

**MINUTES OF THE REGULAR MEETING
OF
POWER AUTHORITY OF THE STATE OF NEW YORK**

February 28, 1995

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the New York Office at 10:00 a.m.

Present: Thomas G. Young, Chairman
Thomas R. Frey, Vice Chairman
Linda P. Duch, Trustee
Hyman M. Miller, Trustee
Robert T. Waldbauer, Trustee

Robert G. Schoenberger	Chief Operating Officer
William J. Cahill	Chief Nuclear Officer
Charles M. Pratt	General Counsel
John F. English	Senior Vice President - Transmission
Robert A. Hiney	Senior Vice President - Power Generation
Louise M. Morman	Senior Vice President - Marketing and Economic Development
Robert L. Tscherne	Senior Vice President - Business Services
Arnold M. Bellis	Vice President and Controller
John M. Hoff	Vice President - Procurement and Real Estate
Sally L. Irving	Vice President - Corporate Finance
Charles I. Lipsky	Vice President and Chief Engineer - System Operations
Philip J. Pellegrino	Vice President - Power Sales and Rates
Stephen P. Shoenholz	Acting Department Head - Public Affairs
Ronald W. Ciamaga	Resident Manager - St. Lawrence/FDR Power Project
James Ford	Resident Manager - Niagara Power Project
Richard E. Kuntz	Resident Manager - Charles Poletti Power Project
James J. McCarthy	Resident Manager - Blenheim-Gilboa Pumped Storage Power Project
Joseph J. Carline	Assistant General Counsel - Power & Transmission
Waheed Sayed	Project Manager - System Operations
Arthur Austerweil	Director - Financial Planning
Jordan Brandeis	Director - Performance Planning
Joseph J. Brennan	Director - Internal Audits
Dennis Eccelston	Director - Information Services
Shalom Zelingher	Director - Research & Development
Jack Murphy	Acting Director - Public Relations
Angelo Esposito	Manager - Demand Side Management Programs
Helen Eisenfeld	Manager - Cost Control
Tim Carroll	Assistant Manager - Communications - James A. FitzPatrick Nuclear Power
Bart L. Chesar	Senior Engineer
Michael Huvane	Senior Power Analyst - Marketing & Development
Laura M. Badamo	Assistant Secretary - Legal Affairs
Anne Wagner-Findeisen	Corporate Secretary
Vernadine E. Quan-Soon	Assistant Secretary - Corporate Affairs
Alice T. O'Rourke	Executive Assistant

Chairman Young presided over the meeting. Secretary Wagner-Findeisen kept the Minutes.

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1. Approval of the Minutes

The minutes of the Regular Meeting of January 31, 1995 were approved.

2. Report from the President and Chief Executive Officer

President Freeman reported that the Trustees' ratification of the agreement between the Authority and Westchester County would be sought later in the meeting, and that he anticipates another agreement will shortly be reached with New York City. The President further reported that the IP3 plant is now in a startup mode and in the final stages of preparation for the NRC inspection.

At the President's request, Mr. Pellegrino described the organization of the Energy Efficiency and Technology Business Unit, and introduced Ms. Eisenfeld and Messrs. Esposito, Eisenfeld, Sayed, Chezar and Zelingher. Mr. Pellegrino explained the Unit's performance measures, and reported on the status of active HELP and WattBuster projects, the spending plan for the current fiscal year, and the Unit's 5 year capital plan. He added that the Trustees will be provided with financial statements concerning the DSM investments on a regular basis.

Vice Chairman Frey commended the Unit's performance measures. In response to questions from Trustee Duch, Mr. Pellegrino clarified that the \$24 million for public housing which the Trustees would be asked to approve was originally included in the Capital Plan to be spent over 10 years, but that staff now feels that these expenditures will be accomplished in five years. In response to further questions from Trustee Duch, Mr. Pellegrino explained that of the total funds authorized by the Trustees for energy efficiency, some \$130 million has been expended to date.

Trustee Duch stated that it would be desirable for the Trustees to provide some guidance to staff as to total funding for DSM purposes. Trustee Waldbauer expressed agreement, noting that the forthcoming financial reports would be helpful in that regard, and would also serve to inform the Trustees as to the progress of reimbursements being made to the Authority. Trustee Waldbauer also expressed his hope

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that Authority staff is providing adequate oversight of subcontractors. Mr. Pellegrino responded that Mr. Sayed's expertise and primary function involves precisely such oversight.

Trustee Duch asked whether her earlier suggestions of a prompt repayment incentive had been implemented. Mr. Pellegrino responded in the affirmative. President Freeman added that the interest payments being collected by the Authority are in excess of the Authority's costs of borrowing the funds under the program. In response to further questions from Trustee Duch, President Freeman explained that the proposed expenditures and additions to staff are consistent with the 1994 Restructuring Effort and reflect the Authority's policy of investing in energy efficiency rather than in new power generation plants.

In response to questions from Trustee Miller concerning the Unit's R&D activities in the area of photovoltaics, Mr. Zelingher explained that such research is being carried on in conjunction with some 80 other utilities and benefits from federal subsidies whenever possible. Trustee Miller asked to be provided with greater detail as to the nature of R&D activities staff is pursuing and the entities with which staff is collaborating.

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3. Financial Reports for the Year Ended December 31, 1994

4. Southeast New York ("SENY") Public Housing Energy Efficiency Program - Funding Approval

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the investment of \$40 million over a five-year period to fund a demand side management ('DSM') program that would promote the utilization of energy efficient electrical equipment for SENY public housing authority customers, as part of a long-term contract for the sale of electricity. The principal focus of the upgrades would be highly efficient refrigerators, but window air conditioners, lighting, efficient elevator motors, laundry equipment and other cost effective electrical end-uses would also be included. The proposed program will further enhance the Authority's commitment to promoting DSM programs for the SENY public customers and will benefit the environment.

"The Authority's investments will be repaid with interest by the participants, in a manner similar to the high efficiency lighting program ('HELP'). Provision of the program beyond 1995 would be contingent upon such customers executing a long term agreement for the supply of Authority power by the end of the year.

BACKGROUND

"In an ongoing effort to make the best use of the State's existing energy resources, assist public agencies in reducing operating and maintenance costs, while improving physical plant, and to create employment, the Trustees have authorized funding for the implementation of numerous DSM initiatives, including the highly successful HELP effort. Approved funding to date for such programs exceeds \$300 million, with annual energy savings to participants anticipated to be about \$50 million, once the programs are fully implemented. Up to now, the New York City Housing Authority ('NYCHA'), a major Authority customer, has had little Authority DSM program participation because it had previously addressed most measures offered under HELP. A major inducement for NYCHA to enter into a long-term contract is the program staff is proposing in this memorandum. This public housing initiative could capture significant energy saving opportunities for Authority's various SENY housing authority customers. The Authority's housing authority customers are listed on Exhibit '4-A'.

"NYCHA, the largest of the housing authority customers, maintains about 180,000 apartments in 2700 master-metered buildings located throughout the five boroughs of New York City. It replaces the refrigerators within the apartments on a 12-year replacement cycle. NYCHA's annual purchase of replacement refrigerators exceeds 15,000 units (including inventory kept on hand for refrigerators that fail prematurely). NYCHA estimates that refrigerators account for about 15 percent of total annual consumption, or 140 million kWh. The oldest units consume more than 1100 kWh annually, or more than double the electricity consumption for best available technology. The annual cost of supplying electricity to the refrigerator end use for NYCHA is currently \$12 million. NYCHA's current procurement practice is sensitive to purchase price. Consequently, current practice results in the purchase of refrigerators that consume about 20 percent more than best available technology.

"Recognizing that refrigerators are typically the single greatest energy consuming appliance in the average U.S. household, the Natural Resources Defense Council ('NRDC') recently co-developed the Super Efficient Refrigerator Program ('SERP') with a consortium of electric utilities and the federal Environmental Protection Agency and called it the 'Golden Carrot' program. A market-driven contest resulted in the development of the world's most energy efficient, CFC-free refrigerator.

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"The SERP proposal required that the selected manufacturer produce a refrigerator that was at least 25% more efficient than existing models. The award winner, Whirlpool, was able to develop and manufacture a CFC free model that utilizes 40% less energy, but the size is too large for public housing. Authority staff, working with NRDC, believes that appliance manufacturers could be influenced to develop and manufacture a SERP in a suitable size model (14 cubic feet) for use in public housing facilities throughout the nation. The benefits of such an effort would be notable. As an example, if a 25% reduction in annual consumption were obtained relative to current procurement practice for NYCHA, the annual electricity cost savings would be about \$5 million, after all existing units were replaced.

"The program which staff is proposing would also include more efficient air conditioners. NYCHA estimates that its tenants own and operate in excess of 50,000 window air conditioners that are purchased, installed and maintained by the individual apartment dwellers. Existing units are of various sizes, vintages and levels of overall operating efficiency. The tenants use of approved air conditioners is not price responsive, since electricity costs are not borne by the individual tenants but rather by the Housing Authority. The tenants merely pay a flat fee of about \$50 annually for unlimited usage. NYCHA has reported that many of its buildings will require expensive electrical upgrades if the saturation of window air conditioners continues to increase.

"Other candidate measures for energy efficiency improvements include the motors that drive 3300 elevators that are operated throughout NYCHA facilities and the electrical equipment installed in more than 150 laundry rooms.

DISCUSSION

"Staff proposes that the Authority establish a public housing program similar to HELP that will be a turn-key approach to identifying, procuring and implementing energy efficient capital improvements in New York City and Westchester County public housing facilities. Audits of a representative sample of NYCHA buildings would be performed to confirm cost effective energy saving opportunities. Measures are expected to include refrigerators, room air conditioners, motors and pumps, laundry equipment and lighting end uses. This program will add customer value and foster a stronger long-term partnership with the eligible customers. Continuation of the program would be contingent upon the affected customers executing long term power contracts with the Authority by the end of the year, similar to the contract with Westchester County municipal government, recommended for the Trustees' approval as a separate item of agenda.

"Under the National Appliance Energy Conservation Act, the Department of Energy ('DOE') has the responsibility for establishing appliance efficiency standards, including those for refrigerators. New standards for refrigerator/freezers are scheduled to take effect in 1998. Following two years of negotiations among the Association of Home Appliance Manufacturers, NRDC, and several other parties, a landmark accord was reached that should provide the basis for DOE's 1998 standard. The typical refrigerator manufactured after 1998 will employ SERP technology and will only consume about 500 kWh annually, nearly 70% less than refrigerators built 20 years ago. These refrigerators would be available in the smaller sizes used in public housing.

"Staff has already begun work with NRDC and the Consortium for Energy Efficiency ('CEE') to accelerate the introduction of the 1998 DOE standard by appliance manufacturers. CEE represents numerous public and private utilities nationwide that will have an interest in introducing more efficient refrigerators in urban markets. Through a combined purchasing initiative of these utilities and public housing agencies, it is expected that annual order quantities in excess of 50,000 units could be achieved in the 14 cubic foot size category. Volumes of this magnitude are expected to motivate manufacturers to accelerate design and development and retooling investments such that a smaller sized SERP can be obtained sooner. At a recent meeting, Con Edison staff indicated that about 30,000

refrigerators are purchased annually by private landlords in its service area for apartments where electricity is rent

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included. Moreover, a representative from DOE indicated that the Department of Defense purchases very large quantities of refrigerators and would be a willing participant in the procurement initiative.

"If the Trustees approve the recommended program, the Authority would lead a joint refrigerator purchasing initiative of the various interested entities. The approval of a \$40 million program for public housing by the Authority is expected to provide significant assurance to the refrigerator manufacturers that the proposed SERP procurement is a sizable and serious undertaking. An RFP would be issued in May soliciting competitive bids from qualified manufacturers. Contract awards are contemplated by September. The Trustees would be requested to approve any associated refrigerator procurement contracts.

"Staff emphasizes that the requested funding for the program would be invested entirely in energy efficient appliances and other measures for the housing authority customers and would be repaid with interest. Staff is not seeking any subsidy for the refrigerator manufacturers, who should be motivated by a large guaranteed market.

"Exhibit `4-B' sets forth staff's plan for introducing higher efficiency level refrigerators in the public housing market as a result of the joint purchasing initiative. The exhibit includes relative consumption levels, timing, unit cost data, annual savings and simple paybacks. The RFP process would confirm whether these target values are in fact achievable. The cost differentials for the more efficient refrigerators are expected to be entirely repaid from energy savings, with simple paybacks of seven years or less. The strategy engendered in Exhibit `4-B' would put the housing authorities on best available technology in 1996, introduce the 1998 DOE standard using SERP technology one-year earlier than planned (in 1997) and exceed the DOE standard by 10 and 20% in 1998 and 1999, respectively.

"For the estimated 50,000 air conditioners that are currently in operation, the most efficient window air conditioner would be made available to tenants on a voluntary basis. The tenants would agree to relinquish their old inefficient unit for a new unit that would be installed by the Authority and owned by the housing authority participant. There would be no direct cost for the new replacement air conditioner to the tenant. Any tenant that is not presently operating an air conditioner, who seeks to enter the Authority sponsored program, would be charged a one-time fee (say \$200) to defray the cost of the new air conditioner. This should serve to offset any incentive for new customer hook-ups beyond the natural rate of occurrence. The cost would ultimately be recovered from electricity cost savings and from avoided or delayed electrical system upgrades. The refrigerators as well as the window air conditioners that will be retired through this program will be disposed of in an environmentally responsible manner, consistent with all local and federal regulations.

"Elevator motors will also be upgraded to premium efficiency to obtain optimal performance. A similar effort will be conducted that will focus on laundry rooms and related electrical equipment. The Program will be directly administered by the Authority. A Cost Recovery Agreement would be executed with the housing authorities participating in the program, covering repayment terms and program responsibilities. Contract awards for the procurement of equipment and/or services would be addressed in accordance with the Authority's procurement contract guidelines and would be presented for the approval of the Trustees as necessary pursuant thereto.

"Normally, according to NYCHA, it is required to pay the direct cost of the refrigerator purchases and the Federal Housing and Urban Development Administration (`HUD') pays for the associated electricity costs. Funds to cover electricity costs are appropriated by HUD based on 3-year rolling average consumption. Hence there is little incentive for public housing agencies to conserve, because they cannot retain the savings. However, staff plans to work with the eligible housing authorities and HUD to initiate a program to allow Authority customers to retain the savings resulting from the proposed program over a 12 year period. NYCHA has reported that this type of arrangement, called `performance contracting', has been accepted by HUD. The savings retained would be used to repay the Authority. NYCHA would like the Authority to finance the entire purchase cost of its annual refrigerator

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replacements. This would free-up funds within NYCHA to facilitate other cost saving improvements within its facilities that could not otherwise be accomplished.

FISCAL INFORMATION

"Public housing program expenditures will be provided from the Energy Conservation Effectuation and Construction Fund. The source of funding would be short term notes and/or commercial paper. It is expected that the \$40 million in expenditures, which includes Authority overheads, would be committed by the Authority over a five-year period. These costs will be recovered within ten years, together with the costs of advancing funds.

RECOMMENDATION

"The Senior Vice President - Energy Efficiency and Technology recommends that the Trustees authorize the implementation and associated funding for the SENY public housing program consistent with the foregoing and the attached resolution. It is further recommended that the Senior Vice President - Energy Efficiency and Technology, or his designee, be authorized to execute any agreements or other documents between the Authority and the housing authorities as necessary or desirable to implement the program. These agreements would stipulate that the continuation of the public housing efficiency program is contingent upon the execution of a long term power supply agreement by the end of 1995.

"The General Counsel, the Senior Vice President - Business Services, the Chief Operating Officer, and I concur in the recommendation."

Mr. Pellegrino added that staff hopes to make this program an integral part of the contractual agreements between the Authority and its affected SENY customers by the end of the year. President Freeman added that the program is conditional upon the contracts being concluded by Ms. Morman and her staff. Trustee Miller stated that he would support the program because it is contingent upon successful conclusion of a contractual agreement. Chairman Young noted that the program benefits local governments by reducing their costs and also enables the Authority to recoup all funds it expends.

In response to questions from Trustee Duch, Mr. Tscherne explained that staff had advised the rating agencies that the maximum outstanding indebtedness related to the energy efficiency programs would be in the \$300 million range. President Freeman added that the Authority remains free to terminate the programs at any time.

The following resolution, as recommended by the President, was unanimously adopted:

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RESOLVED, That the Senior Vice President - Energy Efficiency and Technology or his designee be, and hereby is, authorized to execute Cost Recovery Agreements and other documents between the Authority and SENY public housing authorities which will cover the capital requirements, terms and program responsibilities necessary or desirable for the implementation of the Public Housing Program; and be it further

RESOLVED, That expenditures are hereby approved as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

Energy Conservation Effectuation and <u>Construction Fund</u>	<u>Expenditure Approval</u>
Public Housing Program	<u>\$40,000,000</u>

5. Village of Mohawk - Proposed Increase in Retail Rates - Final Action

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve, as a final action, revisions in the base retail rates of each customer service classification for the Village of Mohawk ('Village'), New York. This will result in additional total annual revenues of \$56,800, or 8.5%.

BACKGROUND

"The proposed rate increase is required to provide adequate revenues to meet the Village's electric department's additional debt service obligations, allow for sufficient working capital funds and enable it to meet forecasted increases in operation and maintenance expenses through fiscal year 1997. Current rates have been in effect since November 1991, when the Trustees approved a 9.0% rate reduction.

"The electric department has planned capital additions and replacements of about \$180,000 through fiscal year 1997. These expenditures include the reconductoring of several distribution circuits, purchase of transportation equipment, and window replacement and insulation work in the electric department's garage. The Village plans to debt finance about \$125,000 and fund the remainder of the capital program through the use of cash reserves and the rate increase.

"The proposed rate revisions are based upon a cost of service study required by the Authority's Trustees at their meeting of November 26, 1991, as a condition of their approval of the 9.0% decrease in retail rates. The cost of service study is used to determine the portion of the total system cost attributable to each customer class and to develop rates that provide appropriate price signals to consumers. The Village's study revealed that the rates presently charged the residential, security lighting and street lighting classes are 23%, 34% and 2% below the electric department's cost of providing service, respectively. The rates charged the small commercial, secondary demand-commercial and primary demand-commercial classes are above cost by 17%, 42% and 37%, respectively.

"It is recommended that the rates for the residential class be set at 11% below the cost of service, while those for the security lighting and street lighting be set at 100% of cost. It is further recommended that the rates for small commercial, secondary demand-commercial and primary demand-commercial be set above cost by 15%, 35% and 35%, respectively.

"Consistent with the promotion of energy conservation, the electric department's residential rate has been revised to include a change to the inverted rate cut-off criteria during the winter months (December - March) from 1000 kWh to 750 kWh. All usage above 750 kWh during the winter (the 'tail block') is priced at 4.8 cents per kWh, whereas winter usage equal to or below 750 kWh, as well as usage in the non-winter months (April - November), is charged 2.91 cents per kWh. The Village's winter season was redefined from a six month winter (November - April) to a four month winter (December - March) to reflect the high probability that Mohawk will purchase higher cost incremental power during these months.

"Although the residential class will be generating 16% more revenue per year, the average customers using 500, 1,500 and 3,000 kWh during the winter period, will pay an additional 12, 70 and 80 cents more per month, respectively.

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"The proposed winter tail block rate of 4.8 cents per kWh is based on the costs attributable to tail block usage. The assignment of more cost responsibility to the tail block will provide a price signal to high usage customers during the winter months.

"The proposed rate revisions also include a change to the demand rate applicability criteria for the large commercial demand rate class (S.C. No. 3). Demand billing on the S.C. No. 3 rate schedule is recommended for all commercial customers with usage greater than 5,000 kWh in any winter month. This would extend demand billing to 15 additional customers. The present criterion for S.C. No. 3 is energy usage in excess of 6,000 kWh in any winter month. Customers would exit the S.C. No. 3 rate, and would be served on the S.C. No. 2 rate if usage drops below 5,000 kWh and demand drops below 20 kW in all winter months.

DISCUSSION

"Pursuant to the approved procedures, the Senior Vice President - Marketing and Economic Development authorized the Secretary to file notice for publication in the State Register of the proposed revisions in retail rates. Such notice was published on January 11, 1995 and no comments concerning the proposed action have been received by the Secretary. A public hearing was held by the Village on November 28, 1994, and no objections were raised to the proposed rates. The proposed rate increase was approved at a Special Board Meeting held on December 12, 1994.

"The proposed rates are below those now in effect by the utility serving the contiguous area.

"Comparisons of present and proposed total revenues and base rates to be produced by each service classification are attached as Exhibits `5-A' and `5-B'.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development recommends that the attached schedule of rates for the Village of Mohawk, New York, be approved to take effect with the first full billing period following filing thereof with the Department of State.

"It is also recommended that the Trustees authorize the Secretary to file notice of adoption with the Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation, or as may be necessary to effectuate such notice of adoption.

"The General Counsel, the Chief Operating Officer, and I concur in the recommendation."

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the proposed rates for electric service for the Village of Mohawk, New York, be approved to take effect with the first full billing period following this date, as recommended in the foregoing report of the President; and be it further

RESOLVED, That the Secretary of the Authority be, and hereby is, authorized to file notice of adoption with the Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation or as may be necessary to effectuate such notice of adoption.

**6. Nassau County Public Utility Service -
Allocations of FitzPatrick Industrial Power**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the allocation of 2,900 kW of FitzPatrick power to the Nassau County Public Utility Agency ('Nassau County') for resale to five companies listed in Exhibit '6-A'.

BACKGROUND

"The Authority has reserved a total of 73,160 kW of FitzPatrick industrial power for sale to downstate municipal distribution agencies ('MDA's'), including Nassau County, under Service Tariff 35. Of this amount 5,000 kW is reserved for Nassau County. This power is resold to industrial consumers designated by the MDA's and approved by the Authority. With the proposed sales, Nassau will have 200 kW of power remaining under this program for new allocations.

DISCUSSION

"CMP Publications, Inc. ('CMP') is a high-technology publishing and information services company headquartered in Manhasset. The company has additional sites in Jericho and New York City. In the past two years the company has made a significant investment in the area of electronic media and is committed to taking a leadership position in this market. CMP has budgeted more than \$10 million for 1995 for capital equipment. The proposed allocation of 600 kW would be used at the Manhasset facility where approximately 780 people are currently employed and another 80 are expected to be added. In August 1991 CMP began an ongoing energy reduction program which includes replacing incandescent lighting fixtures with fluorescent fixtures and installing occupancy sensors and energy efficient air conditioning units. CMP, which uses a total of about 1,500 kW, would save an estimated \$91,000 annually over Long Island Lighting Company's ('LILCO') standard rates. The allocation would be for a term of seven years.

"Konica Imaging U.S.A., Inc. ('Konica') produces photographic film, paper and chemicals for the graphic arts industry, particularly for newspaper publishing. Konica's parent corporation is planning to shift some production from Japan to the United States. Potential sites include Glen Cove and Greensboro, North Carolina. Location of this production in the newer and less costly North Carolina facility would serve as justification for shifting production from the Glen Cove plant. Konica would spend \$10 to 15 million modernizing and automating its Glen Cove operation to absorb the additional capacity. Total employment at the Glen Cove plant is expected to remain stable at 532 jobs. Nassau County has proposed the allocation of 1,000 kW for a term of ten years. Konica now uses about 1,500 kW and expects demand to increase with its investment in automated equipment. Konica maintains an ongoing energy efficiency program to replace equipment with energy efficient units and to improve lighting efficiency. Konica would save an estimated \$182,000 annually over LILCO's standard rates.

"Oceanside Institutional Industries, Inc. ('Oceanside') is a privately owned company providing commercial laundry services to institutions throughout the metropolitan region. Oceanside has expanded its operation at a cost of more than \$9 million for real property and equipment. Employment has increased by more than 80 to 304 jobs. In 1993, the Authority approved the sale of FitzPatrick Economic Development Power to a competitor, Southside Laundry, for job retention purposes. Oceanside has installed energy efficient washers, dryers, ironers, and vacuum

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systems to reduce energy costs. Nassau County has requested an allocation of 400 kW for a term of five years. Oceanside would save an estimated \$62,000 annually over LILCO's standard rates.

"Sandata, Inc. ('Sandata') provides data processing services to the health care industry and general commercial market. The company has acquired a 40,000 square foot facility which will be expanded with a 25,000 square foot mezzanine, at a cost of about \$3.5 million. Equipment will be purchased and other equipment relocated. Sandata projects employment to grow from 100 to 190 jobs over three years. Sandata has implemented demand management and conservation measures which include updating air conditioning and heating units and converting to modern energy efficient computer systems. The proposed seven year sale of 250 kW would meet about 40% of the Sandata's projected power requirements. Sandata would save an estimated \$38,000 annually over LILCO's standard rates.

"The White Rose Frozen Food Division of Di Giorgio Corporation ('White Rose') in Garden City serves as a distribution center and supply station for frozen food products distributed throughout the Northeast including the greater New York area, Long Island, New Jersey, Westchester, Connecticut, and parts of Pennsylvania. The parent company, Di Giorgio Corporation, maintains its headquarters in Somerset, New Jersey. White Rose employs 274 people at its Long Island location. The Di Giorgio grocery division relocated from Farmingdale, Long Island to Carteret, New Jersey in 1991 due to high operating and labor costs associated with operating in Farmingdale. White Rose currently shuttles its trucks to New Jersey to avoid New York traffic congestion. Relocating of its frozen foods division to Carteret, New Jersey would also provide White Rose with substantially lower energy costs as well as reduced freight expenses. Electricity represents 25% of the operating costs of the facility. To manage its large use of energy, White Rose has installed a computerized energy management system which optimizes the energy used to maintain its large refrigeration system. Nassau County proposes the sale of 650 kW, about one-third of total power requirements, for a five year term. White Rose would save an estimated \$175,000 annually over LILCO's standard rates.

"The proposed allocations have been reviewed in accordance with Part 460 of the Authority's Rules and Regulations (Procedures for Allocation of Industrial Power and Enforcement of Contracts 21 NYCRR 460 (1988)). The standard power service contract between a business and Nassau County provides for reductions in the allocation in the event that employment or power usage levels are not maintained at specified levels. Reports regarding employment and affirmative action commitments will be submitted to the Authority by Nassau County as provided by Part 460.4 of the Authority's Rules and Regulations and pursuant to the contract between the Authority and Nassau County. Additionally, each contract will include specific energy audit and implementation requirements.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development recommends that the Trustees approve the allocation of FitzPatrick power to Nassau County for resale to five companies in the quantities tabulated in Exhibit '6-A' and as described herein.

The General Counsel, the Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustee Waldbauer, Mr. O'Brien explained that Nassau County's 5 MW allocation would be largely used up following the proposed allocations to industrial users, but that the 5 MW had been available to the County for a number of years. Trustee Waldbauer expressed surprise that the County had not acted earlier to obtain this power for local users.

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The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the Authority hereby approves the allocation of 2,900 kW of FitzPatrick power to the Nassau County Public Utility Service for resale to CMP Publications; Inc., Konica Imaging U.S.A.; Inc. Oceanside Institutional Industries, Inc.; Sandata, Inc.; and the White Rose Frozen Food Division of Di Giorgio Corporation in such quantities as are described in Exhibit `6-A' of the foregoing report of the President and substantially in accordance with the terms described in such memorandum; and be it further

RESOLVED, That each of the contracts for the resale of FitzPatrick industrial power between the Nassau County Public Utility Service and the companies designated in Exhibit `6-A' is subject to approval by the Senior Vice President - Marketing and Economic Development; and be it further

RESOLVED, That the Senior Vice President - Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the above allocations.

Exhibit `6-A'
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<u><i>Company & Location</i></u>	<u><i>JAF MDA Pwr (kW)</i></u>	<u><i>Jobs Commit.</i></u>	<u><i>Job/ MW</i></u>	<u><i>Term</i></u>
CMP Publishing, Inc.	600	860	1433	7 Yrs.
Konica Imaging USA	1,000	532	532	10 Yrs.
Oceanside Institutional Services	400	304	760	5 Yrs.
Sandata, Inc.	250	190	760	7 Yrs.
White Rose Frozen Food Division (DiGiorgio)	<u>650</u>	<u>274</u>	422	5 Yrs.
TOTAL:	<u>2,900</u>	<u>2,160</u>		

7. Westchester County Agreement - Ratification and Authorization to Enter into Similar Agreements with Authority Governmental Customers in Westchester County

The President submitted the following report:

SUMMARY

"The Trustees are requested to ratify an agreement with Westchester County concerning electricity supply and related issues and authorize the Chairman to execute agreements on substantially similar terms with the remaining authority governmental customers in Westchester County.

BACKGROUND

"Westchester County has been a valued Authority customer since its transfer from Consolidated Edison Company of New York, Inc. (Con Edison) in 1976 with the purchase of the Indian Point 3 Nuclear and Charles Poletti Power Plants. The County uses Authority electricity in all of its facilities including, for example; county office buildings, courts, street lighting, the Westchester County Airport, County medical center, an amusement park and college, solid waste, water and sewage treatment facilities.

"In 1994, annual revenues from the County were approximately \$14 million, of which \$8.8 million was for Authority production and the balance for Con Edison delivery. It is the 6th largest SENY customer and its annual peak load was approximately 30 MW. The remaining 77 governmental customers in Westchester County account for \$31 million in total revenues and almost 60 MW of load.

DISCUSSION

"Consistent with the Authority's goal to ensure sales and revenue stability, and the County's desire to control its future electric costs through price predictability and stability, the parties entered into discussions to seek a mutually satisfactory agreement on these common objectives. The agreement was the result of those discussions.

"The agreement's main provisions are as follows:

"The County will purchase its electricity requirements from the Authority at least through December 31, 2004; however, beginning in 1998, the County has the ability to seek other electricity suppliers to serve a portion of their load - no more than 3% per year (approximately 1 MW) with a maximum transfer of 6 MW over the term of the agreement. The Authority retains the right of first refusal to supply part or all of such load.

"The Authority agrees to maintain stable electric rates through the year 2000. After January 1, 2001, rate increases will be limited to increases in the market price for electricity.

"The County will receive a one-time \$450,000 rate rebate. In addition, the Authority will undertake a minimum of \$3 million per year of energy efficiency programs over the term of this Agreement and provide the County with ten electric vehicles and one electric bus. The Authority will also provide \$50,000 per year to assist the county with its economic development efforts.

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"The agreement with the County contains a 'most favored nation' clause which allows the County to elect service under any similar agreement that the Authority may enter into with another governmental customer. The County must accept any other agreement in its entirety (to the extent each provision can be made applicable to the County) and may make only one election which must be made by June 30, 1996.

"The County agreement will serve as the prototype for the remaining 77 public customers in the County. To facilitate execution of similar agreements, staff is requesting that the Trustees authorize the Chairman to enter into agreements with those Authority customers on substantially the same terms as the agreement with Westchester County as set forth in Exhibit '7-A'. Ultimately, these customers will receive an agreement similar in terms to the one which Westchester County eventually selects.

"The Authority is well aware of the challenges now facing its public customers as they attempt to make limited resources go even further to meet the increasing needs of their constituents. This agreement reflects the importance the Authority places on its relationships with its customers and illustrates our commitment to them as a partner.

RECOMMENDATION

"The Manager - Customer Relations recommends that the Trustees ratify the Westchester County Agreement and authorize the Chairman to execute similar agreements with the remaining Westchester County public customers.

"The Senior Vice President - Marketing and Economic Development, the General Counsel, and I concur in the recommendation."

In response to questions from Trustee Miller concerning the Authority's commitment to undertake a minimum of \$3 million per year of energy efficiency programs, Mr. Pellegrino explained that these funds would be repaid by the County. In response to further questions from Trustee Miller, Mr. Pratt explained that the agreement is being concluded under specific legislation dealing with southeast New York electric customers which dates back to the mid-1970s, when the Authority took over IP3.

The following resolution, as recommended by the President, was unanimously adopted:

WHEREAS, Westchester County is a valued and long term customer of the Authority; and

WHEREAS, the County desires rate predictability and stability and the Authority desires sales and revenue stability; and

WHEREAS, there remain 77 Authority governmental customers in Westchester County which may desire to enter into substantially similar agreements;

NOW THEREFORE BE IT RESOLVED, That the Authority hereby ratifies the agreement with Westchester County in substantially the form as set forth in Exhibit '7-A'; and be it further

RESOLVED, That the Chairman be, and hereby is, authorized to execute agreements on

substantially similar terms with other Authority governmental customers in Westchester County.

8. 1994 Annual Report on the Authority's Investments

The President submitted the following report:

SUMMARY

"The Trustees are requested to (i) review and approve the attached 1994 Annual Report on Investment of Authority Funds (Exhibit `8-A'); and (ii) approve an amendment to the Guidelines to specifically preclude the Authority from entering into Reverse Repurchase Agreements.

BACKGROUND

"Section 2925 of the Public Authorities Law requires the review and approval of an annual report on investments. Pursuant to the statute, the attached report includes investment guidelines that set standards for the management and control of the Authority's investments, a summary of the Guidelines, a detailed inventory report for each of the Authority's 11 portfolios at December 30th, the total investment income earned in 1994, results of an independent audit, a summary of purchases from dealers and banks, and a statement on fees paid for investment services. The approved annual report is filed with the State Division of Budgets with copies to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon reasonable request.

DISCUSSION

"In 1994, the Authority's investment portfolio size averaged \$1.3 billion and earned \$80 million. This is \$16 million less than in 1993 due to lower interest rates and a reduction of the portfolio's size. Income in 1994 represented an average yield of 6.2%, exceeding the Authority's established performance measures by 30 basis points (3/10 of one percent). The performance benchmarks are indices for government securities having a duration approximating the Authority's projected cash flow requirements. The Authority's portfolio of investments on a total return basis underperformed the Shearson Lehman index for one to three year government securities by 226 basis points, with a total return of negative 1.7%.

"In the aggregate, the portfolio consisted of 51% direct obligations of the U.S. Government, 44% Agencies of the U.S. Government, and 5% municipal securities. To comply with arbitrage rules contained in the tax code, approximately \$363 million of Authority investments are now yield restricted at interest rates averaging 5.96%.

"The Annual Report states that the Authority's Nuclear Decommissioning Trust account paid \$683,753.22 to J.P. Morgan and RCM Capital for investment management services. The managers are paid a percentage of the funds under management and in 1994, fees represented approximately 26 basis points. Based on the approved fee schedule, this percentage will decline as funds under management grow. At year-end the Trust's market value was approximately \$247 million. The Nuclear Regulatory Commission mandates minimum decommissioning reserves be segregated from the Authority's other assets and be beyond day to day administrative control to afford protection from the claims of creditors in the event of bankruptcy. To comply with this mandate, the Trustees approved a Master Decommissioning Trust in June, 1990. The Trust allows for investments in a broad range of high quality government, corporate, and foreign securities and allows for the use of futures and options. Recognizing the greater flexibility for investment types and duration, the Trust's performance is measured against the Shearson Lehman Aggregate Bond Index. In 1994, the Trust achieved a 1.2% negative total return net of management and trustee fees outperforming its benchmark by 171 basis points. On a cost basis, the Trust achieved a .12% positive return and realized nearly \$1

million in earnings. Contributions during the year were not eroded. Since its inception

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in August, 1990 the Trust's annualized total return has been 8.7% and has outperformed the Index by 52 basis points. The Trust is currently yielding approximately 7%.

"In connection with its examination of the Authority's financial statements, Cooper's & Lybrand reviewed and tested the Authority's compliance with the Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Their report, a copy of which is attached as Exhibit `8-B', stated that nothing came to the auditor's attention that caused it to believe the Authority was not in compliance with these guidelines.

"Staff is recommending a revision to the Guidelines that would specifically preclude the Authority from entering into Reverse Repurchase Agreements. A Reverse Repurchase Agreement is a form of borrowing wherein investment securities may be pledged as collateral in exchange for a cash payment. If misapplied, such transactions can be used to leverage a portfolio's risk profile. While the Authority has never entered into these types of transactions and never interpreted the Guidelines to have allowed these transactions, staff believes it is prudent to clarify the Guidelines, leaving nothing concerning this type of transaction open to interpretation.

"The Investment Guidelines and procedures have not been amended since last presented and approved by the Trustees at their meeting of March 29, 1994. A copy of the Guidelines is included as part of this Annual Report.

RECOMMENDATION

"The Treasurer and the Vice President - Corporate Finance recommend that the Trustees approve the attached 1994 Annual Report on Investment of Authority Funds.

"The General Counsel, the Senior Vice President - Business Services, the Chief Operating Officer, and I concur in the recommendation."

President Freeman suggested that the Trustees may wish to review the process and philosophy of Authority investments in its Nuclear Decommissioning Trust, with a view toward emphasizing certainty of return, and that staff will explore reducing portfolio management fees. Trustee Duch concurred that the Trustees should examine the issue of how much risk the Authority wishes to assume and agreed that the fees seem very high for the type of portfolio managed. Mr. Collins responded that staff will re-bid the management contract this year. In response to questions from Trustee Duch, Mr. Collins explained that futures and options are not allowable in the Authority's portfolio, but are authorized within limits in the Decommissioning Trust.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the 1994 Annual Report of Investment of Authority Funds be, and hereby is approved; and be it further

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RESOLVED, That paragraph VII, of the Investment Guidelines be amended respectively to add B.6, to read as follows:

VII. Policies Concerning Certain Types of Investments Diversification Standards Required:

- B6. The Authority may not enter into arrangements (known as Reverse Repurchase Agreements) for the purpose of borrowing monies by pledging Investment Securities owned by the Authority.**

**1994 Annual Report on
Investment of Authority Funds
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Section I	Guidelines for the Investment of Funds
Section II	Explanation of the Investment Guidelines
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Section V	Summary of Dealers and Banks From Whom Securities were Purchased

Section I

New York Power Authority Guidelines for the Investment of Funds

I. General

These Guidelines for the Investment of Funds (the "Guidelines") are intended to effectuate the applicable provisions of the General Purpose Bond Resolution adopted November 26, 1974, as amended and supplemented (the "Resolution"), the lien and pledge of which covers all accounts and funds of the Authority and which govern the Authority's existing policies and procedures concerning the investment of funds as contained in these Guidelines. In a conflict between the Guidelines and the Resolution, the latter shall prevail. In addition, these Guidelines are intended to effectuate the provisions of Section 2925 of the New York State Public Authorities Law.

II. Responsibility for Investments

The Treasurer and Deputy Treasurer have the responsibility for the investment of Authority funds under the general supervision of the Vice President-Corporate Finance. The Treasurer shall ensure that an operating manual is maintained that provides a detailed description of procedures for maintaining records of investment transactions and related information.

III. Investment Goals

The Treasurer and Deputy Treasurer are responsible for maximizing the yield on investments consistent with requirements for safety, minimization of risk and liquidity. Monies will not be invested for terms in excess of the projected use of funds.

IV. Authorized Investments

- A. Monies in funds established pursuant to the Resolution shall be invested in Investment Securities or Authorized Certificates of Deposit, defined as follows:

"Investment Securities" as defined in the Resolution means and includes any of the following securities:

1. Direct obligations of or obligations guaranteed by the United States of America or the State of New York;
2. Bonds, debentures, or notes issued by any of the following: Banks for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; the Government National Mortgage Association if such bonds, debentures or notes are guaranteed by the Government National Mortgage Association; or Federal Financing Bank or any other agency or instrumentality of the Federal Government established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;
3. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment

of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America; or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

4. Direct and general obligations, the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (a) all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitations as to rate or amount, and (b) at the time of their purchase under the Resolution, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies and are legal investments for fiduciaries in the State of New York.

"Authorized Certificates of Deposit" as defined in the Resolution means negotiable or non-negotiable certificates of deposit issued by any bank, trust company or national banking association which is a member of the Federal Reserve System, including certificates of deposit issued by the Trustee and Paying Agent.

- B. The Authority, as an issuer of tax-exempt obligations, must not engage in any arbitrage practice prohibited by the arbitrage regulations promulgated under Section 103(c) of the Internal Revenue Code. In no event will funds of the Authority be invested in a manner that will violate the provisions of such Section 103(c).

V. Provisions Relating to Qualifications of Dealers and Banks

- A.1. The purchase and/or sale of Investment Securities shall be transacted only through banks, trust companies or national banking associations (herein collectively termed "Banks") which are members of the Federal Reserve System and government security dealers (herein termed "Dealers"), which are Banks and Dealers reporting to, trading with, and recognized as primary dealers by the Federal Reserve Bank of New York. Banks and Dealers shall have demonstrated an ability to:
 - a) offer superior rates or prices on the types and amounts of securities required;
 - b) provide a high degree of attention to the Authority's investment objectives; and
 - c) execute trades in a timely and accurate manner.
- A.2. Investment Securities may also be purchased or sold through minority and women owned firms authorized to transact business in the U.S. government and municipal securities markets. Such qualified firms shall demonstrate the qualities detailed in clauses (a), (b) and (c) of V.A.1.
- A.3. Municipal Securities qualifying as "Investment Securities" as defined in the Resolution may also be purchased or sold through any municipal bond dealer registered in the State of New York who demonstrates the qualities detailed in clauses (a), (b) and (c) of Paragraph V.A.1.
- B. Authorized Certificates of Deposit and time deposits shall be purchased directly from Banks which:
 - (1) are members of the Federal Reserve System transacting business in the State of New York;
 - (2) have capital and surplus aggregating at least \$50,000,000; and
 - (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of V.A.1.
- C. Investment Securities purchased by the Authority or collateral securing its investments shall be

deposited only with custodians designated by the Authority. Such custodians shall be Banks which are members of the Federal Reserve System transacting business in the State of New York.

- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business, and (3) delivery instructions for the safekeeping of investments.
- E. The Authority shall enter into a written contract with any (1) Dealer from whom Investment Securities are purchased subject to a repurchase agreement and (2) Bank from whom Authorized Certificates of Deposit are purchased.

VI. **General Policies Governing Investment Transactions**

- A. Competitive quotations or negotiated prices shall be obtained except in the purchase of government securities at their initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and or Banks, except as indicated above, and the most favorable quote accepted. The Treasurer or Deputy Treasurer may waive this requirement on a single transaction basis only if warranted by market conditions and documented in writing.
- B. Investment Securities purchased shall be either delivered to the Authority's designated custodian or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, recorded in the Authority's name or in the name of a nominee agent or custodian designated by the Authority on the books of the Federal Reserve Bank of New York or the Depository Trust Company. Payment shall be made to the Dealer or Bank only upon receipt by the Authority's custodian of (1) the securities or (2) in the case of securities held in a book-entry account, written advice or wire confirmation from the Federal Reserve Bank of New York or the Depository Trust Company that the necessary book-entry has been made.
- C. Each purchase or sale of Investment Securities or Authorized Certificates of Deposit shall be authorized by the Vice President-Corporate Finance, Treasurer or Deputy Treasurer. Investment orders may be placed by Authority employees as designated by the Treasurer. The custodian shall have standing instructions to send a transaction advice to the Authority's Controller for purposes of comparison with internal records. The Controller shall advise the Treasurer of any variances and the Treasurer shall ensure appropriate corrections are provided.

VII. **Policies Concerning Certain Types of Investments Diversification Standards Required**

- A. **Authorized Certificates of Deposit and Time Deposits**
 - 1. Authorized Certificates of Deposit and Time Deposits shall be purchased directly from a Bank in the primary market.
 - 2. Authorized Certificates of Deposit and Time Deposits shall be continuously secured by Investment Securities defined in subsection (1) or (2), having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such Certificates of Deposit or Time Deposits. Such Investment Securities shall be segregated in a separate custodian account on behalf of the Authority.
 - 3. Investments in Authorized Certificates of Deposit or Time Deposits shall not exceed 25

percent of the Authority's invested funds. The par value of Authorized Certificates of Deposit purchased from any one Bank shall not exceed 5 percent of that Bank's total capital surplus.

B. Repurchase Agreements

The Authority may from time to time elect to enter into arrangements for the purchase and resale of Investment Securities (known as "Repurchase Agreements"). This type of investment transaction shall be used only when there is no other viable, short-term investment alternative.

1. A Repurchase Agreement shall be transacted only with a Dealer or Bank qualified to sell Investment Securities to the Authority which is recognized by the Federal Reserve Bank as a primary dealer.
2. Investment Securities purchased subject to a Repurchase Agreement shall be marked to market daily to ensure its value equals or exceeds the purchase price.
3. A Repurchase Agreement shall be limited to a maximum fixed term of five business days. Payment for the purchased securities shall be made against delivery to the Authority's designated custodian (which shall not be a party to the transaction as seller or seller's agent) or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust Company, written advice that the securities are recorded in the Authority's name or in the name of a nominee, agent or custodian designated by the Authority on the books of the Federal Reserve Bank or the Depository Trust Company.
4. No more than \$50 million of Investment Securities shall be purchased under a Repurchase Agreement with any one Dealer or Bank. This requirement may be waived by the Vice President Corporate Finance on a single transaction basis only if warranted by special circumstances and documented in writing.
5. The aggregate amount invested in Repurchase Agreements may not exceed the greater of 5 percent of the investment portfolio or \$100 million. The Senior Vice President-Business Services may waive this requirement on a single transaction basis only if warranted by cashflow requirements and documented in writing.
6. The Authority may not enter into arrangements (known as Reverse Repurchase Agreements) for the purpose of borrowing money by pledging Investment Securities owned by the Authority.

VIII. Review

These Guidelines and any proposed amendments shall be submitted for Trustee review and approval at least once a year.

In addition to the Authority's periodic review, the Authority's independent auditors, in connection with their examination of the Authority, shall perform an annual audit of the investment portfolio, review investment procedures and prepare a report, the results of which will be made available to the Trustees.

XI. Reports

- A. The Treasurer shall submit an investment report to the Trustees, at least quarterly. Such report shall contain a (1) detailed description of each investment; 2) summary of the dealers and banks from which

such securities were purchased; and (3) a list of fees, commissions or other charges, if any, paid to advisors or other entities rendering investment services.

- B. The Treasurer shall submit an annual report for approval by the Trustees. In addition to the information provided quarterly, the Annual Report shall include (i) a copy of the Guidelines; (ii) an explanation of the Guidelines and any amendments thereto since the last annual report; (iii) the results of an annual independent audit of investment inventory and procedures, and (iv) a record of income earned on invested funds. The approved report shall be submitted to the Division of the Budget with copies distributed to the Office of the State Comptroller, the Senate Finance Committee, and the Assembly Ways and Means Committee. Copies shall be made available to the public upon written reasonable request.
- C. Any waivers which occurred during the prior month shall be reported to the Senior Vice President-Business Services.

X. **Miscellaneous**

- A. These Guidelines are intended for guidance of officers and employees of the Authority only, and nothing contained herein is intended or shall be construed to confer upon any person, firm or corporation any right, remedy, claim or benefit under, or by reason, of any requirement or provision thereof.
- B. Nothing contained in these Guidelines shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of these Guidelines.
- C. No provisions in these Guidelines shall be the basis of any claim against any Trustee, officer or employee of the Authority in his or her individual or official capacity or against the Authority itself.

Section II

EXPLANATION OF INVESTMENT GUIDELINES

Section II Responsibility for Investments

Establishes responsibility for the Investment of Authority Funds and limits the number of individuals authorized to place investment orders.

Section III Investment Goal

Establishes the policy that earning a reasonable return on investments must be consistent with standards set for minimization of risk and availability of funds when needed.

Section IV Authorized Investments

Details the types of investments which the Authority can undertake as prescribed in Section 101 of the General Purpose Bond Resolution.

This section also requires that investments made in each of the Funds established under the General Purpose Bond Resolution be invested for a term commensurate with cash flow expectations and that such investments will not violate Section 103(c) of the Internal Revenue Code.

Section V Provisions Relating to Qualifications of Dealers and Banks

Establishes criteria for the selection of banks and dealers from which the Authority may buy or sell investments. Business is transacted with firms who have demonstrated financial strength and a high degree of reliability with respect to servicing of the Authority's needs. This section also directs that custody of Authority investments shall be maintained by banks which are members of the Federal Reserve System transacting business in the State of New York.

This section also addresses the subject of contracts with banks and dealers for the purchase or sale of Investment Securities. The Authority has written Letters of Agreement with authorized dealers that specify the types of securities in which the Authority may invest and identify those Authority individuals authorized to give instructions related to the purchase and sale of securities. In addition, the Authority shall have a written form of agreement for use in repurchase transactions with any authorized dealer with whom the Authority may transact this type of investment.

Section VI General Policies Governing Investment Transactions

Requires that the Authority solicit no less than three bids for the purchase or sale of securities in order to ensure the most favorable rate except when securities are purchased at their initial auction, upon new issue or through negotiated prices.

Requires that the Authority or its custodian, prior to payment, take possession of such securities, or in the case of book entry securities, obtain written advice or wire confirmation that transfer or ownership has been recorded.

Establishes authorized employees to approve the purchase or sale of securities. Establishes control procedures

whereby the Controller shall compare the custodian's confirmation to Authority records.

Section VII Policy Concerning Certain Types of Investment Diversification Standards Required

Establishes a policy concerning the purchase of Certificates of Deposit and Time Deposits intended to minimize the risk associated with such transactions. Certificates of Deposit or Time Deposits may be purchased directly from a bank which is a member of the Federal Reserve System transacting business in the State of New York. Such deposits shall be continuously secured by direct obligations of, or guaranteed by, the U.S. Government or the State of New York. This collateral shall be regularly priced to current market to assure the Authority's security interest is continuously protected. Aggregate holdings of Certificates of Deposit shall not exceed 25 percent of the Authority's total investment. Certificates of Deposit purchased from any one bank shall not exceed 5 percent of that bank's capital.

Establishes a policy intended to minimize the risk associated with arrangements for the purchase and resale of investment securities known as Repurchase Agreements ("Repos"). Repos purchased from any one qualified dealer or bank shall not exceed \$50 million and shall be limited to a maximum fixed term of five business days. Aggregate investments in Repos shall not exceed the greater of 5 percent of the Authority's total investments or \$100 million. All securities purchased under the terms of a Repo shall be held in safekeeping by a designated custodian for the Authority. Such securities shall be priced to market on a daily basis to assure the Authority's security interest. Reverse Repurchase Agreements are not authorized transactions.

Section VIII Review

Establishes policy requiring review of the Guidelines at least once a year. Requires an annual audit by the Authority's independent auditors of the Authority's investment portfolio and compliance with the guidelines established by the Authority and the State Comptroller.

Section IX Reports

Establishes policy requiring submission of reports to the Authority's Trustees concerning the management and performance of the Authority's portfolio.

This Section also requires that an annual report be submitted for approval by the Authority's Trustees. Copies of the approved report shall be sent to the Division of Budget, Office of the State Comptroller, the Senate Finance Committee, and Assembly Way and Means Committee.

Section III

A. Investment Income Record

During 1994 the Authority's average daily investment portfolio was approximately \$1.3 billion and earned \$79.8 million.

The earnings, by fund, were as follows (dollars in millions)

General Fund	\$37.0
Construction Fund	10.7
Operating Fund	<u>32.1</u>
Total	<u>\$79.8</u>

The investment income is \$16 million less than the prior year due to the average size of the portfolio decreasing by \$100 million and by the decline in average portfolio yield by 79 bps.

B. Fees Paid for Investment Associated Services

\$392,380.22	J.P. Morgan
\$291,373.00	RCM Capital

Investment management fees were paid by the Nuclear Decommissioning Trust Fund. By NRC mandate, the Trust is beyond the Authority's administrative control and is therefore not part of this Annual Report. As a point of information, the Trust balance was \$247.8 million at December 30, 1994. The Trust's investments are in high quality fixed income securities, and earned \$.9 million. For the year, the Trust had a negative 1.2 percent total return after payment of the above management service fees.

C. Results of the Annual Independent Audit

In connection with their examination of the Authority, the Authority's independent auditors, Coopers & Lybrand reviewed and tested the Authority's compliance with the guidelines established by the Authority, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Their report, a copy of which is attached as Exhibit "B", states that nothing came to their attention that caused them to believe that the Authority was not in compliance with these Guidelines.

**9. Diversity Power Contract and Interconnection Agreement
with Hydro-Québec - Price for Firm Energy for the 1995 Season**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve letter agreements concerning the proposed amounts and prices for the 1995 summer Diversity Energy to be purchased from Hydro-Québec ('Exhibit '9-A') and resold to Consolidated Edison Company of New York, Inc. ('Con Edison') and Rochester Gas and Electric Corporation ('RG&E') (Exhibit '9-B').

BACKGROUND

"In 1974 the Authority entered into a contract with Hydro-Québec for the purchase of 800,000 kilowatts ('kW') of Firm Diversity Power and up to 3 billion kilowatt-hours ('kWh') per year of Diversity Energy. Service under the contract began in 1979, after the Authority's Massena-Marcy 765 kilovolt transmission line was placed in service, and will end October 31, 1998. The power is sold to Con Edison (780,000 kW) and RG&E (20,000 kW) during the seven warm weather months (April through October) of the year when New York State experiences its annual peak load. The contract provides that the amount of and price for Diversity Energy each year will be subject to negotiation. If no agreement is reached on the amount and price, or if agreement is made to purchase less than the 3 billion kWh, the Contract provides that the remaining energy may still be taken during the summer months but it must be returned the following winter.

DISCUSSION

"The Diversity contract provides that a proposed amount and price of energy be offered two years prior to the delivery. Accordingly, in March 1993, Hydro-Quebec offered 100 million kWh of energy for the 1995 Diversity period at a price equal to 120 percent of the cost to Hydro-Quebec of its most costly 100 million kWh of fossil fuel generation and/or purchases during the April 1, 1993 to March 31, 1995 period with a minimum price of 42 mills per kWh. This price formula was not acceptable to the Authority and the utilities because lower priced energy was available.

"Since then, hydraulic conditions in Quebec improved enough for Hydro-Quebec to increase the offered amount of hydraulic Diversity Energy available for 1995, to the contractual maximum of 3 billion kWh. Consequently, the Parties have completed negotiation of energy prices for a firm take-or-pay basic amount of 2.7 billion kWh of Diversity Energy for the 1995 period. This amount of energy will be resold to Con Edison since RG&E has informed the Authority that it will not buy any basic amount. As provided in the Contract, the balance of 0.3 billion kWh may also be purchased subject to the requirement that any amount purchased from this balance must be returned in the winter months. As part of the negotiated price, it was agreed that Hydro-Quebec shall have the option to add the 'take-and-return' energy taken only by Con Edison to the basic amount of energy purchased by Con Edison, thus eliminating Con Edison's obligation to return this amount. RG&E will purchase up to 75 million kWh of the balance of 300 million kWh of Diversity Energy and return it during the winter months.

"The price for the basic amount as well as any 'take-and-return' energy exclusive of transmission charges is 17.7 mills per kWh.

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"Further, the parties have agreed to purchase from Hydro-Quebec, under the 1976 Interconnection Agreement, another one-billion kWh of firm energy for resale to Con Edison during the 1995 Diversity season at the same price of 17.7 mills per kWh. The Authority will provide transmission service to Con Edison to deliver this energy. The charge for this interruptible transmission service is the Authority's prevailing ST 31 transmission tariff which is currently 3 mills per kWh.

"Attached for approval is a proposed letter agreement (Exhibit `9-A') between Hydro-Québec and the Authority for the basic amount of 2.7 billion kWh of summer Diversity Energy for 1995. Also attached are proposed letter agreements (Exhibit `9-B') with Con Edison and RG&E. The agreement with Hydro-Québec will be contingent upon Con Edison's formal acceptance of the agreement.

"The agreement for the sale of the Diversity Energy is subject to the approval of the Hydro-Québec Board and the National Energy Board of Canada.

FISCAL INFORMATION

"The Authority will earn firm and non-firm transmission revenue only under these agreements from Con Edison and RG&E. Charges for power and energy will be paid by Con Edison and RG&E to the Authority and passed through to Hydro-Quebec.

"Firm transmission revenue to be realized by the Authority will come from fixed annual charges of \$3.34 per kW per month, as agreed to by Con Edison and RG&E and approved by the Trustees at their meeting of July 27, 1993, and totals \$18.7 million annually for the remaining contract term through 1998.

"Incremental revenue of \$2.12 million will be paid by Con Edison to the Authority for the non-firm transmission service provided to deliver the additional 1 billion kWh. This revenue is based on the Authority's non-firm transmission charge of 3 mills per kwh net of certain contractual credits applied to Con Edison and RG&E. Total transmission revenue expected for 1995 under these arrangements is \$20.8 million.

RECOMMENDATION

"The Senior Vice President - Transmission Business Unit recommends that the proposed letter agreements with Hydro-Québec, Consolidated Edison Company of New York, Inc. and Rochester Gas & Electric Corporation be approved substantially in the form attached hereto.

"The General Counsel, the Senior Vice President - Business Services, the Chief Operating Officer, and I concur in the recommendation."

The following resolution, as recommended by the President, was unanimously adopted:

WHEREAS, the Authority entered into a 1974 contract with Hydro-Quebec for sale to the Authority of Diversity Power and Energy which provides that the amount and price of Diversity Energy for the years after 1981 will be subject to negotiation; and

WHEREAS, Hydro-Quebec and the Authority have agreed on the amounts and prices for Diversity Energy for 1995; and

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WHEREAS, the Authority entered into a 1976 contract with Hydro-Quebec to provide additional benefits to their respective systems by means of the interconnection facilities, including the purchase and sale of surplus capacity and energy; and

WHEREAS, Hydro-Quebec and the Authority have agreed on the sale to the Authority for the 1995 Diversity season of an additional one billion kWh of firm energy; and

WHEREAS, Consolidated Edison Company of New York, Inc. and Rochester Gas and Electric Corp. have indicated acceptance of proposed amounts and prices of Diversity Energy and firm energy for the 1995 Diversity Period;

NOW THEREFORE BE IT RESOLVED, That the proposed amounts and prices of Diversity Energy and short term power be approved, and that the Senior Vice President - Transmission Business Unit be, and hereby is, authorized to execute a letter agreement and operating agreement, substantially in the form attached hereto, with Hydro-Quebec for the purchase of Diversity Energy and short term power, respectively, as recommended in the foregoing report of the President, contingent upon formal approval of such agreement by Consolidated Edison Company of New York, Inc. for sale of Diversity Power and Energy and for the sale of short term power.

10. Procurement (Services) Contract - St. Lawrence/F.D. Roosevelt Power Project - Construction Contract for the Rehabilitation of the Barnhart Island Bridge - Vector Construction Corporation - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a construction contract to Vector Construction Corporation ('Vector') for the rehabilitation of the Barnhart Island Bridge in the amount of \$7,322,919.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require Trustees' approval of procurement contracts involving services to be rendered for a period in excess of one year.

"The Barnhart Island Bridge ('the bridge') was constructed by the Authority in 1955, to connect the United States mainland to Barnhart Island. The bridge served as a major railway and roadway link during the construction of the project and is now the main access to the project. The bridge originally had three lanes; a center lane for the railroad, and two outside lanes for roadway traffic. The bridge has been maintained with asphalt paving and minor paint touch-ups periodically. The bridge was completely painted in 1966 and 1979.

"Maintenance of the bridge falls within the purview of the Joint Works Agreement with Ontario Hydro ('OH'). The Authority's staff has consulted with OH on the scope, cost, and schedule for the proposed work. OH has provided its written concurrence and will reimburse the Authority for 50% of the costs.

"A 1989 inspection revealed that the deck was deteriorating and needed replacement in the next five to eight years. Minor repairs to the steel, local failure of the coating system, underhung inspection trolley repairs, abutment concrete spalling, and other items were addressed in the report. The technical evaluation concluded that the deterioration was so advanced that partial deck replacement was not possible. In 1992, the New York State Department of Transportation ('NYSDOT') questioned the bridge framing arrangement at the railway/roadway joint and advised the Authority to investigate the load capabilities of the bridge. The proposed rehabilitation, which has been reviewed by NYSDOT, resolves this issue. The 1991 and 1993 inspection reports further confirmed the need for deck replacement.

"The bridge rehabilitation engineering was initiated in 1992, and was completed in October 1993. In 1992, the Authority initiated the bridge inspection trolley repairs. The trolley was replaced and a new electrical drive system and bus conductors meeting the current electrical safety code were added.

"The bridge reconstruction, expected to take three years, was originally scheduled to start in 1993, but was postponed to 1994, and then to 1995. The condition of the structure is such that no further postponement is possible. The estimated total cost of the project is \$11,795,000. Of this amount, \$1,066,550 has been expended for testing, inspections, and detailed engineering.

DISCUSSION

"The bridge rehabilitation work consists of removal of asbestos-containing asphalt planks and asphalt wearing course, replacement of concrete deck and certain steel structures, lead paint removal, and painting of the bridge with a new paint system. The construction specification was developed to remove asbestos and lead paint in accordance with the latest Environmental Protection Agency, Occupational Safety and Health Administration, and the New York State Department of Labor rules and regulations for worker and environmental protection.

"The Authority requested bids by advertisement in the Contract Reporter for the estimated quantities of work. The contract provides for payment to the contractor for the actual measured quantities of work performed using the contract unit prices.

"Five proposals were received in response to the bid inquiries and evaluated as shown below:

	<u>Name of Bidder</u>	<u>Evaluated Bid Amount</u>
1.	Vector Construction Corp. Cicero, NY	\$7,322,919
2.	Barry, Bette and Led Duke, Inc. Albany, NY	7,944,035
3.	Kiewit Construction Co. Omaha, Nebraska	9,715,738
4.	Tuscarora Construction Co. Pulaski, NY	11,420,187
5.	Kiska Construction Corp. Whitestone, NY	18,188,799

"A multi-disciplinary Evaluation Committee established in accordance with Authority procedures carried out an in-depth evaluation of all bids and recommended that the contract be awarded to Vector.

"Vector was selected because its bid was the lowest evaluated among all bidders and its construction schedule meets the Authority's completion schedule requirements. A review of past construction project experience has shown Vector to have an acceptable record of timely and problem-free completions. NYSDOT personnel confirmed that Vector has performed satisfactorily.

"Vector's subcontractors for asbestos and lead paint abatement work were reviewed and found to be properly certified and acceptable; its proposed organization chart and resumes of key personnel were reviewed and staffing was found to be reasonable; and its bid was comprehensive and complete in all major respects.

"The rehabilitation work will be accomplished in the following three phases:

1.	Northbound lane deck replacement.	April to October 1995
2.	Southbound lane deck replacement.	April to October 1996
3.	Substructure and Superstructure painting work.	April to October 1997

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"In addition to the construction contract, two additional multi-year contracts will later be awarded for 1) Material Testing and Inspection Services for Concrete and Steel Structures; and 2) Inspection, Testing, and Environmental Monitoring Services for Asbestos and Lead Paint Abatement Work. The Trustees will be requested to approve the award of these contracts at the March 1995 meeting.

FISCAL INFORMATION

"The total project cost estimate is \$11,795,000. Estimated expenditures for 1995 have been included in the 1995 Budget. Estimated expenditures for 1996 and 1997 will be included in the budget submittals for those years. Payment will be made from the Operating Fund and 50% of the total cost will be reimbursed by Ontario Hydro as the work proceeds.

RECOMMENDATION

"The Resident Manager - St. Lawrence/F.D. Roosevelt Power Project, the Vice President and Chief Engineer - Power Generation, and the Vice President - Project Management - Power Generation recommend that the Trustees approve the award of the construction contract for the Barnhart Island Bridge rehabilitation work to Vector Construction Corp. in the amount of \$7,322,919.

"The Vice President - Procurement and Real Estate, the Senior Vice President - Power Generation, the General Counsel, the Chief Operating Officer, and I concur in the recommendation."

In response to questions from Trustee Waldbauer, Mr. Hiney described the process by which the Authority will first incur the costs of the bridge rehabilitation and will subsequently be reimbursed by Ontario Hydro. In response to questions from Trustee Duch, Mr. Hoff explained that there is a 15% goal for utilization of M/WBE subcontractors; Vector has committed to an 11% goal to date, and Authority staff is urging Vector to raise it further. In response to further questions from Trustee Duch, Mr. Hiney explained that the timing of the bridge repairs is based on the professional judgment of independent inspectors that the bridge was heretofore safe to use; however, it is now prudent to proceed with the repair work.

The following resolution, as recommended by the President, was unanimously adopted:

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RESOLVED, That approval is hereby granted to award a construction contract for the rehabilitation of the Barnhart Island Bridge at the St. Lawrence/F.D. Roosevelt Power Project, as recommended in the foregoing report of the President and Chief Executive Officer and in the amounts and for the purpose listed below:

<u>O&M</u>	<u>Contract Approval</u>	<u>Closing Date</u>	<u>Projected</u>
Construction contract for the rehabilitation of the Barnhart Island Bridge to:			
Vector Construction Corp. Inquiry No. Q-02-1194	<u>\$7,322,919</u>		12/31/97

11. Municipal and Rural Cooperative Economic Development Program - Allocation to Town of Massena

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve an allocation of power to the Town of Massena ('Massena') of up to 4,000 kW under the Municipal and Rural Cooperative Economic Development Program ('Program').

BACKGROUND

"The 1991 Amendment to the power sales agreement between the Authority and the Municipal and Rural Cooperative Systems reserved 108,000 kW of power for economic development in the systems. As of February 1, 1995, 13,200 kW have been allocated.

"Power from this block can be allocated to individual systems to meet the increased electric load resulting from eligible new or expanding businesses in their service area. The guidelines established for the program include suggested target numbers of new jobs per megawatt. For projects involving existing businesses in a system, the suggested jobs per megawatt ratio is determined by the level of employment prior to the expansion. Specifically, for companies employing 100 or less, the target ratio is 25 jobs per megawatt; for companies employing between 101 and 250, the ratio is 50; for companies employing between 251 and 500, the ratio is 75; and for companies employing over 500, the ratio is 100 jobs per megawatt. The guidelines, however, provide that for businesses that are new to a system, the jobs per megawatt ratio is considered on a case-by-case basis and are, thus, not binding. A case-by-case consideration is appropriate because the quality of the jobs created is important and the magnitude of any secondary impacts is also important.

"An application for power under the Program has been submitted by Massena for consideration by the Trustees.

DISCUSSION

"Massena, a partial requirements municipal customer, has requested 4 MW for a proposed expansion project at the General Motors Powertrain - Massena Plant ('GM-Massena'). GM-Massena is a foundry that produces iron and aluminum engine and transmission castings for the automotive industry. The company is planning to add additional production capacity in anticipation of new business. The total investment, estimated to be \$22 million, will be used to purchase machinery and equipment. Total employment at the plant is 200 and it is expected to increase by 100. Recent energy conservation measures include the installation of high efficiency furnace burners and high pressure sodium lighting fixtures.

"The new jobs created with this power will be relatively high-wage manufacturing jobs. The 'ripple' effect will produce additional jobs as contrasted to a service industry or lower-paying jobs. In addition, the power made available for this expansion may induce further expansion at this site by GM-Massena. The unemployment rate in St. Lawrence County is 7.6%. These factors greatly outweigh the fact that this expansion involves fewer jobs per megawatt than the guidelines suggest. Therefore, it is recommended that the Trustees approve an allocation of up to 4 MW to Massena to allow this sale to GM-Massena to go forward.

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"GM-Massena currently purchases up to 12 MW of firm hydropower directly from the Authority under a contract that expires in 2013. The power is delivered from the Authority's St. Lawrence Project to GM-Massena over two 115 kV lines constructed by the Authority. GM-Massena has an associated job commitment of 200.

"While GM-Massena is located in Massena's service territory, Massena's system does not have sufficient capacity to deliver the requested load. As such, the allocation will be delivered to GM-Massena over Authority transmission lines. To accommodate this transaction, GM-Massena, Massena and the Authority have negotiated a three-party agreement under which the Authority will deliver the power on behalf of Massena. This arrangement in effect constitutes a borderline agreement, a device commonly used by utilities to provide service to certain customers near utility borders for which service by the franchise utility is not economically or technically feasible.

"The three-party agreement provides that Massena will file a tariff with the Public Service Commission under which the Authority's production and transmission charges to Massena associated with the requested allocation will be passed through directly without markup to GM-Massena. As GM-Massena's hydropower purchase from the Authority and the industrial power allocation from Massena will pass through the same meter, the three-party agreement includes a load splitting provision.

"The recommended allocations under the Program comprise half hydropower and half incremental power. Consistent with the Authority's marketing arrangement with the full requirements municipal and cooperative customers, the hydropower will be added to the recipient system's contract demand at the time a project becomes operational, and the incremental power will be sold on an as-used basis. The hydropower earmarked for this Program is presently sold to the municipal and cooperative customers on a withdrawable basis.

"It should be noted that the Executive Director of the Municipal Electric Utilities Association 'MEUA' has expressed concerns regarding this item and has requested a postponement until the March Trustee meeting. However, GM-Massena feels that a postponement could put the expansion at risk.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development recommends that the Trustees approve up to 4,000 kW for allocation under the Municipal and Rural Cooperative Economic Development Program to the Town of Massena in accordance with the attached memorandum of the President.

"The General Counsel, the Chief Operating Officer, and I concur in the recommendation."

At President Freeman's suggestion, the Trustees agreed to delegate to him the power to execute the agreement following further meetings to be held with the MEUA. Trustee Miller added that the MEUA leadership feels it should be treated as a partner on the issue of the allocation.

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The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That an allocation of up to 4,000 kW be approved for allocation to the Town of Massena under the Municipal and Rural Cooperative Economic Development Program is hereby approved in accordance with the foregoing report of the President; and be it further

RESOLVED, That the Senior Vice President - Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the aforesaid allocation.

12. 1995 New York State Retirement Incentive

The President submitted the following report:

SUMMARY

"A retirement incentive for certain employees of the State of New York is proposed in Bill No. S. 2545/A. 4305. The proposed legislation would permit the Power Authority, as an employer that participates in the New York State and Local Employees' Retirement System, to offer the incentive to its `eligible employees.' The Authority would be required to eliminate the position of every `eligible employee' who participated in the retirement incentive program.

BACKGROUND

"In the recent past, three retirement incentives were offered by the State of New York. The first in 1985/86, the second in 1991 and the third in 1992. The Authority offered the 1985/86 and 1991 incentives to all its eligible employees. However, the 1992 incentive was not offered because of the cost and the fact that a similar program had been offered by the Authority to its employees the previous year.

"A major restructuring of the Authority was completed last year. In order to accomplish the restructuring, in 1993 and 1994, the Authority underwent staff reductions, and abolished many positions.

DISCUSSION

"Under the proposed incentive, an `eligible employee' would receive one month of additional retirement service credit for each year of pension service that was credited as of the date of the employee's retirement. The maximum incentive an employee could receive would be three years of retirement service credit.

"In addition to employees who would otherwise be eligible for retirement, the retirement incentive would be available to employees who have ten years of service and will have attained age 50 on or before their retirement date. Under these criteria, a total of 422 (261 salaried and 181 union) employees could be eligible for the incentive. Based on past experience, it is anticipated that 30% of the Authority's eligible employees (140) would accept the retirement incentive. The cost of providing the retirement incentive, based on a 30% participation rate, is estimated at \$5,596,200. The largest impact would be at the facilities.

"The Authority downsized its workforce in 1988 and 1993. It also conducted a restructuring in 1994 which achieved significant results. To now open this retirement incentive window, with the possibility of losing another 140 jobs from the Authority would cause the loss of people vital to our utility. We noted that both the IBEW and the Teamsters oppose the offering because of the job elimination requirement. In addition, to improve morale and productivity, we need to reassure our employees of job security. To follow two successive downsizings with a retirement incentive could send the inaccurate message that we plan to downsize annually. Adopting the incentive on a targeted or partial basis, would run the same risks.

RECOMMENDATION

"The proposed incentive was discussed with the management committee and it is staff's recommendation that

the Authority not participate in the retirement incentive program."

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The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That pursuant to the aforementioned recommendations, the Authority hereby determines not to offer the proposed retirement incentive to its employees.

**13. Transfer of Replacement Power -
Treibacher Schleifmittel Corporation**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the transfer of a portion (750 kW) of Treibacher Schleifmittel's 5,558 kW Replacement Power allocation to an adjacent site.

BACKGROUND

"Treibacher Schleifmittel Corporation acquired General Abrasive Company in 1991. It receives 5,558 kW of Replacement Power; 3,050 KW according to a contract dated March 1, 1963 and the remainder through three other contracts, resulting from the Replacement Power Settlement Agreement, dated March 1, 1982, April 1, 1986 and June 1, 1986. The company manufactures abrasive grains that are used in grinding wheels, sandpaper, saw blades, etc. The parent company, Wienerberger AG is a huge, very stable Austrian firm which owns over 100 European facilities. It is the major manufacturer of bricks which are the basic European building material. 80% of its stock is owned by Credit Anstalt, the largest bank in Austria.

"The Niagara Falls facility is completely obsolete. The company proposes a four-phase \$19 million plan to modernize the facility over a three-year period. They are presenting their plan for the facility at a meeting to be held March 6th with their European parent. Since the operation is so highly electrical intensive, they need to know at that time if they will be able to access their Replacement Power allocation for use in the project. If not, the project is probably not economically feasible.

"They plan to immediately invest \$9 million in a state-of-the-art sizing facility for brown fused aluminum oxide, a type of abrasive grain. As there is currently no available space on the existing property, the new facility would be built on adjacent land across the street from the existing facility and will replace and consolidate existing inefficient processes. Currently, the company uses the vacant land for a parking lot. For financing purposes, the land and building (\$1.5 million) portion of the project may be leased from a developer to defray upfront capital expenses which could instead be employed in upgrading other processes. The proposed facility is based on a European prototype facility owned and operated by Treibacher. The existing processes which are scattered throughout the facility use about 1,500 kW. The new consolidated facility would use about 750 kW but double their current production capacity. However, the new facility would not be competitive if it had to operate at Niagara Mohawk rates. The company needs to be assured that it will retain its Replacement Power allocations at both locations as it converts itself into a modern operation. It needs a stable, predictable, long term price for electricity because its process is highly electrically intensive. The environment will greatly benefit as the new processes will be totally enclosed, eliminating noise and dust.

"The company would like to break ground in early Spring 1995 in order to maintain a competitive edge in the marketplace. The new facility is projected to be up and running by year end 1995. At that time, the company then plans to tear down the buildings which housed the obsolete facilities and begin renovating and renewing the remainder of the facility's operations a portion at a time over the next three years. Although there may be a short-term loss in jobs, by year end 1997, jobs at both sites will increase to 190 from the 144 which currently exist at the site if the market for their products remains favorable. They have submitted a multi-year schedule of proposed expenditures,

power needs and employment impacts to demonstrate their long term commitment to the facility and to

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New York State. Their Niagara Falls, Ontario facility is a leading contender as an alternative site for the facility. However, they are working closely with local and state economic developers who are offering an aggressive incentive package which includes tax abatements, financing and training which the Canadians are not able to offer. Niagara Mohawk has sent the Authority a letter supporting the transfer of Replacement Power to the new facility.

DISCUSSION

"The company is actively pursuing two other locations for the sizing facility as alternatives to the Niagara Falls, NY site: Niagara Falls, Ontario and Alabama.

"The Ontario site is attractive in that the company already operates a furnacing facility there, and it is more efficient to have the processing facilities nearby. There is room for expansion on the existing property and there are several existing facilities which could possibly be acquired that fit well with their future expansion plans and facility needs. However, the Canadian package of incentives, although attractive in that they offer to build them distribution and R&D facilities, does not really add value to the product as do the U.S. incentives. If the sizing facility were located in Ontario, employment at the New York facility would decline to about 72 jobs. Their Replacement Power allocations would not be subject to reduction until employment was less than 64 jobs. The Ontario facility's employment would increase by about 25-35 jobs.

"Relocation of the entire operation to Alabama is attractive in that the company has been offered low cost incentives in electrical power from the TVA and the company would be closer to foreign input of raw materials. However, the capital costs involved in the moving/purchasing of new furnacing and processing equipment are astronomical. A completely new facility located there would take an additional 6 months to start up, seriously eroding the company's competitive strategy in the short term. Under this scenario, both the New York and Canadian facilities would be closed.

RECOMMENDATION

"The Senior Vice President - Marketing and Economic Development recommends that the Trustees approve the transfer of 750 kW of the company's 5,558 kW allocation of Replacement Power to the proposed facility to be constructed at 2001 College Ave, Niagara Falls, NY as described above. I concur in the recommendation."

Trustee Duch stated for the record, with regard to the proposed allocation to Treibacher Schleifmittel, that she serves on the board of the Western New York Economic Development Council.

The following resolution, as recommended by the President, was unanimously adopted:

RESOLVED, That the transfer of 750 kW of Treibacher Schleifmittel's 5,558 kW Replacement Power allocation as described in the foregoing report of the President be approved; and be it further

RESOLVED, That the Senior Vice President - Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the above transfer.

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14. Next Meeting

The next Regular meeting of the Trustees will be held on **Tuesday, March 28, 1995, in the New York Office at 11:30 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

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CLOSING

Upon motion made and seconded, the meeting was closed at 1:45 p.m.

Anne Wagner-Findeisen
Corporate Secretary

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