

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE 128<sup>th</sup> MEETING**

**HELD ON NOVEMBER 16, 2000**

Pursuant to notice dated November 9, 2000, the Long Island Power Authority (the "Authority") was convened for the one hundred and twenty-eighth time at 7:20 PM 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  
Michael Faltischek  
Rupert Hopkins  
Joseph Janoski  
Robert Maimoni  
Nancy Nugent**

**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, Bruce Germano, Vice President – Retail Services, Richard Bolbrock, Vice President – Power Markets, William Davidson,**

**Director of Government Relations, Laurie Leat, Secretary to the Board, Corey Horowitz, Manager of Energy Services and Power Supply Administration, and Meena Malhotra, Senior Accountant.**

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

**Chairman Kessel asked Mr. Hulkower to clarify a response he made to an inquiry from Trustee Nugent at the last Board meeting regarding emissions from the Nine Mile Point Two nuclear plant. Mr. Hulkower stated that, as indicated in the two-page report entitled “Effluent Releases from Nine Mile Point Two,” there are some very limited liquid and gas emissions from that plant. He indicated that the plant conforms to its technical specifications, and its very limited emissions are significantly lower than what is allowed.**

**Trustee Nugent thanked Mr. Hulkower for that clarification and moved to have the aforementioned two-page report placed in the record. Upon that motion being duly made and seconded and approved unanimously, the report was placed in the record.**

Chairman Kessel stated that the first item on the agenda is approval of the minutes of the October 31 Board Meeting.

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

**509. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE OCTOBER 31, 2000 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY**

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**RESOLVED**, that the Minutes of the meeting of the Authority held on October 31, 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.

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Chairman Kessel stated that the next item on the agenda is a resolution adopting proposed revisions to LIPA's tariff to extend and improve business development programs. He stated that notice of the proposed action was published in the State Register on September 13, 2000 and two public hearings were held on November 2, 2000. He indicated that the only public comment received was from the Empire State Development Corporation, which was fully supportive of LIPA's proposal. Mr. Germano delivered a brief report explaining the tariff revisions. Chairman Kessel thanked Mr. Germano for his phenomenal work on economic

development, and thanked the Economic Development Committee, including Trustees Hopkins and Faltichek, for their outstanding efforts in this area.

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

**510. ADOPTION OF REVISIONS TO LIPA'S TARIFF REGARDING BUSINESS DEVELOPMENT PROGRAMS**

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WHEREAS, in September 2000, the Long Island Power Authority ("Authority") issued a Notice of Proposed Rulemaking inviting public comment on the Authority staff's proposal ("Proposal") to extend and improve LIPA's existing Business Development Programs; and

WHEREAS, the Proposal would restructure the Business Development Programs into four separate initiatives, i.e., the Economic Development Zone Program, the Business Attraction/Expansion Program, the Manufacturing Competitiveness Program and the Business Incubation Program; extend the Area Development Program (to be renamed the Business Attraction/Expansion Program) and the Economic Revitalization Program (to be renamed the Manufacturing Competitiveness Program) through July 2004; effect additional rate discounts for economic development loads that can be shifted away from the summer peak hours; and make certain clarifying changes to LIPA's Tariff provisions relating to economic development that will simplify their administration; and

WHEREAS, notice of the proposed action was published in the State Register on September 13, 2000, two public hearings were held on November 2, 2000, the public comment period has expired, and the only comments received by LIPA were oral comments at one of the public hearings, which were wholly supportive of LIPA's proposals;

NOW, THEREFORE, BE IT RESOLVED, that the Proposal is approved; and be it further

**RESOLVED, that the attached revised tariff leaves reflecting our action herein are approved.**

**\* \* \***

**Chairman Kessel stated that LIPA formally released its proposed 2001 budget today, which is a \$2.5 billion budget projecting \$148.5 million in revenues over expenses. He stated that for 2000 LIPA expects to show between \$50 and \$60 million in revenues over expenses as compared to LIPA's initial projection of about \$.5 million. He indicated that budget workshops will be conducted for the Trustees. He stated that the Finance Committee will be reviewing the budget and a public hearing on the budget has been scheduled for December 5 at 2:30 PM at the Omni in Uniondale.**

**Chairman Kessel stated that one of LIPA's biggest financial pressures is from fuel prices. He indicated that while there is no plan on his part to recommend any kind of increase in electric rates, the possibility of some kind of fuel cost pass-through may exist next year depending upon LIPA's final results for 2000. He indicated that he anticipates LIPA will make a determination on this matter in the first quarter of 2001. He indicated that unlike other utilities and the former LILCO, LIPA has held the line on fuel prices by not yet reflecting increased fuel costs in electric bills.**

He emphasized the importance of ensuring the present and long-term financial stability of LIPA.

Trustee Faltischek stated that he is predisposed to a fuel cost pass-through in order to protect the interests of bond holders, and that he would welcome public comments on this issue. Chairman Kessel stated that the 2001 budget assumes recovery of the higher fuel costs, and that he too would welcome public comments. He reiterated his anticipation that in early 2001 LIPA will address specific options for recovery of the higher fuel costs.

Deputy Chairman Steinberg stated that LIPA has done a great job in holding down costs up to now, but that he is concerned LIPA will face a cost squeeze from rising fuel prices, other costs and increased competition, at a time when LIPA has increased outstanding debt and carrying costs. He stated that he would like LIPA to examine this area.

Chairman Kessel noted that LIPA has a solid budget for 2001, including the expenditure of \$32 million on energy efficiency and new technologies and a capital budget of almost \$24 million (seventeen percent more than for 2000). He commended the LIPA staff, including Mr. Warren, Mr. Murphy and Mr. Feldman, for their

contributions to the work on the budget. Chairman Kessel asked Mr. Warren to report on the budget.

Mr. Warren praised LIPA's financial staff for their tremendous work on the budget. He stated that the budget reflects increased sales that are 2.7 percent higher than LIPA's projections for this year (normalized for the effects of weather). He highlighted that the significant increase of about seventeen percent in capital expenditures is directed to important programs including substation improvements and additions to the transmission and distribution system. He indicated that these expenditures are needed to meet LIPA's safety and reliability objectives and the increased load on Long Island.

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

Mr. Warren stated that he expects LIPA will end this year with approximately \$300 million in working capital. He reported that cash and cash equivalents on hand as of yesterday were approximately \$525 million, which is invested in various instruments in a number of different institutions, and is earning a rate of approximately 6.6 percent. Mr. Warren reported that LIPA continues to have a solid

liquidity position and projects to have a good liquidity position at the end of the year.

Mr. Murphy stated that the excess of revenues over expenses for the period ended in August was about \$81 million. He stated that by year-end he expects that figure to be approximately \$50 to \$60 million favorable to LIPA's original forecast of about \$1.5 million. He indicated that there are not many changes to the items on the balance sheet.

Trustee Faltischek indicated that he is pleased with the reduction in debt reflected by the decrease in depreciation and amortization. He inquired about the financial impacts and benefits to ratepayers from debt prepayments. Mr. Warren explained that the major benefit from the accelerated debt retirement programs is to relieve a significant component of LIPA's fixed costs by bringing down interest expense. He also indicated that there will be a further benefit to the balance sheet from less cash being required to pay the principal of LIPA's outstanding debt. Mr. Feldman pointed out that this represents a one-shot write-down that should lower future amortization expense.

Trustee Faltischek pointed out that the public needs to understand that while the 2001 budget shows non-cash items (since LIPA accounts an accrual basis),

the rate structure needs to be based on cash accounting and requirements for both operations and debt service. Mr. Feldman indicated that the 2001 budget package includes a schedule eliminating the non-cash items to show the cash impact of the budget. Mr. Warren added that LIPA will undertake more cash basis budget reporting in the future.

Chairman Kessel stated that the \$50 to \$60 million in revenues over expenses projected for 2000 is not all cash, and asked for a clarification from Mr. Murphy. Mr. Murphy stated that the cash component of that figure is about \$15 million.

Chairman Kessel indicated that while LIPA is in a very strong position in terms of reserves, LIPA has certain rate stabilization commitments relating to bond covenants that should be made clear in the budget presentations to the public.

Deputy Chairman Steinberg asked if LIPA engages the rating agencies in the budget discussions. Mr. Warren replied affirmatively and stated that the rating agencies will be given a copy of the budget.

Chairman Kessel stated that the next item on the agenda is the operating

report. He asked Mr. Hulkower to present the report to the Board.

Mr. Hulkower stated that there are not many changes from last month. Regarding reliability performance measurements, he stated that LIPA's System Average Interruption Frequency Index (SAIFI) has improved in that the average period between interruptions has increased from 8.9 months to 16.3 months. He also reported that LIPA continues to show a reduction in the occurrence of momentary interruptions in electric service to customers. He further indicated that as of August 2000, LIPA had the best Customer Average Interruption Duration Index (CAIDI) for all overhead New York State utilities. He reported that through October 2000 the average LIPA customer interruption was 63 minutes, as compared to 111 minutes for the other utilities.

Chairman Kessel asked whether the reliability measurements exclude effects from major storms such as Hurricane Gloria and Hurricane Bob. Mr. Hulkower responded yes. Chairman Kessel observed that it is an excellent statistic that in fifteen years LIPA's SAIFI has almost doubled.

Trustee Hopkins stated he is impressed with the continuous improvements in LIPA's reliability performance numbers. Deputy Chairman Steinberg stated that

these are great numbers that should be published. Chairman Kessel asked Mr. Cunningham to work on doing a press conference or press release on this subject in the next couple of weeks.

Chairman Kessel asked Mr. Bolbrock to make a brief presentation relative to LIPA's peak load and resources.

Mr. Bolbrock stated that for 2001, LIPA has existing resources totaling over 5,300 megawatts and new initiatives including the Far Rockaway barges; the Power Recovery Projects at the Holtsville, Glenwood and Barrett generating stations; the Peak Load Reduction Program; the Direct Load Control Program; a potential additional New York Power Authority (NYPA) generating unit; a Supplemental Service initiative to encourage customers with backup generators to operate them during peak periods; and the load shifting economic development program approved today.

Mr. Bolbrock reported that the TransEnergie cross-Sound cable project for 2002 is proceeding on schedule.

In response to a question from Trustee Maimoni, Mr. Bolbrock noted that LIPA's projection of existing resources drops between 2004 and 2005 due to termination of a LIPA power purchase contract with NYPA for the Fitzpatrick plant. Mr.

**Hulkower pointed out that LIPA will be able to make up for that resource reduction since there will be freed-up transmission capacity.**

**Trustee Maimoni asked how much capacity may be brought forth in 2004 from merchant plants. Mr. Bolbrock stated that at a minimum he expects that new merchant projects totaling about 300 MW will be realized. He also indicated that probably one of the three pending proposed merchant plant projects exceeding 500 MW could materialize. Chairman Kessel stated that LIPA cannot totally count on such merchant projects being successful. He also stated that LIPA is examining its Generation Purchase Right option to acquire the former LILCO on-Island power plants.**

**Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 8:37 p.m.**

**Respectfully submitted,**

**Stanley B. Klimberg**