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

March 27, 2001

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Minutes of the regular meeting of the Power Authority of the State of New York held at the Albany Office at 11:00 a.m.

Present:	Joseph J. Seymour, Chairman
	Louis P. Ciminelli, Vice Chairman
	Gerard D. DiMarco, Trustee
	Frank S. McCullough, Jr., Trustee
	Timothy S. Carey, Trustee

Eugene W. Zeltmann	President and Chief Operating Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President - Project Operations
Vincent C. Vesce	Executive Vice President – Corporate Services and Human Resources
Louise M. Morman	Senior Vice President – Marketing and Economic Development
H. Kenneth Haase	Senior Vice President - Transmission
Michael A Petralia	Senior Vice President – Public and Governmental Affairs
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Michael H. Urbach	Senior Vice President and Chief Financial Officer
Arnold M. Bellis	Vice President – Controller
Daniel Berical	Vice President – Federal Legislative Affairs
Woodrow W. Crouch	Vice President – Project Management
Robert J. Deasy	Vice President – Power Contracts and Resource Management
John M. Hoff	Vice President – Procurements and Real Estate
Russell Krauss	Vice President and Chief Information Officer
Charles I. Lipsky	Vice President and Chief Engineer
James H. Yates	Vice President - Major Account Marketing and Economic Development
George W. Collins	Treasurer
Carmine J. Clemente	Deputy General Counsel
Gary Paslow	Executive Director - Policy Development
William Ernsthaft	Assistant General Counsel
Peter Barden	Executive Director – Hydro Relicensing
John L. Osinski	Executive Director – Regulatory Affairs
Arthur M. Brennan	Director – Internal Audit
Angelo Esposito	Director – Energy Services Division
John B. Hamor	Director – Intergovernmental Relations
Douglas M. Kerr	Director – Marketing Planning
John L. Murphy	Director – Public Relations
James H. Yates	Director – Business Marketing & Economic Development
Wayne Gowen	LAN Administrator
Aileen Kern	Special Assistant to Chairman
Leticia Remauro	Administrative Assistant to Trustee Carey
Bonnie Fahey	Executive Administrative Assistant
Anne Wagner-Findeisen	Deputy Secretary
Betty C. Fennell	Assistant Secretary
Angela D. Graves	Assistant Secretary - Legal Affairs
Alice F. Simon	Assistant Secretary

Chairman Seymour presided over the meeting. Executive Vice President, Secretary and General Counsel Blabey kept the Minutes.

1. Approval of the Minutes

Minutes of the Regular Meeting of February 20, 2001 and Minutes of the Special Meeting of March 13, 2001 were approved.

2. <u>Financial Report for the Two Months Ended February 28, 2001</u>

In response to questions from Trustee McCullough concerning the recent upswing in ISO charges, Mr. Bellis explained that on account of what is known as the "local reliability rule" for the New York City area, the price surge which commenced last December was not unanticipated by Authority staff. Mr. Bellis further explained that entities such as Con Edison have complained to the FERC about this aspect of ISO charges, which may, in fact, represent an exercise of market power. Mr. Bellis underscored that Authority staff is carefully monitoring all charges of that nature and plans to follow up with the ISO.

In response to questions from Chairman Seymour, Mr. Bellis added that the City's electrical load, transmission and configuration are unique, and differ from what applies to the rest of the State; thus the standard "dispatch" rules used by the ISO do not apply, and as more power is needed, individual units are fired up so as to provide the generation quickly rather than most efficiently. As a result, the standard "merit-order" for firing up plants is not adhered to, so that the ISO can, and does, charge what it chooses.

Chairman Seymour expressed concern that the situation could worsen during the summer. Mr. Hiney underscored that one of the purposes of the Authority's new gas turbine generators is to mitigate prices to ratepayers.

Mr. Hiney, reporting on the Marcy Convertible Static Compensator, explained that Phase I of the Project went into service on April 2, 2001 and Phase II is scheduled for completion by July 2002.

3. Report from the President and Chief Operating Officer

At President Zeltmann's request, Mr. Crouch then summarized the principal milestones since inception of the Power Now! Project and reported on significant activities since the most recent Trustees' meeting at the end of February.

Mr. Crouch submitted a report depicting the percentage of work completed on a per site basis, noting again that the North 1st and Grand Street site is not expected to be ready prior to August 1, 2001. He also submitted to the Trustees a sample "Daily Status Report".

Mr. Crouch also presented a cash flow analysis of the Project reflecting the $272 million spent to date, which does not include a number of the contractors' invoices, which are not being received by the Authority on a timely basis. Mr. Crouch noted that the overall budget is now projected at $530 million, plus $15 million for community grants.

Lastly, Mr. Crouch submitted the Capital Summary Report, depicting dollars formally budgeted, dollars committed to date, and actual dollar expenditures in the areas of Licensing, Engineering, Procurement, Construction, Spare Parts, and Direct/Indirect costs. He also identified and explained emerging variances emerging variances.

In response to questions from Vice Chairman Ciminelli, Mr. Crouch confirmed that the final expenditures will exceed the original cost scenario because of the much larger number of piles that have had to be driven on the sites, and the greater depth to which the piles have had to reach. Mr. Crouch further explained that there remain some $60 million in the "uncommitted" category on account of ongoing procurement and construction activity, which he anticipates will ultimately reach some $60 million, because there remain uncommitted bulk materials, construction costs and direct/indirect costs, stressing that both NYPA and the contractors are placing managers in full-time residence at the sites because the next 60 or so days will witness the most intensive and expensive work activities. Vice Chairman Ciminelli expressed agreement with having on-site resident managers, and noted that $60 million is a significant amount to go from uncommitted to committed within a very short time frame.

Trustee McCullough asked whether $530 million is the final budget figure: Mr. Crouch responded that he believes it to be so, but emergent issues may still arise resulting in unforeseen expenditures. The Vice Chairman asked

what percentage of the work on the sites is still "in ground": Mr. Crouch explained that to varying degrees, all the sites still entail in-ground work, noting the 1st and Grand site in particular may contain future surprises. The Vice Chairman asked whether Slattery is driving test piles. Mr. Crouch responded in the affirmative, stressing that it is likely to be the most expensive site.

Trustee McCullough commended Mr. Crouch on the thoroughness of his presentation, noting that this is precisely the level of detail and nature of information that the Trustees had been seeking.

4. Proposed 500 MW Combined Cycle Facility at the Poletti Site –
Authorization to increase the General Electric Contract Amount

The Executive Vice President – Project Operations submitted the following report:

SUMMARY

"The Trustees are requested to approve a $36,750,000 increase in the engineering, procurement and delivery contract (4500013941) with General Electric Company ('GE') from the previously approved contract amount of $191,389,000 to $228,139,000. This additional amount is needed to cover engineering, procurement and delivery of an air-cooled condenser and equipment changes needed to comply with the Authority's Technical Specification, environmental and licensing requirements and plant operational improvements.

BACKGROUND

"In June 1999, a Request for Proposal ('RFP') was issued for the engineering, procurement, and construction of the 'Power Island' components of the 500 MW Combined Cycle Plant at the Charles Poletti Site ('Poletti'). The intent was to award a contract on a turnkey basis, whereby the successful bidder would be totally responsible for the engineering, procurement, and construction of the plant.

"In September 1999, three proposals were received, none of which conformed entirely to the RFP scope of work because of the bidders' reluctance to assume perceived risks in the construction phase of the project. Construction was then removed from the scope of work for a separate bid at a later date.

"At their meeting of October 26, 1999, the Trustees authorized awarding a contract to GE in the amount of $191,389,000 for the engineering, procurement and delivery of the 'Power Island' components for GE's basic reference power plant design. The Trustees have subsequently approved $59,743,273 to be paid against the authorized amount for various GE services and to comply with other GE requirements.

"In August 2000, the Authority commenced the application process with the PSC Siting Board on Electric Generation and the Environment under Article X of the Public Service Law. A draft permit is expected to be received late March 2001, followed by a final permit by January 2002.

"Engineering and design activities on the project are progressing on schedule. All major equipment specifications have been prepared and issued for bids.

DISCUSSION

"The requested increase for engineering, procurement and delivery in an amount of $36,750,000 is for a change in the plant cooling method from a plume 'abated' cooling tower to an air-cooled condenser and changes to comply with the Authority's Technical Specification, environmental and licensing requirements, and plant operational improvements.

"The 500 MW Combined Cycle Plant GE proposal specified the use of a plume-abated cooling tower, requiring water to replace water lost by evaporation and a periodic blowdown from the cooling tower to maintain cooling tower cycle water chemistry. Subsequent to the filing of the Authority's Article X application, it became apparent that the PSC Siting Board favored dry cooling when it issued its Article X certificate for the Athens plant.

"GE advised that, if a decision were made in November 2000, the favored cooling methodology could be implemented without affecting the commercial operation date. GE has indicated that the change would result in about 2-3% loss in performance and add approximately $25 million in net cost to the contract price. The Authority's Executive Management Committee reviewed this option and elected to implement the air-cooled condenser design change rather than risk changing the cooling method during the public hearing phase of the project.

'"In November 2000, the Authority authorized GE to proceed with the engineering for this change in cooling method and to provide a detailed pricing proposal for the change. In February 2001, GE submitted a $28,487,000 proposal for engineering, procurement and delivery of an air-cooled condenser. The price includes extensive engineering work for, and the furnishing of, an air-cooled condenser and additional auxiliary equipment such as added load centers for powering the fans, steam exhaust ductwork from the steam turbine to the air-cooled condenser and an additional deaerator. The Authority's staff has reviewed the proposal and finds it reasonable.

'"The scope of work was also changed to include the following Authority technical requirements: modifications to enclose the gas compressors in a building; replacement of high-voltage motor starters with circuit breakers for system reliability; addition of 480 Volt load center for the fuel oil transfer area; a second independent 125 Volt DC battery system; and modifications to the protection system to provide added primary and backup protective generator relays for the generator step-up transformer, generator circuit breaker and switchgear. To improve plant operation and maintenance, the scope of work additionally changed to include: a second smaller capacity (15 ton) travelling crane in the turbine bay; automated drum vents for Heat Recovery Steam Generator ('HRSG') drums; HRSG stairwell enclosures and co-location of HRSG instrumentation in a common enclosure; stack closure damper for each HRSG stack; and a Mark VI state-of-the-art turbine control system. These changes resulted in an increase of $4,568,000 to the contract price.

"To meet environmental and licensing needs, other changes were made, causing a further contract price increase of $3,695,000, such as: a Selective Catalytic Reduction unit designed to lower gas emissions from 3.5 ppm to 2.5 ppm of NOx; inlet chillers using Freon as the chiller medium in lieu of ammonia; and modifications to the HRSG stack design to improve the dispersion of air pollutants.

FISCAL INFORMATION

"Payment will be made from the Authority's Capital Fund.

RECOMMENDATION

"The Regional Manager - Southeast NY, the Vice President - Project Management, the Vice President and Chief Engineer, and the Senior Vice President of Public and Governmental Affairs recommend the Trustees approve an increase in the engineering, procurement and delivery contract with General Electric by $36,750,000 (from $191,389,000 to $228,139,000).

"The Vice President - Controller, the Senior Vice President and Chief Financial Officer, the Executive Vice President, Secretary and General Counsel and I concur in the recommendation."

In response to questions from Chairman Seymour and Trustee McCullough, Mr. Crouch explained that of the total increase currently requested, the amount of $4,568,000 would result from Authority changes to the initial work scope which, as time progresses, Authority staff is better equipped to specify. Mr. Crouch further summarized the principal components of the changes: enclosing the gas compressors in a building; replacement of high-voltage motor starters with circuit breakers for system reliability; addition of load a center for the fuel area; a 125 Volt battery system; modifications to provide added primary and backup protective generator relays; a 15 ton travelling crane; and a variety of improvements to the heat recovery steam generator system. Mr. Crouch further explained that the addition of a number of environmental improvements, including changes to the chiller system, represents some $3.69 million of the current request. In response to questions from Vice Chairman Ciminelli, Mr. Hiney noted that the project is in the design stage and that staff has selected those options they think will work best; however, the 2 to 3 % loss in output efficiency is a technical problem faced by all similar plants and is normally recouped in the rate charged. In response to questions from

Chairman Seymour, Mr. Hiney explained that the increased costs will not bear a dollar-for-dollar relation to increased production costs.

The following resolution, as recommended by the Executive Vice President – Project Operations, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority and the Authority's Expenditure Authorization Procedures, an increase of $36,750,000 in the contract with General Electric Company, for the changes described in the foregoing report, be and hereby is approved, resulting in an increase in the contract amount to $228,139,000 for engineering, procurement, and delivery of the 500 MW Combined Cycle Power Plant at the Charles A. Poletti Plant site; and be it further

RESOLVED, That the Chairman and Chief Executive Officer or the Executive Vice President - Project Operations be, and hereby is, authorized and directed to execute on behalf of the Authority the necessary contract change documents, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel in the amount and for the purposes set below:

Capital	**Increase In Contract Ceiling**
General Electric Company	
Engineering Procurement and Delivery	
500 MW Combined Cycle Power Facility	
Previous Contract Authorization	**$191,389,000**
Current Request	**36,750,000**
TOTAL AMOUNT AUTHORIZED	**$228,139,000**

5. St. Lawrence/FDR Power Project - Life Extension and Modernization – Increase in Expenditure Authorization and Incremental Contract Releases

The Executive Vice President – Project Operations submitted the following report:

SUMMARY

"The Trustees are requested to authorize capital expenditures of $18.6 million for rehabilitation of the second unit, and to increase releases for previously approved contracts to allow for economical early delivery of equipment as part of the St. Lawrence/FDR Life Extension and Modernization ('LEM') Program.

BACKGROUND

"At their meeting of November 25, 1997, the Trustees approved the initiation of a program estimated to cost $254,139,000 to renew the generation assets of the St. Lawrence/FDR Power Project and also authorized capital expenditures of $2,211,000 to support the engineering effort and to continue refurbishment tasks in progress. This authorization, together with an earlier authorization through the Expenditure Authorization Procedure, brought the total authorization to $2,670,000. The Trustees were informed that the LEM program would begin in 1998 and would require about fifteen years to complete.

"At their meeting of July 28, 1998, the Trustees authorized additional expenditures in the amount of $16.2 million for modernization of the first unit, bringing the total current authorization for LEM to $18.9 million.

"Engineering, planning and procurement activities have been proceeding at full pace since that time. Significant portions of the detailed design have been completed, major components such as the circuit breakers and exciters have been manufactured, tested, and delivered to the site. Final machining of the first new turbine is proceeding.

"On September 25, 2000, the Authority forces began disassembly of Unit 26, the first unit to be refurbished. Re-assembly of the unit is scheduled to begin in April, but unanticipated conditions typical for such work (a strike at Alstom's turbine manufacturing facility), and delayed delivery of wiring drawings and database for the new Generation Control System ('GCS') by Voith Siemens Hydro Power Generation ('VSH'), may further affect the schedule.

DISCUSSION

"In order to minimize component delivery impacts on future units, to continue the orderly planning of work for the next unit, and to realize the savings available with the early delivery of equipment, the Trustees are requested to approve additional funding as follows:

Miscellaneous Materials

"The installation of new equipment and systems requires the procurement of numerous materials such as power, control, and instrumentation cables; protective relays; neutral grounding busses; current transformers; electrical trays, fittings, and conduits; and tubing and mechanical components for the turbine.

"The Trustees are requested to approve an additional $3,081,000 for the purchase of these miscellaneous materials under a variety of lower dollar value purchase orders.

Runner Replacement and Turbine Overhaul - Alstom Energy, Inc. ('Alstom')

"At their meeting of July 28, 1998, the Trustees approved the award of a $11.4 million contract to Alstom for replacement of the first eight turbine runners. The contract amount was subsequently increased by $1 million through the Expenditure Authorization Procedure for a total current contract value of $12.4 million. Of this amount, $2.6 million has been released to date.

"It is now requested that the authorized amount be increased by $1,390,000 to allow for manufacturing of the second turbine and associated work.

Generator Rotor Pole Modifications - General Electric International, Inc. ('GE')

"At their meeting of February 29, 2000, the Trustees approved the award of a $6.3 million contract to GE for furnishing material and refurbishing 16 generator rotors.

"The contract amount was subsequently increased by $617,000 through the Expenditure Authorization Procedure for a total contract value of $6.9 million. Of this amount, $1,146,000 has been released to date.

"It is requested that the authorized amount be increased by $394,000 to allow for refurbishing of rotor poles for the second unit.

Generation Control Systems - VSH

"At their meeting of October 26, 1999, the Trustees approved the award of an $11.5 million contract to VSH for the delivery of 16 new GCS. Of this amount, $2 million has been released to date.

"VSH's ability to deliver an acceptable GCS is of concern. To mitigate this concern, the VSH releases discussed below would not be issued until VSH proves the performance of the new turbine controller in a factory acceptance test early this summer. This would be followed by field testing and return to service of Unit 26 later in the summer, with full implementation of the GCS later in the LEM Program. Based upon results of the controller factory acceptance test, Authority staff may release the second GCS unit to VSH or begin a new procurement cycle to engage a different vendor.

"Authority staff is concerned that the GCS implementation is proceeding significantly behind schedule and that Authority Engineering has had to expend large amounts of time to support VSH. It is conceivable that the Authority may elect to cancel the VSH contract and take another contracting approach if staff is not satisfied that this vendor can supply an acceptable system.

"It is requested that the authorized amount be increased by $764,000 to allow for delivery of spare parts, design, manufacturing, and testing of the GCS for the second unit. This procurement would be contingent on satisfactory completion of the factory acceptance test.

Unit Power Centers (Motor Control Centers) and Other Electrical Equipment - VSH

"At their meeting of September 26, 2000, the Trustees approved the award of a $3.0 million contract to VSH for delivery of 16 sets of Unit Power Centers and other auxiliary elected equipment. Of this amount, $335,000 has been released to date.

"The VSH bid proposal offered the Authority an option for staged early delivery of the Unit Power Centers over a period of six years versus delivery over the base period of thirteen years. This option selected by the Authority results in savings of approximately $316,000.

"It is requested that the authorized amount be increased by $909,000 to allow for early delivery of the next four sets of Unit Power Centers.

<u>Generator Static Excitation Systems - ABB Power Generation, Inc. ('ABB')</u>

"At their meeting of January 26, 2000, the Trustees approved the award of a $5.8 million contract to ABB for the delivery of 16 new Generator Static Excitation Systems. Of this amount, $710,000 has been authorized to date.

"ABB's bid proposal offered the Authority an option for staged early delivery of the excitation systems over a period of six years versus delivery over the base period of 13 years. This option, selected by the Authority, results in savings of approximately $1.2 million.

"It is requested that the authorized amount be increased by $943,000 to allow for delivery of the next three excitation systems.

<u>Engineering, Construction, Direct, and Indirect Costs</u>

"The Trustees are also requested to authorize funding for additional engineering, construction, and Authority direct and indirect costs to continue the orderly planning, design, and implementation of the work as follows:

Engineering and Construction Management	$3,700,000
Construction	$5,200,000
Authority Direct/Indirect	$2,221,000

<u>FISCAL INFORMATION</u>

"Payment will be made from the Capital Fund.

<u>RECOMMENDATION</u>

"The Regional Manager – Northern New York, the Vice President and Chief Engineer - Power Generation, the Vice President – Procurement and Real Estate, and the Vice President – Project Management recommend that the Trustees authorize capital expenditures in the amount of $18.6 million for rehabilitation of the second unit at the St. Lawrence/FDR Power Project. It is further recommended that the Trustees authorize incremental contract funds for Alstom Energy, Inc. for turbine manufacturing; to General Electric International, Inc. for rotor rehabilitation; to Voith Siemens Hydro Power Generation for delivery of a Generation Control System and early delivery of four Unit Power Centers; and to ABB Power Generation, Inc. for early delivery of three Generator Excitation Systems.

"The Senior Vice President and Chief Financial Officer, the Executive Vice President - Corporate Services and Human Resources, the Executive Vice President – Secretary and General Counsel and I concur in the recommendation."

In response to questions from Vice Chairman Ciminelli, Mr. Hiney explained that the current request is but one element in the overall modernization planned for St. Lawrence. Mr. Hiney further explained that unlike the Niagara Project expansion, which was planned as a major infrastructure improvement to increase generation capacity, the approach at St. Lawrence had originally been on a more limited, life-of-plant approach. He noted however, that a 2 – 3% improvement in efficiency is anticipated as a result of the newer, superior technology. In response to questions from Chairman Seymour, Mr. Hiney explained that increased capacity at Niagara is forcibly tied to a time-of-day measure, and that no comparable issue is present at St. Lawrence.

In response to questions from Trustee McCullough relating to staff's lack of satisfaction with the performance of the VSH firm, Mr. Crouch noted that that firm's performance is being closely monitored by Mr. Lipsky and the latter's staff. He further stressed that the current request before the Trustees is contingent upon an acceptable level of performance by VSH; otherwise, staff will report back to the Trustees with an alternative recommendation. Mr. Hiney added that none of the VSH-related issues as such would affect the overall success of the project.

The following resolution, as recommended by the Executive Vice President – Project Operations, was unanimously adopted.

RESOLVED That capital expenditures are hereby approved to be committed in accordance with the Authority's Expenditure Authorization Procedures for the Life Extension and Modernization of the St. Lawrence/FDR Power Project in the amounts and for the purposes listed below:

Description	Current Estimate	Previously Authorized Amount	Current Request	New Authorized Totals
Engineering & Construction Management	$34,082,000	$4,426,000	$3,700,000	$8,126,000
Procurement	$105,485,000	$7,875,000	$7,480,000	$15,355,000
Construction	$91,409,000	$4,883,000	$5,200,000	$10,083,000
Authority Direct/Indirect	$23,163,000	$1,715,000	$2,221,000	$3,936,000
	$254,139,000	$18,899,000	$18,601,000	$37,500,000

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with Alstom Energy, Inc. to commit funds for the second turbine and associated work for the Life Extension and Modernization of the St. Lawrence/FDR Power Project, in the amounts and for the purposes listed below:

Capital	Contract Approval
Alstom Energy, Inc. (Contract No. C98 Z0045)	
Current Contract Award Amount	$12,400,000
Value of Releases Authorized to Date	2,591,000
This Release Authorization Request	1,390,000
Balance of Contract Not Yet Released	$8,419,000

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with General Electric International, Inc. to commit funds for rehabilitation of the second generator rotor and associated work for the Life Extension and Modernization of the St. Lawrence/FDR Power Project in the amounts and for the purposes listed below:

Capital	**Contract Approval**
General Electric International, Inc. (Contract No. 4500022165)	
Current Contract Amount	**$6,856,000**
Value of Releases Authorized to Date	**$1,146,000**
This Release Authorization Request	**$394,000**
Balance of Contract Not Yet Released	**$5,316,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with Voith-Siemens Hydro Power Generation to commit funds for the delivery of spare parts and the manufacturing of equipment for the second Generation Control System and associated work for the Life Extension and Modernization of the St. Lawrence/FDR Power Project, in the amounts and for the purposes listed below:

Capital	**Contract Approval**
Voith Siemens Hydro Power Generation (Contract No. 4500016211)	
Current Contract Amount	**$11,500,000**
Value of Releases Authorized to Date	**$2,000,000**
This Release Authorization Request	**$764,000**
Balance of Contract Not Yet Released	**$8,736,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with Voith-Siemens Hydro Power Generation to commit funds for the manufacturing and delivery of four additional sets of Unit Power Centers (Motor Control Centers) and associated electrical equipment for the Life Extension and Modernization of the St. Lawrence/FDR Power Project in the amounts and for the purposes listed below:

Capital	**Contract Approval**
Voith Siemens Hydro Power Generation (Contract No. 4600000424)	
Current Contract Amount	**$2,988,000**
Value of Releases Authorized to Date	**$335,000**
This Release Authorization Request	**$909,000**
Balance of Contract Not Yet Released	**$1,744,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with ABB Power Generation, Inc. to commit funds for the manufacturing and delivery of three Generator Excitation Systems and associated work for the Life Extension and Modernization of the St. Lawrence/FDR Power Project in the amounts and for the purposes listed below:

Capital	**Contract Approval**
ABB Power Generation Inc. (Contract No. 4600000363)	
Current Contract Amount	**$5,800,000**
Value of Releases Authorized to Date	**$710,000**
This Release Authorization Request	**$943,000**
Balance of Contract Not Yet Released	**$4,147,000**

6. Interest Rate Swap Agreements Relating –
<u>to Subordinate Bonds and Series 2000A Bonds</u>

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer and the Treasurer to enter into (1) one or more fixed-to-floating rate interest rate swap agreements relating to up to $300 million in principal amount of the Authority's Subordinate Bonds, Series 5-13, used to finance the Power Now! Generation Projects, with such swap agreements having a term not to exceed 30 months, and (2) one or more floating-to-fixed rate interest rate swap agreements relating to up to $296 million in principal amount of the Authority's Series 2000 A Bonds, with such swap agreements having a term not to extend beyond December 15, 2005.

"The Trustees are also requested to adopt the Third Supplemental Subordinate Resolution, which will amend and supplement the General Subordinate Resolution Authorizing Subordinate Revenue Bonds adopted on July 25, 2000, as supplemented to the date hereof, to authorize a conversion of less than all bonds of a series of the Authority's Subordinate Bonds that are currently outstanding from the then existing to a new interest rate determination method.

BACKGROUND

Subordinate Bonds

"In December 2000, the Authority issued Subordinate Bonds in the amount of $450 million to finance the Power Now! Generation Projects. These Subordinate Bonds were issued in the auction mode, the weekly rate mode and the commercial paper mode. Under the terms of the Authority's Subordinate Bond Resolution, these bonds can be converted into a fixed rate mode with a term to be selected by the Authority. At various times during the year, due to inefficiencies in the market, the Authority can convert these bonds into a fixed rate mode and then enter into a fixed-to-floating rate interest rate swap agreement by which the Authority receives from the counterparty a fixed rate that is 20 basis points or more higher than the fixed rate on the Bonds.

"Similarly, under certain market conditions, in the case of Subordinate Bonds in the commercial paper mode, the Authority can enter into fixed-to-floating rate interest rate swap agreements whereby the fixed rate received under the swap agreements is 20 basis points or more higher than the commercial paper mode bond rate for all or part of the duration of the mode period in question.

Series 2000 A Bonds

"In December 2000, the Authority also issued $300 million of Series 2000 A Bonds to fund a portion of the expansion and relicensing of the Niagara Project, certain Y2K expenditures and to refund the Authority's Series 4 Commercial Paper, which financed the Cable Project. At the same time, the Authority entered into fixed-to-floating rate interest rate swap agreements under which it receives a fixed rate of interest of 5.03% on a notional amount of $296 million and pays the counterparties to the swap agreements payments based on The Bond Market Association ('TBMA') index, which has averaged 3.48% since the Authority entered into the swap. In its original calculation of the savings that would be achieved by entering into the swap, the Authority estimated that the TBMA index would average 3.50% over the life of the bonds and the swap.

DISCUSSION

Subordinate Bonds Swap Agreements

"Authority staff has projected that for the current year there will remain outstanding at least $350 million of tax exempt Subordinate Bonds in the auction, weekly rate, and commercial paper modes, issued to finance the Power Now! Generation Projects. It is against these Subordinate Bonds, either in the commercial paper mode or after conversion to a fixed rate mode with a duration of up to 30 months, that the Staff proposes to enter into fixed-to-floating rate swaps in an aggregate notional amount not to exceed $300 million with a duration not to exceed: (i) in the case of commercial paper mode bonds, the term of such mode period; or (ii) in the case of converted bonds, 30 months. Such swaps would be entered into only if the fixed rate payable by the counterparty during the term of the swap were 20 basis points or more higher than the fixed rate on the converted Bonds or the rate on the commercial paper mode Bonds, as the case may be, for the equivalent period. The execution of these swaps could produce savings of $600,000 per year for the term of the swap, if the Authority were able to enter into $300 million of such swaps.

"The Authority would enter into these swap agreements under the current International Swap Dealers Association ('ISDA') master swap agreements in place with the remarketing agents (for the Series 5-8 Bonds) and the broker-dealers (for the Series 9-13 Bonds) for the Subordinate Bonds. Using these broker-dealers and remarketing agents to provide swaps would assure: (1) the coordination necessary to manage this debt process; (2) that the savings goal for the transaction would be met; and (3) that the dealers would monitor the market and bring these opportunities to the Authority's attention.

"The risks associated with the proposed conversion to the fixed rate mode and the related and concurrent fixed-to-floating interest rate swap agreements are as follows:

1. The Authority would enter into a fixed-to-floating interest rate swap agreement if the fixed rate received by the Authority were at least 20 basis points higher than the fixed rate on the Subordinate Bonds for the term of the swap agreement. The Authority thus locks in a 20 basis point positive gain. The first risk is a failure by the counterparties, which is minimized by the credit quality of the counterparties. Even if the counterparties were to fail, the Authority 'risk' is simply that it has converted to a fixed rate for a period of time Bonds which were otherwise in variable rate modes.

2. If the floating rate payable by the Authority were to exceed the fixed rate received by the Authority pursuant to the swap agreement, then the swap agreement in isolation would result in a loss to the Authority. However, that risk is substantially the same risk that the Authority has today due to its exposure to variable interest rates on the Subordinate Bonds. One difference is that the floating rate that would be payable by the Authority pursuant to the swap agreement would be based on an industry-standard index, while the variable rate payable currently by the Authority on its variable rate bonds is based on the Authority's credit quality. Historically, the difference between the industry standard floating rate index and the interest rates on the Authority's variable rate bonds has not been significant.

The risks associated with entering into fixed-to-floating rate interest rate swap agreements relating to commercial paper mode Bonds are as follows:

1. As in the case of the converted Bonds discussed above, the Authority would obtain a 20 basis point positive gain over the commercial paper mode rate. Again, one risk would be the failure of the counterparties, which would be minimized by the credit quality of the counterparties. However, as noted above, failure of the counterparties would merely leave the Authority in the same position that it had been in prior to execution of the swap agreements.

2. A second risk arises from the possibility that the floating rate to be paid by the Authority pursuant to the swap agreements, will rise above the fixed rate to be paid by the counterparties. Given the short duration of the commercial paper mode bond period (less than 270 days), the Authority does not consider this risk to be significant.

"Authority staff considers the risks involved in this type of transaction to be minimal given the duration of the swap and credit quality of the counterparties that would be involved in these transactions.

<u>Series 2000 A Bond Swap Agreements</u>

"Authority staff is also asking the Trustees for approval to effectively reverse, on an interim basis, the fixed-to-floating rate interest rate swap arrangement entered into related to the Series 2000 A Bonds issued in December. Due to the sudden drop in interest rates, the Authority is now forecasting that it may be able in the next two to three months to enter into an intermediate floating-to-fixed rate interest rate swap agreement for up to five years. This will allow the Authority to lock in a rate of 3.5%. Pursuant to the fixed-to-floating swap agreements entered into in December 2000, the Authority is currently receiving the fixed rate of 5.03% and paying a floating rate based on the TBMA index. Under the proposed floating-to-fixed swap agreements, the Authority would receive a floating rate based on the TBMA index and would pay a fixed rate of 3.5%. Thus, on a net basis, the floating rates payable and receivable by the Authority would cancel each other out with no basis risk because they are both tied to the identical index. The implementation of the proposed swap agreement would fix the projected gross interest savings at approximately $22 million for the five year period of the proposed swap that the Authority had anticipated when it entered into the December 2000 fixed-to-floating swap agreement.

"The risks attendant to this swap proposal are, as is the case with any swap, that there could be a failure by the counterparty. Were that to occur, the Authority would lose the financial benefit of the transaction, but there would be no additional risk. In addition, it is possible that the rate to be received by the Authority under the proposed floating-to-fixed swap agreement would be less than the fixed rate of 3.5% payable by the Authority. Although this is a possibility when the proposed contract is viewed in isolation, when viewed in conjunction with the Authority's existing fixed-to-floating swap agreements, the Authority would lock in significant savings.

"It should also be noted that when the Authority entered into its floating-to-fixed interest rate swap agreements in March 1998, and entered into its fixed-to-floating interest rate swap agreements in December 2000, the Authority's Bond Counsel (Hawkins, Delafield & Wood ['Hawkins']), provided its legal opinion to the respective counterparties. Hawkins has advised that the opinions to be rendered in connection with the interest rate swap agreements being considered today would be in substantially the forms of such opinions.

<u>Third Supplemental Subordinate Resolution</u>.

"The Trustees are also requested to authorize certain technical amendments to the General Subordinate Resolution necessary to effectuate the Subordinate Bonds swap agreements discussed above.

<u>RECOMMENDATION</u>

"The Treasurer recommends that the Trustees (i) adopt the Third Supplemental Subordinate Resolution, which will amend and supplement the General Subordinate Resolution Authorizing Subordinate Revenue Bonds adopted on July 25, 2000, as supplemented to the date hereof, to authorize a conversion of less than all bonds of a series of the Authority's Subordinate Bonds that are currently outstanding from the then existing to a new interest rate determination method, and (ii) authorize the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer and the Treasurer to execute one or more fixed-to-floating rate interest rate swap agreements associated with the Subordinate Bonds used to finance the Power Now! Generation Projects in a notional amount not to exceed $300 million, of no more than 30 months in duration in the case of Subordinate Bonds converted to the fixed rate mode and not more than the terms of the Subordinate Bonds in the commercial paper mode to which such swap agreements relate, and only if savings of 20 basis points or more can be achieved.

"The Treasurer also recommends that the Trustees authorize the execution of one or more floating-to-fixed rate interest rate swap agreements by the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer and the Treasurer related to the Series 2000 A Bonds with a duration not to exceed 5 years, in a notional amount not to exceed $296 million, and with a fixed rate not to exceed 3.5%.

"The Senior Vice President and Chief Financial Officer, the Executive Vice President, Secretary and General Counsel, and I concur in the recommendation."

Mr. Collins presented the Trustees with a summary of the Authority's swaps currently outstanding, as well as staff's detailed recommendations for a five-year strategic debt plan that is geared to maximize savings to the Authority. At

Vice Chairman Ciminelli's request, Mr. Collins explained the conceptual difference between a "cap" and a "ceiling," within the context of the Authority's practice of acquiring only fixed-rate caps, and described the situation in which a counterparty would be asked to post collateral if counterparty falls below an "A" rating. In further response to questions from the Vice Chairman, Mr. Collins explained the various "pros" and "cons" of an interim rate swap, noting that all savings to the Authority would be "transparent" in the sense of not involving real transaction costs as such. Mr. Collins added that a new Official Statement is in the process of being prepared for release in July of 2001.

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

RESOLVED, That the Third Supplemental Subordinate Resolution amending and supplementing the General Subordinate Resolution Authorizing Subordinate Revenue Bonds adopted on July 25, 2000 (as supplemented by the First Supplemental Subordinate Resolution Authorizing Subordinate Revenue Bonds, Series 1, Series 2, Series 3 and Series 4, adopted on July 25, 2000, and the Second Supplemental Subordinate Resolution, Series 5 through 13, adopted on October 31, 2000), attached as Exhibit 6-A hereto, together with such changes, insertions, deletions and amendments thereto as the Chairman or the President and Chief Operating Officer may approve, which shall be deemed to be part of such resolution as adopted, is hereby adopted; and be it further

RESOLVED, That it is hereby authorized that up to $300 million of the Authority's Subordinate Revenue Bonds, Series 5-13, be converted from their present mode to a fixed rate mode with a duration not to exceed 30 months, with the duration, amount and the particular Series or portion of a Series undergoing such conversion being determined by the Senior Vice President and Chief Financial Officer or Treasurer, as such officer deems necessary or advisable; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer and the Treasurer be, and each of them hereby is, authorized on behalf of the Authority to enter into one or more fixed-to-floating rate interest rate swap agreements with those broker-dealers and remarketing agents for the Subordinate Bonds to be selected by the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer or the Treasurer, provided that: (1) the aggregate notional amount of such agreements shall not exceed $300 million; (2) interest rate savings of at least 20 basis points shall be achieved by the execution of each such swap agreement as measured by the difference between the fixed rate or the commercial paper mode rate, as the case may be, for the Subordinate Bonds during the term of the swap agreements and the fixed rate under the swap agreements; (3) the term of each of such agreements shall not (i) in the case of Subordinate Bonds converted to the fixed rate mode, exceed 30 months, and (ii) in the case of Subordinate Bonds in the commercial paper mode, exceed the duration of the term of the Bond to which such swap agreement relates; (4) each contract shall have such terms and conditions, not inconsistent with the requirements set forth in clauses (1) - (3) above, as such officer executing such contract shall deem necessary or advisable, such execution to be conclusive evidence of such approval; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer and the Treasurer be, and each of them hereby is, authorized on behalf of the Authority to enter into one or more floating-to-fixed rate interest rate swap agreements with entities to be selected by the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer or the Treasurer, provided that: (1) such agreements shall be entered into as a result of a competitive bidding procedure; (2) the aggregate notional amount of such agreements shall not exceed $296 million; (3) each such agreement shall have a fixed interest rate of 3.50% or less; (4) the term of each such agreement shall not exceed five years; (5) each such agreement shall have such terms and conditions, not inconsistent with the requirements set forth in clauses (1) - (4) above, as such officer executing such agreement shall deem necessary or advisable, such execution to be conclusive evidence of such approval; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Senior Vice President and Chief Financial Officer and the Treasurer be, and each of them hereby is, authorized on behalf of the Authority to do

any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolution.

7. Approval of Modifications to Blenheim-Gilboa – Contracts with Utilities

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve modifications to the Authority's pumped-storage power service contracts with the six investor-owned utilities in the State (the 'IOUs') and the Long Island Power Authority ('LIPA'). The IOUs and LIPA are jointly referred to herein as 'the Contractors'.

BACKGROUND

"The Authority has individual contracts (the 'PS Contracts') with the Contractors under which it sells a total of 768 megawatts ('MW') of pumped-storage power service from the Blenheim-Gilboa Project ('B-G'). A breakdown of the individual Contractors, their capacity allocations and contract expiration dates is set forth in Exhibit '7-A'. The remaining 272 MW is allocated to the Authority.

"Pursuant to the PS Contracts, the Contractors have been responsible for furnishing the pumping energy associated with their capacity allocations during off peak periods. The Authority would then provide Contractors with their share of B-G generated energy, adjusted for pumping losses, during on-peak periods. The current charge for this service is $2.30 per kilowatt-month.

DISCUSSION

"While the Authority's arrangements with the Contractors worked well under the New York Power Pool ('NYPP') regime, with the initiation of the New York Independent System Operator ('ISO') in late 1999, the value of the PS Contracts was substantially diminished. For example, the Contractors were not able to use their capacity allocations to meet ISO operating reserve requirements, a practice that had been permissible under NYPP.

"The Authority staff negotiated temporary agreements (the 'Temporary Agreements') with each of the B-G Contractors (sample attached as Exhibit '7-B') on April 25, 2000. Among other things, the Temporary Agreements provide that the Contractors relinquish certain rights under the PS Contracts to the Authority which acts as the Contractors' exclusive representative in coordinating and scheduling the sale of Contractors' share of energy and other products from B-G in the ISO market. As such, the Authority, not the Contractors, is responsible for securing all pumping energy used by B-G. In return for relinquishing certain of their contractual rights, the Contractors each receive a pro rata share (based on contract demands) of the revenues and expenses generated by the Authority's sales of energy and other products (e.g., operating reserves) to the ISO. In essence, the Contractors have traded physical rights for financial rights. In addition, the ability to provide regulation and operating reserves from B-G has improved the reliability of the ISO operation. Except as modified by these Temporary Agreements, the PS Contracts remain in effect.

"The Temporary Agreements have been in effect since May 1, 2000 and continue in effect through April 30, 2001. Trustee approval is requested to extend the Temporary Agreements beyond April 30, 2001. The Contractors continue to be responsible for paying the demand charge.

"As indicated below in the Fiscal Information section, the Temporary Agreements to date have benefited both the Contractors and the Authority. Accordingly, it is recommended that the Temporary Agreements be extended through June 30, 2002, which is the remaining term of four of the seven PS Contracts, encompassing 568 MW of the total 768 MW sold to the B-G Contractors.

FISCAL INFORMATION

"For the period May 1, 2000 through January 31, 2001, the B-G Project realized more than $32 million in net revenues from the ISO in connection with the Temporary Agreements. This amount was distributed among the B-G Contractors based on their contract demands as set forth in Exhibit '7-A'. The Authority's 272 MW block was employed to determine its share.

RECOMMENDATION

"The Director – Power Contracts and Billing recommends that the Vice President - Power Contracts and Resource Management be authorized to execute letter agreements with the Blenheim-Gilboa Contractors extending the Temporary Agreements through June 30, 2002.

"The Vice President - Power Contracts and Resource Management, the Senior Vice President - Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, the Executive Vice President - Project Operations and I concur in the recommendation."

In response to questions from Chairman Seymour, Mr. Deasy explained that the proposed modifications are intended to reflect changes in scheduling processes as they have been affected by the existence and operation of the ISO; it is now necessary for the utilities to submit bids rather than merely schedule providing the energy from the BG Project. In response to questions from Trustee Carey concerning whether the Authority benefits from this arrangement, Mr. Deasy explained that the arrangement benefits all members of the ISO. Mr. Bellis added that the Authority's revenues from BG for 2000 were in the $13 million range.

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

RESOLVED, That the Vice President - Power Contracts and Resource Management be, and hereby is, authorized to execute individual letter agreements with the six investor-owned utilities in the State and the Long Island Power Authority extending temporary agreements that modified the Authority's pumped-storage power service contracts with those entities, in accordance with the foregoing report of the President, and subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

8. Procurement (Services) Contracts –
Business Units and Facilities –
Extensions, Approval of Additional
Funding, and Increase in Compensation Ceiling

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the continuation and funding of the procurement contracts listed in Exhibit '8-A' in support of projects and programs for the Authority's Business Units/Departments, as well as for the facilities. In addition, the Trustees are requested to approve an increase in the compensation ceiling to $1,325,000 from the previously authorized amount of $625,000, of the procurement contract with Pace Global Energy Services, LLC for fuel consulting services; and an increase in the compensation ceiling to $930,732 from the previously authorized amount of $330,732, of the procurement contract with URS Greiner Woodward Clyde for Regulatory Information Assessment and Development services in support of the Niagara Project relicensing effort. A detailed explanation of the nature of such services, the reasons for extension, the additional funding required, and the projected expiration dates are set forth below.

BACKGROUND

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

"The Authority's Expenditure Authorization Procedures require Trustees' approval when a personal services contract exceeds a cumulative change order value of $500,000, or when a non-personal services or equipment purchase contract exceeds a cumulative change order limit of $3,000,000.

DISCUSSION

"While the Authority's policy is to use its own staff to perform necessary engineering and craft labor work, there are cases where it is necessary to utilize external contractors or consultants to supplement Authority staff during peak working periods, or where special expertise is required which is not available within the Authority.

"Although the firms identified in Exhibit '8-A' have provided effective services, the issues or projects requiring these services have not been resolved or completed, and the need exists for continuing these contracts. Trustees' approval is required because the terms of these contracts exceed one year and/or because the cumulative change order limits will exceed the levels authorized by the Expenditure Authorization Procedures in forthcoming change orders. All of the subject contracts contain provisions allowing the Authority to terminate the services for the Authority's convenience, without liability other than paying for acceptable services rendered through the effective date of termination. These contract extensions do not obligate the Authority to a specific level of personnel resources or expenditures.

"Extension of each of the contracts identified in Exhibit '8-A' is requested for one or more of the following reasons: 1) additional time is required to complete the current contractual work scope or additional services related to the original work scope; 2) to accommodate an Authority or external regulatory agency schedule change, which has delayed, re-prioritized, or otherwise suspended required services; 3) the original consultant is uniquely qualified to perform services and/or continue its presence, and rebidding would not be practical; or 4) the contractor provides a proprietary technology or specialized equipment at reasonably negotiated rates, which the Authority needs to continue until a permanent system is put in place.

Contracts in support of Business Units/Departments and Facilities:

"The contract with **Asplundh Brush Control Co. (4500023646)** provides for herbicide application and mechanical clearing of high voltage transmission rights-of-way located in St. Lawrence, Lewis, Franklin and Clinton counties in the Northern Region. The contractor furnishes all equipment, materials, tools, and skilled labor required to provide such services on approximately 1,700 acres, which include: the Moses-Adirondack 230kV transmission lines from Massena to Belfort, NY; the 765kV line from Massena to Utica; and the 230 kV lines from Massena to Plattsburgh, NY. The original award, which was competitively bid, became effective on May 5, 2000 for an initial term of up to one year, with an option to extend for an additional year, and in the initial amount of $269,275. The contract amount was subsequently increased by $98,747 via two change orders issued to include additional acreage and additional services that needed to be performed in 2000. A one-year extension is now requested in order to exercise the option to continue such services. The current contract amount is $368,022; it is anticipated that an additional $405,000 will be required for the extended term. The Trustees' approval is requested to extend the subject contract through December 31, 2001, to ratify the additional funding previously authorized, and to approve the additional funding now requested.

"The contract with **Automatic Data Processing ('ADP, Inc.'; S96-77659)** provides for payroll processing services for all Authority employees. At their meeting of September 27, 1995, the Trustees approved the award of a five-year agreement in the amount of $1,125,000, with the intent of integrating the payroll processing system with the Authority's human resources and benefits tracking systems. The original contract, which was awarded as the result of a competitive search, became effective on January 1, 1996. The original estimate for these services did not anticipate the implementation of a new enterprise-wide business management system ('SAP'), nor did it include additional charges for payroll management reports required by the Authority and other ADP-required system enhancements (such as a Human Resources Information System interface). An additional $397,500 was subsequently authorized in accordance with the Authority's Expenditure Authorization Procedures. The Authority is currently in the process of assessing whether the payroll processing function should be brought in-house and incorporated into SAP through its payroll module, or whether such services should continue to be provided by an outside contractor and the bidding process to select a new payroll contractor should commence. A nine-month extension is now requested to allow sufficient time to complete the aforementioned review and to continue payroll-processing services through 2001, with an option to extend for one additional year, if needed for the implementation of the selected plan. The current contract amount is $1,522,500. It is anticipated that an additional $165,000 will be required through December 31, 2001, and an additional $238,000 for 2002, if the additional option year is required. The Trustees' approval is requested to ratify the previously authorized interim extension and additional funding through March 27, 2001; to extend the subject contract through December 31, 2001, with an option to extend for one additional year through December 31, 2002, if needed; and to approve the additional funding requested, including the optional year.

"The contract with **Goldstein & Avrutine (4500025054)** provides for legal representation services on behalf of the Authority in connection with personal injury claims and lawsuits. The original contract became effective on May 15, 2000 for an initial term of one year, with an option to extend for up to two additional years. The Authority is currently a third-party defendant in the lawsuit filed by Westinghouse employee John Gasser which seeks damages for the injuries he allegedly sustained while working at the Authority's Richard M. Flynn Project in April 1995. The Authority had been defended in this case for the last two years by Parsons, the company which built the Flynn plant and which contracted with Westinghouse to perform work at the Flynn plant pursuant to warranty. The Authority was paying Westinghouse directly for other Flynn work that Westinghouse performed at that time. Parsons had agreed to supply the Authority with a defense and indemnification to the lawsuit under a reservation of rights pending the outcome of discovery, under the assumption that Westinghouse was performing warranty-related work when Mr. Gasser received his alleged injuries. That discovery is now largely complete and demonstrates that Mr. Gasser was not working on a warranty-related activity when he was injured. Accordingly, Parsons has requested that the Authority take over its own defense. The law firm of Goldstein and Avrutine was hired by Parsons and has handled the case from its inception. Mr. Goldstein has ably represented the Authority in the past and is fully familiar with this case. A two-year extension is now requested in order to continue services in support of the aforementioned matter. The current contract amount is $55,000; it is anticipated that an additional $10,000 may be required for the extended term. The Trustees' approval is requested to extend the subject contract through May 14, 2003, and to approve the additional funding requested.

"The contract with **HMS Services Inc. (4500022836)** provides for telephone technician services for the Authority's White Plains Office. The contractor provides the services of one full-time technician, whose primary responsibilities consists of maintaining the Digital Voice Corp. DBX 5000 telephone system, including associated phones, data cables and other related equipment. Additional temporary technicians have been used for special short-term projects, such as the relocation from the New York Office and the OASAS move. The original award, which was competitively bid, became effective on April 1, 2000 for an initial term of one year, with an option to extend for up to two additional years. A two-year extension is now requested in order to exercise the option and continue services as required. The current contract amount is $80,000. It is anticipated that an additional $176,000 may be required for the extended term. Rates will remain firm for the duration of the contract. The Trustees' approval is requested to extend the subject contract through March 31, 2003 and to approve the additional funding requested.

"The contract with **Inktel BCS (Benefit Communication Solutions; 4500023305)** provides for third-party flexible benefits administration services for the Authority's Flexible Benefits Administration Enrollment Program for all salaried employees. Services include, but are not limited to: programming and generating personalized annual enrollment forms; worksheets and confirmation statements; programming and administering an interactive voice response system for telephone enrollment as well as a web-based Internet enrollment service option; and other related tasks, as may be assigned. The original award, which was competitively bid, became effective on April 1, 2000, for an initial term of one year, with an option to extend for up to two additional years. A two-year extension (to be exercised in two one-year terms, as needed) is now requested in order to exercise this option and to continue services until an internal assessment is completed to determine whether the Authority's enterprise-wide business management system ('SAP') is capable of handling such services or whether the services of an external contractor would continue to be required and/or rebid. The current contract amount is $150,000. It is anticipated that an additional $100,000 will be required for each year of the extended term. The Trustees' approval is requested to extend the subject contract through March 31, 2003, as needed, and to approve the additional funding requested.

"The contract with **Lippes, Silverstein, Mathias & Wexler LLP (S92-34429)** provides the legal services of local counsel for the purpose of assisting the Authority in connection with ongoing preference power rate litigation pending in Niagara County. Local statutes require litigants in Niagara County to be represented by local counsel. Lippes Silverstein satisfied this requirement for the Authority and supports it in its defense of the preference power rate litigation pending in Niagara by advising Authority staff of local rules, statutes and procedures, assisting in serving and filing papers, and handling routine court appearances. The original award became effective on May 1, 1992. At their meeting of February 23, 1993 the Trustees approved a three-year extension through May 16, 1996. A subsequent three-year extension was approved by the Trustees at their meeting of September 24, 1996, as well as an additional $10,000. At their meeting of June 29, 1999, the Trustees approved a two-year extension to continue services in the Bergen v. Power Authority case, which was then pending before the Supreme Court, Niagara County. The firm has been working with the Authority on this preference power case since its inception and will be required to aid the Authority in the upcoming appeal in that case before the Appellate Division, Fourth Department. An additional two-year extension is therefore requested. The current contract amount is $85,000. It is anticipated that no additional funding will be required for the extended term. The Trustees' approval is requested to extend the subject contract through May 16, 2003, with no additional funding requested.

"The federal government's Public Health Services Act for the continuation of benefits, as amended by the Consolidated Omnibus Budget Reconciliation Act ('COBRA') of 1985, requires the Authority to provide employees and eligible dependents the opportunity for a temporary extension of health coverage in certain instances where coverage under the plan would otherwise end. The contract with **M.W. Pomfrey & Associates, Inc., ('POMCO'; 4500025428)** provides for third party administrative services for the Authority's continuation of benefits program under COBRA. Services include, but are not limited to: the administration of medical and dental programs, as well as an Employee Assistance Program; Flexible Spending Account, and Wellness programs for the Authority's salaried and bargaining unit employees; including all notifications, enrollment, changes and terminations, billing and receipt of monthly premiums, follow-up, processing payments to various health insurance carriers and to the Authority; tracking of time limitations imposed by law; record-keeping services; and reporting to Authority management. The original contract, which was competitively bid, became effective on April 1, 2000, with an option to extend for two additional years. A two-year extension is now requested in order to exercise the option and continue such services. The current contract amount is $16,000. It is anticipated that an additional $33,000 will be required for the extended term. The Trustees' approval is requested to extend the subject contract through March 31, 2003, and to approve the additional funding requested.

"The contract with **Most Health Services, Inc. (4500024038)** provides for on-site annual physical examinations for approximately 110 employees of the Blenheim-Gilboa Project ('B-G'), as required by all applicable safety and health standards, federal and state requirements and Authority policy. Services also include, but are not limited to: respiratory clearance tests; tests for exposure to asbestos or high noise; and fitness of crane operators, as well as medical record keeping. The original award, which was competitively bid, became effective on April 1, 2000, for an initial term of one year, with an option to extend for up to two additional years. Due to time constraints, the scope was expanded to include such services for the St. Lawrence Project for one year. A two-year extension is now requested in order to exercise the option and continue services for B-G. The current contract amount is $58,847. It is anticipated that an additional $40,000 will be required for the extended term. The Trustees' approval is requested to extend the subject contract through March 31, 2003, and to approve the additional funding requested.

"The two contracts with **The NorthBridge Group (4500025597) and Portal Solutions (4500025598)** provide for consulting services to develop a statistical and analytical platform for projecting regional electric prices and asset valuations, and to support associated risk management activities in this era of increased uncertainty for the Authority. This effort stems from the Authority's participation, in 1998-99, in collaborative projects with the Electric Power Research Institute ('EPRI') to develop the theoretical framework and tools to produce an electricity price 'forward curve' together with an associated volatility term structure. The current contracts became effective on June 1, 2000, for an initial term of less than one year. As the result of the unique work they have done in this field and their role as the key contractors for the Authority in the aforementioned 'forward curve' collaborative projects with EPRI, the subject contracts were awarded to NorthBridge and Portal Solutions on a sole source basis. With the guidance of these consultants, Authority staff built an initial capability to produce an electric forward curve for the New York region and have successfully produced financial projections that reflect the impact of uncertainty related to both the fuel and deregulated electric markets. In addition, the specialized probabilistic tools, proprietary to NorthBridge, provide a basis to derive market valuation of generating assets by capturing a spread of possible price projections. Some initial risk assessments were also produced in support of the seasonal hedges that the Authority considered for protection against the risk of major outages at our generating units. These concepts and related tools were then applied to the following types of Authority projects during 2000-01: SENY supply and rate options across a range of projected electric and gas prices; and initial forward curves, volatility term structure and correlations for use by the Authority's newly-acquired Henwood system, which tracks and records New York Independent System Operator ('NYISO') pricing by zone. Senior management has sought a number of refinements to assess the financial impact of alternative supply options, hedge strategies and customer pricing strategies. A nineteen-month extension is now requested in order to continue services in connection with the aforementioned tasks. The current contract amount is $119,000 for Northbridge and $56,000 for Portal Solutions. It is anticipated that an additional combined total for both contracts of $200,000 may be required for the extended term. The Trustees' approval is requested to extend the subject contracts through December 31, 2002, and to approve the additional funding requested.

"At their meeting of March 30, 1999, the Trustees approved the implementation of a Peak Load Management ('PLM') program. As part of this initiative, the Authority would contract with certain of its customers located within the City of New York to reduce their load at times of peak demand. In return for a financial incentive, customers would reduce their load at the Authority's request either by turning on their on-site generation or by reducing their load (e.g., turning off equipment, such as large chillers, lights, elevator banks, etc.). The PLM incentive would reduce the Authority's contribution to the in-city peak load and mitigate the amount of installed capacity the Authority would need to acquire to meet an in-city locational capacity requirement. The contract with **RLW Analytics, Inc. (4500023115)** provides for consulting services relating to the Authority's PLM Program. Services include, but are not limited to: load profile analysis and verification methodology, survey/audit services, and post-implementation verification of program and participant performance. The original award, which was competitively bid, became effective on April 21, 2000, for an initial term of one year, with an option to extend for up to two additional years. Last year, eight customers with 20 locations participated in the PLM program. This resulted in almost 16MW of load reduction by these customers when requested by the Authority. This year's objectives are to expand the participation in the program to 30 customer locations, to improve the timeliness and quality of metering data, and to integrate recently sanctioned New York Independent System Operator ('NYISO') Emergency Demand Response and Price Responsive Load Programs into the Authority's PLM offering. Furthermore, it is anticipated that load management will remain a significant issue in New York State into 2003 and beyond, and therefore, the Authority's PLM program will continue to grow. In order to accomplish these ongoing objectives, RLW Analytics will continue to assist the Authority's Marketing & Economic Development staff with conducting on-site load management assessments directed at identifying new and/or additional load reduction opportunities, and with program implementation. In addition, in order to improve the timeliness of data acquisition and integrate the NYISO's programs, RLW will provide the Authority with tools to enhance data collection, to monitor load reductions on a real time basis, and to improve load analysis. A two-year extension is therefore requested to exercise the option in order to provide the aforementioned services. The current contract amount is $60,000. It is anticipated that an additional $350,000 will be required for the extended term. The Trustees' approval is requested to extend the subject contract through April 20, 2003, and to approve the additional funding requested.

Increases in Compensation Ceiling:

"The contract with **Pace Global Energy Services, LLC (formerly C.C. Pace Energy Services, LLC; FD-99-06)** provides for fuel consulting services. At their meeting of March 30, 1999, the Trustees approved the award of a three-year contract for such services in the amount of $500,000. The original award to C.C. Pace, the low bidder, became effective on April 5, 1999. The original scope of work was limited to providing assistance in evaluating the cost and feasibility of building and supplying fuel to the proposed 500 MW combined cycle expansion project of the Charles Poletti Power Project. During the past year, the work scope has been significantly broadened to include the review of various alternative options for additional generation at Poletti. In addition, the Authority was tasked with installing 450 MWs of simple cycle combustion turbines (the 11 GE LM6000s), in support of the Power Now! (formerly In-City) Generation project. Due to this significant work scope expansion, the originally approved funding was expended at an accelerated rate. An additional $125,000 was subsequently authorized by the President in accordance with the Authority's Guidelines for Procurement Contracts and Expenditure Authorization Procedures for the following tasks: perform a comparison of the cost of generation of coal gasification technology; develop and implement a fuel and hedging power plan for the Poletti expansion; and perform a capacity supply analysis for meeting customer requirements upon expiration of the FitzPatrick power contract. The following additional project tasks have been identified to support the Poletti and SENY development effort: develop, contract and provide project management support for interstate and local fuels infrastructure to the Poletti location; prepare power price forecasts and power market assessments to validate and evaluate the expansion plan, to assess the next expansion plan and to support other primary functions; prepare and negotiate forward/hedge contracts and other instruments to serve government customers and mitigate market exposure; update and prepare the financial modeling and valuation support for Poletti expansion and for expansion plans after 2006, including alternative fuels and generation locations; and support ad hoc requests and provide management support for the Authority and various federal and state agencies during the permitting process, as may be required. Although one year of the originally approved term still remains, a nine-month extension through December 31, 2002, is now requested in order to continue ongoing services and to allow sufficient time to complete the aforementioned additional tasks. The current contract amount is $625,000. It is anticipated that an additional $700,000 may be required for the extended term. The Trustees' approval is requested to extend the subject contract through December 31, 2002, to ratify the additional funding previously authorized, and to approve the additional funding now requested, thereby increasing the compensation ceiling to $1,325,000.

"In preparation for relicensing the Niagara Power Project, the Authority is developing information in accordance with Federal Energy Regulatory Commission ('FERC') regulations for first stage consultation and a Public Information File ('PIF'). The contract with **URS Greiner Woodward Clyde ('URS'; 4500025033)** provides for Regulatory Information Assessment and Development ('RIAD') services to develop and maintain such information in support of this effort. The scope of work includes: a preliminary survey to determine the extent to which the information required to complete these requirements is already available within the Authority and what information must be developed; development of regulatory information, including the review of existing study reports, preparation of digital map layers and hard copy products and technical information and databases; development of public information; miscellaneous services related to preparation for consultation, environmental scoping, and scoping of subsequent studies, including advising on licensing process alternatives/strategies, reviewing technical engineering and environmental reports and other documents; and attending project meetings. The data management system consists of 1) the Niagara Information System ('NIS'), software/database developed by URS that provides access to numerous scanned documents, statistical data, automated project functions, project management and document review, and links to other databases and functions, and 2) the Geographical Information System ('GIS'), software tool for accessing and analyzing regional geospatial data (tax maps, topographic data, wetland areas, etc.). The original award, which was competitively bid, became effective on June 5, 2000, for an initial term of one year, with an intended option to extend for up to two additional years, per the notice in the New York State Contract Reporter. The NIS and GIS are dynamic systems that will require periodic revisions and updates, as additional project data becomes available and as new issues are identified during the relicensing process. Future efforts will include: NIS programming to modify existing and create new NIS functions as additional project data becomes available; additional database development; creation and maintenance of GIS coverages; training and support; and attending project meetings. A two-year extension is now requested in order to exercise the option and continue the aforementioned services. The current contract amount is $330,732. It is anticipated that an additional $600,000 will be required for the extended term. The Trustees' approval is requested to extend the subject contract through June 4, 2003, and to approve the additional funding requested, thereby increasing the compensation ceiling to $930,732.

FISCAL INFORMATION

"Funds required to support contract services for various Business Units/Departments and the facilities have been included in the 2001 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

"Funds required to support contract services for capital projects have been included as part of the approved capital expenditures for those projects. Funds required to support the contract for the Niagara Project relicensing effort will be withdrawn from the Authority's Capital Fund and will be disbursed in accordance with the Project's relicensing Capital Expenditure Authorization Request.

RECOMMENDATION

"The Director – Financial Planning, the Director – Marketing Planning, the Executive Director – Hydro Relicensing, the Director - Employee Benefits, the Regional Manager - Northern New York, the Regional Manager - Western New York, the Regional Manager - Central New York, the Regional Manager - Southeast New York, the Vice President – Major Account Marketing & Economic Development, the Vice President and Chief Engineer - Power Generation, the Vice President – Controller, and the Deputy Secretary and Deputy General Counsel, the Vice President - Procurement and Real Estate recommend the Trustees' approval of the extensions, additional funding and increases in the compensation ceiling of the procurement contracts listed in Exhibit '8-A'.

"The Senior Vice President – Public and Governmental Affairs, the Senior Vice President and Chief Financial Officer, the Senior Vice President – Marketing & Economic Development, the Executive Vice President - Corporate Services and Human Resources, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations and I concur in the recommendation."

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit "8-A" is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed below, as recommended in the foregoing memorandum of the President; and be it further

RESOLVED, That pursuant to the Authority's Expenditure Authorization Procedures, an increase in the compensation ceiling of the contracts with Pace Global Energy Services, LLC and URS Greiner Woodward Clyde be, and hereby is, approved as recommended in the foregoing report of the President, in the amounts and for the purposes listed below:

Capital	Contract Approval (Increase in Compensation Ceiling)	Projected Closing Date
Provide fuel consulting services for the Poletti and Power Now! Projects:		
Pace Global Energy Services, LLC FD-99-06		
Additional Funding Requested	**$700,000**	**12/31/02**
Previously Approved Amount	**$500,000**	
Additional Authorized Amount	**$125,000**	
REVISED COMPENSATION CEILING	**$1,325,000**	

Capital	Contract Approval (Increase in Compensation Ceiling)	Projected Closing Date
Provide Regulatory Information Assessment and Development ("RIAD") services for Niagara Project relicensing effort:		
URS Greiner Woodward Clyde 4500025033		
Additional Funding Requested	**$600,000**	**06/04/03**
Previously Authorized Amount	**330,732**	
REVISED COMPENSATION CEILING	**930,732**	

9. Procurement (Services) Contracts – Power Now!
<u>Generation Projects and Charles Poletti Power Project – Awards</u>

The Executive Vice President – Project Operations submitted the following report:

SUMMARY

"The Trustees are requested to approve the award and funding of the multi-year procurement contracts listed in Exhibit '9-A' for the Power Now! Generation Projects, as well as for the Charles Poletti Power Project. A detailed explanation of the nature of such services, the basis for the new awards, and the intended duration of such contracts are set forth in the discussion below.

BACKGROUND

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

"In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services or equipment purchase contracts in excess of $3,000,000, as well as personal services contracts in excess of $1,000,000 if low bidder, or $500,000 if sole source or non-low bidder, requires Trustees' approval.

DISCUSSION

"While the Authority's policy is to use its own staff to perform necessary engineering, technical and craft labor work, there are cases where it is necessary to utilize external contractors or consultants to supplement Authority staff during peak working periods or if special expertise is required that is not available within the Authority. This is often necessary to retain consultants to perform specialized work outside the expertise of Authority staff.

"The term of these contracts will be more than one year; therefore, the Trustees' approval is required. These contracts contain provisions allowing the Authority to terminate the services for the Authority's convenience, without liability other than paying for acceptable services rendered to the effective date of termination. Approval is also requested for funding the contracts with an estimated value of $6,500,000 and, $49,000 respectively. These contract awards do not obligate the Authority to a specific level of personnel resources or expenditures.

"The issuance of multi-year contracts is recommended from both a cost and efficiency standpoint. In many cases, reduced prices can be negotiated for these longer term contracts. Since these services are typically required on a continuous basis, it is more efficient to award longer term contracts than to rebid these services annually.

<u>Contract in support of the Power Now! Generation Projects:</u>

"The next step in the process for completing the Power Now! Project is to determine the optimal approach for providing operations and maintenance ('O&M') support of the gas turbine units during initial start-up, but primarily after commercial operation. While the Authority and General Electric are finalizing the design and installation of an automated control system to provide centralized remote control of each of the LM6000 gas turbine units from the Authority's Poletti Project, the system is not expected to be fully operational until mid-summer at the earliest. Even after implementation of this system, such operations and maintenance support will be required on a daily basis to provide routine maintenance; verify site integrity and cleanliness; troubleshoot problems, and related activities. Since the Authority does not currently have the staffing to provide the operations and maintenance support services during initial start-up as well as after full commercial operation of all ten gas turbines located in New York City (with the exception of Brentwood, which will be operated and maintained by Authority personnel at the Authority's Flynn Plant), proposals were solicited from five firms qualified to perform such services. Two proposals were received in response to the Authority's request for proposals: Conectiv Operating Services Company of Carneys Point, New Jersey, and General Electric Energy Services of Schenectady, New York. Due to the accelerated nature of this project, it was not feasible to include a notice in the New York State Contract Reporter because of time constraints. Based on overall evaluated pricing, using a 'roving' team of 12 technicians and three management personnel, Conectiv was the low bidder of the two bids received. Conectiv has significant experience in performing such O&M services for LM6000 units, as well as for over forty simple cycle, combined cycle and large frame coal and fossil generating plants. It has a cooperative agreement with Trans Canada Turbines ('TCT')of Calgary, Canada (licensed by GE to perform repairs and overhauls on LM6000s) to provide services and GE parts on an as-needed basis. Its overall approach to providing such services in a cost-effective manner, its ability to provide supplemental personnel through TCT of Canada (if needed), flexibility, and its existing procedures for operation and maintenance of LM6000 gas turbines were well demonstrated.

"The contract with **Conectiv Operating Services Company (4500039794)** was awarded on March 16, 2001, for the initial amount of $300,000, with the interim approval of the Executive Vice President – Project Operations, subject to the Trustees' ratification and approval as soon as practicable. Since Conectiv must immediately begin recruitment and training of operators to support this effort (including mobilization and equipment procurement), it was imperative to proceed with the award pending subsequent Trustees' approval. The intended term of this contract is two years, with an option to extend for one additional year, subject to the Trustees' ratification and approval, which is hereby requested. Approval is also requested for the total amount), $6,500,000. expected to be expended for the initial two years of the contract (including mobilization, start-up and additional operational support as may be required.

Contract in support of the Poletti Project:

"The contract with **Most Health Services Inc. (RFQ 6000022270, PO # TBA) would** become effective on April 1, 2001, subject to the Trustees' approval. The purpose of this contract is to provide for on-site annual occupational physical examinations and related testing for approximately 70 employees of the Charles Poletti Power Project, as required by all applicable safety and health standards, federal and state requirements and Authority policy. Services also include specialized testing and examinations, such as annual respirator clearance. In addition, the contractor will forward all results and employee medical records to the Records Manager, whose services are provided under a separate contract with another company. Most Health Services Inc. was the low bidder of the three bids received of the seven solicited, including responses to a notice in the Contract Reporter. Prices will remain firm for the first two years of the contract and Authority staff negotiated a 2% reduction of the escalation rate for the third year of the contract. In addition, Most has provided satisfactory services for the last three years and prices are reasonable in comparison to the current contract. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for $49,000, the total amount expected to be expended for the term of the contract**.**

FISCAL INFORMATION

"Funds required to support contract services for the Poletti Project have been included in the 2001 Approved O&M Budget. Funds for subsequent years will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

"Funds required to support initial contract services for start-up and other support prior to full operation of the Power Now! Generation Projects have been included as part of the approved capital expenditures for the Projects. Payment will be made from the Capital Fund. Funds required to support operations and maintenance services of the ten gas turbines in 2001, after full commercial operation, will be requested of the Trustees, when all budget estimates are finalized. Funds for subsequent years will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Regional Manager – Southeast New York, the Vice President – Project Management, the Vice President and Chief Engineer – Power Generation, and the Vice President - Procurement and Real Estate recommend the Trustees' approval of the award of the multi-year procurement contracts to the companies listed in Exhibit '9-A', and as discussed above.

"The Senior Vice President and Chief Financial Officer, the Executive Vice President – Corporate Services and Human Resources, the Executive Vice President, Secretary and General Counsel, and I concur in the recommendation.

The following resolution, as recommended by the Executive Vice President – Project Operations, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multi-year procurement contracts set forth in Exhibit "9-A", attached hereto, is hereby approved for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the Executive Vice President – Project Operations, and subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

10. **2000 Annual Report on the Authority's Investments**

The President submitted the following report:

SUMMARY

"The Trustees are requested to review and approve the attached 2000 Annual Report on Investment of Authority Funds (Exhibit '10-A') and approve certain proposed revisions to the Authority's Investment Guidelines.

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, the total investment income earned in 2000, a statement on fees paid for investment services, the results of an independent audit, a detailed inventory report for each of the Authority's seven portfolios at December 31, 2000, and a summary of purchases from dealers and banks. The approved annual report is filed with the State Division of Budget, with copies to the Department of Audit and Control, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon reasonable request therefor.

DISCUSSION

"In 2000, the Authority's investment portfolios, exclusive of the Nuclear Decommissioning Trust Fund, averaged $682 million and earned $40 million. This is $5 million more than in 1999. The rise in investment earnings is due to an increase in the average size of the portfolio from 1999 levels. Income for the year from the Authority's portfolios had an average yield of 6.10%, exceeding the Authority's established performance measure by 39 basis points (39/100 of one percent). The performance benchmark is the three-year rolling average yield on the two-year Treasury note plus 15 basis points.

"In the aggregate, the portfolio consisted of 21% in direct obligations of the U.S. Government; 41% in Agencies of the U.S. Government; 10% in Certificates of Deposits and Repurchase Agreements and 28% in Municipal Bonds.

"The Authority's Nuclear Decommissioning Trust Fund (the 'Trust') account paid $792,476 in fees to The Bank of New York, Strong Capital and Dresdner RCM for investment management services. The managers are paid a percentage of the funds managed, and in 2000, fees represented approximately 12 basis points. At year-end, the Trust's market value was approximately $667 million. The Nuclear Regulatory Commission ('NRC') mandates that decommissioning reserves meeting certain minimum requirements be segregated from the Authority's other assets and be beyond the day-to-day administrative control of the Authority 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 at their meeting of June 26, 1990. The Trust allows for investments in a broad range of high quality government, corporate and foreign fixed income securities and allows for the use of futures and options of fixed income. In March 1997, the Board of Trustees authorized the investment of up to 25% of the portfolio in equity index funds that track the Standard & Poors' ('S&P') 500 Index. The Master Decommissioning Trust was amended on November 21, 2000 upon the closing of the sale of the Indian Point 3 and James A. FitzPatrick nuclear plants to Entergy. This amendment increased to 35% the percentage of the portfolio which may be invested in equity index funds. Recognizing the greater flexibility for investment types and duration, the Trust's fixed income performance is measured against the Lehman Bond Index, while the Trust's equity performance is measured against the S&P 500.

"In 2000, the Trust experienced a composite rate of return of 5.99%. The fixed income portion of the Trust experienced a net return of 11.29%, compared to 11.63% for the Lehman Bond Index. Since its inception in August 1990, the fixed income portion of the Trust's annualized total return has been 8.81% and has outperformed the benchmark by 52 basis points. The Trust is currently yielding approximately 6.15%. The return on the equity portion of the Trust's performance for 2000 was negative 9.04% as compared to a negative 9.10% for the S&P 500 Index. At the end of 2000, approximately 25% of the Trust's book value was invested in equity index funds. The management of these funds is competitively bid on a regular basis. Management of the fixed income funds was competitively bid during the year, and the Authority appointed two new investment managers, BlackRock and Tattersall, effective November 1, 2000.

"In connection with its examination of the Authority's financial statements, PriceWaterhouseCoopers, L.L.P. performed tests of the Authority's compliance with certain provisions of the Investment Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Its report, a copy of which is attached as Exhibit '10-B', states that the results of such examination disclosed no instances where the Authority was not in compliance with these Guidelines.

"The Trustees are also requested (a) to approve certain revisions to subsection (2) of the definition of 'Authorized Investments' in the Investment Guidelines dealing with securities issued by certain instrumentalities of the United States of America, so that the subsection tracks the provisions of the Resolution relating to such securities, (b) to delete another provision of the Guidelines, subdivision (3), which is no longer necessary, and (c) to revise the definition of 'Authorized Certificate of Deposit' so that the definition relates directly to the description of certificates of deposit in the Resolution's definition of 'Authorized Investments.'

"The revised definitions are set forth in Section IV.A. of the attached Guidelines. The Trustees are also requested to approve certain non-substantive changes to the Investment Guidelines, which changes have been incorporated in the attached Guidelines. For comparison purposes, the proposed additions and deletions to the prior version of the Guidelines are set forth in the attached Exhibit '10-C'.

RECOMMENDATION

"The Treasurer recommends that the Trustees approve the attached 2000 Annual Report on Investment of Authority Funds, and approve the proposed revisions to the Investment Guidelines, as discussed above.

"The Senior Vice President and Chief Financial Officer, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations and I concur in the recommendation."

In response to questions from Trustee Carey, Mr. Collins confirmed that the Authority's Investment Guidelines still permit the purchase of housing bonds if they are federally guaranteed. Trustee Carey suggested, and it was agreed by the Chairman and the Trustees, that the Guidelines so reflect.

The following resolution, as recommended by the President, was unanimously adopted with such amendments as suggested by Trustee Carey.

RESOLVED, That the 2000 Annual Report of Investment of Authority Funds be, and hereby is, approved; and be it further

RESOLVED, That the proposed revisions to the Investment Guidelines, as discussed in the foregoing President's report and as set forth in Section I of the attached Exhibit "10-A," are approved.

11. St. Lawrence/FDR and Niagara Power Projects -
<u>Relicensing Expenditure Authorization</u>

The President submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to authorize an additional $8.7 million in capital expenditures in 2001 for relicensing the St. Lawrence/FDR Power Project. The anticipated tasks related to the St. Lawrence Project involve: (1) performing eel studies and any additional studies required by the Federal Energy Regulatory Commission ('FERC') to prepare an application for a new license including a Preliminary Draft Environmental Impact Statement ('PDEIS') for the St. Lawrence Project; (2) preparation of a final license application and consultation with agencies, local governments, and other parties; and (3) third party contractor ('TPC') support for the cooperative environmental review process by FERC and New York Department of Environmental Conservation ('DEC') including preparation of the PDEIS. To date, the Trustees have previously approved $26.7 million for this project out of which approximately $24.6 million has been spent. With the current request, the total authorized amount for this project would be $35.4 million.

"The Trustees are also requested to approve an additional $3.5 million in capital expenditures for license related activities this year at the Niagara Power Project. The emphasis in 2001 will be on continuing the development of the Niagara Information System ('NIS') in support of the upcoming formal regulatory relicensing process. Several baseline environmental surveys will be conducted during the 2001 season. A public outreach campaign will be developed and commence in advance of the formal relicensing process. To date, the Trustees have previously approved $16.3 for this effort out of which approximately $8.6 million has been spent. It is anticipated that the $5 million previously approved for the Observation Tower work will be spent in 2001. With the current request, the total authorized amount for this project would be $19.8 million.

<u>BACKGROUND</u>

"The Authority's existing FERC license for the St. Lawrence Project expires in October 2003. In accordance with FERC regulations, the Authority's application for a new license must be filed by October 2001.

"At their meeting of March 28, 2000, the Trustees approved additional expenditures of $6.5 million for the St. Lawrence relicensing effort to cover expenses through 2000. The additional $8.7 million currently requested will cover tasks to be performed through the end of 2001. The focus in 2001 will be continued consultation and settlement negotiations with the Cooperative Consultation Process ('CCP') Team, completing any additional studies identified by FERC, performing eel studies, and filing of the application for a new license including a PDEIS.

"The Authority's federal license for the Niagara Power Project expires in August 2007. In accordance with FERC regulations, the Authority's application for a new license must be filed by August 2005.

<u>DISCUSSION</u>

<u>St. Lawrence Project Relicensing</u>

"Relicensing of the Project began in 1992 with the creation of a Hydro Relicensing Task Force ('Task Force') which included representatives from most of the non-nuclear departments within the Authority. From 1993 to 1995, the Task Force, led by the Licensing Division, identified potential issues to address during relicensing, conducted studies to collect and compile environmental information, and developed an overall plan for relicensing the St. Lawrence Project. Additional activities included obtaining data on existing environmental conditions, conducting turbine upgrade studies, reviewing issues related to license compliance, and initiating a public outreach program.

"Some of the significant milestones that have been reached since the Authority began the relicensing process in 1996 include; 1) a Memorandum of Understanding between the Authority, FERC and DEC to conduct an integrated environmental review of the Authority's applications for both a new FERC license and a DEC Water Quality Certificate, 2) establishing the CCP with FERC, resource agencies, local governments, the Mohawks of Akwesasne, non-governmental organizations, and the public, 3) identifying issues to be addressed during relicensing through a public scoping process, 4) completing necessary studies for issues raised during the scoping process, 5) settlement negotiations with a number of CCP Team members, and 6) issuing a Draft License Application ('DLA') including a Draft Preliminary Draft Environmental Impact Statement ('DPDEIS') for comment. In addition, a conceptual settlement agreement has been achieved with New York State Office of Parks, Recreation, and Historic Preservation and, the St. Lawrence Aquarium and Ecological Research Institute.

"Funding has been included to continue support for:

1) meeting with the CCP Team and facilitation support;
2) the TPC to continue assisting FERC and DEC in settlement negotiations, attend meetings, review studies, and prepare the Draft Environmental Impact Statement;
3) the services of a Contractor who is managing eel studies and any additional study required by FERC, report preparation and responses to comments, coordination of information being provided to the TPC, and preparation of the license application; and
4) outside counsel to provide support in relicensing-related matters.

Niagara Relicensing

"Emphasis in 2001 will be on continuing the development of the Niagara Information System in support of the upcoming formal regulatory relicensing process. Several baseline environmental surveys will be conducted during the 2001 season. A public outreach campaign will be developed and commence in advance of the formal relicensing process.

FISCAL INFORMATION

"To support relicensing activities, the Licensing Division requests authorization of additional capital expenditures of $8.7 million for the St. Lawrence/FDR Power Project and $3.5 million for Niagara Power Project relicensing efforts. These funds were included in the approved 2001 budget. It is anticipated that these funds will cover expenses through the end of 2001. Funds through 2007 will be included in future budget submittals. Payment will be made from the Authority's Capital Fund.

RECOMMENDATION

"The Executive Director - Hydro Relicensing and the Senior Vice President - Public and Governmental Affairs recommend that the Trustees approve capital expenditures of $8.7 million for the St. Lawrence/FDR Power Project and $3.5 million for the Niagara Power Project relicensing efforts in 2001.

"The Executive Vice President, Secretary and General Counsel, the Executive Vice President - Project Operations, and I concur in the recommendation."

The attached resolution as recommended by the President was unanimously adopted.

RESOLVED, That additional capital expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President, in the amounts and for the purposes listed below, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

Capital	**Expenditure Authorization**	
	St. Lawrence/FDR Relicensing	**Niagara Relicensing**
Previous Authorization	**$26.7 million**	**$16.3 million**
Current Request	**$ 8.7 million**	**$ 3.5 million**
TOTAL AMOUNT AUTHORIZED	**$35.4 million**	**$19.8 million**

12. St. Lawrence/FDR Power Project – <u>Approval of Lease of Authority Lands to the Town of Louisville</u>

The President submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to authorize the execution of a lease agreement for construction of a water treatment plant on Authority-owned lands that are currently under lease to the Massena Country Club by the Power Authority of the State of New York ('Authority') as landlord and the Town of Louisville (hereinafter 'Town') as tenant. A site plan defining the proposed leasehold area is attached hereto as Exhibit '12-A'. The proposed plant will replace the system that is currently located at the same site on which the new system will be constructed. The lease will be for a term of 25 years, and in consideration of $1.00, payment waived.

<u>BACKGROUND</u>

"The existing Tucker Terrace Water System is located on a portion of the land currently under lease from the Authority to the Massena Country Club by lease dated April 24, 1991. The present water system is outdated and does not comply with New York State Department of Health ('NYSDOH') regulations. Consequently, the Town has requested permission from the Authority to construct a new facility in the same vicinity. The residents who are served by the existing system are on a continuing NYSDOH 'boil water' notice, and are drinking bottled water. The Town voted to approve the formation of a water district, use of a $2 million hardship grant from the NYSDOH and a $3 million, 30 year 0% interest loan. NYSDOH has approved the preliminary engineering report and the formation of the water district within the Town is complete.

"In a letter to the Authority dated September 15, 2000, the Massena Country Club expressed its approval of the location of the plant. Additionally, the Authority has received endorsements from the applicable Federal and State agencies as mandated by the Federal Energy Regulatory Commission ('FERC') indicating that none of them object to the Authority's granting permission to the Town to construct the water treatment plant. To resolve concerns raised by the State Historic Preservation Office, the Town has agreed to conduct subsurface archeological investigations at the site prior to initiating construction on the new facilities. The Town will also obtain all required environmental permits and licenses.

<u>DISCUSSION</u>

"The existing plant will be demolished and the proposed system will provide water for an estimated 320 residences and several small commercial properties. The Massena Country Club and the Massena Beach will also receive potable water from the new system. The proposed facility will provide significant benefits to the community at no cost to the Authority.

"A lease amendment between the Authority and the Massena Country Club will be drawn up to formalize the exclusion of the water treatment plant site from the Massena Country Club lease.

<u>FISCAL INFORMATION</u>

"The agreement with the Town will have no fiscal impact on the Authority.

<u>RECOMMENDATION</u>

"The Director – Real Estate, the Regional Manager – Northern New York, and the Vice President - Procurement and Real Estate recommend that the Trustees approve entering into a lease agreement with the Town of Louisville for the water treatment plant site on the Authority lands depicted on Exhibit '12-A'.

"The Director – Environmental Programs, the Senior Vice President - Public and Governmental Affairs, the Executive Vice President, Corporate Services and Human Resources, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations and I concur in the recommendation."

Vice Chairman Ciminelli stated that he would abstain from voting on the proposed resolution since his firm employs several of the same consultants.

The following resolution, as recommended by the President, was adopted by a vote of four in favor with one abstention.

RESOLVED, That the Vice President - Procurement and Real Estate be, and hereby is, authorized to exercise a lease agreement with the Town of Louisville for the property shown on Exhibit "12-A", located in the Town of Louisville, St. Lawrence County, for a period of 25 years on the terms as generally set forth in the foregoing report, and subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee; and be it further

RESOLVED, That the Vice President - Procurement and Real Estate, or the Director - Real Estate be, and hereby is, authorized on behalf of the Authority to execute any and all other agreements, papers, or instruments which may be deemed necessary or desirable to carry out the foregoing, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

13. Request to Transfer a Portion of Occidental Chemical Corporation's
<u>Replacement Power Allocation to Peak Investments, LLP</u>

The President submitted the following report:

SUMMARY

"Occidental Chemical Corporation ('Oxy') has entered into an agreement in principle to sell its Intermediate Chemical Facilities in Niagara Falls to Peak Investments, LLP ('Peak'). The Trustees are requested to approve the transfer of up to 4 MW of Oxy's Replacement Power allocation to Peak to enable Peak to operate the facilities in Niagara Falls.

BACKGROUND

"In April 1988, the Trustees approved a 16 MW Replacement Power allocation to Oxy, a portion of which was to be used at its Intermediate Chemicals Facilities. A commitment of 1,232 jobs was associated with the original allocation. This was a Western New York area-wide job commitment from Oxy.

"Oxy is currently using this hydropower for the production of the chemicals that Peak will continue to produce. The facilities have produced these chemicals for more than two decades, and Peak's business plan is based on continuing this base business. Additional hydropower is needed for operations Oxy shut down in the fourth quarter of 2000. Peak's business plan is aimed at recapturing business that was lost by Oxy when these assets where shut down.

"In September 1999, the Trustees reduced the original Replacement Power allocation to 13.6 MW and the job commitment to 830 after the annual job review.

"Oxy has submitted a letter to the Authority indicating that it is willing to transfer a part of its Replacement Power allocation to Peak for use in the facilities that Peak would purchase.

DISCUSSION

"Peak's business plan is based initially on the continuation of the current operations in the facility. Peak refers to this as Phase 1. These assets are currently producing products sold under existing contracts and Peak plans to continue to supply these customers under new contracts. These contracts will be finalized after the purchase. The products from these areas have stable markets and will be the core business for Peak.

"The Oxy facilities in these areas currently employ approximately 90 people. Oxy intends to exit these businesses and release the employees. WARN letters have been issued to these employees. Peak will operate these facilities and employ 76 full time Peak employees and contract employees.

"Peak is currently investigating the re-start of an additional area of the Chemical Intermediates facilities. This is referred to as Phase 2. This area was closed by Oxy in the fall of 2000 with the resultant layoff of over 150 employees. Peak's business plan for this area is being finalized but would involve a minimum employment level of 67 full-time employees and contract employees. The timing for this re-start is the 4^{th} quarter of 2001. Peak is actively contacting former customers in an effort to recover the business from this area.

"Peak and Oxy have targeted a closing date of end of March for the transaction.

RECOMMENDATION

"The Manager – Business Power Allocations and Compliance and the Vice President – Major Accounts Marketing and Economic Development recommend that the Trustees approve Occidental Chemical Corporation's request to permanently transfer up to 4 MW of Replacement Power from its 13.6 MW allocation to Peak for utilization at the Intermediate Chemical Facilities in Niagara Falls in return for a commitment to employ 143 employees at the facility. It is further recommend that the Senior Vice President – Marketing and Economic Development, or her designee, be authorized to execute any and all documents necessary or desirable to effectuate the above assignment.

"The Senior Vice President – Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Power Operations, and I concur in the recommendation."

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

RESOLVED, That up to 4 MW of Occidental Chemical Corporation's 13.6 MW allocation of Replacement Power at its Chemical Intermediates Facilities at Buffalo Ave, Niagara Falls, be transferred to Peak Investments, LLP upon the purchase of the business by Peak, and such transfer is hereby approved on the terms set forth in the foregoing report of the President; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development, or her designee, be authorized to execute any and all documents necessary or desirable to effectuate the above transfer, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

14. <u>Next Meeting</u>

The annual meeting of the Trustees will be held on **Tuesday, April 17, 2001 in the White Plains Office at 11:00 a.m.,** unless otherwise designated by the Chairman with the concurrence of the Trustees.

15. Closing

Upon motion made and seconded, the meeting was closed at 12:45 P.M.

David E. Blabey
Executive Vice President,
Secretary and General Counsel

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