

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 126th MEETING

HELD ON SEPTEMBER 28, 2000

Pursuant to notice dated September 21, 2000, the Long Island Power Authority (the "Authority") was convened for the one hundred and twenty-sixth time at 9:40 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
Thomas Doherty
Michael Faltischek
Harriet Gilliam
Joseph Janoski
Robert Maimoni
Nancy Nugent
Vincent Polimeni
Jonathan Sinnreich**

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, Kenneth Kane, Director of Financial Reporting, Bruce Germano, Vice President – Retail Services, Gerry Pallotta, Manager of Business Development, Debra Raso, Special Assistant to the Chairman, Laurie

Leat, Secretary to the Board, Bert Cunningham, Vice President – Communications, Christopher Furlong, Director – Customer Relations, Barbara Dillon, Manager of Human Resources, Andrea Horigan, Cash Manager, Meena Malhotra, Senior Accountant, Alan Elberfeld, Manager of Retail Access & ISO Relations, and Michael Hervey, Director of Transmission and Distribution Operations.

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

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:

500. 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.

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At 9:42 a.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened. At

11:00 a.m. the executive session was adjourned and the open session was reconvened.

Chairman Kessel stated that the first item on the agenda is approval of the minutes of the June 22 Board Meeting.

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

501. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE JUNE 22, 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 June 22, 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 LIPA had an excellent summer. He stated that while staff is still reviewing some of the sales numbers, the revenue results for the summer of 2000 appear to be close to the previous summer, despite the fact that this was one of the coolest summers in history. He reported that LIPA experienced its second highest peak of about 4200 megawatts during the summer, and LIPA was prepared for over 4800 megawatts. He also reported that, due to the weather this

summer, LIPA had its best call answer rate.

Chairman Kessel stated that LIPA is working very diligently in terms of resource preparedness for next summer. He indicated that LIPA is continuing to work with Enron on the barge project. He reported that LIPA has been in discussions with New York Power Authority concerning proposals to site several small generating facilities on Long Island in time for next summer.

Chairman Kessel stated that LIPA is likely to exceed its budgeted fuel costs by over \$200 million this year. He indicated that LIPA will continue to review this issue very closely to protect its ratepayers and the financial stability of LIPA. He stated that Mr. Warren will be reviewing a number of options, and that the Chairman expects to make some recommendations to the Board early in the first quarter of 2001.

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 introduced Michael Hervey who has joined LIPA as Director of Transmission and Distribution Operations. Mr. Hulkower stated that in reference to major accounts load growth, LIPA will be exceeding its original goal for this year by a significant margin due to the development of assisted living centers on Long

Island. Mr. Hulkower stated that the call answer rate has been exceptional with almost ninety-eight percent of calls answered in August. Mr. Hulkower reported significant improvements in LIPA's results for its System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI).

Mr. Hulkower reported that LIPA is making good progress in the circuit improvement program in all areas. He stated that this is the major tree trimming season with most of the tree trimming occurring in Central Division on the North Shore, which has relatively more tree coverage and older trees.

Mr. Hulkower stated that in reference to the status of the potential sale transaction involving the Nine Mile Point 2 Nuclear Station, if LIPA were to sell its interest in the plant, such sale could create a private use issue unless LIPA defeases the bonds that are associated with its interest. He stated that a LIPA sale would require approvals from the LIPA Board, the Public Authorities Control Board and the State Comptroller. He indicated that should LIPA hold its interest, LIPA's main objective will be to obtain a good operating agreement. He stated that LIPA may sell its transmission assets associated with the plant and Niagara Mohawk would operate such assets on LIPA's behalf.

Deputy Chairman Foye stated that the staff should be aggressive and creative in using whatever leverage LIPA has in these ongoing corporate

transactions to exact the maximum benefit for Long Island ratepayers consistent with LIPA's contractual obligations and State law.

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

Mr. Murphy stated that sales for the six-month period ended June 2000 were within one-tenth of one percent of forecast. He indicated it was favorable that 4.2 percent of sales volume was due to new customers and increased usage. He stated that weather had a negligible impact and sales for resale were down four percent.

Mr. Murphy reported that in reference to income for the period, there was a loss of \$38 million as compared to a budgeted loss of \$78 million, which puts LIPA in a very favorable position.

Mr. Warren stated that he projects the excess of revenues over expenses will be approximately \$14 million compared to a budgeted amount of \$1 million for the year. He emphasized that this does not reflect any of the impacts of the cost of fuel. He stated that while such impacts are not shown on the income statement, they are shown in LIPA's financial operations.

In reference to cash flow projections for the year, Mr. Warren stated that LIPA will have an ending balance of over \$600 million. He stated that this reflects proceeds for a bond issue that will be completed this fall for capital improvements to LIPA's electric system, as well as reimbursements for funds advanced for capital expenditures made previously. Mr. Warren indicated that LIPA issued bonds this winter as part of the Shoreham Settlement Agreement to establish a Shoreham Credit Fund covering a five-year period going forward, and that this enables LIPA to have certain monies reserved for capital expenditures going forward. He stated that LIPA expects to have working capital cash on hand at the end of year of about \$307 million, as compared to \$530 million last year after LIPA expended approximately \$135 million for the tender of some of the 1998A bonds.

Mr. Warren reported that LIPA is on target for the release of the 2001 budget on November 1.

Chairman Kessel stated that the next item on the agenda is a resolution approving guidelines regarding the use, awarding, monitoring and reporting of procurement contracts.

Trustee Maimoni asked under what circumstances would procurements not employ a competitive bidding process and who would make that determination. Mr. Klimberg explained the circumstances under which competitive bidding would not

be required, including situations where there is an emergency; only one source exists for the goods, services or technology; specialized services involving unique expertise are required; or the procurement value is between \$5,000 or \$10,000 and it is unlikely the Authority would achieve cost savings through a competitive procurement. He indicated that the guidelines specify that, depending on the nature of the procurement, certain officers are authorized to manage the procurement.

Deputy Chairman Foye requested that the resolution be amended to include a requirement that in the event a personal services contract having a value less than the threshold requiring Board approval subsequently reaches that threshold, the contract shall be presented to the Board for approval at the next Board meeting.

Deputy Chairman Steinberg asked if the guidelines contain an adequate mechanism to ensure LIPA can identify potential conflicts of interest. Mr. Klimberg stated that these particular guidelines do not specifically address conflicts of interest, but that it is a standard practice in procurements for LIPA to examine potential conflicts of interest that potential contractors may have.

Upon motion duly made and seconded, the following amendment to the proposed resolution approving guidelines regarding the use, awarding, monitoring and reporting of procurement contracts was approved unanimously:

502. AMENDMENT OF PROPOSED RESOLUTION REGARDING LONG ISLAND POWER AUTHORITY PROCESS FOR THE USE, AWARDING, MONITORING AND REPORTING OF PROCUREMENT CONTRACTS

RESOLVED, that if a Procurement Contract for Services having a value less than or equal to \$250,000 subsequently reaches a value greater than \$250,000, then the Procurement Contract shall be approved by the Long Island Power Authority (“Authority”) Board of Trustees (“Board”), and such contract shall be presented for approval at the next Board meeting; and be it further

RESOLVED, that the Authority’s staff shall report monthly to the Board on any new Procurement Contracts for Services having a value less than or equal to \$250,000.

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

503. APPROVAL OF LONG ISLAND POWER AUTHORITY GUIDELINES REGARDING THE USE, AWARDING, MONITORING AND REPORTING OF PROCUREMENT CONTRACTS

WHEREAS, based upon the Long Island Power Authority’s (the “Authority”) operating experience over the past few years, the Authority believes it is necessary to revise the Authority’s existing procurement guidelines to better reflect the Authority’s current procurement needs and practices;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves and adopts the “Long Island Power Authority Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts” in substantially the form presented at this meeting; and be it further

RESOLVED, that if a Procurement Contract for Services having a value less than or equal to \$250,000 subsequently reaches a value greater than \$250,000, then the Procurement Contract will require approval by the Authority Board of Trustees (“Board”), and such contract shall be presented for approval at the next Board meeting; and be it further

RESOLVED, that the Authority's staff shall report monthly to the Board on any new Procurement Contracts for Services having a value less than or equal to \$250,000; and be it further

RESOLVED, that the Authority Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts are to be effective with respect to the use, awarding, monitoring and reporting of Procurement Contracts and all other contracts, as defined in such Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts, entered into after the date hereof.

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Chairman Kessel stated that the next item on the agenda is a resolution authorizing the Chairman to engage a law firm to provide Corporate and Securities Counsel services and a law firm to provide Disclosure Counsel services, on an as-needed basis to the Authority and its subsidiary, LIPA.

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

504. ENGAGEMENT OF ADDITIONAL LAW FIRMS

RESOLVED, that the Chairman be, and hereby is, authorized to engage the following law firms to provide legal services as needed by the Authority and LIPA:

O'Melveny & Myers LLP
Clifford Chance Rogers & Wells LLP

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Chairman Kessel stated that the last item on the agenda is a resolution to select senior managing underwriters.

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

505. APPOINTMENT OF SENIOR MANAGING UNDERWRITERS

RESOLVED, that the Chairman be, and hereby is, authorized to engage the following firms to serve as senior managing underwriters to provide underwriting and investment banking services as needed by the Authority and LIPA:

**Bear Stearns & Co. Inc.
Goldman, Sachs & Co.
Lehman Brothers
PaineWebber Incorporated
Salomon Smith Barney**

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Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 11:40 a.m.

Respectfully submitted,

Stanley B. Klimberg