

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 125th MEETING

HELD ON JUNE 22, 2000

Pursuant to notice dated June 15, 2000, the Long Island Power Authority (the "Authority") was convened for the one hundred and twenty-fifth time at 10:30 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
NancyAnn Akeson
Harvey Auerbach
Joseph Janoski
Robert Maimoni
Nancy Nugent
Vincent Polimeni**

Also representing the Authority were Seth Hulkower, Chief Operating Officer, Stanley Klimberg, General Counsel, Campbell Ayling, Associate General Counsel, David Warren, Chief Financial Officer, Edward Murphy, Vice President and Controller, David Feldman, Budget Director, Ellen Markowski, Special Assistant to the Chairman, Rich Bolbrock, Vice President – Power Markets, Bert Cunningham, Vice President – Communications, Christopher Furlong, Director – Customer Relations, Laurie Leat, Secretary to the Board, Barbara Dillon, Manager of Human Resources,

Andrea Horigan, Cash Manager, Meena Malhotra, Senior Accountant, and Daniel Zaweski, Manager of Energy Efficiency and Distributed Generation Programs.

Upon determining that a quorum was present, the Chairman called the meeting to order.

Trustee Auerbach thanked Mr. Haugland, President of KeySpan Construction, for the great job his organization did on the Riverhead to Southampton transmission line project. Chairman Kessel thanked everyone who worked on that project and announced that the line will be formally energized next week.

Chairman Kessel stated that in reference to energy supply, Long Island is in good shape for the summer. He indicated that LIPA would continue to make a special plea to its customers to conserve energy and use it as efficiently as possible.

Chairman Kessel reported that LIPA sponsored a very successful conference last week on preparedness for major energy emergencies. He stated that over seven hundred emergency officials from throughout Long Island participated in this conference. He indicated that LIPA held a special meeting two weeks ago with several hundred people, including public officials and LIPA's largest customers, to make sure that everyone understands and will comply with the emergency

procedures. He commended the LIPA staff for its work in holding that meeting.

Chairman Kessel stated that the first item on the agenda is the operating report. He asked Mr. Hulkower to present the report to the Board.

Mr. Hulkower stated that in reference to sales and marketing load and revenue growth projections, LIPA is still projecting to be ahead of its annual goals. He indicated that LIPA expects to exceed its annual goals by almost fifty percent in terms of megawatts and almost thirty percent in terms of revenues. He stated that LIPA expects to exceed the annual goal in the mass market programs as well.

Mr. Hulkower stated that LIPA is making progress in its Clean Energy Initiatives. He indicated that in reference to revenue collections, arrears totaled about \$63 million at the end of May but are expected to be under \$60 million for June. He reported that the call answer rate in May was 98.5 percent, and that LIPA's reliability performance has not changed in the last three months.

Mr. Hulkower stated that the tree-trimming program is actively moving ahead. He stated that out of the one hundred and fifty-eight circuits to be trimmed this year, thirty-six circuits have been completed and twenty-three circuits are in progress.

Mr. Hulkower stated that LIPA is in the final stages of operational testing for the Riverhead to Southampton transmission line project.

Mr. Hulkower noted that the New York Independent System Operator (ISO) had approved bid caps but subsequently issued a written notification that a recount of the ISO vote indicated no approval. He stated that the ISO Management Committee then voted for approval of new bid caps, and the matter is currently on appeal within the ISO as a result of challenges from several generators. He indicated that a decision from the ISO Board is expected on June 30.

As the next agenda item, Chairman Kessel asked Mr. Warren and Mr. Murphy to deliver the financial report.

Mr. Warren stated that LIPA's budget for 2001 is currently being developed and LIPA's goal is to release the budget on November 1.

Mr. Warren stated that LIPA is in the process of finalizing its Annual Report for the 1999 fiscal year. He indicated that the Annual Report is due by June 30 and, in order to fulfill LIPA disclosure obligations relating to its bonds, will be filed with certain national repositories.

Mr. Warren stated that over the summer, LIPA expects to release an RFP in order to select the underwriting team for bond issues this fall.

Mr. Murphy stated that sales for the first four months are up about .7 percent, primarily due to new customers and increased usage. He stated that LIPA's sales are ahead of the forecast of 1.9 percent and he expects that trend to continue.

Mr. Murphy stated that in reference to the excess of revenues over expenses, LIPA is \$4 million ahead of the estimate for the period ended March 2000.

Mr. Warren stated that there is a correction on the balance sheet showing a reclassification of approximately \$8 million from long-term debt into current maturities. He stated that cash in short-term investments at the end of April was about \$333.5 million. He indicated that LIPA has approximately \$480 million of cash on hand, of which \$200 million is in a restricted account for the payment of bill credits for the Shoreham Settlement. He stated that Ms. Horigan, formerly in the accounting group in LIPA staff, has been appointed Cash Manager.

Chairman Kessel stated that the next item on the agenda is approval of the minutes of the May 25 Board Meeting.

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

494. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE MAY 25, 2000 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on May 25, 2000, are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

* * *

Chairman Kessel stated that the next item on the agenda is consideration of approval of the Cross-Sound Cable Project. The Chairman asked Mr. Bolbrock to make a presentation regarding the Project.

Mr. Bolbrock stated that Long Island will have a definite and significant need for additional resources for the summer of 2002. He stated that LIPA issued an RFP in March and a single proposal from TransEnergie was received for a 300 megawatt cable between New Haven, Connecticut and LIPA's Shoreham site, with a commercial in-service date of May 2002. He stated that the project would give LIPA access to the very substantial power market in New England. He indicated that the cable would also provide access to resources outside of New England, including from upstate

New York, to be wheeled through Canada and New England, and from the Pennsylvania/New Jersey/Maryland ISO.

Mr. Bolbrock stated that after performing a comparative study, LIPA determined that accessing the New England markets through the proposed cable will be more economical than on-Island generation alternatives. He stated that this cable would help satisfy LIPA's short-term resource needs and provide flexibility for the future. He also pointed out that the proposal has demonstrated a high likelihood of meeting the May 2002 in-service date.

Trustee Polimeni asked if fiber optic cable would be part of the installation and if so who would control the fiber. Mr. Bolbrock replied that fiber optic cable would be part of the installation and negotiations are ongoing with TransEnergie to arrive at arrangements that satisfy both parties. Deputy Chairman Foye asked if LIPA would receive a share of the revenues from fiber optic cable. Mr. Bolbrock replied that this is a subject of the negotiations.

Trustee Nugent asked if other entities are looking to "piggyback" onto the cable. Mr. Bolbrock replied no and stated that LIPA will be issuing an RFP for additional interconnections.

Trustee Janoski asked if LIPA had a site plan prepared for the cable landing point at Shoreham and would there be any impact on Wading River Creek. Mr. Bolbrock replied that there is a site plan and that directional drilling is planned under the original intake canal, located away from the Creek and from any residents.

Chairman Kessel commended Mr. Bolbrock and the Power Markets team for their extraordinary work on this project.

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

495. RESOLUTION AUTHORIZING THE SELECTION OF TRANSENERGIE U.S., LTD. AS THE SUCCESSFUL PROPOSER IN RESPONSE TO THE OFF-ISLAND CABLE RFP

WHEREAS, in March 2000, in response to Long Island's substantial and critical need to secure additional sources of electric power supply to meet peak demand forecasts and reserve requirements beginning in the summer of 2002, LIPA issued a Request for Proposals ("RFP") to Build, Own and Operate and to Provide Firm Transmission Capacity over a New Off-Island Cable for 2002 In-Service Date ("Off-Island Cable RFP"); and

WHEREAS, in response to the Off-Island Cable RFP, LIPA received one proposal, from TransEnergie U.S., Ltd. ("TEUS"), for firm transmission capacity over a new approximately 300 MW high voltage direct current transmission cable to be located between New Haven, Connecticut and the Shoreham site (the "Cable"); and

WHEREAS, LIPA has conducted a thorough evaluation of the TEUS proposal against the criteria set forth in the Off-Island Cable RFP, and has also compared the Cable with the alternative resource options available, and has concluded based on its

evaluation that it is desirable to proceed with TEUS' Cable proposal; and

WHEREAS, LIPA has determined that entering into a 20-year contract for the purchase of approximately 300 MW of firm transmission capacity from the Cable will provide the greatest economic benefit to its ratepayers;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman be, and hereby is, authorized to select TEUS as the successful proposer in response to the Off-Island Cable RFP; and be it further

RESOLVED, that the Chairman be, and hereby is, authorized to enter into a firm transmission capacity purchase agreement with TEUS to purchase all of the transmission capacity of the Cable for a 20 year period; and be it further

RESOLVED, that the Chairman be, and hereby is, authorized to bid into the TEUS Open Season Process per FERC order for LIPA to purchase all of the capacity of the Cable; and be it further

RESOLVED, that the Chairman be, and hereby is, authorized to lease property at the Shoreham site to TEUS for the cable terminal facilities; and be it further

RESOLVED, that the Chairman be, and hereby is, authorized to obtain an option to purchase the Cable after completion of the 20 year contract term; and be it further

RESOLVED, that the authority granted to the Chairman under the foregoing resolution shall be deemed to include the authority to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman, to provide for completion of the development of the Cable.

* * *

Chairman Kessel stated that the next item on the agenda is a resolution approving the compensation plan.

Deputy Chairman Foye, Chairman of the Personnel Committee, explained that the compensation plan is needed to enable LIPA to hire and keep talented

personnel to discharge its responsibilities in a very robust economy and in one of the most robust economic areas of the country. He highlighted that the plan is essentially targeted at the middle levels of LIPA, and is certainly not aimed at enriching the top salary levels of LIPA. For instance, he noted that the Chairman's new salary is less than forty percent of the amount received by the Chairman of the New York State ISO, and less than twenty percent of the amount received by the Chairman of KeySpan; and that the salary levels of the two highest paid LIPA executives, the CFO and COO, are unchanged.

Deputy Chairman Foye noted that there has been no LIPA-wide salary increase in over five years. He indicated that over the past two years LIPA has worked on developing an appropriate compensation plan for its employees. He explained that the study effort considered, among other things, input from an independent consulting group called the Hay Group which worked through PricewaterhouseCoopers, a consultant to LIPA, including data on compensation plans of entities comparable to LIPA. He indicated that the Personnel Committee and the Board considered the compensation plan at a number of meetings, and noted that the work of the Committee and the Board included review of a report from the Hay Group entitled "Competitive Compensation Market Analysis and Recommendations." He stated that a summary of the Hay report is available to the public upon request.

Deputy Chairman Foye summarized the principal findings of the compensation plan study as follows:

- ?? Compared to regional general industry, LIPA's executives are paid 32% below the median for total cash compensation and 50% below the median for total compensation. LIPA's professional and managerial staff is nearly 20% below the median for total cash compensation.
- ?? Compared to public authorities and ISOs, LIPA staff is paid 10% below the median for total compensation.
- ?? Compared to public and private utilities nationwide, LIPA's executives are paid 20% below the median for total cash compensation and 33% below the median for total compensation.
- ?? While LIPA is a public authority, its managerial challenges require executives with significant utility industry and technical experience, and this requirement has intensified since LIPA's acquisition of LILCO.
- ?? LIPA will need to compete with regional industry for its professional and administrative workforce.
- ?? The competitive shortfall due to the absence of incentive opportunities, including the inability to offer long-term incentives (stock options and certain deferred compensation plans), poses a serious problem for LIPA in attracting and retaining talented executives.

Deputy Chairman Foye observed that the overall goal of the compensation plan is that base salaries together with incentive-based payments, if earned by virtue of performance, will over time align the total cash compensation of LIPA executives and employees with the median of total cash compensation for public and private utilities nationwide. He indicated that an annual performance review process is being established, with an emphasis on accountability and incentivizing achieving or

surpassing clearly articulated goals.

Deputy Chairman Foye noted that the Chairman had recused himself from the formulation of the compensation plan including the setting of the various salary grade levels, but that going forward the Chairman will have authority to establish the actual compensation levels for LIPA employees except for himself.

Deputy Chairman Foye indicated that the compensation plan involves only LIPA employees and that the Trustees will continue to serve in a non-paid volunteer capacity.

Trustee Nugent stated that she wholeheartedly supports the compensation plan and she underscored the importance of retaining the expertise needed on the administrative, management and support staff level.

Trustee Akeson indicated that she supports the compensation package and believes LIPA has a stellar group of people that should be fairly compensated for their work.

Deputy Chairman Steinberg stated that he agrees LIPA has an outstanding Chairman and staff. He indicated that the Chairman should have the top salary at

LIPA. He indicated that although LIPA personnel could earn in the private sector three or four times the compensation they receive at LIPA, LIPA as a government agency would be measured by different parameters than private sector entities. Therefore a question arises as to the appropriateness of the potential compensation within the top three salary grades. He expressed a concern in particular with setting up a structure that provides for extremely high total potential compensation in these salary grades.

Deputy Chairman Foye stated in response that the Chief Executive Officer's total potential compensation is in the \$150,000-\$160,000 range, even assuming he receives the maximum incentive compensation, and further, the base compensation of the two highest paid LIPA executives has not been increased. He stated that the compensation plan strikes a fair and conservative balance of the various factors involved, including the need to attract and retain necessary expertise in a competitive workplace environment, to bridge part of the gap between LIPA compensation and compensation in the private sector, and to recognize LIPA's governmental status.

Mr. Warren explained that each salary grade has a minimum and maximum range for adjustments, and that almost every position being adjusted has been set at the mid-point of the range. He stated that no one is being paid at the upper end of any range.

Trustee Polimeni stated that government employees should not be paid less than the private sector, and he highlighted the importance of implementing the incentive program with clearly set goals for employee performance.

Trustee Affrunti indicated that LIPA had done a great job transforming the former LILCO, and LIPA personnel have not been paid adequately. Chairman Kessel pointed out that unlike the former LILCO, LIPA conducts its business in a public manner, including adoption of this compensation plan.

Deputy Chairman Steinberg stated that the reality is that LIPA is a governmental agency and will be judged on that basis. He noted that the high end of the compensation structure, although not the planned compensation, is out of line with what other governmental agencies provide for. Deputy Chairman Foye replied that overall the LIPA compensation plan places LIPA, as it should be, in the midst of other state agencies. He added that the compensation plan still puts people having very critical skill responsibilities into the position of receiving a significant discount below what they would earn at other utilities in the State, and a major discount below what they would earn in the private sector.

Deputy Chairman Foye then proposed to amend the proposed resolution to

provide that the base salary level for the CEO is set at \$125,000, there is no increase in base compensation for the COO and CFO, and that for all other positions, the Chairman has the ability to vary from the midpoint of the respective base salary level within the proposed maximum and minimum levels.

Upon motion duly made and seconded, the following resolution was approved unanimously, with Chairman Kessel, having recused himself on this motion, not voting:

496. APPROVAL OF COMPENSATION PLAN

WHEREAS, over the past two years the Authority has worked on developing a fair and reasonable compensation plan for its employees in order to attract, retain and incentivize qualified and productive employees to effectively and efficiently carry out the Authority's mission; and

WHEREAS, the Authority has now developed for adoption such a compensation plan including establishment of a salary structure involving eight salary grades (as set forth in the attached document entitled "Long Island Power Authority Salary Structure January 1, 2000") with base salary and potential incentive compensation, which plan is appropriate in light of compensation plans for positions of similar scope in comparable entities in the marketplace;

NOW, THEREFORE, BE IT RESOLVED, that, for reasons set forth in the accompanying memorandum to the Trustees and herein, said compensation plan is hereby approved for implementation effective January 1, 2000, including the provisions that the base salary for the Chief Executive Officer is initially (i.e., as of January 1, 2000) set at \$125,000, the base salaries of the Chief Financial Officer and the Chief Operating Officer are initially not changed, and that for all other positions, the Chairman has the ability to vary from the midpoint of the respective base salary levels within the proposed range for any such level.

* * *

Chairman Kessel stated that the next item on the agenda is a resolution to adopt Long Island Power Authority guidelines regarding real property acquisition and property disposition contracts.

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

497. APPROVAL OF LONG ISLAND POWER AUTHORITY GUIDELINES REGARDING PROPERTY ACQUISITION AND DISPOSITION CONTRACTS

WHEREAS, the Long Island Power Authority (the “Authority”) believes that it will be useful to establish a process governing dispositions of property and acquisitions of real property and to authorize certain officers to approve routine property transfers and real property acquisitions;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves and adopts the “Long Island Power Authority Guidelines Regarding Property Acquisition and Disposition Contracts” in the form presented at this meeting; and be it further

RESOLVED, that such Guidelines Regarding Property Acquisition and Disposition Contracts are to be effective with respect to the use, awarding, monitoring and reporting of all Real Property Acquisition Contracts and Property Disposition Contracts, as defined in such Guidelines Regarding Property Acquisition and Disposition Contracts, entered into after the date hereof.

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Chairman Kessel stated that the next item on the agenda, regarding the selection of the Fuel Cell Installation Contractors, has been withdrawn and will be considered at a later date.

Chairman Kessel stated that the last item on the agenda is a resolution revising the designation of officers to sign instruments for payments made by LIPA and approving North Fork Bank as a depository of the Authority.

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

498. REVISED DESIGNATION OF OFFICERS TO SIGN INSTRUMENTS FOR PAYMENTS MADE BY THE AUTHORITY; APPROVAL OF NORTH FORK BANK AS A DEPOSITORY

WHEREAS, on May 20, 1998, the Long Island Power Authority (“Authority”) adopted Resolution No. 370 providing that Chase Manhattan Bank, Citibank, Bank of New York, European American Bank, Long Island Commercial Bank, U.S. Trust, and Fleet Bank be designated as depositories of the Authority; and on September 10, 1998, the Authority adopted Resolution No. 397 approving KeyBank as a depository;

NOW, THEREFORE, BE IT RESOLVED, that North Fork Bank is approved as a depository (each of the aforementioned banks is hereinafter referred to as the “Bank”); and be it further RESOLVED, that the officers and agents of the Authority be and hereby are, and each of them hereby is, authorized to deposit any of the funds of the Authority in the Bank either at its head office or at any of its branches; and be it further

RESOLVED, that until the further order of the Trustees, any funds of this Authority deposited in the Bank be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed on behalf of this Authority by two signatures from among the Chairman, the Chief Operating Officer, the Chief Financial Officer, the General Counsel, the Vice President and Controller, the Vice President – Power Markets, the Vice President – Communications, and the Vice President – Retail Services for instruments or orders in a face amount in excess of \$25,000.00, and by one signature from among the officers listed above in this paragraph for instruments or orders in the face amount of \$25,000.00 or less; and be it further

RESOLVED, that the Bank is hereby authorized to pay any such instrument or make any such charge and also to receive the same instruments of issue or the disposition of the proceeds, whether drawn against an account in the name of this Authority or in the name of any officer or agent of this Authority as such, and, at the option of the Bank, even if the account shall not be in credit to the full amount of such instrument or charge; and be it further

RESOLVED, that any officer of this Authority be, and hereby is, authorized to certify to the Bank the names of the Chairman, present officers of this Authority, and other persons authorized to sign for it and the offices respectively held by them together with specimens of their signatures, and in case of any change of any holder of any such office or holders of any such offices, the fact of such change and the names of any new officers and the offices respectively held by them together with specimens of their signatures, and the Bank be, and hereby is, authorized to honor any instrument signed by any new officer or officers in respect of whom it has received any such certificate or certificates with the same force and effect as if said officer or said officers were named in the foregoing resolutions in the place of any person or persons with the same title or titles; and be it further

RESOLVED, that the Bank be promptly notified in writing by any officer of this Authority of any change in these resolutions, such notice to be given to each office of the Bank in which any account of the Authority may be maintained and that until it has actually received such notice in writing it is authorized to act in pursuance of these resolutions, and that until it actually so received such notice it shall be indemnified and saved harmless from any loss suffered or liability incurred by it in continuing to act in pursuance of these resolutions, even though these resolutions may have been changed.

* * *

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:

499. 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.

* * *

At 12:20 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 12:45 p.m. the executive session was adjourned and the open session was reconvened.

Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 12:45 p.m.

Respectfully submitted,

Stanley B. Klimberg