

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 141st MEETING
HELD ON FEBRUARY 28, 2002**

Pursuant to notice dated February 21, 2002, the Long Island Power Authority (the "Authority") was convened for the one hundred and forty-first time at 10:15 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
Robert Maimoni
Nancy Nugent
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating 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, Corey Horowitz, Manager- Energy Management and Power Supply Administration, 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 January 17 Board meeting.

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

582. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE JANUARY 17, 2002 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on January 17, 2002, are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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

Mr. Hulkower reported that the sales and marketing goal for 2002 is 38.06 megawatts of added load, which has increased 27 percent from the 2001 goal of 30.4 megawatts. He observed that Long Island's demand has not abated even though national economic growth has been flat.

Mr. Hulkower stated that LIPA already has customer commitments of 21.7 megawatts for major accounts against a goal of 24 megawatts. LIPA has added approximately 2.2 megawatts of load, but LIPA's customers have indicated they are growing and need additional power.

Deputy Chairman Foye asked whether the source of the demand was industrial, commercial or residential. Mr. Jackson answered that the majority of growth is coming from the commercial sector, related to biotechnology and office buildings. He stated that much of the growth originates from the increased demand of new construction for expanded watts of electricity per square foot, and is related to the expansion of electronics and computer technology.

Chairman Kessel asked whether there may be increases in demand this summer similar to the past few summers. Mr. Hulkower answered that there has been approximately 100 to 125 megawatts per year of increased peak load based upon a normal weather forecast. He noted that newer buildings are more energy intensive, demanding 7 to 8 watts per square foot as opposed to older construction which may only demand 2.5 to 3 watts per square foot. Chairman Kessel inquired as to whether these statistics indicate that LIPA may see an

additional growth in load of approximately 100 megawatts this year. Mr. Hulkower answered affirmatively.

Chairman Kessel stated that no one should be lulled into thinking that the energy crisis is over because the economy has slowed. The Chairman indicated it must be assumed that at least on Long Island there will be consistent growth in demand. He stated that if the demand grows by 100 megawatts this year, this will confirm the importance of LIPA's summer projects. He added that the numbers indicate there will be similar growth as in the past on Long Island.

Deputy Chairman Foye asked whether LIPA's energy conservation and efficiency efforts in connection with new construction programs were effective. Mr. Hulkower responded affirmatively. He noted that the programs are constantly reviewed and refined, and that some of the programs may be discussed in greater detail at the next Board meeting.

Deputy Chairman Foye requested that LIPA investigate comparable new construction in other areas of the country with respect to their electrical usage per square foot. Chairman Kessel affirmed that LIPA needs to aggressively pursue energy efficiency and peak load reduction. The Chairman indicated that Governor Pataki has already organized a task force, including LIPA, to develop a statewide program to promote energy efficiency and peak load reduction. The Chairman stated that LIPA's 2002 target is more than 200 megawatts, which is greater than in 2001. He added that he believed the Pataki administration

recognizes the fact that people may be lulled into thinking that there is no problem, and the administration has led a statewide coordinated approach to promote energy efficiency and reduction in peak loads.

Chairman Kessel stated that in New York City, Con Edison may have the same electrical demand as it did last summer, unlike LIPA which expects significant growth in demand, specifically 125 megawatts or 3.5 percent. The Chairman noted that LIPA's growth in demand may triple that of the City, and although Con Edison may not have a growth in demand, there would still be a cause for concern as supplies were short last summer. He stressed that energy conservation, new generation and new transmission are essential to meet the energy needs this summer, since the energy supply crisis is not over, and it may be particularly acute for Long Island.

Mr. Hulkower noted that the statewide goal for demand reduction has been set at 1300 megawatts, of which Long Island bears a large share.

Mr. Hulkower stated that in reference to LIPA's Clean Energy Initiative, there is little to report, as it is early in the year. He noted two significant changes from previous reports: first, the goal for Direct Load Control in regard to the LIPA Edge program in 2002 is 12.99 megawatts, a dramatic increase from the 5 megawatt target that was achieved in 2001; and second, LIPA will now report peak load reduction separately due to the reorganization of that project.

Mr. Hulkower stated that LIPA has made progress in revenue collection, but LIPA has not reached the level at this time in 2001. He indicated that LIPA's total arrears are \$64.9 million, with an average residential arrears of \$318 per account and an average commercial arrears of \$985 per account.

Deputy Chairman Steinberg asked whether LIPA's goals regarding arrears were realistic as it appears at this point that LIPA will not reach its goal. Mr. Hulkower responded that he believes these goals are achievable given LIPA's efforts on Clean Energy, and he noted that most of the targets were met in 2001. Deputy Chairman Steinberg asked whether the targets were a function of seasonality or whether they would remain consistent throughout the year. Mr. Hulkower responded that they tend to increase over the course of a few months, normally after a slow start.

Chairman Kessel pointed out that Governor Pataki recently dedicated the Inn at Fox Hollow on Long Island, which was built as an "energy smart" building under LIPA's commercial construction program, including a geothermal system to control cooling and much of the heating. The Chairman stated that the building also has an "energy smart" lighting system, wherein the lighting is adjusted throughout the building based upon its occupancy. He indicated that LIPA presented a \$180,000 rebate check yesterday for that project, and LIPA has given rebates for geothermal projects in 2000 through 2002 totaling \$668,689. Chairman Kessel stated that LIPA has promoted geothermal projects for residential and commercial customers including, in addition to the Inn at Fox

Hollow, the Ross School in East Hampton, the Atlantis Marine World, the Danford Inn in Port Jefferson, and the Nature Conservancy in East Hampton.

Chairman Kessel stated that LIPA has begun fifty-seven geothermal projects, and there are a host of projects awaiting approval, including the Peconic Assisted Living Center, Adelphi University, and SUNY at Old Westbury. The Chairman indicated that geothermal energy is one of the most significant alternative technology programs, and LIPA is leading the way in providing incentives to install these systems. He invited the Trustees to view the geothermal installations.

Chairman Kessel noted with regard to geothermal projects that LIPA has given rebates for as much as \$20,000 for residential systems throughout Long Island, and as little as \$734. The Chairman credited LIPA's Board for its approval of the Clean Energy Initiative, which has put LIPA in the forefront of projects that are saving energy and reducing greenhouse gases around Long Island.

Mr. Hulkower reported that LIPA's SAIFI, which measures the average period between customer outages, was 15.4 months as opposed to the 14.1 month target, reflecting greater reliability. He indicated that LIPA's CAIDI, which measures the average duration of customer outages, was 63 minutes against a goal of 72 minutes. He noted that the levels were remarkable, and LIPA is striving to maintain these levels of reliability, although they could change depending upon the weather.

Chairman Kessel thanked Mr. Hulkower, Mr. Hervey and the LIPA and KeySpan employees who have remarkably improved service quality. The Chairman noted that LIPA has gone from last (former LILCO) to first in reliability while holding electric rates steady for 3 ½ years, since LIPA has spent large sums on capital programs.

Deputy Chairman Foye asked whether LIPA should challenge both itself and KeySpan to see if more could be done to improve service, while recognizing constraints such as the available capital that LIPA has to spend on improvements to the system and factors such as the weather. Mr. Hulkower answered that LIPA was investigating ways to improve the system, while ensuring that the capital dollars spent produce an acceptable rate of return. He indicated that LIPA's challenge is to moderate the capital spending going forward while maintaining current levels of reliability.

Trustee Auerbach complimented the staff for LIPA's reliability, which is largely a result of LIPA's tree trimming program. He noted that approximately one month before, LIPA removed a large amount of trees in Bridgehampton that had existed for many years. He indicated that he was unaware of whether the tree trimming was necessary there, but he suggested that before such a major removal occurs that the local leaders and organizations be contacted.

Chairman Kessel stated he did not think that LIPA handled that project well. The Chairman noted that significant tree trimming was needed due to frequent outages and interruptions in the area, but LIPA may have been overzealous, and inadequate notice was given. He stated that LIPA has planned an amelioration program where LIPA will plant new trees that do not interfere with the wires. Mr. Hulkower noted that there was a failure to communicate with local entities, and LIPA has examined the problem to avoid a recurrence.

The Chairman requested that Mr. Kane and Mr. Murphy give the Financial Report.

Mr. Kane reported that LIPA budgeted \$148 million excess of revenue over expenses, primarily because LIPA instituted a fuel cost deferral and recovery mechanism that was limited to the 5.8 percent surcharge level. He noted that LIPA's revenue and sales were lower than budgeted.

Mr. Kane noted that O & M expenses were up \$65 million due primarily to the MSA fee that is paid monthly to KeySpan to operate and maintain the transmission and distribution system. He noted that when KeySpan underspends on capital projects the remainder ends up being reflected in O & M expenses.

Mr. Kane reported that PSA fees were also greater than anticipated, and there were additional charges incurred for the operation of the power plants during the summer months, amounting to approximately \$8 million in additional

expenses. He also reported that A & G costs were slightly higher in 2001, primarily because of consulting fees related to projects continuing in 2002, including the GPRA and Powering Long Island.

Mr. Kane reported that revenue taxes are lower than budgeted, which is a result of the lower than budgeted sales and a lower GRT rate. He stated that interest expense is also lower than anticipated. He further reported that Fuel and Purchased Power costs reflect a \$46 million change.

Mr. Kane reported that accounts receivable are down \$11 million, and fuel inventories are up \$54 million. He noted that the price of fuel is currently lower, but LIPA has increased its inventory, which accounts for the greater amount. Mr. Kane reported on other expenses related to LIPA's 18 percent ownership in the Nine Mile Point Two plant. Mr. Kane also noted a significant increase in LIPA's accounts payable, including accruals related to the Energy Management Agreement, third party major capital and for dual service balanced billing.

Mr. Kane noted that LIPA has established a reserve of \$20 million associated with refunds received from the New York State ISO, which LIPA may not be able to retain. He also reported that LIPA maintains \$250 million in the Rate Stabilization Fund, and LIPA has cash balances totaling \$331 million.

Deputy Chairman Foye asked why capital expenditures were less than budgeted, and why LIPA does not itself spend for capital projects rather than

possibly bestow a benefit on KeySpan. Mr. Kane responded that there is a “true up” mechanism under the MSA, which is designed to eliminate “gaming” of the system. Mr. Hulkower affirmed that there is a mechanism in place to review the payments, which are audited. Mr. Hulkower noted that last year there was a large variance due to the project to replace the Y50 cable, which was delayed for problems associated with the selection of a contractor. He noted that the NUSCO cable replacement project was also delayed from 2001 into 2002.

Mr. Murphy noted that there is an extensive review process for reconciliations under the MSA. He indicated that after KeySpan performs its review, LIPA also reviews the information with the assistance of Pricewaterhouse Coopers.

Deputy Chairman Foye inquired as to the dollar amount of the issues in last year’s audit and review process with KeySpan. Mr. Murphy responded that KeySpan requested approximately \$5 million, and LIPA is in the process of paying close to \$2 million with the remainder currently being negotiated.

Deputy Chairman Foye requested that Pricewaterhouse Coopers provide a presentation at a future meeting concerning the dollar amount and disclosure issues between LIPA and KeySpan, in light of the fact that Arthur Andersen is retained by KeySpan and since the issues are vital in terms of the ongoing relationship between LIPA and KeySpan, and LIPA’s decision whether to exercise its right to purchase KeySpan’s on–Island generation. Chairman Kessel indicated

that a presentation may be made at the March 12, 2002 special meeting of the LIPA Board.

Deputy Chairman Steinberg inquired as to LIPA's hedging losses and hedging exposure. Mr. Kane responded that as of December 31, 2001, LIPA showed an \$8 million unrealized loss, and LIPA has increased settlements of approximately \$20 million. Deputy Chairman Steinberg inquired as to whether LIPA is revising its hedging strategy for this year. Mr. Horowitz responded that the hedging strategy for 2002 has changed. He noted that LIPA has paid more for the premiums due to the cost of the commodity, the time period and the percentage of volatility in the market. He further noted that LIPA is buying cheaper fuel now, although LIPA must pay out to counterparties for prior hedging with "caps" and "swaps".

Deputy Chairman Steinberg inquired as to who advises LIPA on hedging strategy. Mr. Horowitz responded that LIPA's outside advisors have included Morgan Stanley and KeySpan Energy Trading Services, and Ms. Taylor has provided leadership in this area.

Deputy Chairman Steinberg requested that the Trustees be provided a list of LIPA's consultants for 2001, showing the amounts of their consulting fees. Chairman Kessel responded that the information would be provided and made current to reflect the consulting services with respect to the Powering Long Island Project.

Trustee Sinnreich asked whether the Claims and Damages item on the balance sheet was a reserve. Mr. Kane responded affirmatively, and noted that the reserve is based upon claims made and also reflects a storm accrual. Trustee Sinnreich recommended that the items be separated on the balance sheet.

Chairman Kessel reported that LIPA has been vigilant and careful in taking significant steps to increase supply and reduce demand on Long Island for this summer in order to ensure an adequate supply of electricity. The Chairman further reported that LIPA is aggressively moving forward with Clean Energy programs on Long Island and in coordination with NYSERDA, and LIPA is trying to dramatically increase the number of participants in the LIPA Edge program.

Chairman Kessel stated that LIPA is working with all of the municipalities for them to cooperate and close early as needed on days when demand is high. The Chairman expressed his hope that a number of alternative programs will be running this summer, including geothermal projects. He noted that the fuel cell project in West Babylon is the largest project of individual fuel cells in one area, and it has been successful.

Chairman Kessel reported that Governor Pataki has selected by lottery thirty people in LIPA's service area who will receive free solar roofs and installations for this summer. The Chairman further reported that through the

efforts of the Community Development Corporation, an additional twenty low-income families will be selected to receive free solar roofs for this summer.

Chairman Kessel stated that LIPA has launched a wind turbine program in conjunction with the Long Island Farm Bureau, and more that thirty-five responses have been sent by farmers indicating an interest in participating. The Chairman indicated that he hoped that by mid-summer energy-producing windmills will have been erected on some East End farms. He thanked the farmers and the Long Island Farm Bureau for cooperating with LIPA on this important project.

Chairman Kessel reported that work on the cross-Sound cable was progressing on both sides of the Sound, and TransEnergie is working diligently with the various contractors. The Chairman stated he hopes that absent a court injunction, the line could be functioning as early as June of 2002, which would allow LIPA to import as much as 330 megawatts of competitive power. The Chairman indicated that the project has been approved unanimously by the Connecticut Siting Council. He added that he has discussed the matter with the Connecticut Attorney General, Richard Blumenthal, who has been an opponent of the project. Chairman Kessel stated that he and Mr. Blumenthal planned to meet along with their staffs in mid-March.

Chairman Kessel reported that LIPA's projects for ten new gas turbines are progressing rapidly, including the construction of turbines in Far Rockaway by

Florida Power and Light. The Chairman indicated that Florida Power and Light has indicated that the project will be completed by June.

Chairman Kessel stated that KeySpan has been constructing two facilities at the Glenwood Landing site. The Chairman commended KeySpan for expediting the project, which is likely to be completed in May or June of 2002. He indicated that the Port Jefferson project is also progressing, and the coal towers are being removed from the site. He stated that he hopes the project will be completed by June.

Chairman Kessel reported that LIPA is having four turbines installed by Pennsylvania Power and Light, two of which will be located in Brentwood. The Chairman stated that construction will begin shortly on those projects, as well as the two projects at the Shoreham site, namely two peaking units and the cross-Sound cable.

Chairman Kessel noted that the Pennsylvania Power and Light projects have progressed at a slower rate than the KeySpan projects, but additional manpower has been added and the rate of progress has increased. The Chairman noted that LIPA has recently reached an agreement with Calpine for the Bethpage project. He indicated that he hopes it will be in place this summer. He commended Mr. Hulkower and Mr. Grilli for the great job that they have done on the various projects, which would add more than 700 megawatts of capacity and energy to Long Island for this summer.

Chairman Kessel reported that LIPA has scheduled a special Board meeting for March 12, 2001, to consider the Generation Purchase Right Agreement. The Chairman stated that LIPA decided to hold a special meeting because LIPA has recently received from KeySpan additional, relevant and critical information that must be analyzed prior to making a decision. He indicated he is frustrated that LIPA has not received reliable information from KeySpan bearing on the value of KeySpan Generation LLC as a whole. He stated that KeySpan, when meeting with members of LIPA's Board several weeks ago, in effect admitted that they were unable to provide necessary information and that some of the information they provided was incorrect.

Chairman Kessel reported that some of the information previously provided by KeySpan has been changed, and much of the information cannot be supported by KeySpan. The Chairman stated that a critical document LIPA had expected to be provided in January, was faxed to LIPA in draft form on February 27, 2002 at 7:40 p.m. He noted that KeySpan had informed LIPA that the information would not be available until April although it had been made available in January of previous years.

Chairman Kessel stated he strongly feels that the LIPA Board should not be put in a position where they would be voting on an agenda item for which critical underlying information from KeySpan was insufficient, inaccurate or not supported. The Chairman indicated the difficulty in making this critical decision

under the terms of the GPRA absent such information and the opportunity for full review. He stated that KeySpan has not fully cooperated with LIPA, but LIPA's staff is working hard to analyze the information.

Deputy Chairman Foye asked whether LIPA had any assurance that there would not be any changes in the material received from KeySpan and Arthur Andersen on KeySpan's behalf between the present and the date of the Board's decision. Chairman Kessel responded that there are no assurances, and he noted that the numbers on many significant aspects of the transaction have changed both favorably and unfavorably to the point where LIPA's advisors may not be able to assure that verifiable numbers could be provided upon which a decision could be based.

Deputy Chairman Steinberg questioned whether LIPA is necessarily bound by the GPRA deadline if KeySpan is deliberately withholding relevant information, and he noted that it is critical that the Board have correct information to evaluate. Chairman Kessel noted his agreement.

Chairman Kessel apologized for the inconvenience to the Board, and he thanked the Board for their cooperation. The Chairman noted that LIPA is exploring other options.

Deputy Chairman Foye inquired as to whether recent events concerning the Generation Purchase Right Agreement raise concern about the integrity of other

information that KeySpan and Arthur Andersen have provided. Chairman Kessel responded in the affirmative.

Trustee Sinnreich commented that Newsday's recent editorial and illustration concerning the GPRA lowers the quality of the debate, and is a disservice to the Chairman, the Board and the ratepayers, although Newsday's news coverage has been fair.

Turning to the next agenda item, Chairman Kessel indicated that the LIPA Board is being asked to approve a resolution to partially waive LIPA's tariff so as to limit LIPA's surcharge recovery to approximately sixty-three percent, or \$125 million, of LIPA's extraordinarily high year 2001 fuel and purchased power costs. The Chairman stated that LIPA's tariff provides for a fuel and purchased power cost adjustment, and for 1998 LIPA recorded a deferral of \$22 million for the benefit of its customers. He indicated that for 2000 LIPA decided to waive its tariff so as to recover \$125 million or forty percent of the \$307 million in excess costs. He added that the high level of cost for natural gas, oil and purchased power continued for most of 2001, and LIPA did not raise its surcharge.

Chairman Kessel stated that the higher cost of fuel and purchased power in 2001 resulted in an undercollection of \$200 million, which under the normal tariff mechanism would necessitate a surcharge of nine percent to fully recover that cost. The Chairman indicated that LIPA's staff recommends that LIPA partially waive the operation of its fuel and purchased cost adjustment mechanism

relating to the 2001 costs in order to mitigate customer bill increases and lessen the impact on LIPA customers. He stated that LIPA would only recover \$125 million of the \$200 million cost overage and absorb the remainder under this proposal. He noted that the surcharge would remain at 5.8 percent, and customer bills would not increase.

Chairman Kessel credited LIPA for striking a balance between the absorption of half of the \$507 cost overages for 2000 and 2001 and passing on the other half which protects LIPA's financial integrity and mitigates the impact on customer bills. The Chairman stated that LIPA examined other scenarios and consulted with the rating agencies, who expressed comfort with LIPA's surcharge position.

Chairman Kessel indicated that Governor Pataki expressed his approval that LIPA's bills would not increase as other expenses will next year. He stated that the Governor commended the LIPA Board for LIPA's financial strength.

Chairman Kessel remarked that three public hearings were held on the issue of the surcharge, but they were sparsely attended. The Chairman noted that the eleven individuals who testified at the three hearings expressed varied opinions. He noted that his impression from attending the hearings was that the public was generally satisfied with LIPA's finances, rates and bills. He recommended that LIPA's Board adopt the resolution partially waiving LIPA's

tariff and continuing the 5.8 percent surcharge beginning in March of 2002 and pursuant to the expedited procedures of SAPA.

Chairman Kessel noted that Trustee Polimeni, who could not attend the meeting, was comfortable with the resolution. The Chairman thanked Trustees Polimeni and Doherty, Ms. Taylor and the other members of the Finance Committee for their work on this complicated matter. He also commended Morgan Stanley, Mr. Kane, Mr. Murphy and Mr. Feldman for their work related to this issue.

Deputy Chairman Steinberg asked how long the surcharge would remain in effect. Chairman Kessel responded that it would be in effect for twelve months. He stated that LIPA will review fuel costs again next year, unless there is an unexpected and dramatic price increase necessitating an earlier review. He noted that the Finance Committee has been asked to review the possibility of examining fuel costs on a more frequent basis.

Deputy Chairman Steinberg stated that it is critically important to communicate LIPA's actions to LIPA's customers. Chairman Kessel agreed.

Trustee Doherty commented that LIPA has adhered to the commitment not to raise rates for five years, and LIPA absorbed half of the unanticipated fuel costs or approximately \$250 million, which is extraordinary. He continued that those who oppose any increases are in effect advocating that LIPA not take the

necessary actions to keep Long Island healthy and viable. He added that even while absorbing fuel cost increases, LIPA has made tremendous investments in its infrastructure, as well as on the new power plant projects in 2002. He noted that these are major capital expenditure to service a growing market which has demanded more energy. He indicated that if Long Islanders want an increased supply of energy which would meet their needs and prevent blackouts, they must pay for it.

Trustee Doherty stated that if LIPA was a private business, he would pass on the full amount of the fuel and purchased power costs because the extra \$75 million in costs that LIPA is choosing to absorb would only represent a 3.5 percent increase to the customer, which would not greatly impact Long Island as a whole, and LIPA would be able to use the money for debt service coverage, including the prepayment of the Shoreham debt. He indicated that LIPA's absorption of costs now to keep bills down, will cost LIPA more in the future.

Trustee Doherty indicated that he supports the 5.8 percent surcharge, but the more economically sound decision is to pass on the full amount. He stated that LIPA realized \$26 million last year excess of revenue over expenses instead of the forecasted \$100 million, and had LIPA not waived its tariff, it would be able to retire more debt. He added that anyone who believes that LIPA should absorb the entire cost overage does not understand the reality of running a business of the magnitude of LIPA. Chairman Kessel concurred.

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

583. APPROVAL OF PARTIAL RECOVERY VIA A SURCHARGE OF UNRECOVERED YEAR 2001 FUEL AND PURCHASED POWER COSTS

WHEREAS, the Long Island Power Authority's ("Authority") staff issued a proposal ("Proposal") indicating that, due to the extraordinary increases in the prices of natural gas, oil and purchased power experienced in 2001, LIPA's unrecovered fuel and purchased power costs for that year are approximately \$200 million; and

WHEREAS, under LIPA's Tariff for Electric Service, the \$200 million in increased costs normally would be passed on to customers automatically through a surcharge (i.e., Fuel and Purchased Power Cost Adjustment ("FPPCA")) over a twelve-month period commencing in 2002; and

WHEREAS, the Proposal recommends that, in order to lessen bill impacts on customers but still maintain LIPA's solid financial footing, the FPPCA surcharge for the year 2001 unrecovered fuel and purchased power costs should be limited to approximately \$125 million, to be recovered over a twelve-month period; and

WHEREAS, following issuance of a public notice of the Authority's proposed action on the matters addressed in the Proposal, three public hearings were held on February 21, 2002; and

WHEREAS, implementation of the FPPCA is fully consistent with the Authority's April 1998 Decision approving a 20% rate reduction; and

WHEREAS, implementation of the FPPCA does not constitute a rate increase and, therefore, such action does not require LIPA to obtain the approval of the Public Service Commission pursuant to the condition contained in the Public Authorities Control Board's July 1997 resolution approving LIPA's acquisition of LILCO which provides that "LIPA will not implement an increase in average customer rates exceeding two and one half percent over a twelve month period, nor will LIPA extend or reestablish any portion of a temporary rate increase over two and one half percent, without approval of the Public Service Commission following a full evidentiary hearing"; and

WHEREAS, in order not to delay commencement of implementation of the FPPCA surcharge, it is necessary for the Authority to act on this matter pursuant to the expedited procedures of Section 202(6) of the State Administrative Procedure Act; and

WHEREAS, such action will preserve the general welfare by enabling the FPPCA surcharge recovery to promptly commence and thereby effect the goals of ensuring LIPA's financial integrity and mitigating bill impacts on customers, and it would be contrary to the public interest to delay accomplishment of either of these goals;

NOW, THEREFORE, BE IT RESOLVED, that for the reasons set forth herein and in the preceding Memorandum, the Proposal is hereby adopted and approved with the FPPCA surcharge recovery to commence in March 2002.

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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:

584. 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 12:10 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 1:15 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 1:16 PM.

Respectfully submitted,

Stanley B. Klimberg