

**LONG ISLAND POWER AUTHORITY
MINUTES OF THE 149th MEETING
HELD ON NOVEMBER 25, 2002**

Pursuant to notice dated November 18, 2002, the Long Island Power Authority (the "Authority") was convened for the one hundred and forty-ninth time at 6:40 PM at Omni Teleconference Center in Uniondale, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman
Patrick Foye, Deputy Chairman
Nancy A. Akeson
Thomas A. Doherty
Edna Gerrard
Harriet Gilliam
James Herrmann
Robert S. Maimoni
Nancy Nugent
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Anastasia Song, Acting Chief Financial 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, 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 stated that the first item on the agenda is approval of the minutes of the November 14 Board meeting. Upon motion duly made and seconded, the following resolution was approved, with Trustees Gilliam and Sinnreich abstaining:

614. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE NOVEMBER 14, 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 November 14, 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 entertained a motion to go into executive session to discuss litigation, personnel and property acquisition issues.

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

615. 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, personnel and property acquisition matters.

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At 6:40 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 9:10 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 indicated that the next item on the agenda is Board consideration of a resolution to adopt the Long Island Power Authority's Governing Policy for Energy Risk Management. The Chairman stated that LIPA is exposed to energy price risk in the normal conduct of its operations, and energy price volatility poses a substantial and direct risk to LIPA's customers as well as its finances and operation. He continued that this policy would establish the philosophy, framework and delegation of authorities necessary to govern LIPA's activities related to the Energy Risk Management program, which will successfully manage LIPA's risk exposures.

Chairman Kessel stated that LIPA will conduct its operations with the objective of appropriate risk mitigation, not financial speculation, and an

important part of the policy is the creation of the Executive Risk Management Committee (ERMC) to administer this policy. The Chairman continued that the ERMC will be formed by LIPA's Chief Executive Officer, and will consist of no fewer than three senior members of LIPA's management, including LIPA's Chief Financial Officer. He added that LIPA's Controller will independently verify LIPA's transactions, and hedging activity will be restricted to the actionable risk factors and limits specified in the policy and comply with applicable credit criteria.

Chairman Kessel requested Ms. Song to deliver a report on the Energy Risk Management Policy proposal. She indicated that due to concerns regarding variable instability in LIPA's net income, LIPA's risk management activities are proposed to be intensified. She continued that an RFP was issued for a risk management consultant, and LIPA retained Pace Global Energy to advise LIPA in a number of risk management and risk mitigation areas, focusing particularly on oil, gas and purchased power hedging.

Ms. Song indicated that Pace Global Energy helped LIPA develop very detailed risk management guidelines to implement enabling policies and procedures governing LIPA's risk management activities, and to establish the Executive Risk Management Committee. She continued that the risk management guidelines are necessary for the proper exercise of LIPA's fiduciary duties, and any agency which manages risks in a magnitude such as LIPA must have governing risk management protocols and analytics. She stated that the

proposed program will help stabilize major cost factor inputs and LIPA's net income, and place LIPA on a more solid financial path.

Chairman Kessel commended Ms. Song and LIPA's financial staff for their excellent work to formulate this policy. The Chairman also thanked the Finance and Audit Committee, and particularly Deputy Chairman Foye and Trustees Polimeni and Doherty, for their extraordinary efforts on a very complex issue.

Deputy Chairman Foye stated that the Finance and Audit Committee enthusiastically endorses the job done by LIPA's staff and Pace Global Energy, which will benefit LIPA.

Trustee Doherty stated he is pleased that LIPA is putting written policies and procedures in place, and it is helpful for management and the Board to have clear guidelines.

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

616. ADOPTION OF THE LONG ISLAND POWER AUTHORITY GOVERNING POLICY FOR ENERGY RISK MANAGEMENT

WHEREAS, the Long Island Lighting Company d/b/a LIPA ("LIPA"), a wholly-owned subsidiary of the Long Island Power Authority (the "Authority"), has authorized, pursuant to the Energy Management Agreement dated as of June 26, 1997, KeySpan Energy Trading Services, LLC, as agent for LIPA, to enter into hedging transactions relating to fuel and purchased power costs (the "Transactions"); and

WHEREAS, the Authority has determined that the use of such Transactions is appropriate and prudent in certain circumstances but recognizes that there are certain risks that can arise in connection with their use; and

WHEREAS, the Authority wishes to enhance the previously established Strategic Risk Management Policy and Hedging Guidelines, approved by the Board on May 1, 2001 (the "Guidelines"), and supersede such Guidelines with the accompanying proposed policy document entitled "Governing Policy For Energy Risk Management" (the "Policy"), to assure that such Transactions are entered into within the policies, philosophy, framework, and delegation of authorities necessary to govern the Transactions and other activities of the Authority relating to fuel and purchased power risks; and

WHEREAS, the Policy has been prepared and presented to the Trustees; and

WHEREAS, the Authority wishes to have the Chief Executive Officer create the Executive Risk Management Committee (the "ERMC") by appointment of no fewer than three senior management personnel of the Authority, one of which must be the Chief Financial Officer; and to provide that the ERMC have authority to administer the Policy and provide executive management oversight of the Transactions of the Authority; and

WHEREAS, the Authority wishes to authorize the execution of those Transactions so long as such Transactions are in compliance with the Policy;

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

The Authority hereby approves and adopts the Governing Policy for Energy Risk Management in the form presented at this meeting, including authorizing the Chief Executive Officer to create the ERMC and appoint its members; and authorizing the ERMC to delegate prescribed authorities to authorized Authority staff for execution of risk mitigation activities.

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Chairman Kessel stated that the next item on the agenda is the proposed modification of two resolutions adopted at the last Board meeting, so as to authorize the Chairman or his designees to enter into power purchase agreements and take other necessary actions with respect to two power projects, namely the Jamaica Bay Energy Center Project and the North Bellport Energy Center Project. Deputy Chairman Foye offered an amendment to provide that

agreements not be executed nor LIPA be financially obligated until there is confirmation of both the need for the agreements and facilities and of the effect on customer rates and LIPA's financial condition.

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

617. AUTHORITY TO ENTER INTO POWER PURCHASE AGREEMENT, ACQUIRE AND LEASE SITE AND UNDERTAKE RELATED ACTIVITIES IN CONNECTION WITH NORTH BELLPORT ENERGY CENTER PROJECT

WHEREAS, the Long Island Power Authority ("LIPA") is committed to providing reliable electric service to its customers on Long Island and Far Rockaway, Queens; and

WHEREAS, the growing Long Island economy and other factors have resulted in an increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, in order to meet the electricity needs of LIPA's customers and statewide and location generation requirements established by the New York Independent System Operator ("NYISO") and the New York State Reliability Council, it is necessary to secure additional sources of power supply from generation located within LIPA's service area, to be in operation by the summer of 2003; and

WHEREAS, the maintenance of a continuous and reliable supply of dependable electric power and energy is an essential matter of urgent public concern and requires immediate action; and

WHEREAS, it is in the best interest of LIPA to meet this immediate need for electric power and energy by (1) entering into a certain power purchase agreement ("PPA") and other related agreements with PSEG Development LLC regarding its North Bellport Energy Center Project, (2) acquiring the North Bellport site for the Project, either by purchase, eminent domain, or transfer of jurisdiction, with assistance from NYPA and the Commissioner of Transportation as appropriate, and (3) authorizing the Chairman to take necessary actions, including execution of all appropriate agreements needed to finalize and implement the project described above; and

WHEREAS, by Resolution adopted on November 14, 2002, the Trustees determined that the North Bellport Energy Center Project will not have any

significant adverse environmental impacts and, accordingly, adopted a Negative Declaration for such Project pursuant to the State Environmental Quality Review Act; and

WHEREAS, by another Resolution adopted on November 14, 2002, the Trustees authorized the Chairman or his designee to negotiate a PPA and to undertake preparations necessary to acquire the North Bellport site for the project by purchase, eminent domain, or transfer of jurisdiction, including obtaining the assistance of NYPA and/or the Commissioner of the NYSDOT, subject to the approval of the Board of Trustees, and it is now appropriate to expand that authorization to advance the project;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect a PPA and other related agreements and arrangements, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to implement LIPA's purchase of power from the new North Bellport Energy Center Project in order to ensure the availability of sufficient additional on-island power supply resources to serve LIPA's customers; and be it further

RESOLVED, that the Chairman or his designee is authorized to take all steps necessary to acquire real property interests for the North Bellport site, including obtaining the assistance of NYPA and/or the Commissioner of the NYSDOT, to acquire the site by purchase, eminent domain, or transfer of jurisdiction, to approve the payments to be made for the acquisition of the sites so selected, and to execute on behalf of LIPA such certificates, requests, directions or documents as are necessary for the acquisition of such real property interests; and be it further

RESOLVED, that the Chairman, the Chief of Staff and the Vice President – Power Markets be, and hereby are, authorized to execute on behalf of LIPA any and all other agreements, leases, indentures, papers or instruments which may be deemed necessary, convenient or appropriate in the judgment of those respective officers, to ensure that the North Bellport Energy Center project and the preceding resolutions are carried out; and be it further

RESOLVED, that the authorization in the preceding resolutions to execute agreements and incur financial obligations is conditioned upon confirmation by the Chairman that the North Bellport Energy Center Project and related agreements are needed by LIPA and are reasonable considering the effect on LIPA's financial condition and customer rates especially compared to possible alternatives; and be it further

RESOLVED, that all action taken by the Chairman, Chief of Staff and Vice President – Power Markets with respect to the Projects referred to in the preceding resolutions are hereby in all respects ratified and approved.

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

618. AUTHORITY TO ENTER INTO POWER PURCHASE AGREEMENT AND UNDERTAKE RELATED ACTIVITIES IN CONNECTION WITH THE JAMAICA BAY ENERGY CENTER PROJECT

WHEREAS, the Long Island Power Authority (“LIPA”) is committed to providing reliable electric service to its customers on Long Island and Far Rockaway, Queens; and

WHEREAS, the growing Long Island economy and other factors have resulted in an increasing demand for electricity that is projected to continue into the foreseeable future; and

WHEREAS, in order to meet the electricity needs of LIPA’s customers and statewide and location generation requirements established by the New York Independent System Operator (“NYISO”) and the New York State Reliability Council, it is necessary to secure additional sources of power supply from generation located within LIPA’s service area, to be in operation by the summer of 2003; and

WHEREAS, the maintenance of a continuous and reliable supply of dependable electric power and energy is an essential matter of urgent public concern and requires immediate action; and

WHEREAS, it is in the best interest of LIPA to meet this immediate need for electric power and energy by entering into a power purchase agreement (“PPA”) and other related agreements with Jamaica Bay Peaking Facility, LLC regarding its Jamaica Bay Energy Center Project; and

WHEREAS, by Resolution adopted on November 14, 2002, the Trustees determined that the Jamaica Bay Energy Center Project will not have any significant adverse environmental impacts and, accordingly, adopted a Negative Declaration for such Project pursuant to the State Environmental Quality Review Act; and

WHEREAS, by another Resolution adopted on November 14, 2002, the Trustees authorized the Chairman or his designee to negotiate a PPA, subject to the approval of the Board of Trustees, and it is now appropriate to expand that authorization to advance such Project;

NOW, THEREFORE, BE IT RESOLVED, that the Chairman or his designee be and hereby are authorized to execute and effect a PPA and other related agreements and arrangements, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chairman or his designee, to implement LIPA's purchase of power from the new Jamaica Bay Energy Center Project in order to ensure the availability of sufficient additional power supply resources to serve LIPA's customers; and be it further

RESOLVED, that the authorization in the preceding resolutions to execute agreements and incur financial obligations is conditioned upon confirmation by the Chairman that the Jamaica Bay Energy Center Project and related agreements are needed by LIPA and are reasonable considering the effect on LIPA's financial condition and customer rates especially compared to possible alternatives; and be it further

RESOLVED, that all action taken by the Chairman, Chief of Staff and Vice President – Power Markets with respect to the Project referred to in the preceding resolutions are hereby in all respects ratified and approved.

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Chairman Kessel stated that the next item on the agenda is Mr. Hulkower's Operating Report concerning the Northport to Norwalk cable incident. Mr. Hulkower stated that this cable, known as the 1385 Transmission Line, actually consists of seven cables running between LIPA and Connecticut Power and Light, which is a subsidiary of Northeast Utilities. He continued that on November 16, cables 1 – 4 tripped out when a workboat under contract to Iroquois Gas Pipeline dragged its anchor in an east to west direction. He indicated that LIPA identified the drag area through the use of sonar.

Mr. Hulkower indicated there is reason to believe that cables 5 - 7 were not damaged, but this has not yet been definitively determined. He further indicated that LIPA will conclusively determine this once the capping process is finished on the first four cables.

Mr. Hulkower stated that initially the cables were followed through the trough to find the exact break point, and then the cables were cut and capped near the anchor drag area. He explained that LIPA employed the quickest method to stop the leakage of dielectric fluid, a non-toxic fluid similar to mineral oil.

Mr. Hulkower indicated that the first step is to stop all leaks, which should be accomplished by November 27. He further indicated that two workboats from Miller Environmental are working on the problem during the day, with another two of its boats out at night which is exceptional. He stated that LIPA's best efforts are being made to control and stop the leaks, given the importance of the matter and the fact that the cables have been under a consent order with the New York DEC and Connecticut DEP.

Mr. Hulkower indicated that the next step is to evaluate the three cables that appear not to have been snagged, and to determine the extent of repairs needed to restore the line to service. He continued that LIPA is speaking with Northeast Utilities, the co-owner of the cables, to come to an agreement concerning repair options, since a decision by both owners is required before repairs can begin. He noted that LIPA must also speak with the environmental regulators.

Mr. Hulkower indicated that LIPA may put the line back in service with only the remaining three cables, which would operate at approximately one-half of the line's former capability. He further indicated that LIPA is exploring the

implications for the operation of the system under those circumstances for both New York and Connecticut.

Trustee Maimoni asked at what depth the cables are buried under the seabed. Mr. Hulkower answered that when the cable was installed in 1970 the available technology allowed only for placement on the seabed, and the cable was pushed by the dragging anchor to as much as ten feet beneath the seabed. He continued that any new cables are buried at least six feet and usually deeper as they approach the shore.

Chairman Kessel asked Mr. Hulkower to contrast the cable burial depth with the Cross-Sound Cable built by Trans Energie. Mr. Hulkower stated that the Cross-Sound Cable is mostly buried to a depth of thirteen feet where there is active shipping traffic, and it is at a depth of approximately six to eight feet across most of the Sound.

Trustee Akeson asked about the personnel doing the diving and cable repair work for LIPA. Mr. Hulkower responded that part of the reason it took some time to get to full staffing for the workboats is the process of finding qualified divers who must locate the problem using some fairly technical equipment, and then cut the cable until there is a clean enough piece on which to bolt on a cap. He continued that cutting the cable underwater is an arduous process taking approximately one hour, and although there are five divers per workboat per shift, only one diver is down at a time. He indicated that the cable must be lifted out of the water onto a workboat to do the necessary splicing.

Chairman Kessel thanked Mr. Hulkower for his leadership on this project, and for gathering the necessary information and informing the Board. The Chairman indicated that LIPA must deal with a number of considerations concerning the cable, including whether it can be repaired completely, the costs of such repair, whether the cable can be operational for next summer, whether a portion of it can be used and whether it would be more economical to replace the cable rather than repair it. He added that LIPA must also negotiate these matters with the co-owner of the cable.

Chairman Kessel stated that the Cross-Sound Cable should be allowed to be operated immediately since it contains no fluids that could cause environmental harm, and since the line is also a critical component of Connecticut's reliability, particularly in the southwest portion of the state. The Chairman stated that the Cross-Sound Cable can be utilized to deliver electricity to Long Island, as well as to southwest Connecticut, and LIPA is working diligently for approval to operate the cable, although some Connecticut officials oppose it.

Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 9:30 PM.

Respectfully submitted,

Stanley B. Klimberg