

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 140th MEETING
HELD ON JANUARY 17, 2002**

Pursuant to notice dated January 10, 2002, the Long Island Power Authority (the "Authority") was convened for the one hundred and fortieth time at 10:30 AM at 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
Thomas Doherty
Edna Gerrard
Harriet Gilliam
James Hermann
Nancy Nugent
Vincent Polimeni**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Diana Taylor, Chief Financial Officer, Edward Murphy, Jr., Chief Administrative Officer, Bert Cunningham, Vice President - Communications, Richard Bolbrock, Vice President

- Power Markets, Christopher Furlong, Director of Customer Relations, Bruce Germano, Vice President - Retail Services, Kenneth Kane, Controller, David Feldman, Budget Director, 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 indicated that the first item on the agenda is approval of the minutes of the December 18 Board meeting.

Upon motion duly made and seconded, the following resolution was approved with Deputy Chairman Steinberg abstaining:

578. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE DECEMBER 18, 2001 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on December 18, 2001, 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 wished the Board members, the attending members of the general public and LIPA's customers a happy and healthy New Year. The Chairman announced that LIPA is beginning a new procedure today which was discussed by the Board at its November 2001 meeting. He stated that under the new procedure, a member of the public would be permitted to address action

agenda items for a period of three minutes during the Board meeting prior to the Board's vote, with a further opportunity for public comment after the meeting agenda is completed.

Chairman Kessel stated that 2001 was a successful year for LIPA, and that he hopes 2002 will be as successful.

Chairman Kessel stated that LIPA's operations continue to run smoothly. The Chairman noted that LIPA is in a strong but tight financial position. He observed that LIPA's next major financial decision would be with respect to recovery of LIPA's fuel costs. He stated that LIPA is in the process of gathering and analyzing the fuel cost data from December of 2001. The Chairman indicated that he will meet with the LIPA staff, the Finance Committee and individual Board members to discuss LIPA's fuel costs. He stated that he expects to present a formal proposal on fuel costs to the Board at its meeting on February 28, 2002.

Chairman Kessel stated that LIPA is open to customer choice and competition, and that LIPA will proceed 7 years ahead of schedule to promote retail competition. The Chairman commented that LIPA supports initiatives for the sale of electricity from other suppliers, but not if they were to be subsidized by LIPA's customers. He added that LIPA's only disagreement with the Suffolk County Electrical Agency (SCEA) relates to LIPA's view that it and its ratepayers should be made whole for the costs created by the SCEA's entry into the Long Island power marketplace. He noted that the SCEA's proposal could lead to

increased electric rates in Nassau County, the Rockaways and for all of the commercial and industrial ratepayers in Suffolk County. The Chairman further noted that the ultimate result of SCEA's proposal may also be an increase in electric rates to Suffolk County's residential ratepayers. He indicated that he hopes to negotiate an agreement with Suffolk County which will allow the SCEA to obtain power without imposing a subsidy burden on LIPA and its ratepayers.

Chairman Kessel stated that LIPA electric rates are the same for Nassau and Suffolk Counties. The Chairman indicated that the difference in the respective bills in Nassau and Suffolk Counties relates to the Shoreham settlement. He explained that Suffolk County, the Town of Brookhaven and the Shoreham-Wading River School District collected \$1.4 billion due to the over-assessment of the Shoreham nuclear power plant, and LIPA agreed to settle the matter for \$625 million without recovery of more than \$700 million. He further explained that the Suffolk County Legislature specifically requested that LIPA collect the settlement by billing the cost to the customers over a period of time rather than obtaining a lump sum payment which would necessitate higher taxes. The Chairman added that the Suffolk bills are higher because of the request by Suffolk elected officials.

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

Mr. Hulkower reported that the Y50 transmission line requires replacement for approximately 20 miles of cable, and it will be out of service through the end of April.

Mr. Hulkower stated that Sales & Marketing exceeded its goals for 2001 by adding 38 megawatts of load as compared to the goal of 32.5 megawatts, with most of the growth stemming from major existing accounts. He noted that LIPA realizes some growth from bringing new business onto Long Island, but most of LIPA's growth is from existing customers.

Mr. Hulkower reported that LIPA's Clean Energy Initiative has substantially exceeded its 2001 goals.

Mr. Hulkower stated that with respect to revenue collections the thirty-day arrears increased when LIPA delayed some of its collection activities after the September 11 tragedy. He indicated that LIPA later resumed those activities and arrears have fallen within an expected range to approximately \$71 million. He noted that the total arrears are higher than in 2000, which he attributed to a slowing economy. He stated that the commercial arrears is \$17.7 million, and the residential arrears is \$53.7 million.

Mr. Hulkower indicated that LIPA's SAIFI has improved since the average results in December of 2001 have displaced a month of unfavorable results in the rolling twelve-month average. He stated that LIPA has returned to

an average of 15.4 months of uninterrupted service per customer with an average of approximately 63-64 minutes per customer outage. He attributed these results to a successful tree-trimming program in 2001 in which all 123 targeted circuits were completed.

Chairman Kessel commented that these favorable reliability results were due to two factors, namely LIPA's investment in capital improvements for the system and the hard work of LIPA's employees. The Chairman commended LIPA's Board and employees.

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

Ms. Taylor reported that there are three variances between the actual and budgeted numbers through November of 2001. First, she reported that there is a surcharge rate of 5.8 percent rate pertaining to a pass-through of 40 percent (or approximately \$125 million) of LIPA's excess fuel costs. Second, Ms. Taylor noted that relatively more expenditures were made on operation and maintenance (O & M), with relatively less capital expenditures. Third, she reported that interest rates were significantly lower in 2001 than anticipated. She noted that LIPA is paying between one and one-quarter percent to one and one-half percent on short-term debt, resulting in the positive effect of lower interest payments by LIPA.

Ms. Taylor reported that LIPA maintains a solid cash position as of January 8, 2002. She noted that LIPA has approximately \$360 million in capital after applying the Shoreham credits and the \$250 million allocated to the Rate Stabilization Fund.

Chairman Kessel commended Ms. Taylor for her outstanding work for LIPA despite the many challenging financial issues facing LIPA.

Deputy Chairman Foye inquired as to whether LIPA planned to issue bonds or otherwise raise funds during the first and second quarters of 2002. Ms. Taylor responded that at this time LIPA has no bond issuance plans for 2002. She noted that LIPA has instituted a commercial paper program in the amount of \$300 million from which LIPA has drawn \$100 million.

Ms. Taylor reported that LIPA continues to have no direct exposure as a result of the Enron collapse.

Chairman Kessel stated that the Trustees are being asked to approve a resolution adopting the Phase III Implementation Plan for Long Island Choice. The Chairman explained that LIPA's retail choice program is being implemented in three phases, the first of which was implemented in August of 1999 and the second in May of 2000. He indicated that the third phase is to commence on February 1, 2002. He stated that the institution of Phase III will give virtually all of LIPA's customers the opportunity to choose their supplier of electricity.

Chairman Kessel stated that components of the Long Island Choice bill credit will be adjusted to better reflect market values, namely the “shopping credit” will increase from .035 to .045 cents per kilowatt hour. The Chairman also indicated that LIPA will make additional changes, including simplifying license application requirements, eliminating minimum annual energy and pooling requirements, eliminating the aggregator category and simplifying the transitional transmission allowance incentive.

Chairman Kessel indicated that in connection with the original LIPA transaction conceived by Governor Pataki, the Governor announced that his goals were to lower electric rates, improve service reliability and also bring about retail competition for the benefit of Long Island’s electric customers. The Chairman added that the Public Authorities Control Board required LIPA to promote and bring about retail competition within a ten-year period. He commended LIPA for its achievements in the few years that it has existed which have allowed LIPA to bring retail choice to LIPA’s customers almost seven years ahead of schedule. He noted that within the twenty-four states that have deregulated their electric systems, LIPA is the only municipal utility to provide retail choice.

Chairman Kessel credited Governor Pataki, former Chairman Frank Zarb and the LIPA Board for creating the Long Island Choice program to progressively effect retail competition in the Long Island marketplace. The Chairman noted that

LIPA in connection with retail choice has been able to implement deregulation in a way that does not harm LIPA financially nor threaten the supply of electricity to LIPA's customers. He commented that energy service companies (ESCOs) have withdrawn from residential markets in many areas of the country, but he invited such companies to participate on Long Island. He added that the adoption of the resolution will promote the entry of ESCOs into the marketplace by indicating that the entire Island is now open for retail competition and by providing an increased energy bill credit to the companies as an enticement.

The Chairman indicated that approximately 40,000 of LIPA's customers purchase electricity from ESCOs, amounting to 220 megawatts of power or approximately ten percent of the needs of LIPA's customers. He commended Mr. Bolbrock, Mr. Germano, Mr. Hulkower and the LIPA staff for their excellent work in this complicated area.

Chairman Kessel then requested Mr. Bolbrock to provide an overview of the changes that LIPA is instituting to the Long Island Choice Program. Mr. Bolbrock stated that LIPA began developing its retail access program after other utilities in the State, but LIPA's enrollment rate is approximately four percent of the customers as compared to between three to three and one-half percent for other utilities in the State. Mr. Bolbrock added that LIPA adopted a different approach than other utilities in working with the ESCOs and all of the stakeholders. He indicated that LIPA invited the ESCOs to meet with LIPA,

listened to their comments, requests and recommendations, and LIPA worked to incorporate the ESCOs' beneficial input.

Mr. Bolbrock stated that the resolution before the Board was the culmination of eleven months of effort. He commended Mr. Elberfeld of LIPA and Mr. James of KeySpan for their efforts in developing the plan. Mr. Bolbrock indicated that LIPA wanted to ensure that the guidelines and constraints that are adopted by the Board will not provide that the non-participants in the program subsidize the participants, and thus no bonuses have been provided for customers to switch providers. He noted two key recommended changes: that it would be opened to all customers and that the bill credit would be changed. He commented that the aim of the Long Island Choice program has been to achieve a level playing field with the hope that customers would realize an economic savings, even though a savings was never a guarantee of the program.

Deputy Chairman Foye asked whether there would be a cross-subsidy. Mr. Bolbrock responded that there would continue to be none, and LIPA has continued to analyze the matter. Mr. Bolbrock added that LIPA is considering administrative changes to simplify the program so that it will be easier for the ESCOs to understand. He noted that LIPA has sought the input of the ESCOs and the Public Service Commission on the program. He stated that LIPA has been very successful in establishing a level playing field.

Trustee Polimeni inquired as to how LIPA intends to bill the customers for electricity supplied by another company. Mr. Bolbrock responded that initially there was a desire for a single bill, but the current billing system does not allow for it. He stated that the ESCOs do the billing, which allows LIPA to avoid problems that may arise in relation to those companies. Chairman Kessel noted that there have been problems with the single bill system, which was originally thought to be a superior approach to a multiple bill system. The Chairman indicated that LIPA debated whether to follow the practice of other companies to provide a bonus as an incentive for customers, and LIPA ultimately decided against it.

Trustee Polimeni inquired as to how a customer goes about the process of choosing an ESCO under the program. Mr. James answered that a customer could apply through the LIPA website, which lists ESCOs that are qualified participants in LIPA's retail choice program. He explained that the ESCO can access LIPA's usage information for the customer after receiving that customer's authorization. Mr. Bolbrock noted that the ESCOs have recruited customers on their own, which accounts for the majority of their customers.

Trustee Polimeni inquired as to whether LIPA would provide electrical power if the ESCO failed to deliver pursuant to contract. Mr. Bolbrock affirmed that LIPA is the provider of last resort.

Deputy Chairman Steinberg inquired as to the number of ESCOs currently operating on Long Island. Mr. Hulkower responded that there are three. Deputy Chairman Steinberg asked if LIPA would provide information about the ESCOs to the customers with their bills. Mr. Bolbrock responded that LIPA has similarly done so in the past, and it is an option to consider. Chairman Kessel stated that the dissemination of information regarding ESCOs with the LIPA bills is a good idea.

Deputy Chairman Foye inquired as to what the targeted number of customers would be in the program by the end of 2002. Mr. Bolbrock responded that there is no target. Mr. Bolbrock reiterated that the goal of the program is to achieve a level playing field, to make it as easy as possible and understandable for the customer and the ESCO, and to encourage participation.

Deputy Chairman Foye asked whether the program was revenue-neutral. Mr. Bolbrock responded, "yes". Mr. Hulkower added that the program now amounts to only approximately five percent of the peak load, and it may vary going forward. Chairman Kessel stated that the total megawatts are ten percent of what LIPA would provide on a normal day. Mr. James added that there are more residential customers than commercial customers, but roughly half of the megawatts are consumed by each.

Chairman Kessel asked if there were any prospective ESCOs to be qualified by LIPA for participation in the program in the coming months. Mr. Bolbrock responded that there will be at least one more in the coming months.

Deputy Chairman Steinberg inquired whether ESCO customers will receive separate bills for gas service provided by KeySpan. Mr. Bolbrock answered that they would receive a separate bill. Trustee Gerrard asked whether this may result in three bills being issued to the customer. Mr. Bolbrock responded that an electric and gas customer that used a separate ESCO would receive bills from LIPA, KeySpan and the ESCO.

Trustee Gerrard asked whether there are alternative sources of information to the website for those that are not computer oriented. Mr. Bolbrock responded that there is a telephone number to call for information.

Trustee Doherty inquired as to where the source of the ESCO generation will originate in relation to on-Island and off-Island sources. Mr. Bolbrock answered that some of the power would come from on-Island sources, and there would also be some limited off-Island sources. He noted that until other plants are developed there are limited options concerning on-Island sources.

Chairman Kessel stated that LIPA is not only opening the market fully to retail competition, but it will also be opened to wholesale competition in 2002. The Chairman stated that a number of small power plants are being constructed

on Long Island, and short term contracts with terms of three to five years have been executed for the supply of power to LIPA. He added that when the contracts expire, the companies are expected to generate electricity on Long Island and sell to LIPA customers or to an ESCO as merchant companies. He stated that approval of the resolution would effectuate wholesale and retail competition on Long Island in a gradual way so that havoc is not created in the marketplace.

Trustee Polimeni inquired whether LIPA would be competing against itself if LIPA chose to buy KeySpan's generation. Mr. Bolbrock responded that it was unlikely because the load on Long Island was growing by 100 megawatts per year, and LIPA has to add resources to cover that load plus reserves, but LIPA through the Long Island Choice Program is offsetting to some extent the need to buy new generation. Mr. Hulkower added that LIPA is already obligated to pay the cost for the capacity of those plants, whether or not the purchase right is exercised, and the program has been designed to avoid financial jeopardy to LIPA if more customers participate.

Chairman Kessel stated that the peak load will now be represented by new numbers which will account for the total amount of electricity delivered via LIPA's system to the service area, including LIPA power and power supplied via the Long Island Choice program. The Chairman noted that the 2001 peak load was 4,906 megawatts. He indicated that the important measurement is the total amount delivered, especially during the summer when demand is high.

Trustee Nugent asked who would bear the costs to provide additional transmission capacity to accommodate additional power supplied by the ESCOs or merchant companies. Chairman Kessel responded that LIPA is responsible to meet the demands of its customers, and the ESCO does not create the demand but supplies a portion of it. Mr. Bolbrock added that LIPA must recover transmission and distribution cost increases in its revenues.

Deputy Chairman Foye asked whether demand could rise as a result of lower prices, thus affecting the T & D system. Mr. Bolbrock responded that the effect would not be noticeable.

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

579. ADOPTION OF A PHASE III IMPLEMENTATION PLAN FOR THE LONG ISLAND CHOICE PROGRAM

WHEREAS, notice of staff's proposed Phase III Implementation Plan for the Long Island Choice Program (attached) was published in the State Register on October 10, 2001; and

WHEREAS, two public hearings were conducted on November 29, 2001, and no comments were received; and

WHEREAS, for the reasons set forth in the preceding Memorandum and the attachment hereto, the proposed plan (with the several modifications discussed in the preceding Memorandum) is in the public interest;

NOW, THEREFORE, BE IT RESOLVED, that said Phase III Implementation Plan is hereby adopted and approved, and said Plan (including the associated revised tariff leaves) shall take effect on February 1, 2002; and

BE IT FURTHER RESOLVED, that staff shall make available copies of the final Plan to the public and interested parties.

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Chairman Kessel stated that the next item on the agenda concerned a resolution for the final approval of a World Trade Center Relief Fund. Mr. Furlong stated that approximately 600 families in LIPA's service area were directly impacted by the World Trade Center tragedy, and thus far 150 have requested applications for relief, and 94 of the applications have been completed and returned to LIPA. He further stated that LIPA is in the process of making its first distribution. The Chairman indicated that the first distribution would be made upon the passage of this resolution.

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

580. FINAL APPROVAL OF A RESOLUTION ESTABLISHING A WORLD TRADE CENTER RELIEF FUND

WHEREAS, on October 17, 2001, the Trustees approved on an interim basis a resolution establishing a World Trade Center Relief Fund ("Resolution"); and

WHEREAS, the Trustees took such action pursuant to the expedited procedures of Section 202(6) of the State Administrative Procedure Act; and

WHEREAS, notice of the Authority's action was published in the State Register on November 7, 2001; the public comment period has expired; and no comments were received; and

WHEREAS, the Trustees desire to approve the action on a final basis;

NOW, THEREFORE, BE IT RESOLVED, that the October 17, 2001 Resolution is hereby approved on a final basis.

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Trustee Auerbach congratulated Mr. Lou Tomson for his appointment as Executive Director of the recently established World Trade Center rehabilitation organization. Chairman Kessel also offered his congratulations to Mr. Tomson.

Trustee Doherty requested that he be provided a copy of any reply to the sense resolution from the Suffolk County Legislature regarding the surcharge on electric bills. Chairman Kessel agreed.

Chairman Kessel stated that the Connecticut Siting Council has unanimously approved the LIPA cross-Sound cable project, reversing their initial vote. The Chairman attributed the approval to the efforts of LIPA's staff, the LIPA Board and TransEnergie in changing the route of the cable and making the path more acceptable. He stated that LIPA is awaiting a permit from the Army Corp of Engineers to dredge the harbor, which would allow for construction absent an injunction. He added that the line would service Long Island this year if the permit is approved expeditiously.

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:

581. 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 12:05 p.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 12:24 p.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 12:25 PM.

Respectfully submitted,

Stanley B. Klimberg