

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 132nd MEETING

HELD ON MARCH 22, 2001

Pursuant to notice dated March 15, 2001, the Long Island Power Authority (the "Authority") was convened for the one hundred and thirty-second time at 10:20 AM at the J.W. Dye Training Center in Hauppauge, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Michael Affrunti
NancyAnn Akeson
Harvey Auerbach
Thomas Doherty
Harriet Gilliam
Joseph Janoski
Robert Maimoni
Nancy Nugent
Vincent Polimeni
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Diana Taylor, Chief Financial Officer, Edward Murphy, Chief Administrative Officer and Vice President and Controller, Bert Cunningham, Vice President - Communications, Richard Bolbrock, Vice President – Power Markets, William Davidson, Director of Government Relations, Christopher Furlong, Director of Customer Relations, Bruce Germano, Vice President – Retail Services, Michael Hervey, Director of Transmission and Distribution Operations, and Rosemarie Fama, Secretary to the Board.

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

Chairman Kessel stated that the first item on the agenda is approval of the minutes of the March 1 Board Meeting.

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

532. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE MARCH 1, 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 March 1, 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.

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

533. APPOINTMENT OF ACTING DEPUTY CHAIRMAN

RESOLVED, that the Long Island Power Authority Board of Trustees hereby appoints Joseph Janoski to serve as acting Deputy Chairman for the March 22, 2001 meeting

of the Board.

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Chairman Kessel proceeded to make some initial remarks, while deferring his full report to the end of the meeting. He reported that 5,484 outages occurred, mostly in the Central Division, due to the storm Long Island experienced over the past twenty-four hours. He indicated that as of 9:00 o'clock this morning only 284 customers were still affected. He stated that the snowstorm of March 4 to March 6 caused 10,479 outages over the three-day period and that the average restoration time during this storm was less than ninety minutes. He explained that during the first summer following LIPA's acquisition of LILCO, Long Island experienced storms that were far less severe than last night's storm but experienced outages exceeding 50,000 or 60,000 at a time. He commented that due to the poor condition of the electric system at the time of the acquisition, LIPA had to spend double the amount anticipated for the capital budget. He commended the Board for its commitment to the ratepayers to invest in and improve the reliability of the electric system. He explained how the union workers perform their duties during the storms and praised them for their extraordinary job in restoring electric service for LIPA customers.

Chairman Kessel stated that the next item on the agenda is the Operating Report, to be delivered by Mr. Hervey. Mr. Hervey commenced with an explanation of the reliability performance measurements. He reported that the System Average Interruption Frequency Index ("SAIFI") results show approximately 16.6 months as

the average period between customer interruptions. He stated that this has been an improving trend during the past few years, and this level is expected to continue for the next few years. He reported that the Customer Average Interruption Duration Index (“CAIDI”) results show approximately 64 minutes as the average length of a customer interruption, which is the second best among overhead utilities in the State, and that this level is also expected to continue for the next few years.

Mr. Hervey then proceeded to explain the contents of a package provided to the Trustees entitled “Taking Utility Maintenance to the Next Level,” which sets forth LIPA’s activities to maintain the electric system. He indicated that LIPA’s maintenance program is typical for a utility with aging facilities. He explained that this maintenance program is called time-based maintenance, reflecting that different types of equipment are maintained on different yearly cycles. He indicated that LIPA will be implementing the Maintenance Management Workstation (“MMW”), a data-mining tool, to examine all of the outage and interruption data and more readily determine which equipment is still functioning appropriately and which equipment needs to be replaced. He explained that LIPA needs to be prepared as a utility to manage the end of operating life of the older equipment, some of which has been in service for about seventy years, and to replace such equipment as its performance starts to deteriorate.

With respect to Reliability Centered Maintenance, Mr. Hervey explained that this is a fairly complex program that LIPA will need to put into effect in order to

access risk, prioritize work, and examine the particular modes of failure of various types of equipment and their location on the electric system. He indicated that LIPA is launching training sessions on this program during the first week of April.

Chairman Kessel stated that the next item on the agenda is the Finance Report, to be presented by Ms. Taylor and Mr. Murphy. Ms. Taylor indicated that a draft of the year 2000 audit report was distributed to the Trustees this morning. She stated that the report will be finalized within the next day or so and will be included in the Official Statement for the upcoming bond issue. She then commended LIPA's financial reporting group, including Mr. Kane and his staff, for their tremendous effort in finishing the audit report in a timely manner.

Ms. Taylor then reported on LIPA's cash position and indicated that the Board package includes a chart showing the cash position as of March 20. She indicated that LIPA is in a bit of a cash position shortfall, which will be rectified on March 29, the closing date for the upcoming bond issue, since LIPA will then have approximately \$300 million added to its cash position.

With respect to that upcoming bond issue, Ms. Taylor stated that Salomon Smith Barney will be managing the transaction and Morgan Stanley Dean Witter, LIPA's financial advisor, will be overseeing the transaction. She indicated that the Board package contains a binder from Salomon Smith Barney that provides detailed information on interest rates and market conditions today. She stated that section

two of that binder presents an insurance breakeven analysis and indicates that Financial Security Assurance Inc. insured \$150 million of the term bonds. She indicated that section three of the binder sets forth the pricing statistics for the 2000 bond issue as compared to the various other LIPA bond issues. Ms. Taylor indicated this is the first time LIPA has issued bonds based on its own credit, which reflects the fact that LIPA is doing well in the market. She further explained that the binder includes a municipal market comment, and the final pricing numbers for that bond issue. She further reported that the True Interest Cost was approximately 5.37 percent and that LIPA's ratings from the rating agencies are BAA1 from Moody's, A- from Fitch and A- from Standard & Poor's.

Ms. Taylor went on to explain that LIPA will be remarketing \$27 million worth of its Series A8 bonds, which Paine Webber has been chosen to manage. She indicated that LIPA plans to issue \$300 million worth of tax-exempt commercial paper within the next few months. She stated that the letter of credit on the variable rate bonds and the short-term bonds, which LIPA issued in 1998, terminates in May of 2001 and that LIPA is working with the letter of credit banks to extend and restructure that letter of credit. She stated that the final results of the issuance are expected to be within the \$750 million letter of credit for short-term financing. She further explained that LIPA will be obtaining a total of \$1.1 billion in letter of credit capacity, which will cover \$300 million in commercial paper and about \$700 million of the \$1.5 billion in debt that LIPA plans to restructure. She indicated that the remainder of that \$1.5 billion will consist of about \$500 or \$600 million of auction rate

securities which require insurance. She explained that LIPA will determine how much letter of credit capacity and insurance capacity it has, and that any remaining monies needed will be obtained through swap and/or fixed rate bonds in the variable rate market. She stated that LIPA has received positive responses from the letter of credit banks and insurance companies.

Mr. Murphy explained that the reports on results of operations will be deferred to the next Board meeting since the finance department has not closed the books for January. He indicated that the department has been concentrating on the year-end closing of the financials.

With respect to the upcoming bond issue, Trustee Doherty asked Ms. Taylor whether LIPA anticipates paying more or less than the current amount LIPA is paying for the \$1.5 billion of debt. Ms. Taylor responded that it should be equal when the transaction is completed due to the fact it will be in short term bonds. She stated that LIPA will be able to get a slight advantage on the letter of credit fees and on the actual interest rates compared to what LIPA is paying now.

Trustee Polimeni asked whether there was any perception on Wall Street that the bonds were oversubscribed, Ms. Taylor responded in the affirmative and indicated the bonds had to be repriced slightly upwards.

Chairman Kessel indicated that the next item on the agenda is approval of

the resolutions adopting a plan of finance relating to the restructuring of the Series 1-6 Subordinate Lien Bonds. He explained that the Trustees are being requested to approve and adopt a plan of finance relating to the Authority's outstanding \$1.5 billion Electric System Subordinated Revenue Bonds, which includes the Series 1-6 Bonds issued in 1998 that have been secured by letters of credit from various banks. He indicated that those letters of credit expire on May 25, 2001.

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

533. ADOPTING CERTAIN RESOLUTIONS APPROVING A PLAN OF FINANCE RELATING TO THE SERIES 1-6 BONDS

WHEREAS, Long Island Power Authority (the "Authority") is authorized by the Long Island Power Authority Act (the "Act") to issue its bonds for any purposes authorized thereby and to adopt bond resolutions establishing the contract with its bond and note holders; and

WHEREAS, on May 13, 1998 the Authority adopted its Electric System General Revenue Bond Resolution (the "General Resolution"), which, consistent with the Act, authorizes bonds of the Authority, designated as "Electric System General Revenue Bonds" (the "Senior Lien Bonds"), as special obligations of the Authority in accordance with the terms thereof for, among other purposes, refunding Subordinated Indebtedness (as defined therein); and

WHEREAS, on May 20, 1998 the Authority adopted its Electric System General Subordinated Revenue Bond Resolution (the "Subordinated Resolution"), which, consistent with the Act, authorizes bonds of the Authority, designated as "Electric System Subordinated Revenue Bonds" (the "Subordinate Lien Bonds"), as special obligations of the Authority in accordance with the terms thereof for, among other purposes, refunding Subordinated Bonds (as defined therein); and

WHEREAS, on May 28, 1998, the Authority issued \$1,500,000,000 of its Electric System Subordinated Revenue Bonds, Series 1 through 6 (the "Series 1-6 Subordinate Lien Bonds"); and

WHEREAS, in order to achieve savings and other benefits the Authority plans to implement a plan of finance (the “Plan of Finance”) providing for the restructuring of all or part of the Series 1-6 Subordinate Lien Bonds by (i) issuing Senior Lien Bonds (the “Refunding Senior Lien Bonds”) and/or Subordinate Lien Bonds (the “Refunding Subordinate Lien Bonds”) for the purpose of refunding all or part of the Series 1-6 Subordinate Lien Bonds, (ii) changing the interest rate determination methods applicable to all or portion of the Series 1-6 Subordinate Lien Bonds to different interest rate determination methods and remarketing the same, or (iii) any combination of (i) and (ii); and

WHEREAS, Sections 51 and 1020-f of the Public Authorities Law provide that the acquisition, financing and construction of any project by certain public authorities, including the Authority, is subject to the approval of the Public Authorities Control Board (the “PACB”); and

WHEREAS, on April 22, 1998, the PACB adopted a resolution approving the issuance of the Series 1-6 Subordinate Lien Revenue Bonds, which resolution recognizes that the interest rate determination method applicable to all or part of the Series 1-6 Subordinate Lien Bonds may be adjusted from time to time, but does not address all of the actions to be taken as part of the Plan of Finance; and

WHEREAS, the Authority plans to submit to the PACB an application (the “PACB Application”) requesting approval for the issuance of the Refunding Senior Lien Bonds and Refunding Subordinate Lien Bonds and certain of the related transactions to be taken as part of the Plan of Finance.

NOW, THEREFORE, BE IT RESOLVED BY THE TRUSTEES OF THE LONG ISLAND POWER AUTHORITY, AS FOLLOWS:

- 1. The Plan of Finance described above is hereby approved and adopted.**
- 2. Each Authorized Representative (as defined in the General Resolution) is hereby authorized to proceed to take preliminary actions necessary to permit the Authority to effectuate the Plan of Finance, including preparation of necessary resolutions, disclosure documents and other financing and remarketing documents and filing of requests for all necessary approvals for the issuance of Refunding Senior Lien Bonds and Refunding Subordinate Lien Bonds and the taking of other actions necessary to implement the Plan of Finance, including the filing of the PACB Application .**
- 3. This resolution shall take effect immediately.**

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Chairman Kessel indicated that the last item on the agenda is the Chairman’s Report. He indicated that he will discuss a three-pronged approach important for LIPA to meet Long Island’s future energy needs. He indicated that recently Energy Secretary Abraham, in the course of making general comments about possible future energy shortages, linked to some extent California with Long Island and New York State. Chairman Kessel stated that was an unfortunate linkage. He pointed out that while Energy Secretary Abraham’s comments about the future are constructive and appreciated, the energy crisis being faced in California is not the same problem that Long Island faces. Chairman Kessel indicated that LIPA’s resources and electric system are in good shape to meet the demands of this summer.

In regard to future power plants, Chairman Kessel indicated that the New York Power Authority is moving forward in the construction of a 44-megawatt unit at the Brentwood facility at Pilgrim State that is expected to be ready in June, and he indicated that LIPA issued a solicitation of interest in February for construction of a small gas-fired power plant at KeySpan’s Far Rockaway generating facility site. He indicated that a Florida Power and Light subsidiary submitted the preferred proposal to construct a 44-megawatt gas-fired generating facility on the Far Rockaway site, and LIPA would enter into a power purchase agreement with Florida Power and Light, which will enable LIPA to better serve its customers in Far Rockaway. He indicated that LIPA will propose to be the lead agency under SEQRA regarding this

project, and as such would make a determination whether the project requires an Environmental Impact Statement. He indicated this project would alleviate the need for LIPA to export energy to Far Rockaway on hot summer days. He explained that the planned New York Power Authority power plant in Brentwood along with the plant in Far Rockaway would give LIPA sufficient capacity to meet requirements this summer.

Chairman Kessel stated that, assuming normal circumstances, LIPA is in very good shape at this time from a resource point of view, but the future presents a great challenge. He indicated that the California situation has demonstrated that without enough power, blackouts are inevitable. He stated that absent some new on-island generation along with transmission enhancements, LIPA customers could be in serious trouble.

Chairman Kessel reported that LIPA's Energy Conservation program, which is of utmost importance and LIPA's first line of defense, is working extremely well. He indicated this is the first of the three-pronged approach – energy efficiency and new technologies. He stated that despite some critics' opinion of the program, LIPA will continue to move forward and enhance this program that last year saved 100 megawatts of power, more than the amount of additional capacity that would be made available from the two proposed power plants to be on line this summer. He indicated that LIPA is also expected to announce in the next thirty to sixty days some

major new projects using solar energy and fuel cells which will help Long Island save energy.

Chairman Kessel then indicated that the second of the three-pronged approach is transmission to Long Island from other parts of the region. He explained that TransEnergie has been engaged by LIPA to construct a new line under the Long Island Sound from New Haven, Connecticut to Shoreham. He explained that the line would provide Long Island with capability to import or export 330 megawatts, and would enable LIPA to access power from other parts of the region, including New England, upstate New York and Canada. He explained that Connecticut's Attorney General Blumenthal has with some success taken a stand against this project. He stated that the Connecticut Siting Board recently took a straw vote that, if affirmed in a subsequent formal vote, would be negative towards this project. Chairman Kessel stated that if this line is not completed by the summer of 2002, Long Island will be faced with the challenge of coming up with about 300 megawatts of on-Island capacity in place of the cross-Sound cable, and this would also limit LIPA's ability to provide competitive energy and enhance competition since Long Island would not be able to access needed supply from other parts of the region. He indicated that LIPA would be reaching out to the Energy Department and the Energy Secretary to provide assistance in securing additional transmission for Long Island.

Chairman Kessel stated his concern that the cross-Sound cable will not be completed on time and that this is not only a threat to Long Island but to New England as well. He indicated that he has asked Mr. Klimberg, Mr. Grilli and Mr. Bolbrock to form a team to be prepared for the possibility that the line may be blocked or at least delayed to the point where alternative measures will need to be considered.

Chairman Kessel stated the third of the three-pronged approach is to continue with on-Island generation. He indicated that there has not been a new power plant built on Long Island in approximately ten years. He noted that on-island generation is the most reliable form of generation, and LIPA is looking at a number of sites and alternatives for the possibility of building new generation facilities on Long Island. He observed that if LIPA began the process of building on-Island generation now, it would still take years for it to be available to LIPA customers. He stated that LIPA would have to take the lead and the responsibility to site additional generation on Long Island to ensure there is enough power for LIPA's customers.

Chairman Kessel stated that he is aware that some Long Islanders do not want additional transmission lines and power plants, but that in order to maintain a strong economy, successful businesses and construction of new homes on Long Island, LIPA needs to have additional power supply. He stated that while LIPA would like to provide the needed power through energy conservation, that is simply not enough.

Trustee Doherty pointed out that the Attorney General of Connecticut cited as a reason for opposing the cross-Sound cable project that Long Island could drain power from Connecticut. Trustee Doherty noted that the California situation may be having the effect of leading people to guard their resources, such as in Connecticut. He asked what the environmentalists think about LIPA's future plans regarding generation on Long Island. Chairman Kessel responded that TransEnergie has been meeting with various environmental groups and is working on a program to contribute money to the restoration of the oyster beds under the Sound. He indicated that the cross-Sound cable would not only assist Long Island but New England as well, i.e., that the cable is a two-way street. He observed that Long Island has exported power to New England in the past, and that with this cable Long Island could receive needed power and in return could supply New England with power when there is a surplus. He indicated that LIPA will have to work hard to have this cable proceed as planned, and he emphasized the importance of securing additional transmission to Long Island. He stated that if people see that public officials can stop one transmission line, then they may believe they can stop all transmission lines. He stated that the federal government might have to intervene in regard to Connecticut because this issue is not only important for Long Island but is vital to the country. He indicated that states cannot isolate themselves from helping other states and people have to work together as team to help each other during times of need. He stated that Governor Pataki should be applauded for stepping up

and fighting for the interests of Long Islanders.

Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 11:35 a.m.

Respectfully submitted,

Stanley B. Klimberg