

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 142nd MEETING
HELD ON MARCH 28, 2002**

Pursuant to notice dated March 21, 2002, the Long Island Power Authority (the "Authority") was convened for the one hundred and forty-second time at 10:10 AM at the J.W. Dye Training Center in Hauppauge, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Michael Affrunti
Nancy A. Akeson
Thomas Doherty
Edna Gerrard
James Hermann
Robert Maimoni
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, Jr., Chief Administrative Officer, Bert Cunningham, Vice President - Communications, Richard Bolbrock, Vice President - Power Markets, Bruce

Germano, Vice President - Retail Services, Kenneth Kane, Controller, and Kathleen Stella, Secretary to the Board of Trustees.

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

Chairman Kessel indicated that the first item on the agenda is approval of the minutes of the February 28 Board meeting.

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

585. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE FEBRUARY 28, 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 February 28, 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. Germano.

Mr. Germano reported that LIPA's added load for the period ending in February was 3.37 megawatts. He stated that LIPA foresees commitments of 30 megawatts for the balance of the year, which measures well against LIPA's goal of 38 megawatts.

Mr. Germano reported that LIPA's projected added annual revenues, other than from the fuel surcharge, are \$13.8 million.

Mr. Germano reported that LIPA is utilizing programs such as the Peak Load Reduction Program and the Direct Load Control Program to help meet the energy demands for the summer of 2002. He added that LIPA's Direct Load Control Program goal is 12.99 megawatts this year, and LIPA has set a goal of 18 megawatts or approximately 20,000 customers by June 1. He noted that LIPA currently has approximately 11,000 customers in the program, which accounts for approximately 11 megawatts, and LIPA is installing new switches at a rate of approximately 500 to 550 per week.

Mr. Germano reported that LIPA's goal for its commercial Peak Load Reduction Program is 177 megawatts by June 1. He stated that LIPA currently has approximately 90 customers in the program, accounting for 41 megawatts.

Mr. Germano reported that LIPA's revenue collections are \$69 million through February of 2002, with approximately two-thirds from residential customers and one-third from commercial customers. He added that LIPA's performance in collecting arrears has improved from its 2001 levels.

With respect to reliability performance, Mr. Germano reported that LIPA's SAIFI index reflects 15 months between interruptions. He added that LIPA's

CAIDI index shows an average of 63 minutes for interruptions, as opposed to the statewide average of 105. He noted that LIPA has again been rated first in the State in terms of reliability for all overhead utilities.

Chairman Kessel commended LIPA's employees and contractors for their work to improve LIPA's system. The Chairman also commended LIPA's Board for the investments made towards capital improvements to LIPA's transmission and distribution system.

Deputy Chairman Foye stated that he recently observed work on the Y50 cable at Middleneck Road in Port Washington, and he was impressed with the project organization and the enthusiasm of the Project Managers and the crew who expect to complete the project by the aggressive April 1st deadline. He commended the project managers, Mr. Vincent Esposito and Mr. James Baker, as well as their crew, for an impressive performance.

Chairman Kessel commended Deputy Chairman Foye for his attention to the Y50 cable project, and he commended LIPA's employees for their work on the project.

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

Ms. Taylor reported that LIPA has sold \$27 million worth of bonds maturing through 2009 for the remarketing of LIPA's Series 8 issue, at a rate of 4.4 percent. She stated that the issuance was handled by Solomon Smith Barney, and LIPA has been pleased thus far.

Ms. Taylor reported that LIPA's financials are ahead of the budgeted amounts for the year-to-date, primarily due to the lower than budgeted fuel costs. She stated that LIPA's revenues are also lower than budgeted, with residential and commercial sales being slightly lower, mostly due to the mild weather and the poor economy.

Chairman Kessel wished all in attendance a happy holiday, and he apologized that this Board meeting was scheduled on the first day of Passover, but the scheduling had been made long in advance.

Chairman Kessel reported that LIPA is aggressively moving to ensure that it meets its peak demand this summer. The Chairman stated that the New York Independent System Operator (NYISO) has named Long Island as the most critical area in the State in terms of energy supply this year. He noted that the NYISO did not acknowledge the projects that LIPA has initiated to meet that demand. He noted that LIPA is attempting to add more than 700 megawatts of power, but there will be some very tight days this summer.

Chairman Kessel stated that he is pleased that the Army Corps of Engineers approved the construction of the Cross-Sound cable. The Chairman indicated that he met with Mr. Richard Blumenthal, the Attorney General of Connecticut, who will continue to oppose the project. Chairman Kessel stated that he indicated to Mr. Blumenthal that Connecticut will also have severe electricity supply issues this summer, and the Cross-Sound cable may be as necessary and helpful for the State of Connecticut as Long Island.

Chairman Kessel reported that the Cross-Sound cable has been manufactured, and it will arrive via ship in approximately one month. The Chairman added that the cable will be installed in late April or May in order to comply with the requirements of the Army Corps of Engineers, and absent a court injunction, the 330 megawatt cable may be operational in June. He stated that the cable will be a valuable upgrade to the transmission system for the entire region.

Chairman Kessel reported that LIPA is expeditiously moving to add ten units of on-island generation for the summer. The Chairman stated that the unit under construction in Far Rockaway by Florida Power and Light has received additional staffing, and is projected to be operational in June.

Chairman Kessel reported that the two KeySpan units at Glenwood Landing and the two KeySpan units at Port Jefferson are also progressing. The Chairman anticipated that all four units may also be operational in June.

Chairman Kessel reported that work on the Calpine project at the Grumman facility in Bethpage started slowly, but it is now progressing rapidly. The Chairman thanked Mr. Hulkower and Mr. Grilli for working with Calpine and providing incentives to complete the project by July 1, 2002.

Chairman Kessel reported that the PP&L projects are also progressing at Shoreham and Brentwood after initially falling a little behind. The Chairman stated that the two projects at Shoreham and the two projects at Brentwood have all progressed rapidly after PP&L added additional employees and shifts, and LIPA hopes that the units will be operational by July 1, 2002.

Chairman Kessel stated that the ten new units should supply 400 additional megawatts for this summer, and the Cross-Sound cable will add another 300 megawatts. The Chairman added that LIPA has responded to the energy crisis in a manner unlike in most other areas in the State.

Chairman Kessel stated that the report of the NYISO details the events during the heat wave last summer. The Chairman indicated that the full operation of all of the power plants aided LIPA during the heat wave. He commented that KeySpan and LIPA did a phenomenal job in keeping those plants running last summer. He continued that LIPA was also very lucky that none of the plants failed, and despite the additional megawatts, LIPA could be in the same position as last summer if a major unit fails. He stressed that LIPA must plan for all contingencies.

Chairman Kessel urged that LIPA continue to aggressively pursue its Clean Energy Initiative, which is beginning to show significant results. The Chairman stated that the Peak Load Reduction Program is critical, but LIPA needs to do more in terms of energy efficiency.

Chairman Kessel indicated that LIPA will participate in the “Keep Cool” statewide bounty program. He noted that 14,000 or 35 percent of all of the air conditioners turned in under the statewide conservation program were in the LIPA service territory, and LIPA intends to exceed that percentage this year.

Chairman Kessel stated that LIPA is also aggressively pursuing alternative technologies for this summer, including LIPA’s East End wind projects and its fuel cell projects. The Chairman indicated that LIPA has seventy-five fuel cells connected to the grid in West Babylon, and LIPA will begin to distribute additional fuel cells throughout Long Island in municipal buildings and businesses to evaluate their performance.

Chairman Kessel indicated that he agrees with the report of the NYISO that Long Island desperately needs to add baseload generation by 2005 or 2006, although the NYISO did not recognize LIPA’s addition of megawatts into the system. The Chairman stated that he is not confident that the contemplated projects will be completed, other than the Spagnoli Road project. He added that challenges within the industry include effects of the Enron scandal and financing

problems, and he observed that many companies that desired to construct generation on Long Island are looking to other companies to purchase their interests and are also canceling projects in other parts of the country.

Chairman Kessel indicated that he intends to pursue the possibility of building a new 500 to 600 megawatt facility on Long Island with a partner. The Chairman stated that the outcome may depend upon the success of repowering discussions with KeySpan relating to the proposed GPRA extension. He noted that repowering would not occur for years, and LIPA could not afford to shut down a baseload plant to repower during a peak season due to the insufficient capacity. He indicated that LIPA will talk to several companies that have already expressed interests in such projects, and LIPA will evaluate its options in the interest of its ratepayers.

Chairman Kessel stressed that LIPA must keep pace with the growth in demand to prevent blackouts, even though LIPA's sales were slower this past winter. The Chairman noted that sales were beginning to increase again, and this may be a record-breaking summer. He stated that LIPA cannot keep up with the demand simply by adding small power plants.

Chairman Kessel commended Mr. Grilli for his efforts to coordinate the construction of the new power plants and the Cross-Sound cable. The Chairman stated that the construction of generation has been a difficult process, which has required great attention from LIPA's staff. He praised Mr. Grilli, Mr. Cunningham,

Mr. Hulkower, LIPA's staff and NYPA for their hard work towards completing the ten generation projects.

Chairman Kessel entertained a motion to go into executive session to discuss litigation and personnel issues, and proposed agreements with KeySpan.

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

586. 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, and proposed agreements with KeySpan.

At 10:37 AM the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 11:53 AM the executive session was adjourned and the open session was reconvened.

Chairman Kessel stated that the next item on the agenda is the consideration by the Board of an agreement to extend the period of time for LIPA to exercise its right under the Generation Purchase Right Agreement to purchase KeySpan's on-Island generation from the current expiration date of May 28, 2002, to May 28, 2005, with the new exercise period to commence in November of 2004.

The Chairman indicated that LIPA and KeySpan would agree to discuss specific possible measures to enhance competition, including repowering, and the sale of some but not all of the plants to LIPA or to third parties.

Chairman Kessel stated that LIPA, in a related agreement with KeySpan, would agree to extend the Management Services Agreement for thirty months and would capture additional synergy savings for LIPA's customers. The Chairman stated that the agreements represent a major step forward in assisting LIPA and its customers to reach the best course in order to ensure ample electric supply on Long Island.

Chairman Kessel commended LIPA's staff for their work supporting the original recommendation that LIPA exercise its right by May 27, 2002 to purchase KeySpan's generation. The Chairman indicated that LIPA probably would have moved forward to exercise that right had LIPA and KeySpan not been able to work together with the assistance of the Governor's staff to come up with the currently proposed agreements. He noted that the extension of the Management Services Agreement and a related extension of the Energy Management Agreement must be approved by the State Comptroller and the Public Authorities Control Board, and LIPA and KeySpan have agreed to work diligently to obtain those approvals.

Chairman Kessel reiterated that LIPA has the opportunity to enter into immediate discussions with KeySpan about the possibility of a new arrangement

which would best serve the interests of the people of Long Island. The Chairman indicated that he will meet with Mr. Catell on April 10, 2002, to begin examining alternatives, and if expeditious progress is made, a plan regarding generation on Long Island may be developed by the end of 2002.

Chairman Kessel reemphasized that the GPRA extension presents an opportunity to examine alternatives, including the possibilities of repowering one or more plants, the ownership of some of the plants by LIPA or third parties, and the introduction of competition into the market. The Chairman stated that repowering holds one of the greatest potentials for the increase of LIPA's capacity, the reduction of emissions and ensuring a sufficient supply of electricity. He added that LIPA as a state entity has the ability to finance projects realizing cost savings, and LIPA would benefit from KeySpan's knowledge of the generation in a partnership between the public and private entities.

Chairman Kessel stated that LIPA received varied input concerning the exercise of the GPRA right, ranging from those who felt that the right should be exercised immediately to those who felt that LIPA should let the right expire. The Chairman highlighted that LIPA's approval of the extension will give LIPA and Long Island the opportunity to explore alternatives that can lead to a stronger, more reliable and less costly electrical generation system on Long Island with the potential for wholesale competition. He emphasized that LIPA has agreed to extend the GPRA to explore other alternatives, which could be more beneficial to the public than sole ownership of all of the power plants by one company. He

noted that the alternatives of either LIPA or KeySpan owning all of the plants should be considered in the context of fully addressing repowering, labor issues, distributed generation and future generation issues.

Chairman Kessel stated that he expects LIPA and KeySpan to reach an agreement or plan to replace the current GPRA approach before the exercise period begins in November of 2004. He indicated that the reliability of the electric system may be jeopardized if LIPA delays action on a new agreement, such as a failure to initiate the repowering of some of the existing plants. He added that LIPA should integrate these considerations into its Comprehensive Energy Plan document, for which a first draft may be completed within sixty to ninety days. He recommended that the Board approve the proposed resolution authorizing the Chairman to enter into amendments to the GPRA, MSA and EMA.

Trustee Doherty stated that one of LIPA's primary responsibilities is to ensure that Long Island residents and businesses have a stable source of energy supply at a reasonable cost, namely the cost of the generation. He indicated that the current Power Supply Agreement provides for that, and KeySpan has performed positively. He added that the GPRA extension affords LIPA the opportunity in a deregulated environment to ascertain what plants will be built on Long Island, whether the Cross-Sound cable will be installed and at what rate the Long Island economy will continue to grow.

Trustee Doherty stated that LIPA has devoted a tremendous amount of

time, effort, resources and capital into the construction and operation of the ten new generation units planned for the summer, which will be a major accomplishment considering the size of LIPA's staff. He indicated that the GPRA extension allows for greater flexibility without altering any financial terms.

Trustee Sinnreich indicated that he is aware of the effort and thought dedicated to this proposal, but with all due respect he will vote against the resolution. He stated that the time has arrived to finalize LIPA's "divorce" from KeySpan. He noted that LIPA as a public entity has the unique opportunity to make decisions with the goal of maximizing benefits to the ratepayers, whereas KeySpan is a private entity whose interest is to maximize profits for its shareholders, and this has led to serious problems in the partnership.

Trustee Sinnreich indicated that KeySpan has proven to be a faithless partner for LIPA, and he cited its failure to disclose the terms of Chairman Catacasinos' parachute during the original negotiations, KeySpan's placement of fiber optic cable on LIPA's poles without informing LIPA, KeySpan's questionable accounting practices in terms of cost allocation and other issues, and most recently KeySpan's failure to cooperate with LIPA in the due diligence process related to the GPRA right. He indicated that LIPA could best serve its ratepayers by taking control of its energy future, and extending the period for exercising the GPRA right only increases the risk that it will never be exercised.

Deputy Chairman Foye expressed his respect for Trustee Sinnreich's

views, but he noted that the GPRA right is an asset having a value, and it is beneficial to extend the exercise period for the right for a short period while establishing a comprehensive energy plan for Long Island. He added that the proposed agreements reflect an obligation for LIPA and KeySpan to negotiate in good faith to solve the important short, medium and long term energy issues.

Upon motion duly made and seconded, the following resolution was approved with Trustee Sinnreich opposing:

587. RESOLUTION AUTHORIZING THE CHAIRMAN TO ENTER INTO AMENDMENTS OF GENERATION PURCHASE RIGHT AGREEMENT, MANAGEMENT SERVICES AGREEMENT AND ENERGY MANAGEMENT AGREEMENT

WHEREAS, under the Generation Purchase Right Agreement (“GPRA”), dated as of June 26, 1997, LIPA has a one-time Right to purchase all of the Interests in KeySpan Generation LLC; and

WHEREAS, the GPRA provides that LIPA may exercise the Right by delivering written notice to KeySpan on or before May 27, 2002; and

WHEREAS, on March 11, 2002, LIPA and KeySpan signed an Agreement in Principle relating to extension of the GPRA, which Agreement in Principle provides that, inter alia (i) LIPA’s Right under the GPRA to purchase KeySpan Generation will be exercisable during a period beginning on November 29, 2004 and ending on May 28, 2005; (ii) the Management Services Agreement (“MSA”), dated as of June 26, 1997, under which KeySpan performs day-to-day management and operation of LIPA’s electric system, will be extended from a current term expiring May 28, 2006 to a new term running through November 30, 2008 (the latter date has since been updated to December 31, 2008), and (iii) as further embodied in a subsequent letter agreement, KeySpan and LIPA will promptly undertake an evaluation of specific measures designed to enhance competition within the electric generating industry on Long Island and reduce retail electricity rates, among other matters; and

WHEREAS, for the reasons set forth in the accompanying Memorandum, in order to secure substantial benefits for LIPA and its customers and advance the public interest, the Agreement in Principle should be effectuated, and as a related matter certain amendments should be made to the Energy Management Agreement (“EMA”), dated as of June 26, 1997, under which KeySpan furnishes to LIPA specified fuel services as well as power supply management services;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman be, and hereby is, authorized to enter into amendments of the GPRA, MSA and EMA, and letter agreement, as referenced above; and be it further

RESOLVED, that the authority granted to the Chairman under the foregoing resolved clause 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 effectuate the amendments of the GPRA, MSA and EMA.

Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 12:20 PM.

Respectfully submitted,

Stanley B. Klimberg