is in good financial shape due to the Board's insistence on a number of new policies, including the real-time collection of fuel costs instead of deferrals. He thanked the members of the Finance and Audit Committee for all their good work.

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

723. APPROVAL OF THE 2005 OPERATING BUDGET AND 2005 AND 2006 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 2005 Operating Budget and 2005 and 2006 Capital Budgets on November 18, 2004; and

WHEREAS, the Authority conducted public hearings on the proposed 2005 Operating Budget and 2005 and 2006 Capital Budgets on December 8 and 9, 2004; and

WHEREAS, the Authority proposed the modifications to the 2005 Operating Budget set forth in Schedule A, which is attached hereto;

NOW, THEREFORE, BE IT RESOLVED, that the 2005 Operating Budget, as modified by Schedule A, and the 2005 and 2006 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 2005 and 2006 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.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to enter into a bridge period firm transmission capacity purchase agreement with Cross Sound Cable Company (CSC LLC) covering the period from June 27, 2004 to July 1, 2007. The Chairman continued that the resolution further authorizes the Chairman or his designee to execute a letter agreement constituting the second amendment to the August 2000 firm transmission capacity purchase agreement (FTCPA) with CSC LLC, and a restated version of the FTCPA reflecting the September 2000 and December 2004 amendments.

Chairman Kessel stated that in connection with discussions regarding the June 24, 2004 settlement agreement among LIPA, two Connecticut state agencies, Northeast Utilities and CSC LLC, LIPA also commenced discussions with CSC LLC to explore the potential for modifying the arrangements under which LIPA purchases firm transmission capacity under the August 2000 FTCPA, in order to provide additional economic benefits to LIPA. The Chairman continued that the bridge agreement and the second amendment to the August FTCPA are the result of those negotiations. He added that the bridge agreement covers an interim period from June 27, 2004 to July 1, 2007, and LIPA has an option to extend the term of the bridge agreement for up to five one-year periods.

Chairman Kessel stated that pursuant to the terms of the bridge agreement, CSC LLC will provide to LIPA all of the 330 MW firm transmission capacity of the

Cross Sound Cable at an approximately 16 percent discount rate compared to the original August 2000 FTCPA. The Chairman continued that the bridge agreement also provides LIPA with an option to purchase a new black start capability service from CSC LLC at cost.

Chairman Kessel stated that pursuant to the second amendment to the August 2000 FTCPA, the term of the agreement will be extended by five years to twenty-five years at the same rate as the existing FTCPA, and the effective date of operation will be changed from May 1, 2002 to the later of July 1, 2007 or the termination of the bridge agreement. The Chairman indicated that the agreements will be beneficial to LIPA, since LIPA will secure all firm transmission capacity of the Cross Sound Cable during the term of the bridge agreement at a substantial discount, and LIPA will also secure the exclusive rights to this valuable resource for an additional five years at the same price.

Chairman Kessel commended Mr. Grilli and LIPA's negotiating team for their great work in a complex area. He indicated that the agreements will substantially benefit LIPA's customers.

Mr. Grilli stated that the agreements reflect the events of last May when the Department of Energy made its decision to terminate its emergency order under which Cross Sound Cable had been operating. He continued that LIPA approached Connecticut for a global settlement on the issues of the Cross Sound Cable and the 1385 Cable rebuild, and the two agreements provided an

opportunity to work again with CSC LLC and resolve all of the issues relating to the Cross Sound Cable to the benefit of the ratepayers on Long Island.

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

724. AUTHORIZATION OF CHAIRMAN TO ENTER INTO BRIDGE PERIOD FIRM TRANSMISSION CAPACITY PURCHASE AGREEMENT WITH CROSS SOUND CABLE COMPANY, LLC, SECOND AMENDMENT TO ORIGINAL FTCPA, AND AMENDED AND RESTATED FTCPA

WHEREAS, in connection with discussions relative to the June 24, 2004 Settlement Agreement among two Connecticut state agencies, LIPA, Northeast Utilities and Cross Sound Cable Company, LLC (“CSC LLC”) regarding the Cross Sound Cable, LIPA has undertaken discussions with CSC LLC in order to modify the arrangements in the August 2000 Firm Transmission Capacity Agreement between LIPA and CSC LLC (“Original FTCPA”) under which LIPA purchases firm transmission capacity to provide additional economic benefits to LIPA; and

WHEREAS, LIPA and CSC LLC have negotiated a Bridge Period Firm Transmission Capacity Purchase Agreement (“Bridge Agreement”) under which LIPA would purchase at a substantial discount (to the rates in the Original FTCPA) all of the firm transmission capacity of the 330 MW Cross Sound Cable over the period from June 27, 2004 to July 1, 2007; and

WHEREAS, LIPA and CSC LLC have negotiated a letter agreement constituting a second amendment to the August 2000 FTCPA (“Second Amendment”), which would extend the FTCPA term by five years at the originally negotiated rate, and would change the effective date of operation of the Cross Sound Cable under the Original FTCPA from May 1, 2002 to July 1, 2007; and

WHEREAS, the Amended and Restated FTCPA embodies in a single document the changes to the original FTCPA made in a letter agreement dated September 29, 2000 as well as in the Second Amendment and will facilitate the administration of the FTCPA; and

WHEREAS, for the reasons discussed in the preceding Memorandum, the Bridge Agreement, the Second Amendment, and the Amended and Restated FTCPA are in LIPA’s best interest;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect the Bridge Agreement, the

Second Amendment, and the Amended and Restated FTCPA and other related agreements and arrangements and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to implement LIPA's purchase of firm transmission capacity from CSC LLC pursuant to those agreements.

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Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman or his designee to issue a proposal to waive partially LIPA's tariff for electric service to authorize a new contract price for electric service to Photocircuits Corporation necessary to retain Photocircuits as a LIPA customer on Long Island, and to extend LIPA's current contract with that customer for electric service. The Chairman continued that under LIPA's service classification 13 tariff, LIPA provides electric service to qualifying large commercial customers that are considering relocating 500 kW or more of electric load outside of LIPA's service territory. He added that in order to retain these customers on Long Island, the tariff allows for LIPA to negotiate a customer-specific SC 13 contract with a charge less than the standard tariff level; and provides that the minimum charge will allow LIPA to recover its additional costs plus contribute at least one cent per kWh to LIPA's fixed costs.

Chairman Kessel stated that Photocircuits is a manufacturer of printed circuit boards and employs more than 1,240 people in the City of Glen Cove. The Chairman continued that Photocircuits is one of LIPA's top 15 customers, with approximately 7 MW of electric load. He added that he believes Photocircuits is

the largest manufacturing company on Long Island, and he noted that Photocircuits has additional facilities in Georgia, Mexico and Costa Rica.

Chairman Kessel stated that in order to reduce expenses, Photocircuits is reviewing a plan that provides for plant closings and consolidation of U.S. operations to a single location, and energy costs are a critical factor in its decision. He indicated that Photocircuits currently receives electric service from LIPA under an SC 13 contract that expires on January 28, 2005. The Chairman continued that Photocircuits has indicated that without a significantly lower energy charge from LIPA, it will be required to shut down its operation on Long Island and relocate its 7 MW load to Georgia. He added that a shutdown would have a devastating impact on Long Island's economy, with a loss of over 1,240 jobs and \$80 million in wages, compounded by a negative multiplier effect.

Chairman Kessel stated that at the request of Governor Pataki, LIPA staff has been developing an economic development proposal with an energy price designed to retain Photocircuits on Long Island and prevent devastating economic effects. The Chairman continued that significant economic benefits for the customer have also been proposed as part of a package by the New York Power Authority, Empire State Development Corporation, Nassau County, and Glen Cove Community Development Agency. He added that LIPA is preparing a proposal to waive partially LIPA's tariff to authorize the negotiation of a charge to the customer less than the minimum charge set forth in the tariff, which would be part of a new SC 13 contract.

Chairman Kessel stated that pursuant to regulatory requirements, LIPA must issue a formal proposal and related public notice, conduct public hearings and allow for a public comment period in excess of 45 days. The Chairman continued that it is contemplated that a new SC 13 contract with Photocircuits could be presented for the Board's consideration at its March 24, 2005 meeting, and it would be appropriate to extend the existing contract for a time period necessary to bridge to the effective date of the new SC 13 contract, but no later than July 1, 2005.

Chairman Kessel indicated that this is an unusual circumstance. He stated that Photocircuits was founded in 1951, and it is a critically important company for Long Island. He reiterated that Photocircuits is one of LIPA's top 15 customers, and LIPA's largest manufacturing customer.

Chairman Kessel stated that at the request of Governor Pataki, he has worked with Mr. Charles Gargano, the head of the Empire State Development Corporation, who developed a package of proposals from various state and local officials, including Nassau County Executive Suozzi and Mayor Holzkamp of the City of Glen Cove. The Chairman continued that LIPA's proposal is part of that overall economic package, and it is designed to help keep Photocircuits on Long Island and have them consolidate their operations as well as add jobs to the Long Island economy. He added that this shows the commitment of New York State, Long Island and LIPA to growing the economy and maintaining the manufacturing base that is left on Long Island, which is critically important. He

emphasized that the loss of Photocircuits would be devastating to the Long Island economy.

Chairman Kessel stated that he wishes to thank Mr. Germano for his great work and creativity. The Chairman indicated that there are several other pending economic development projects with large customers, and this issue has been a difficult and complicated one.

Deputy Chairman Foye stated that the issue was extensively discussed with Mr. Germano and his staff, and there is a consensus that this is an important matter. He further stated that he joins the Chairman in complimenting Mr. Germano.

Chairman Kessel requested that Mayor Mary Ann Holzkamp of the City of Glen Cove address the Board concerning the Photocircuits proposal.

Mayer Holzkamp thanked the Chairman and the Board of Trustees for their work to help keep Photocircuits in the City of Glen Cove. She continued that Photocircuits is a major asset to Glen Cove and to Nassau County, and it has been part of the community for 50 years. She added that Glen Cove is a small and diverse city, and it would be devastating to the economy if Photocircuits were to leave.

Mayor Holzkamp stated that approximately 20 percent of Glen Cove's sewer and water revenues are due to Photocircuits. He continued that taxes

would be raised approximately 4.5 percent if Photocircuits left, and she urges that LIPA do all it can to keep Photocircuits in Glen Cove.

Trustee Auerbach asked whether the City of Glen Cove grants any special consideration to Photocircuits. Mayor Holzkamp answered that the City offers a 10 percent reduction in sewer and water rates, which amounts to approximately \$150,000 annually.

Trustee Auerbach asked whether the City grants any special consideration regarding real estate taxes. Mayor Holzkamp responded that those taxes are primarily for the Town of Oyster Bay. Trustee Auerbach asked whether the Town of Oyster Bay is granting any special consideration. Mayor Holzkamp indicated that she is not certain.

Chairman Kessel stated that the Empire State Development Corporation will contribute more than \$1 million, and Nassau County through the efforts of County Executive Suozzi will contribute more than one-half million dollars in reduced taxes through Industrial Development Association financing. The Chairman continued that the City of Glen Cove will reduce sewer and water rates, and KeySpan will give more than \$90,000 in gas rate abatements.

Trustee Fabio asked whether Photocircuits will make a commitment to remain for a number of years if the package is successful. Chairman Kessel responded affirmatively. He stated that Photocircuits will enter into a contract

with the Empire State Development Corporation for five years, and Photocircuits will have to meet various criteria to be eligible for discounts.

Chairman Kessel commended the efforts of Mr. Gargano to coordinate the package through the Empire State Development Corporation. The Chairman indicated that Mr. Gargano is a great friend of LIPA and Long Island.

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

725. AUTHORIZATION FOR CHAIRMAN TO ISSUE PROPOSAL FOR NEW CONTRACT PRICE FOR ELECTRIC SERVICE TO PHOTOCIRCUITS CORPORATION AND EXTEND LIPA'S CURRENT ELECTRIC SERVICE CONTRACT WITH THAT CUSTOMER

WHEREAS, LIPA's Service Classification ("SC") 13 Tariff allows for LIPA to negotiate a customer-specific contract with a charge less than the standard Tariff level, but not less than LIPA's additional costs plus a one cent per kWh contribution to LIPA's fixed costs; and

WHEREAS, Photocircuits Corporation ("Customer") has indicated that without a significantly lower energy charge from LIPA than it receives under its current SC 13 contract, the Customer will be required to shut down its manufacturing operation on Long Island, which would have devastating impacts on the Long Island economy;

NOW, THEREFORE, BE IT RESOLVED, that, in order to retain the Customer on Long Island as discussed in the preceding Memorandum, the Chairman or his designee be and hereby are authorized to issue a proposal to partially waive LIPA's Tariff to enable the negotiation of a new SC 13 contract with a charge to the customer less than the minimum Tariff level; and be it further

RESOLVED, that the Chairman or his designee be and hereby are authorized to extend the current SC 13 contract with the Customer for a time period necessary to bridge to the effective date of a new SC 13 contract, but in no event beyond July 1, 2005; and be it further

RESOLVED, that the Chairman or his designee be and hereby are authorized to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to ensure that the actions in the above resolved clauses are carried out.

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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 Coleman Management Consultants to provide diversity training and multicultural awareness consulting services to the Long Island Power Authority and LIPA for a contract term of two years, and with Authority options to renew for two additional one-year terms. The Chairman continued that in April 2004, the Authority issued an RFP for diversity training and multicultural awareness consulting services, and a LIPA selection committee carefully reviewed the proposals for compliance with the terms of the RFP, and then evaluated the proposals against the criteria set forth in the RFP. He added that based on the written submissions, the interviews and an assessment of the Authority's needs, it was determined that Coleman Management Consultants is best suited to fulfill the Authority's needs.

Chairman Kessel stated that some of the strengths of Coleman Management Consultants include familiarity with the Authority's needs in this area, and extensive knowledge and experience in providing diversity training and multicultural awareness consulting services to senior executives and other employees, including extensive experience with electric utilities. The Chairman added that its record shows impressive capabilities in enhancing workplace

cultures and employee productivity. He noted that the Authority will have the right to terminate the consulting contract at any time on prior notice.

Upon motion duly made and seconded, the following resolution was approved unanimously, with Deputy Chairman Foye not present for the vote:

726. ENGAGEMENT OF A FIRM TO PROVIDE DIVERSITY TRAINING AND MULTICULTURAL AWARENESS SERVICES

RESOLVED, that the Chairman be, and hereby is, authorized to engage Coleman Management Consultants to provide Diversity Training and Multicultural Awareness consulting services as needed by the Authority and LIPA, with an initial contract term of two years, and with Authority options to renew for two additional one-year terms.

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

Mr. Hulkower reported that LIPA will hit its target for added load of 41.89 MW against a goal of 41 MW. He continued that for the year to date, the LIPA "My Account" Website registrations are about 65,000 towards an annual goal of 100,000, and balanced billing accounts are at about 390,000 towards an annual goal of 450,000. He added that LIPA is running behind on some goals, due primarily to usability problems on the Website, which are being corrected.

Mr. Hulkower reported that November was a rough month, with a fair number of minor storms. He continued that outages were 51 percent higher than

the previous five-year average for November, bringing LIPA to a SAIFI of 14.8 months between customer interruptions. He observed that on the other hand, LIPA has managed to achieve a record low CAIDI of 62 minutes for interruption duration.

Mr. Hulkower reported that the LIPA tree trimming program is almost complete. He continued that nearly 88 percent of the total mileage that was planned has been trimmed, and the remainder will be completed by the end of the year.

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

Ms. McCarthy reported that for the ten-month period ended October 31, 2004, LIPA had an excess of revenues over expenses of \$21 million, which is approximately \$13 million behind budget. She indicated that it is driven primarily by higher than anticipated fuel costs and some operating costs.

Ms. McCarthy reported that revenues were approximately \$87 million ahead of budget, primarily due to changes in the fuel and purchased power surcharge. She indicated that LIPA continues to see strong sales growth, with sales at one percent above budget for all customer classes. She further indicated that sales growth is slightly mitigated by increased participation of commercial customers in LIPA's Long Island Choice program, which results in lower fuel and purchased power costs and is income neutral to LIPA.

Ms. McCarthy reported that fuel and purchased power costs are approximately \$68 million dollars above budget, driven by the need to contract for emergency generation after the potential loss of the Cross Sound Cable, and the different mix of operating and maintenance expenses and capital expenditures for the transmission and distribution system. She indicated that another large variance from budget is in the area of interest expense, which is about \$16 million above budget, driven by non-budgeting of an amortization cost related to a refinancing and the cost of a non-budgeted financing in the summer of 2004, which was a hedge for financing costs and construction for 2005.

Ms. McCarthy reported that LIPA expects its cash position to be at approximately \$400 million at the end of 2004. She continued that LIPA also expects to have \$250 million in the rate stabilization fund and \$150 million in operating funds.

Trustee Akeson stated that the Finance and Audit Committee met this morning with LIPA's auditors, and Ms. McCarthy kept them informed as to LIPA's financial status. She indicated that Ms. McCarthy has done a phenomenal job and deserves appreciation.

Deputy Chairman Steinberg asked whether LIPA will reach its \$20 million target of revenues in excess of expenses for 2004. Ms. McCarthy answered that LIPA expects to reach its target. Chairman Kessel added that this will be very tight but LIPA expects to achieve its goal. The Chairman continued that the

percentage of LIPA's budget for fuel and purchased power has grown from 39 percent to 56 percent since LIPA took over LILCO, and it is the single largest factor in the budget process. He added that dependency on fossil fuels must be reduced by utilizing other resources.

Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 12:05 PM.

Respectfully submitted,

Stanley B. Klimberg