

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

**March 28, 2006**

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the Clarence D. Rappleyea Building at 11:00 a.m.

Present: Joseph J. Seymour, Chairman  
Frank S. McCullough, Jr., Vice Chairman  
Elise M. Cusack, Trustee  
Robert E. Moses, Trustee  
Thomas W. Scozzafava, Trustee

Michael J. Townsend, Trustee – Excused

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Timothy S. Carey	President and Chief Executive Officer
David E. Blabey	Executive Vice President and Special Counsel to the Chairman
Thomas J. Kelly	Executive Vice President and General Counsel
Vincent C. Vesce	Executive Vice President – Corporate Services and Administration
Steven Decarlo	Senior Vice President – Transmission
Joseph Del Sindaco	Senior Vice President and Chief Financial Officer
Angelo S. Esposito	Senior Vice President – Energy Services and Technology
Louise M. Morman	Senior Vice President – Marketing, Economic Development and Supply Planning
Brian Vattimo	Senior Vice President – Public and Governmental Affairs
Edward A. Welz	Senior Vice President – Power Generation
Carmine J. Clemente	Deputy Secretary and Deputy General Counsel
Arthur T. Cambouris	Assistant General Counsel and Managing Attorney
Angela D. Graves	Deputy Secretary
Thomas P. Antenucci	Vice President – Project Management
Arnold M. Bellis	Vice President – Controller
Robert J. Deasy	Vice President – Energy Resource Management
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President and Chief Engineer
Donald A. Russak	Vice President – Finance
William V. Slade	Vice President – Environmental Management
Dennis T. Eccleston	Chief Information Officer
Michael E. Brady	Treasurer
Brian C. McElroy	Deputy Treasurer
Mark D. O’Connor	Director – Real Estate
James F. Pasquale	Director – Business Power Allocation, Regulation and Billing
Daniel Wiese	Director – Corporate Security and Inspector General
Charles J. Wischusen	Director – Energy Services and Headquarters Procurement
Steven Lockfort	Manager – Risk Reporting
Anthony C. Savino	Manager – Business Power Allocations and Compliance
William Helmer	Special Licensing Counsel
Anne B. Cahill	Principal Attorney I
Okasana U. Karaczewsky	Senior Procurement Compliance Coordinator
Michael A. Saltzman	Senior Information Specialist
Mary Jean Frank	Associate Secretary
Lorna M. Johnson	Assistant Secretary
Lisa Farrell	Secretary to Executive Vice President and General Counsel

Jeffrey Carey

Special Assistant to the President and Chief Executive Officer

John Murphy  
Edward Gibbs

Special Advisor to the President and Chief Executive Officer  
Executive Director, County of Westchester Public Utility Service Agency

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Chairman Seymour presided over the meeting. Executive Vice President and General Counsel Kelly kept the Minutes.

1. **Approval of the Minutes**

*The minutes of the Regular Meeting of February 28, 2006 were unanimously adopted.*

2. **Financial Reports for the Two Months Ended February 28, 2006**

*Mr. Bellis presented an overview of the reports to the Trustees. In response to questions from Chairman Seymour regarding ongoing losses from SENY energy sales, Mr. Bellis said the situation through the first quarter resulted from the complex supply and demand situation. He said that certain fuel and energy prices had been locked in, but nothing had been locked in on the revenue side for the Poletti and 500 MW plants. On the expense side, the Authority did not benefit when fuel prices fell because of its locked-in fuel and energy prices. President Carey stated that finance staff is analyzing how some of this information is communicated and that it is likely they will recommend ways to restructure it. Mr. Bellis also said that most of the Authority's risk of financial exposure in the SENY territory arose in January and February, but that it could also occur in the coming summer if it is a cool one or customer loads continue to soften. Responding to a question from Chairman Seymour as to the possible use of insurance to hedge agreement losses, Ms. Morman said that the "trip" insurance the Authority used to purchase was actually for a different purpose than for protecting the Authority from such financial exposure and that such exposure insurance was not available. Mr. Bellis added that there is not much that the Authority can do now to improve the situation.*

3. Report from the President and Chief Executive Officer

*President Carey asked Mr. Vattimo to report on the status of the State's 2006-07 budget discussions. Mr. Vattimo said that the budget is now in conference committee and that the issues affecting the Authority have, for the most part, been finalized. It appears that the Power for Jobs program will be extended through December 31, 2007. The Legislature is also going forward with the Governor's recommendation to establish a commission to review all of the Authority's power distribution programs. President Carey added that Authority management has been in constant contact with regard to the effects the 2006-07 budget will have on the Authority's ability to do business.*

*With respect to the Niagara relicensing, Mr. Kelly reported that draft settlement agreements for the City of Buffalo and Erie County have gone out to the two municipalities for their review and that the Authority expects to have comments back from them within the next 10 days. One minor issue relating to the form of the agreement remains to be negotiated in the draft of the Niagara University settlement agreement.*

*President Carey said that he would be visiting the various Authority facilities in the coming months to meet with Authority staff at the facilities, as well as members of the host communities. He said that this week he will be visiting the Blenheim-Gilboa plant. In response to a question from Chairman Seymour, Vice Chairman McCullough said that he would be accompanying President Carey when he visits the St. Lawrence/FDR Power Project.*

*Chairman Seymour said that Authority management needs to keep a careful watch on what happens with the New York State Budget, especially with respect to financing the Power for Jobs program. President Carey added that staff was not recommending to the Trustees that the Authority make a \$75 million voluntary contribution to the New York State Treasury until these issues were satisfactorily resolved.*

#### 4. Transfers of Industrial Power

The President and Chief Executive Officer submitted the following report:

##### SUMMARY

“The Trustees are requested to approve the transfer of power allocations for five existing customers that have changed their names for various business reasons. Additionally, the Trustees are requested to approve a transfer of 100 kW between two companies currently receiving Municipal Distribution Agency (‘MDA’) power through the Suffolk County Electrical Agency (‘SCEA’).

##### BACKGROUND

“Five companies have requested that the Authority grant approval of their requests for the continued delivery of Authority power allocations to facilities that have all gained prior approval for an allocation with pre-existing company names and/or ownership. The present owners of these same facilities are now requesting that the Authority authorize the continuation of the power allocations granted to the previous company names and ownership associated with these facilities.

“In addition, the Authority sells industrial power to downstate municipal distribution agencies, including 5,000 kW to SCEA. This power is resold to industrial customers designated by SCEA and approved by the Authority. Two existing MDA power customers have requested, and SCEA has proposed, that part of one customer’s allocation be transferred to the other existing customer. SCEA has requested that the Authority grant approval of the transfer for the reasons indicated below.

“The Trustees have approved transfers of this nature at past meetings.

##### DISCUSSION

“The proposed transferees are as follows:

“**CEN Electronics**, which has a facility in Caledonia, manufactures industrial battery chargers for forklifts, pallet jacks and other battery-powered transportation equipment. At their September 28, 1998 meeting, the Trustees approved CEN Electronics for a 300 kW Power for Jobs (‘PFJ’) allocation in return for 121 jobs. The company was purchased by a private owner and the name was changed to **Applied Energy Solutions**. The new company maintains the Caledonia facility’s operations and produces the same products as the original company. In August 2005, the company applied for extended PFJ benefits in the form of an electricity savings reimbursement. Applied Energy Solutions will receive a reduced level of extended benefits proportional to its job shortfall through December 31, 2006, the sunset date for the PFJ program.

“**CWM Chemical Services, Inc. (‘CWM’)** of Model City is a chemical and industrial waste management facility offering waste treatment, storage and disposal solutions. At their June 29, 1999 meeting, the Trustees approved CWM for a 400 kW PFJ allocation in return for 100 jobs. CWM created **CWM Chemical Services, LLC** as a wholly owned subsidiary of its parent corporation, Waste Management, Inc. There was no purchase, only a contribution of assets to the new entity for business purposes. The new company’s products and services, facility operations and ownership remain unchanged. In August 2005, the company applied for extended PFJ benefits in the form of an electricity savings reimbursement. CWM Chemical Services, LLC will receive a reduced level of extended benefits proportional to its job shortfall through the remainder of the PFJ program, December 31, 2006.

“**Fala Direct Marketing, Inc. (‘Fala’)** is a direct marketing production services company in Melville. At their September 30, 1998 meeting, the Trustees approved Fala for a 1,500 kW PFJ allocation in return for 554 jobs. In July 2005, the company was acquired in an operating asset purchase by **IWCO Direct**, a Minnesota firm. The new company’s products and services and New York facility operations remain unchanged. On September 20, 2005, the Trustees approved an extension of the company’s PFJ contract through December 31, 2006, at a reduced

level of 1,150 kW proportional to its job shortfall. IWCO Direct agrees to honor all terms and conditions of its extended PFJ contract.

“**Hammer Lithograph Corp.**, with a facility in Rochester, is a multicolor packaging printer of labels, box wraps and premium packets for consumer products. At their March 31, 1998 meeting, the Trustees approved Hammer Lithograph for a 900 kW PFJ allocation in return for 222 jobs. In July 2005, the company changed its name to **Hammer Packaging Corp.** The company’s name was changed when it consolidated its business with New Frontier Packaging, a flexographic packaging printing operation. The new company’s products, services, facility operations and ownership remain unchanged. On September 20, 2005, the Trustees approved an extension of the company’s PFJ contract through December 31, 2006. Hammer Packaging is in job compliance and agrees to honor its job commitments and all terms and conditions of its contract.

“**Utica Corporation** manufactures at its facility in Whitesboro a variety of engine-ready components for use in the aerospace and industrial gas turbine industries. At their June 26, 2001 meeting, the Trustees approved Utica Corporation for a 1,200 kW PFJ allocation in return for 395 jobs. The company’s ownership has acquired other operations across the country and changed its corporate name to **Turbine Engine Components Technologies (‘TECT’)**, in order to build and brand the new operations under the TECT name. The new company’s ownership, products and services remain unchanged. In August 2005, the company applied for extended PFJ benefits in the form of an electricity savings reimbursement. TECT will receive a reduced level of extended benefits proportional to its job shortfall through the remainder of the PFJ program, December 31, 2006.

“**Ellanef Manufacturing (‘Ellanef’)** is a manufacturer of aerospace machined parts and assemblies with a facility in Bohemia. Ellanef currently receives an allocation of 1,300 kW of MDA power via resale from SCEA in return for 195 jobs. **Air Industries Machining Corp. (‘Air Industries’)** manufactures complex aircraft parts and assemblies for the commercial and defense aerospace industries. Air Industries receives a 500 kW allocation of MDA power through resale from SCEA at its Bay Shore facility. The allocation was approved by the Trustees at their September 23, 2003 meeting in return for 120 jobs. Ellanef and Air Industries have requested that 100 kW of Ellanef’s allocation be transferred to Air Industries. At their December 2005 board meeting, SCEA approved such a transfer. As proposed, Ellanef’s power allocation will be reduced from 1,300 kW to 1,200 kW, while Air Industries’ allocation will increase from 500 kW to 600 kW. The companies and SCEA are requesting that the Trustees approve the transfer of 100 kW between them with job commitments remaining the same for both companies.

#### RECOMMENDATION

“The Director – Business Power Allocations, Regulation and Billing recommends that the Trustees approve the transfer of power allocations for five existing customers that have changed their names for various business reasons and approve the transfer of 100 kW between two companies currently receiving Municipal Distribution Agency power through the Suffolk County Electrical Agency.

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing, Economic Development and Supply Planning, the Vice President – Major Account Marketing and Economic Development and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That the Authority hereby authorizes the transfers of industrial power allocations in accordance with the terms described in the foregoing report of the President and Chief Executive Officer; and be it further**

March 28, 2006

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**5. Power for Jobs Program – Extended Benefits**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Trustees are requested to approve extended benefits for 57 Power for Jobs (‘PFJ’) customers, as listed in Exhibits ‘5-A1,’ ‘5-A2’ and ‘5-B.’ In addition, the Trustees are requested to approve modifications to the benefits for six customers that have applied to have their PFJ benefits reinstated after having been reduced by the Board for non-compliance with their job commitments, as detailed in Exhibits ‘5-C1’ and ‘5-C2.’ These customers have been recommended to receive such extended benefits and modifications by the Economic Development Power Allocation Board (‘EDPAB’).

**BACKGROUND**

“In July 1997, the New York State Legislature and Governor George E. Pataki approved a program to provide low-cost power to businesses and not-for-profit corporations that agree to retain or create jobs in New York State. In return for commitments to create or retain jobs, successful applicants receive three-year contracts for PFJ electricity.

“The PFJ program originally made 400 megawatts (‘MW’) of power available. The program was to be phased in over three years, with approximately 133 MW made available each year. In July 1998, as a result of the initial success of the program, the Legislature and Governor Pataki amended the PFJ statute to accelerate the distribution of the power, making a total of 267 MW available in Year One. The 1998 amendments also increased the size of the program to 450 MW, with 50 MW to become available in Year Three.

“In May 2000, legislation was enacted that authorized another 300 MW of power to be allocated under the PFJ program. The additional MW were described in the statute as ‘phase four’ of the program. Customers that received allocations in Year One were authorized to apply for reallocations; more than 95% reapplied. The balance of the power was awarded to new applicants.

“In July 2002, legislation was signed into law by Governor Pataki that authorized another 183 MW of power to be allocated under the program. The additional MW were described in the statute as ‘phase five’ of the program. Customers that received allocations in Year Two or Year Three were given priority to reapply for the program. Any remaining power was made available to new applicants.

“In 2004, provisions of the approved State budget extended the benefits for PFJ customers whose contracts expired before the end of the program in 2005. Such customers had to choose to receive an ‘electricity savings reimbursement’ rebate and/or a power contract extension. The Authority was also authorized to voluntarily fund the rebates, if deemed feasible and advisable by the Trustees.

“Chapter 59 of the laws of 2004, extended the benefits for PFJ customers whose contracts expired before the end of the program in 2005. Such customers had to choose to receive an ‘electricity savings reimbursement’ rebate and/or a power contract extension. The Authority was also authorized to voluntarily fund the rebates, if deemed feasible and advisable by the Trustees.

“PFJ customers whose contracts expired on or prior to November 30, 2004 were eligible for a rebate to the extent funded by the Authority from the date their contract expired through December 31, 2005. As an alternative, such customers could choose to receive a rebate to the extent funded by the Authority from the date their contract expired as a bridge to a new contract extension, with the contract extension commencing December 1, 2004. The new contract would be in effect from a period no earlier than December 1, 2004 through the end of the PFJ program on December 31, 2005.

“PFJ customers whose contracts expired after November 30, 2004 were eligible for rebate or contract extension, assuming funding by the Authority, from the date their contracts expired through December 31, 2005.

“Approved contract extensions entitled customers to receive the power from the Authority pursuant to a sale-for-resale agreement with the customer’s local utility. Separate allocation contracts between customers and the Authority contained job commitments enforceable by the Authority.

“In 2005, provisions of the approved State budget extended the period PFJ customers could receive benefits until December 31, 2006, the program’s new sunset date.

“Section 189 of the New York State Economic Development Law, which was also amended by Chapter 59 of the Laws of 2004, provided the statutory authorization for the extended benefits that could be provided to PFJ customers with contracts that expire before December 31, 2005. The statute authorized EDPAB to, but stated an applicant could, receive extended benefits ‘only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract.’

“Chapter 313 of the Laws of 2005 amended the above language to allow EDPAB to consider continuation of benefits on such terms as it deems reasonable. The statutory language now reads as follows:

*An applicant shall be eligible for such reimbursements and/or extensions only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract, **or such other commitments as the board deems reasonable** (emphasis supplied)*

“At its meeting of October 18, 2005, EDPAB approved criteria under which applicants whose extended benefits were reduced by EDPAB for non-compliance with their job commitments could apply to have their PFJ benefits reinstated in whole or in part. EDPAB authorized staff to create a short-form application, notify customers of the process, send said customers the application and evaluate reconsideration requests based on the approved criteria. To date, staff has mailed 195, received 104 and completed review of 97 applications.

#### DISCUSSION

“At its meeting on March 27, 2006, EDPAB recommended that the Authority’s Trustees approve the allocations and/or electricity savings reimbursement rebates to the 57 businesses listed in Exhibits ‘5-A1,’ ‘5-A2’ and ‘5-B.’ Exhibits ‘5-A1’ and ‘5-A2’ lists businesses that have requested and are being recommended for a contract extension, while Exhibit ‘5-B’ lists those businesses that have requested and are being recommended for electricity savings reimbursements. Collectively, these organizations have agreed to retain more than 49,000 jobs in New York State in exchange for the contract extensions or rebates. The contracts will be extended and the rebate program will be in effect until December 31, 2006, the program’s sunset. The power will be wheeled by the investor-owned utilities as indicated in the Exhibits.

“Also at its meeting on March, 27, 2006, based on their reconsideration criteria, EDPAB recommended that the Authority’s Trustees approve modifications to the benefits for six customers that have applied to have their PFJ benefits reinstated after having been reduced by EDPAB for non-compliance with their job commitments.

“The Trustees are requested to approve contract extensions for the companies listed in Exhibits ‘5-A1’ and ‘5-A2,’ and the payment and funding of rebates for the companies listed in Exhibit ‘5-B’ in a total amount currently not expected to exceed \$5,500,000. Staff recommends that the Trustees authorize a withdrawal of monies from the Operating Fund for the payment of such amount, provided that such amount is not needed at the time of withdrawal for any of the purposes specified in Section 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented. Staff expects to present the Trustees with requests for additional funding for rebates for the companies listed in the Exhibits in the future.

#### FISCAL INFORMATION

“Funding of rebates for the companies listed in Exhibits ‘5-B’ and ‘5-C2’ are not expected to exceed \$5,500,000. Payments will be made from the Operating Fund. To date, the Trustees have approved \$31.7 million in rebates.

RECOMMENDATION

“The Senior Vice President and Chief Financial Officer and the Director – Business Power Allocations, Regulation and Billing recommend that the Trustees approve the contract extension for, and the payment of electricity savings reimbursements to, the Power for Jobs customers listed in Exhibits ‘5-A 1,’ ‘5-A2’ and ‘5-B.’ It is also recommended that the Trustees approve modifications to the benefits for six customers that have applied to have their Power for Jobs benefits reinstated after having been reduced by Economic Development Power Allocation Board for non-compliance with their job commitments as detailed in Exhibits ‘5-C1’ and ‘5-C2.’

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing, Economic Development and Supply Planning, the Vice President – Major Account Marketing and Economic Development, the Senior Vice President – Public and Governmental Affairs and I concur in the recommendation.”

*Mr. Pasquale presented the highlights of staff’s recommendations to the Trustees. In response to a question from Chairman Seymour, Mr. Del Sindaco said that the Authority could afford to pay the \$5.5 million in rebates recommended by staff.*

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**WHEREAS, the Economic Development Power Allocation Board (“EDPAB”) has recommended that the Authority approve contract extensions and electricity savings reimbursements to the Power for Jobs (“PFJ”) customers listed in Exhibits “5-A1,” “5-A2” and “5-B,” respectively; and**

**WHEREAS, EDPAB has recommended that the Authority approve modifications to six allocations for customers that have applied to have their PFJ benefits reinstated after having been reduced by EDPAB for non-compliance with their job commitments as detailed in Exhibits “5-C1” and “5-C2”;**

**NOW THEREFORE BE IT RESOLVED, That to implement such EDPAB recommendations, the Authority hereby approves a contract extension for the companies listed in Exhibits “5-A1” and “5-A2,” and the payment of electricity savings reimbursements to the companies listed in Exhibit “5-B,” as submitted to this meeting, and that the Authority finds that such extensions and payments for electricity savings reimbursements are in all respects reasonable, consistent with the requirements of the PFJ program and in the public interest; and be it further**

**RESOLVED, That to implement such EDPAB recommendations, the Authority hereby approves modifications to the benefits for six customers that have applied to have their PFJ benefits reinstated after having been reduced by EDPAB for non-compliance with their job commitments as detailed in Exhibits “5-C1” and “5-C2”;** and be it further

**RESOLVED, That based on staff’s recommendation, it is hereby authorized that payments be made for electricity savings reimbursements as described in the foregoing report of the President and Chief Executive Officer in the aggregate amount of up to \$5,500,000 million, and it is hereby found that amounts may properly be withdrawn from the Operating Fund to fund such payments; and be it further**

**RESOLVED, That such monies may be withdrawn pursuant to the foregoing resolution upon the certification on the date of such withdrawal by the Vice President – Finance or the Treasurer that the amount to be withdrawn is not then needed for any of the purposes specified in Section 503 (1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further**

**RESOLVED, That the Senior Vice President – Marketing, Economic Development and Supply Planning or her designee be, and hereby is, authorized to negotiate and execute any and all documents necessary or desirable to effectuate the foregoing subject to the approval of the form thereof by the Executive Vice President and General Counsel; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 resolutions, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**6. Lake Placid Village, Inc. – Increase in Retail Rates – Notice of Adoption**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Board of the Village of Lake Placid (‘Village Board’) has requested the Trustees to approve revisions in the Village of Lake Placid’s (‘Village’) retail rates for each customer service classification. These revisions will result in additional total annual revenues for the Electric Department of about \$449,000, or 6.3%.

**BACKGROUND**

“The Village Board has requested the proposed rate increases primarily to provide revenues to allow for sufficient working funds to meet significant forecasted increases in operation and maintenance expenses, meet current and planned debt service related to capital programs and pay back the Authority, in monthly payments, Lake Placid’s portion of the Tri-Lakes Transmission Agreement. The last time the Electric Department’s revenues were increased was in 1997.

“The Village Board has planned additions to plant-in-service amounting to \$1,900,000 to upgrade and expand its electric system. The capital program includes \$1,300,000 for upgrades to its distribution substation equipment to accommodate for significant future growth and efficiency. The remaining \$600,000 is planned for the purchase of three trucks (\$225,000), line transformers (\$125,000) and customer meters (\$115,000), as well as improvements to the street lighting system (\$135,000). The Village Board plans to debt-finance 75% of the capital program by issuing a 30-year serial bond.

“Under the new rates, an average residential customer who paid about 4.9 cents per kWh under the old rates will pay about 5.1 cents. A small commercial customer that paid 5.3 cents per kWh under the old rates will pay 5.7 cents after the increase. The large commercial-class rate increases from 3.8 to 4.1 cents and the Olympic Arena rate from 3.6 to 4.0 cents per kWh.

**DISCUSSION**

“The proposed rate revisions are based on a cost-of-service study prepared by Authority staff. No ratepayer comments were received at the public hearing held by the Village on November 21, 2005 and the Village Board has requested that the proposed rates be approved. On December 16, 2005, the Village Board formally requested that approval of the proposed rates be delayed until the March 28, 2006 Trustees’ meeting. This delay allowed the Electric Department time to submit bill comparisons using the current and proposed rates during the winter months, showing ratepayers the monetary impact of not conserving energy during those high-cost months. The Village Board also wants to give customers enough time to implement energy conservation practices during the non-winter months, in preparation for the next winter season.

“Pursuant to the approved procedures, the Senior Vice President – Marketing, Economic Development and Supply Planning requested the then Executive Vice President, Secretary and General Counsel to file a notice for publication in the New York State Register of the Village’s proposed retail rate revisions. Such notice was published on December 14, 2005. No comments concerning the proposed action have been received by the Secretary’s Office.

“An expense and revenue summary, comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits ‘6-A,’ ‘6-B’ and ‘6-C,’ respectively.

**RECOMMENDATION**

“The Director – Business Power Allocations, Regulation and Billing recommends that the attached schedule of rates for the Village of Lake Placid be approved as requested by the Village Board to take effect beginning with the first full billing period following the date this resolution is adopted.

“It is also recommended that the Trustees authorize the Deputy Secretary and Deputy General Counsel of the Authority to file notice of adoption with the Secretary of State for publication in the New York State Register and to file such other notice as may be required by statute or regulation.

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing, Economic Development and Supply Planning and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That the proposed rates for electric service for Lake Placid Village, Inc., as requested by such Village Board, be approved, to take effect with the first full billing period following this date, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further**

**RESOLVED, That the Deputy Secretary and Deputy General Counsel of the Authority be, and hereby is, authorized to file a notice of adoption with the Secretary of State for publication in the New York State Register and to file any other notice required by statute or regulation; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**7. Otsego Electric Cooperative – Increase in Retail Rates – Notice of Adoption**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Board of the Otsego Electric Cooperative (‘Cooperative Board’) has requested the Trustees to approve revisions in the Otsego Electric Cooperative’s (‘Cooperative’) retail rates for each customer service classification. These revisions will result in additional total annual revenues of about \$366,000, or 8%.

**BACKGROUND**

“The Cooperative Board has requested the proposed rate increase primarily to provide revenues to allow for sufficient working funds, meet forecasted increases in operation and maintenance expenses and meet federal government regulatory financial ratio level requirements. Current rates have been in effect since March 2000.

“The management of the Otsego Electric Cooperative has planned additions to plant-in-service amounting to \$4.3 million. The capital program consists of a major upgrade of its distribution lines and conductors and an increase to its substation capacity. The Cooperative plans to finance its capital program by borrowing \$4 million of new debt.

“Under the new rates, an average residential customer who currently pays about 9.3 cents per kWh, will pay about 10.0 cents. A small commercial customer currently pays 9.1 cents per kWh and will pay 9.9 cents after the increase. Large commercial (single-phase) customers are presently paying 12.3 cents and will pay 13.1 cents after the increase. Large commercial (multiphase) customers currently pay 9.6 cents and will pay 10.4 cents after the rate increase.

**DISCUSSION**

“The proposed rate revisions are based on a cost-of-service study prepared by the Otsego Electric Cooperative and reviewed by Authority staff. A public hearing was held by the Cooperative on December 27, 2005. No comments were received from the ratepayers at the public hearing. The Cooperative Board has requested that the proposed rates be approved.

“Pursuant to the approved procedures, the Senior Vice President – Marketing, Economic Development and Supply Planning requested the then Executive Vice President, Secretary and General Counsel to file a notice for publication in the New York State Register of the Cooperative’s proposed revision in retail rates. Such notice was published on February 1, 2006. No comments concerning the proposed action have been received by the Authority’s Secretary.

“An expense and revenue summary, comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits ‘7-A,’ ‘7-B’ and ‘7-C,’ respectively.

**RECOMMENDATION**

“The Director – Business Power Allocations, Regulation and Billing recommends that the attached schedule of rates for the Otsego Electric Cooperative be approved as requested by the Cooperative to take effect beginning with the first full billing period following Trustee approval of the rates.

“It is also recommended that the Trustees authorize the Deputy Secretary and Deputy General Counsel to file notice of adoption with the Secretary of State for publication in the New York State Register and to file such other notice as may be required by statute or regulation.

“The Executive Vice President and General Counsel, the Senior Vice President – Marketing, Economic Development and Supply Planning and I concur in the recommendation.”

*In response to a question from Vice Chairman McCullough, Mr. Pasquale said that the Cooperative is in compliance with certain federal government regulatory financial ratio level requirements. Responding to a question from Chairman Seymour, Ms. Morman said that the Cooperative's rates are so much higher than the Village of Lake Placid's rates because the Cooperative has a much larger rural service territory and thus higher transmission and distribution costs.*

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That the proposed rates for electric service for the Otsego Electric Cooperative, Inc., as requested by such Cooperative Board, be approved, to take effect with the first full billing period following this date, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further**

**RESOLVED, That the Deputy Secretary and Deputy General Counsel of the Authority be, and hereby is, authorized to file notice of adoption of the proposed rates with the Secretary of State for publication in the New York State Register and to file any other notice required by statute or regulation; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**Otsego Electric Cooperative  
Expense and Revenue Summary**

	Five-Year	
	<u>Average</u>	<u>Proposed <sup>1</sup></u>
Purchase Power Expense (Authority hydro, incremental & ISO charges)	\$ 1,037,916	\$ 1,280,668
Distribution Expense (Coop-owned facilities)	1,310,500	1,524,741
Depreciation Expense (on all capital facilities and equipment)	486,774	537,961
General & Administrative (Salaries, Insurance, Mgmt Services & Adm. Expenses)	602,446	655,450
Rate of Return – (Average 3.5%, Proposed 5.5%) (includes debt service on current & planned debt, federal government regulatory financial ratio level requirement, Coop members' patronage capital distribution and cash reserves for contingencies)	526,645	1,009,121
Miscellaneous Revenue Credit (e.g., sale of used equipment, etc.)	<u>(72,072)</u>	<u>(81,350)</u>
Total Cost of Service	<u>\$ 3,892,209</u>	<u>\$ 4,926,591</u>
Revenue at Present Rates	\$ 4,560,366	
Deficiency at Current Rates	<u>366,225</u>	
Revenue at Proposed Rates	<u>\$ 4,926,591</u>	
Increase % at Proposed Rates	<b>8.0%</b>	

<sup>1</sup> Based on five years of historical & projected data.

**Otsego Electric Cooperative**  
**Comparison of Present and Proposed Annual Total Revenues**

<u>SERVICE CLASSIFICATION</u>	<u>PRESENT REVENUE</u>	<u>PROPOSED REVENUE</u>	<u>% INCREASE</u>
General Service – Residential SC1	\$3,753,523	\$4,060,147	8.2%
Small Commercial – Single-Phase SC2	185,841	201,334	8.3%
General Power – Multiphase SC3A	533,604	575,630	7.9%
General Power – Single -Phase SC3B	904	960	6.2%
Security Lighting SC4	<u>86,494</u>	<u>88,520</u>	2.3%
Total	<u>\$4,560,366</u>	<u>\$4,926,591</u>	8.0%

**Otsego Electric Cooperative**  
**Comparison of Present and Proposed Net Monthly Rates**

<u>Present</u> <sup>1</sup> <u>Rates</u>		<u>Proposed</u> <sup>1</sup> <u>Rates</u>
	<b><u>General Service – Residential SC1</u></b>	
\$ 7.50	Customer Charge	\$ 10.00
\$ .0839	Energy Charge, per kWh	\$ .0885
	<b><u>Small Commercial – Single-Phase SC2</u></b>	
\$ 8.10	Customer Charge	\$ 16.20
\$ .0824	Energy Charge, per kWh	\$ .0815
	<b><u>General Power – Multiphase SC3A</u></b>	
\$ 5.30	Demand Charge	\$ 10.60
\$ .0730	Energy Charge, per kWh	\$ .0573
	<b><u>General Power – Single-Phase SC3B</u></b>	
\$ 5.30	Demand Charge	\$ 10.30
\$ .0693	Energy Charge, per kWh	\$ .0261
	<b><u>Security Lighting SC34</u></b>	
	(charge per lamp, per month)	
\$ 8.53	175 Mercury Vapor	\$ 8.73

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<sup>1</sup> Average annual purchased-power adjustment reflected in present and proposed rates.

**8. 2005 Annual Report on Investment of Authority Funds**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Trustees are requested to review and approve the attached 2005 Annual Report on Investment of Authority Funds (Exhibit ‘8-A’).

**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 2005, 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, 2005 and a summary of purchases from dealers and banks. The approved annual report is filed with the State Division of the Budget, with copies to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon written reasonable request.

**DISCUSSION**

“In 2005, the Authority’s investment portfolios averaged approximately \$723 million and earned approximately \$25 million. This level of earnings equals the income earned in 2004. While the average size of the portfolio decreased in 2005 primarily due to the draw-down of funds held in the construction portfolios, rising short-term interest rates generated additional income on a per-dollar basis to match the income earned in 2004. Income for the year from the Authority’s portfolios had an average yield of 3.59%, exceeding the Authority’s established performance measure by 126 basis points (126/100 of 1%). The performance benchmark for 2005 was the three-year rolling average yield on the two-year Treasury note plus 20 basis points.

“At December 31, 2005, the portfolio consisted of 3% in direct obligations of the U.S. government; 73% in agencies of the U.S. government; 15% in Certificates of Deposit and Repurchase Agreements and 9% in Municipal Bonds.

“Investment management fees associated with the Nuclear Decommissioning Trust Fund, which is required to be managed by external managers, totaled \$728,080 in 2005.

“In connection with its examination of the Authority’s financial statements, Ernst & Young, LLP, 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 ‘8-B,’ states that the results of such examination disclosed no instances where the Authority was not in compliance with these Guidelines.

“The Investment Guidelines and procedures have not been amended since last presented and approved by the Trustees at their meeting of March 29, 2005. They remain fundamentally sound and meet the requirements of the Power Authority. Furthermore, these Guidelines meet the requirements of the newly enacted Public Authorities Accountability Act of 2005, wherein a new Section 2824(e) of the Act requires Authority board members to establish written policies and procedures with respect to investments.

**RECOMMENDATION**

“The Treasurer recommends that the Trustees approve the attached 2005 Annual Report on Investment of Authority Funds.

“The Executive Vice President and General Counsel, the Senior Vice President and Chief Financial Officer, the Vice President – Finance and I concur in the recommendation.”

*Mr. McElroy presented the highlights of staff’s recommendations to the Trustees. In response to a question from Chairman Seymour, Mr. Kelly said that Authority legal staff is reviewing the State Comptroller’s Office recently promulgated regulations regarding public authorities to determine what actions the Authority may take to contest such regulations and that he will report back to the Trustees with staff’s conclusions and recommendations.*

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That the 2005 Annual Report on Investment of Authority Funds be, and hereby is, approved; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**2005 Annual Report on  
Investment of Authority Funds**

**Table of Contents**

Section I	Guidelines for the Investment of Funds
Section II	Explanation of the Investment Guidelines
Section III	A. Investment Income Record B. Fees Paid for Investment Services C. Results of the Annual Independent Audit
Section IV	Inventory of Investments Held on December 31, 2005
Section V	Summary of Dealers and Banks from Which Securities Were Purchased

## **Section I**

### **New York Power Authority Guidelines for the Investment of Funds**

#### **I. General**

These Guidelines for the Investment of Funds (the “Guidelines”) are intended to effectuate the applicable provisions of the General Resolution Authorizing Revenue Obligations, adopted February 24, 1998 (the “Resolution”), the lien and pledge of which covers all accounts and funds of the Authority and that governs the Authority’s existing policies and procedures concerning the investment of funds as contained in these Guidelines. In a conflict between the Guidelines and the Resolution, the latter shall prevail. In addition, these Guidelines are intended to effectuate the provisions of Section 2925 of the New York State Public Authorities Law.

#### **II. Responsibility for Investments**

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

#### **III. Investment Goals**

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

#### **IV. Authorized Investments**

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

“Authorized Investments” shall mean:

1. Direct obligations of or obligations guaranteed by the United States of America or the State of New York;
2. Bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal National Mortgage Association (including

Participation Certificates), Government National Mortgage Association, Federal Financing Bank, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, Federal Housing Administration, Federal Farm Credit Banks Funding Corporation, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks or any other agency controlled or supervised by and acting as an instrumentality of the United States government;

3. Obligations of any state of the United States of America or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision that shall be rated at the time of the investment in any of the three highest long-term Rating Categories, as such term is defined in the Resolution, or the highest short-term Rating Category by a Rating Agency, as such term is defined in the Resolution.
4. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America; or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided that such Bonds or Notes are guaranteed by the United States of America.

“Authorized Certificate of Deposit” shall mean a certificate of deposit authorized by the Resolution as an “Authorized Investment.”

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

**V. Provisions Relating to Qualifications of Dealers and Banks**

- A.1. The purchase and/or sale of Authorized Investments shall be transacted only through banks, trust companies or national banking associations (herein collectively termed “Banks”) that are members of the Federal Reserve System and government security dealers (herein termed “Dealers”), which are Banks and Dealers reporting to, trading with and recognized as primary dealers by the Federal Reserve Bank of New York. Banks and Dealers shall have demonstrated an ability to:
  - a) offer superior rates or prices on the types and amounts of securities required;
  - b) provide a high degree of attention to the Authority’s investment objectives; and

- c) execute trades in a timely and accurate manner.
- A.2. Authorized Investments may also be purchased or sold through minority- and women-owned firms authorized to transact business in the U.S. government and municipal securities markets. Such qualified firms shall demonstrate the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- A.3.A. Municipal securities qualifying as Authorized Investments may also be purchased or sold through any municipal bond dealer registered in the State of New York that demonstrates the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- B. Authorized Certificates of Deposit and time deposits (“Time Deposits”) shall be purchased directly from Banks that:
  - (1) are members of the Federal Reserve System transacting business in the State of New York;
  - (2) have capital and surplus aggregating at least \$50 million; and
  - (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- C. Authorized Investments purchased by the Authority or collateral securing its investments shall be deposited only with custodians designated by the Authority. Such custodians shall be Banks that are members of the Federal Reserve System transacting business in the State of New York.
- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business and (3) delivery instructions for the safekeeping of investments.
- E. The Authority shall enter into a written contract with any (1) Dealer from which Authorized Investments are purchased subject to a repurchase agreement and (2) Bank from which Authorized Certificates of Deposit are purchased.

**VI. General Policies Governing Investment Transactions**

- A. Competitive quotations or negotiated prices shall be obtained except in the purchase of government securities at their initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and/or Banks, except as indicated above, and the most favorable quote accepted. The Treasurer or Deputy Treasurer may waive this requirement on a single-transaction basis only if warranted by market conditions and documented in writing.
- B. Authorized Investments purchased shall be either delivered to the Authority’s designated custodian or, in the case of securities held in a book-entry account maintained at the Federal Reserve Bank of New York or the Depository Trust

Company, recorded in the Authority's name or in the name of a nominee agent or custodian designated by the Authority on the books of the Federal Reserve Bank of New York or the Depository Trust Company. Payment shall be made to the Dealer or Bank only upon receipt by the Authority's custodian of (1) the securities or (2) in the case of securities held in a book-entry account, written advice or wire confirmation from the Federal Reserve Bank of New York or the Depository Trust Company that the necessary book entry has been made.

- C. Each purchase or sale of Authorized Investments or Authorized Certificates of Deposit shall be authorized by the Treasurer or Deputy Treasurer. Investment orders may be placed by Authority employees as designated by the Treasurer. The custodian shall have standing instructions to send a transaction advice to the Authority's Controller for purposes of comparison with internal records. The Controller shall advise the Treasurer of any variances, and the Treasurer shall ensure appropriate corrections are provided.

## **VII. Policies Concerning Certain Types of Investment Diversification Standards Required**

### **A. Authorized Certificates of Deposit and Time Deposits**

1. Authorized Certificates of Deposit and Time Deposits shall be purchased directly from a Bank in the primary market.
2. Authorized Certificates of Deposit and Time Deposits shall be continuously secured by Authorized Investments defined in subsection (1) or (2) of Section IV.A., having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such Certificates of Deposit or Time Deposits. Such Authorized Investments shall be segregated in a separate custodian account on behalf of the Authority.
3. Investments in Authorized Certificates of Deposit or Time Deposits shall not exceed 25% of the Authority's invested funds. The par value of Authorized Certificates of Deposit purchased from any one Bank shall not exceed \$25 million.

### **B. Repurchase Agreements**

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

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

## **VIII. Review**

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

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

## **IX. Reports**

- A. The Treasurer shall submit an investment report to the Trustees, at least quarterly. Such report shall contain a (1) detailed description of each investment; (2) summary of the dealers and banks from which such securities were purchased and (3) a list of fees, commissions or other charges, if any, paid to advisors or other entities rendering investment services.
- B. The Treasurer shall submit an annual report for approval by the Trustees. In addition to the information provided quarterly, the Annual Report shall include (i) a copy of the Guidelines; (ii) an explanation of the Guidelines and any amendments thereto since the last annual report; (iii) the results of an annual independent audit of investment inventory and procedures and (iv) a record of income earned on invested funds. The approved report shall be submitted to the State Division of the Budget with copies distributed to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. Copies shall be made available to the public upon written reasonable request.
- C. Any waivers that occurred during the prior month shall be reported to the Senior Vice President and Chief Financial Officer.

**X. Miscellaneous**

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

## **Section II**

### **EXPLANATION OF INVESTMENT GUIDELINES**

#### **Section II Responsibility for Investments**

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

#### **Section III Investment Goal**

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

#### **Section IV Authorized Investments**

Details the types of investments the Authority can undertake as prescribed in Section 101 of the Resolution.

This section also requires that investments made in each of the Funds established under the Resolution be invested for a term commensurate with cash-flow expectations and that such investments not violate the arbitrage regulations of the Internal Revenue Code.

#### **Section V Provisions Relating to Qualifications of Dealers and Banks**

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

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

## **Section VI General Policies Governing Investment Transactions**

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

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

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

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

## **Section VII Policy Concerning Certain Types of Investment Diversification Standards Required**

Establishes a policy concerning the purchase of Authorized Certificates of Deposit and Time Deposits intended to minimize the risk associated with such transactions. Authorized Certificates of Deposit or Time Deposits may be purchased directly from a bank that is a member of the Federal Reserve System transacting business in the State of New York. Such deposits shall be continuously secured by Authorized Investments as outlined in subsection (1) or (2) of Section IV.A. This collateral shall be regularly priced to current market to assure the Authority's security interest is continuously protected. Aggregate holdings of Authorized Certificates of Deposit shall not exceed 25% of the Authority's total investment. Authorized Certificates of Deposit purchased from any one bank shall not exceed \$25 million.

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

## **Section VIII Review**

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

## **Section IX Reports**

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

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

### Section III

#### A. **Investment Income Record**

During 2005, the Authority's investment portfolio averaged approximately \$723 million and earned approximately \$25 million.

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

Operating Fund	\$21
Capital/Construction Funds	3
Other (Energy Con./Note Res.)	1
<b>Total</b>	<b><u>\$ 25</u></b>

The investment income equals the \$25 million in income earned in 2004. While the average size of the portfolio decreased by approximately \$140 million in 2005 primarily due to draw-down of funds held in the construction portfolios, rising short-term interest rates generated additional income on a per-dollar basis to match the income earned in 2004.

#### B. **Fees Paid for Nuclear Decommissioning Trust Fund Investment Services**

\$317,093	Blackrock Financial Management, Inc.
\$323,353	Tattersall Advisory Group, Inc.
\$ 87,634	The Bank of New York

Investment management fees were paid by the Nuclear Decommissioning Trust Fund. By Nuclear Regulatory Commission mandate, the Trust is beyond the Authority's administrative control and is therefore not part of this Annual Report.

#### C. **Results of the Annual Independent Audit**

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

**9. Guidelines and Procedures for the Disposal of Personal Property and Guidelines and Procedures for the Disposal of Real Property**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Trustees are requested to approve the following two Guidelines, which comply with the requirements of the Public Authorities Accountability Act (‘PAAA’) of 2005: (1) Guidelines and Procedures for the Disposal of Personal Property (hereinafter ‘Personal Property Guidelines’) for the disposition of surplus or obsolete material, equipment and supplies; and (2) Guidelines and Procedures for the Disposal of Real Property (hereinafter ‘Real Property Guidelines’) for transfers of land. Such Guidelines are set forth in Exhibits ‘9-A’ and ‘9-B,’ respectively, as attached hereto.

**BACKGROUND**

“On January 13, 2006 Governor George E. Pataki signed the PAAA into law. The new law codifies the Model Governance Principles established for public authorities in 2004 by the Governor’s Advisory Committee on Authority Governance chaired by Ira Millstein. Among its provisions, the PAAA establishes new rules for the disposal of public authority real property, as well as the disposal of personal property owned by public authorities. The law also requires each authority to draft guidelines consistent with the legislation dealing with these issues.

**DISCUSSION**

“In order to comply with the PAAA, staff has drafted the Guidelines set forth in Exhibits ‘9-A’ and ‘9-B.’ The Authority has had established procedures for disposing of surplus material that have been approved by the Trustees in the past. However, the Authority has not had a formal policy for the disposal of real property.

“The Personal Property Guidelines set forth the methodology detailing the Authority’s policy and procedures regarding the use, award, monitoring and reporting of contracts for the disposal of personal property, and designate a Contracting Officer who shall be responsible for the Authority’s compliance with, and enforcement of, such Guidelines.

“The Real Property Guidelines set forth the methodology that the Authority will use in the following specific areas:

- Maintaining inventory of the real property interests owned or under the jurisdiction of the Authority.
- Disposing of such interests when they become surplus to the Authority’s needs.
- Making annual reports of such transactions.
- Designating an Authority representative (‘Contracting Officer’) responsible for implementing such guidelines.

“Such Guidelines shall be annually reviewed and approved by the Trustees on or before the 31st day of March.

**FISCAL INFORMATION**

“There will be no financial impact on the Authority.

RECOMMENDATION

“The Vice President – Procurement and Real Estate and the Director of Real Estate recommend that the Trustees approve the Guidelines and Procedures for the Disposal of Real Property for transfers of land; and the Guidelines and Procedures for the Disposal of Personal Property for the disposition of surplus or obsolete material, equipment and supplies, as set forth in Exhibits ‘9-A’ and ‘9-B.’

“The Executive Vice President – Corporate Services and Administration, the Executive Vice President and General Counsel, the Director – Internal Audits and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That pursuant to the provisions of the Public Authorities Accountability Act of 2005, the Authority hereby adopts Guidelines and Procedures for the Disposal of Personal Property and Guidelines and Procedures for the Disposal of Real Property, as set forth in Exhibits “9-A” and “9-B,” respectively, and attached hereto; and be it further**

**RESOLVED, That Authority staff may take any and all steps necessary or convenient to implement such Guidelines; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**10. Procurement (Services) Contracts – Business Units and Facilities – Awards**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Trustees are requested to approve the award and funding of the multiyear procurement contracts listed in Exhibit ‘10-A’ for the Authority’s Business Units/Departments and Facilities. Detailed explanations of the nature of such services, the bases 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 the 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 the Trustees’ approval for the award of non-personal services, construction 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.

**DISCUSSION**

“The terms of these contracts will be more than one year; therefore, the Trustees’ approval is required. Except as noted, all of 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 all contracts, which range in estimated value from \$30,000 to \$2,000,000. Except as noted, these contract awards do not obligate the Authority to a specific level of personnel resources or expenditures.

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

**Contracts in Support of Business Units/Departments and Facilities:**

**Corporate Services & Administration**

“Due to the need to commence services, the contract with **Development Dimensions International, Inc. (‘DDI’) (4500117698)** became effective on January 1, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for executive assessment consulting services for two levels of Authority leadership (Mid-level and Business Unit) to measure the executive’s performance against specific competencies, which can be used in evaluating the individual’s leadership skills and predicting future effectiveness. Bid documents were downloaded electronically from the Authority’s Procurement website by 21 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Based on its qualifications, experience and reasonable pricing, staff recommended award of the subject contract to DDI, the lowest-priced most qualified bidder. The intended term of this contract is five years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$264,000.

“The contract with **Turboprop East Inc. (‘Turboprop’) (Q-02-3724; PO# TBA)** would become effective on April 1, 2006, subject to the Trustees’ approval. The purpose of this contract is to provide for maintenance services for the Authority’s Beechcraft King Air series aircraft, in order to ensure continued safe and reliable operation. Services include scheduled inspections at prescribed intervals specified per the King Air series

maintenance manual, unscheduled maintenance, avionics installation, troubleshooting and repairs, as necessary. Bid documents were downloaded electronically from the Authority's Procurement website by four firms, including those that may have responded to a notice in the New York State Contract Reporter. Based on its qualifications, extensive experience, ability to perform the work and reasonable pricing, staff recommends award of the subject contract to Turboprop, the sole responding bidder, which has provided excellent service under the existing contract. The intended term of this contract is four years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$1,231,200.

### Energy Services & Technology

"Since 2000, the Authority has been collaborating with IRIS Power Engineering, Inc. on the development and implementation of an online hydro-generator diagnostic expert system ('HydroX') in support of the St. Lawrence/FDR Power Project ('Project') life extension and modernization effort. HydroX processes and diagnoses the electrical and mechanical performance of the turbine-generator at a hydro power plant based on dynamic (e.g., vibration, air gap and partial discharge) and static (e.g., process variables from the control system) sensor measurements. The goal is to help the plant protect its assets, reduce the cost of operations, transition from preventative to condition-based maintenance, extend machine life, reduce forced outages, avoid catastrophic failures and implement the recommendations of the Reliability Centered Maintenance study. A pilot non-commercial beta version of HydroX is currently installed and operating on Unit 18 at the Project. Since the existing contract is expiring and the need for such services is ongoing, staff recommends the award of a new contract to **IRIS Power Engineering, Inc. ('IRIS')** to complete the development of a commercial version of HydroX Rulepac and to install, configure and deploy such version on the remaining 15 hydro-generator units at the Project (as well as to replace/upgrade the current beta version on Unit 18 with the commercial version). The subject contract is awarded on a sole source basis, since IRIS is the original system developer (working with the Authority) and, as such, is uniquely qualified to provide the required expertise to bring this project to fruition. The firm's staff has extensive utility experience with operating, monitoring and maintaining hydro-generators, as well as access to world-class consultants on machine diagnostics. The IRIS software development team is experienced in building expert systems-based solutions and machine-monitoring programs (including client server architecture, inter-process communications, component and framework engineering, etc.) and has a demonstrated track record for commercial software development. The new contract with IRIS (**PO# TBA**) would become effective on April 1, 2006, for an intended term of six years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$300,000. It should be noted that the Authority will own the HydroX technology and, under this agreement, will also license the product to IRIS for commercialization. Royalty provision negotiations for the Authority to receive 10% from the sale of each HydroX unit through 2008 (to be adjusted to 5% thereafter) have been successful. In addition, the Authority will benefit from free upgrades and the use of HydroX technology at its other hydro facilities.

"The Authority has been implementing circuit breaker monitoring technology ('MONITEQ') on critical circuit breakers throughout its transmission system since the mid-1990s. The MONITEQ system is currently installed on 25 circuit breakers at Authority substations and power plants in Massena, Marcy and Blenheim-Gilboa. The monitoring system provides the capability to assess the condition of the circuit breakers in real time and provides information on their operational status. Periodic maintenance services, repairs and upgrade support are required to maintain the hardware and software components and to enhance the system to provide the capability to identify and alert substation personnel of a potential circuit breaker malfunction or problem. Services include, but are not limited to, hardware and software troubleshooting and repairs, including telephone support, and software upgrades, as well as factory installation support during assembly, inspection and testing, field installation support and training. Since the existing contract is expiring and the need for such services is ongoing, staff recommends the award of a new contract to **SNEMO Ltd. ('SNEMO')**. The subject contract is awarded on a sole source basis, since SNEMO is the original equipment manufacturer and, as such, is uniquely qualified to provide the required expertise in software coding and hardware structure in order to perform maintenance, repairs, modifications and upgrades, as needed. The new contract with SNEMO (**PO# TBA**) would become effective on April 1, 2006 for an intended term of five years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$250,000.

"As part of the Authority's Energy Services programs to promote energy efficiency for its customers, the Authority provides for energy-related improvement work, which may require the abatement of asbestos- or lead-

containing materials. As part of the Authority's asbestos and lead management services related to such activities, the services of asbestos/lead consultants are required. To this end, the five contracts with **Hygienetics Environmental Services ('Hygienetics')**, **The Louis Berger Group Inc. ('Berger')**, **Parsons Brinckerhoff Quade & Douglas, Inc. ('Parsons')**, **Stohl Environmental LLC ('Stohl')** and **Warren & Panzer Engineers, P.C. ('W&P') (Q-02-3753; PO#s TBA)** would become effective on April 1, 2006, subject to the Trustees' approval. The purpose of these contracts is to provide for asbestos and lead management and environmental consulting services in support of the Authority's Energy Efficiency programs throughout New York State on an 'as needed' basis. Services include, but are not limited to: feasibility studies, asbestos and lead inspections, bulk and air sampling/laboratory services, abatement planning and design and project monitoring. Bid documents were downloaded electronically from the Authority's Procurement website by 53 firms, including those that may have responded to a notice in the New York State Contract Reporter. Proposals were received from 25 firms to provide for upstate, downstate or statewide services. Based on their qualifications, experience, staffing, resources, ability to perform the work and reasonable pricing, staff recommends the award of multiple contracts to the following firms: Stohl, Berger and W&P, the lowest-priced qualified bidders for upstate services, and Berger, Parsons, Hygienetics and W&P, the lowest-priced qualified bidders for downstate services. The intended term of these contracts is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the combined total estimated amount expected to be expended for the term of the contracts, \$1,600,000. It should be noted that all costs, including interest and Authority overheads, will be recovered by the Authority from the participating customers.

#### Law Department

"A need was identified to retain a law firm, preferably based in the New York metropolitan area, with particular expertise in construction matters. Due to the need to retain such a firm promptly to support the Authority in matters relating to the 500 MW Combined Cycle Project ('Project') and assisting the Authority in its defense against claims made by others, it was not feasible to solicit formal proposals for such services. However, a detailed and comprehensive competitive search of potential firms qualified to perform such services was conducted by the Law Department. Although six law firms were identified as meeting the criteria established to provide these critical legal services, a preliminary inquiry indicated that five of the six firms were conflicted, since they, currently or in the recent past, have represented potential parties or their subsidiaries and affiliates, and were unable to represent the Authority without requesting a waiver from such parties. As a result of this process, only one firm, **Berman, Paley, Goldstein & Kannry, LLP ('Berman Paley')**, was identified as being qualified to perform these services and did not present any conflict. This firm specializes in construction matters, has its primary practice in the New York metropolitan area and has been involved in many landmark decisions in the courts of New York, as well as in various other jurisdictions. Jack Kannry, the partner in charge of the Authority's matter, has decades of experience in all aspects of construction law. Due to the urgent need to commence services, the contract with Berman Paley (**4500120771**) became effective on January 17, 2006, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's revised procurement policies and Expenditure Authorization Procedures. Based on the status of the claims discussions to date, the current contract amount is \$500,000; if any matter is not amicably resolved, then the total contract amount may increase significantly. At present, the request is for authorization to spend up to \$2,000,000. The contract amount also includes funds for expert consultants required to support the legal services. The rates are competitive with those of other firms offering similar services. Approval is requested for a contract term of three years. Approval is also requested for the total estimated amount that may be expended over the term of the contract to be \$2,000,000, and to authorize the President and Chief Executive Officer to release amounts from such approved funding, as may be required.

"The contract with **Brian R. Meara Public Relations ('Meara') (PO # TBA)** would provide for the continuation of public relations consulting services in connection with the Authority's Charles A. Poletti and 500 MW Projects, as well as the Small Clean Power Plants ('SCPPs'). Mr. Meara's knowledge of the substantive issues associated with the Projects and SCPPs, and of the parties involved with the projects, has proven to be and remains directly relevant and applicable, and the Authority has an ongoing need for the continuation of his services. His seasoned community liaison skills are critical to addressing imminent community concerns, as Mr. Meara possesses the ability to work professionally and personally with the New York City Council, borough presidents, and community board leaders. Staff therefore recommends the award of a new two-year sole source contract to Mr. Meara, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount that may be expended for the term of the contract, \$160,000.

“The contract with **John McManaman (PO # TBA)** would provide for the continuation of consulting services in connection with the New York State Retirement System pension plan, as well as other related compensation matters for pension and retirement purposes. Mr. McManaman, former Deputy Comptroller of the NYS and Local Employees’ Retirement System, has provided the Authority with analysis, advice and counsel on the procedures, rules and statutes governing the NYS Retirement System under a previous contract. He was also instrumental in answering questions raised in connection with the Authority’s adoption of the Retirement Incentive Program and in assisting the Authority in its efforts to establish variable pay as part of an employee’s annual compensation for Retirement System purposes. Mr. McManaman’s expertise will continue to be needed in order to: address continuing pension review obligations, facilitate the resolution of questions concerning inclusion of variable pay in employees’ annual compensation for Retirement system purposes, and assist the Authority in evaluating any retirement incentive legislation that the legislature may pass during this session. Mr. McManaman’s experience and intimate familiarity with the workings of the NYS Employees’ Retirement System, his knowledge of Federal tax laws affecting public retirement systems, and his role as an expert witness before a Congressional Committee studying pension reforms establishes his unique ability and credentials as an expert to assist the Authority in evaluating its pension plan and other related compensation matters for pension and retirement purposes. Staff therefore recommends the award of a new three-year sole source contract to Mr. McManaman, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$39,000.

#### Power Generation

“Due to the need to commence services, the contract with **Atlas Concrete Batching Corp. (‘Atlas’) (4600001528)** became effective on December 6, 2005, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for snow removal services, including salting or sanding, for the Authority’s Charles A. Poletti Power Project and the 500 MW Combined Cycle Plant, on an ‘as needed’ basis. Bid packages were sent to six firms, including any that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Based on its qualifications, experience, ability to perform the services and reasonable pricing, staff recommended the award of the subject contract to Atlas, the lowest-priced evaluated bidder. It should be noted that Atlas’s proposed rates will remain firm for the duration of the contract. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$120,000.

“Due to the need to commence services, the contract with **Centre Fence Co., Inc. (‘Centre Fence’) (4600001540)** became effective on January 1, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for repair services on fences, gates, hinges, new installations, barbed wire, etc. at the Authority’s Charles A. Poletti, 500 MW, Richard M. Flynn and Small Clean Power Plants on an ‘as needed’ basis. Bid packages were sent to 10 firms, including any that may have responded to a notice in the New York State Contract Reporter; four proposals were received and evaluated. Based on its qualifications, experience, ability to perform the services and reasonable pricing, staff recommends the award of the subject contract to Centre Fence, the lowest-priced evaluated bidder. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$150,000.

“Due to the need to commence services, the contract with **DLI Computers Inc. (‘DLI’) (4600001575)** became effective on March 1, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for the services of a qualified technician to evaluate problems and recommend solutions for any malfunctioning Hewlett Packard (‘HP’) printers at the Niagara Power Project, and to provide repair services for all such equipment on an ‘as needed’ basis. Bid packages were sent to 11 firms, including any that may have responded to a notice in the New York State Contract Reporter; five proposals were received and evaluated. Based on its qualifications, experience and reasonable pricing, staff recommends the award of the subject contract to DLI, the lowest-priced bidder. The intended term of this contract is four years, subject to the Trustees’ approval,

which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$30,000.

“Due to the need to commence services, the contract with **Pagos Cleaning Services, Inc. (‘Pagos’) (4600001539)** became effective on January 1, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for janitorial services for the 500 MW Combined Cycle Plant and also to augment the janitorial staff at the Charles A. Poletti Power Project on an ‘as needed’ basis. Services include daily, weekly and monthly tasks, per the Authority’s specifications, as well as additional services, as may be requested. Bid packages were sent to 37 firms, including any that may have responded to a notice in the New York State Contract Reporter; 14 proposals were received and evaluated. Based on its qualifications, experience, ability to perform the services and reasonable pricing, staff recommends the award of the subject contract to Pagos, the lowest-priced bidder. The intended term of this contract is four years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$150,000.

“Due to the need to commence services, the contract with **Quintal Contracting Corp. (‘Quintal’) (4600001529)** became effective on December 6, 2005, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for snow removal services, including salting and/or sanding, for the Richard M. Flynn Plant and the Small Clean Power Plant site at Brentwood. Bid packages were sent to 11 firms, including any that may have responded to a notice in the New York State Contract Reporter; two proposals were received and evaluated. Based on its qualifications, experience, ability to perform the services and reasonable pricing, staff recommended the award of the subject contract to Quintal, the lowest-priced bidder. It should be noted that Quintal’s proposed rates will remain firm for the duration of the contract. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$78,000.

“In July 2004, as the result of a competitive bidding process, the Authority awarded a contract to RJ Associates to perform a preliminary study of the Probable Maximum Flood (‘PMF’) for the Blenheim-Gilboa Pumped Storage Power Project (‘Project’). Due to the urgent need to commence services in order to comply with additional requirements imposed by the Federal Energy Regulatory Commission (‘FERC’), the Authority entered into a new agreement with **RJ Associates LLC (‘RJA’) (4500119574)**. The subject contract became effective on February 6, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for consulting services to conduct a comprehensive site-specific engineering analysis in order to calculate the PMF at the Project. The new award was made on a sole source basis, since RJA (in concert with its subcontractor Applied Weather Associates (‘AWA’)) performed the initial study and developed a model for calculating the PMF. In addition, both firms possess unique qualifications and expertise in this very specialized field and their approach and analyses have been accepted by FERC for other projects. The intended term of this contract is two years, subject to the Trustees’ approval, which is hereby requested. This term would allow for any additional analyses that may be required by FERC or the Authority’s FERC-mandated independent Board of Consultants, which will influence the scope and direction of the studies. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$450,000.

“Due to the need to commence services, the two contracts with **Sienna Environmental Technologies, LLC (‘Sienna’), a New York State certified Minority and Woman-Owned Business ‘M/WBE’ (4600001542), and Stohl Environmental, LLC (‘Stohl’) (4600001543)** became effective on January 1, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of these contracts is to provide for asbestos and lead consulting and sampling services for the Niagara Power Project. Services include, but are not limited to: inspections, sampling, abatement design and project monitoring. Bid packages were sent to 18 firms, including any that may have responded to a notice in the New York State Contract Reporter. Six proposals were received and evaluated. Based on their qualifications, experience, ability to perform the work and reasonable pricing, staff recommended the award of two contracts to the lowest-priced bidders: a primary contract to Sienna and a back-up contract to Stohl. The intended term of these contracts is four years, subject to the Trustees’ approval, which is

hereby requested. Approval is also requested for the combined total estimated amount expected to be expended for the term of the contracts, \$300,000.

“The contract with **Test Products Inc. (‘TPI’) (Q-02-3741; PO# TBA)** would become effective on April 1, 2006, subject to the Trustees’ approval. The purpose of this contract is to provide for the continuation of the Authority’s battery testing program in order to ensure the operability of the Authority’s emergency back-up battery systems to support its various generation and transmission facilities throughout New York State. Services would include capacity testing of station batteries and associated chargers located in power generating stations and switching stations owned and/or operated by the Authority. The battery systems to be tested are multicell systems of 25-250 volts for use as an emergency direct current power supply; capacities range up to 3,900 amp -hour at the eight-hour rate. Such testing is performed to determine the physical, chemical and electrical condition of the equipment, as well as the available capacity of the batteries. Bid documents were downloaded electronically from the Authority’s Procurement website by nine firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Based on the firm’s qualifications, experience, ability to perform the work and reasonable pricing, as well as its responsiveness to the Authority’s technical specifications, staff recommends the award of the subject contract to TPI, the lowest-priced qualified bidder. The intended term of this contract is five years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$220,000.

“In the early 1990s, the Authority awarded a contract to Underground Systems, Inc., with the Trustees’ approval, to design, furnish, deliver, install and commission a cable leak detection system to monitor Feeder Y-49 on the Sound Cable Project for dielectric fluid leaks. The system’s proprietary design is a complex arrangement of Remote Terminal Units and communication links that monitor cable temperature, flows and other critical parameters, and perform calculations to determine if there is a leak. However, the existing system had become outdated and required updating in order to ensure the reliability and safety of Feeder Y-49. To this end, a new contract was awarded to **Underground Systems, Inc. (‘USi’) (4500112867)**. Due to scheduling requirements, the subject contract became effective on October 7, 2005, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. Services comprise the installation of upgraded hardware and associated software, including the development of a comprehensive leak action procedure, as well as ongoing maintenance, including annual calibration and leak testing, and field maintenance, technical support and answering service, as needed. The upgrade also includes continuous monitoring and review of the cable system on a 24/7/365 basis and provides for efficient and timely notification of the appropriate parties in the event of a suspected or actual dielectric fluid leak, as well as an answering service that refers such calls regarding alarms and system issues to a designated on-call employee who would respond to a notification within eight hours. The award was made on a sole source basis, since USi is the original equipment manufacturer of the existing proprietary leak detection system and, as such, is uniquely qualified to modify and upgrade the system, in order to enhance the reliability of Feeder Y-49. The intended term of this contract is three years, subject to the Trustees’ ratification and approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$673,060. It should be noted that all costs will be recovered by the Authority.

“Due to the need to commence services, the contract with **Upstate Metrology Inc. (‘UMI’) (4600001577)** became effective on March 1, 2006, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s revised procurement policies and Expenditure Authorization Procedures. The purpose of this contract is to provide for all labor, supervision, equipment, supplies, as well as pickup and delivery service for the calibration of Instrumentation & Control (‘I&C’) instruments for the Niagara Power Project. Bid packages were sent to five firms, including any that may have responded to a notice in the New York State Contract Reporter; four proposals were received and evaluated. Based on its qualifications, experience and reasonable pricing, staff recommends the award of the subject contract to UMI, the lowest-priced bidder. The intended term of this contract is four years, subject to the Trustees’ approval, which is hereby requested. Rates will remain firm for the duration of the contract. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$100,000.

FISCAL INFORMATION

“Funds required to support contract services for various Business Units/Departments and Facilities have been included in the 2006 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 and will be disbursed from the Capital Fund in accordance with the project’s Capital Expenditure Authorization Request. Payment for contracts in support of the Energy Services Programs will be made from the Energy Conservation Effectuation and Construction Fund. All costs, including Authority overheads and the cost of advancing funds, will be recovered by the Authority, consistent with the other Energy Services and Technology Programs.

RECOMMENDATION

“The Deputy Secretary and Deputy General Counsel, the Vice President – Procurement and Real Estate, the Vice President and Chief Engineer, the Vice President – Project Management, the Vice President – Environmental Management, the Director – Corporate Support Services, the Director – Energy Services, the Director – Research and Technology Development, the Director – Human Capital and Development, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York and the Regional Manager – Southeastern New York recommend the Trustees’ approval of the award of multiyear procurement contracts to the companies listed in Exhibit ‘10-A’ for the purposes and in the amounts set forth above.

“The Executive Vice President – Corporate Services and Administration, the Executive Vice President and General Counsel, the Senior Vice President – Power Generation, the Senior Vice President and Chief Financial Officer, the Senior Vice President – Energy Services and Technology and I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multiyear procurement services and other contracts set forth in Exhibit “10-A,” attached hereto, are 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 President and Chief Executive Officer; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

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

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the continuation and funding of the procurement (services) and other contracts listed in Exhibit ‘11-A’ in support of projects and programs for the Authority’s Business Units/Departments and Facilities. In addition, the Trustees are requested to approve an increase in the compensation ceiling of the contract with Hawkins Delafield & Wood LLP. Detailed explanations 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 the Trustees’ approval for procurement contracts involving services to be rendered for a period in excess of one year.

“The Authority’s revised Expenditure Authorization Procedures require the Trustees’ approval when the cumulative change order value of a personal services contract exceeds the greater of \$250,000 or 35% of the originally approved contract amount not to exceed \$500,000, or when the cumulative change order value of a non-personal services, construction, equipment purchase or non-procurement contract exceeds the greater of \$500,000 or 35% of the originally approved contract amount not to exceed \$1,000,000.

DISCUSSION

“Although the firms identified in Exhibit ‘11-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. The 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 at the Authority’s convenience, without liability other than paying for acceptable services rendered to 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 ‘11-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 that has delayed, reprioritized 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, that the Authority needs to continue until a permanent system is put in place.

**Contracts in Support of Business Units/Departments and Facilities:**

**Corporate Services & Administration**

“The contract with **AG Design (4500104322)** provides for computer graphic design services in connection with production of the Authority’s Annual Report online (to adapt it for the Web), as well as for continued MacIntosh computer graphics training for the Authority’s graphic communications group. Adapting the Annual Report from the print version to the Authority’s website requires redesign, as well as special website computer programming, and AG Design is an expert in these areas. The original award, which was competitively bid, became effective on January 1, 2005 for an initial term of one year, with an intended option to extend for an additional year.

A short-term interim extension through March 31, 2006 was authorized in accordance with the Authority's Guidelines for Procurement Contracts and Expenditure Authorization Procedures. A nine-month extension is now requested to exercise the intended option in order to continue the aforementioned services, as needed. The current contract amount is \$9,000; it is anticipated that an additional \$9,000 will be required for the extended term. The Trustees are requested to ratify the previously authorized interim extension, to approve an extension of the subject contract through December 31, 2006 and to approve the additional funding requested.

### Energy Services & Technology

"The two contracts with **BG National Plumbing & Heating, Inc. (4500098159)** and **National Mechanical Services (4500098356)** provide for furnishing, delivering and installing energy-efficient boiler combustion controls for the New York City Department of Sanitation at its various facilities in Brooklyn and Queens as part of the Authority's SENY governmental customers Energy Services Program. The original awards, which were competitively bid, became effective on November 22, 2004 for a term of less than one year. The customer requested that the start of work be deferred from the heating season to the spring/summer season of 2005. Accordingly, the contractors started the procurement and installation of materials during this period and installation was expected to be completed within a one-year term. However, due to unforeseen installation conditions, inspection concerns and changes in the scope of work requested by the customer, the work was not completed within one year. A short-term interim extension through March 31, 2006 was subsequently authorized in accordance with the Authority's Guidelines for Procurement Contracts and Expenditure Authorization Procedures. An additional two-month extension through May 31, 2006 is now requested to complete the work. The current contract amounts are \$295,965 and \$420,704, respectively; staff estimates that additional funding in the amounts of \$66,965 and \$37,834 will be required for BG National and National Mechanical, respectively. The Trustees are requested to ratify the previously authorized interim extension of both contracts, to approve the extension of the subject contracts through May 31, 2006 and to approve the additional funding requested.

### Law Department

"The firm **Collier, Halpern, Newberg, Nolletti & Bock, LLP** was retained by the Authority to provide legal representation services in connection with a contemplated action in a breach of contract matter. The original agreement (**4500101545**), which was awarded as the result of a competitive search, became effective on January 17, 2005 for an initial term of one year, with an option to extend for one additional year. Because the lawsuit is still in the discovery phase, the Authority requires a continuation of the firm's legal services and, accordingly, staff recommends that the firm's contract be continued until the conclusion of this litigation by way of trial or settlement. To this end, a one-year extension is now requested to exercise the option in order to continue services, as needed. The current contract amount is \$75,000; it is anticipated that an additional \$20,000 may be required for the extended term. The Trustees are hereby requested to approve the extension of the subject contract through January 16, 2007, as well as the additional funding requested.

### Increase in Compensation Ceiling

"The firm **Hawkins Delafield & Wood LLP** provides legal services under a contract (**4500087608**) that became effective January 1, 2004 and expires March 31, 2006, as approved by the Trustees at their meetings of September 23, 2003 and December 13, 2005, respectively. This firm is currently advising the Authority on financial matters, including bond, note and other debt issuances; issues arising under bond and note resolutions; tax issues; issues relating to hedging instruments; compliance with applicable IRS regulations and miscellaneous issues arising under the Federal Tax Code. The firm also provides general advice as to the Authority's statutory powers and responsibilities, analyzes the effect of legislation amending the Public Authorities Law and provides advice as to implementation of the public authority's reform legislation and regulations recently issued by the State Comptroller. The Authority, through a notice in the New York State Contract Reporter, solicited submission of qualifications for a wide range of outside legal consulting services, including the types of services provided by this firm. In order to provide for additional time to review and evaluate all submissions received pursuant to the Request for Qualifications for consideration by the General Counsel, staff is requesting an additional extension of the existing contract through June 30, 2006. The current contract amount is \$1,040,968 (of the \$1,075,000 approved total); staff anticipates that additional funding in the amount of \$650,000 (which includes a projection of \$165,000 for the potential 2006 B bond issuance) may be required. The Trustees are hereby requested to approve the extension of the

subject contract through June 30, 2006, as well as the additional funding, thereby increasing the compensation ceiling to \$1,725,000.

**Power Generation**

“The contract with **GE International Inc. (4500104542)** provides for furnishing, delivering, installing and testing a spare stator rewinding at the St. Lawrence/FDR Power Project. The original award, which was competitively bid, became effective on March 17, 2005 for a term of less than one year. The spare stator has already been delivered to the site. Due to scheduling requirements for other work, the schedule for the installation of the spare stator was deferred until the fourth quarter of this year. A short-term interim extension through March 31, 2006 was authorized in accordance with the Authority’s Guidelines for Procurement Contracts and Expenditure Authorization Procedures. An additional 15-month extension is now requested in order to allow sufficient time to complete the original scope of work. The current contract amount is \$1,758,713; it is currently anticipated that no additional funding will be required for the extended term. The Trustees’ approval is requested to extend the subject contract through June 30, 2007 with no additional funding requested.

“The contract with **GE Packaged Power Inc. (4500112504)** provides for emergency repairs to the high pressure gas compressor at the Harlem River Yard Unit 2 Small Clean Power Plant. Due to the urgent need to commence services, the original contract was awarded on a sole source basis and became effective on September 2, 2005. Additional repairs identified after a detailed inspection of the damaged gas turbine indicated that all high pressure blades required replacement, as well as additional repairs and replacement of the vanes. The current contract amount is \$907,839; an additional \$1,367,700 will be required to close out the contract, subject to final audit of requested costs by the Authority’s Internal Audits Division. The Trustees are requested to approve the additional funding requested, thereby increasing the contract amount to \$2,275,539. It is currently anticipated that the Authority will receive reimbursement for its total expenditures less the \$1,000,000 deductible from the Authority’s property damage insurance policy.

“The contract with **Professional Health Services Inc. (4600001436)** provides for on-site medical examinations for approximately 110 employees of the Blenheim-Gilboa Project, in compliance with all applicable safety and health standards, federal and State requirements or Authority policy. Services include a comprehensive annual physical examination and records management services, as well as respirator clearance examinations, where applicable, and additional testing for crane operators and various occupational exposures, such as asbestos and high noise. The original award, which was competitively bid, became effective on May 1, 2005 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 to exercise the option in order to continue services, as may be required. The current ‘Target Value’ is \$22,000; it is anticipated that an additional \$60,000 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 April 30, 2008, and to approve the additional funding requested.

“In the late 1980’s, the Authority adopted a plan to rehabilitate and upgrade the generating units at the Niagara Project to increase the use of available water, improve operating efficiency of each unit, allow additional operating flexibility, and provide for life extension and modernization of the facilities. To this end, at their meeting of November 22, 1988, the Trustees approved the award of a contract to **Voith Siemens Hydro Power Generation (‘Voith’, formerly Voith Hydro Inc.) (CZ6701)** for fabrication of a prototype and 13 additional turbines (including one spare), in the initial base amount of \$39.8M plus escalation. The pricing provisions in the original contract included a mechanism for adjusting the contract price to reflect escalation based on the U.S. Bureau of Labor Statistics, which would increase the contract authorization for materials and labor based on changes in such indices. The original terms and conditions of the Voith contract were extended by mutual agreement through 2007. At their meeting of July 24, 2001, the Trustees approved an extension of the subject contract through the date required to complete the fabrication of all units, currently expected to be February 28, 2007, and increased the compensation ceiling to \$50,330,000 for the fabrication of four turbines (for the three remaining units and a spare). The current contract amount is \$50,960,539, which includes an additional allocation of \$630,539 for partial escalation for the last turbines fabricated by Voith. The Authority and Voith have finalized the additional costs related to final escalation, as well as the purchase of necessary spare parts. An additional \$1,369,461 is now requested for such costs and as final closeout of this contract. The Trustees are hereby requested to approve the release and allocation from the previously-approved CEAR of the additional funding requested, thereby increasing the contract amount to

\$52,330,000. It should be noted that this project will be completed approximately \$4,000,000 under the approved CEAR amount and, given the long duration of this contract and the recent volatility of the metals market, the overall results are considered to be very successful.

FISCAL INFORMATION

“Funds required to support contract services for various Headquarters Office Business Units/Departments and Facilities have been included in the 2006 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 and will be disbursed from the Capital Fund in accordance with the Project’s Capital Expenditure Authorization Request (‘CEAR’). Payment for contracts in support of the Energy Services Programs will be made from the Energy Conservation Effectuation and Construction Fund. All costs, including Authority overheads and the cost of advancing funds, will be recovered by the Authority, consistent with the other Energy Services and Technology Programs.

RECOMMENDATION

“The Deputy Secretary and Deputy General Counsel, the Senior Vice President – Public and Governmental Affairs, the Vice President – Project Management, the Vice President – Procurement and Real Estate, the Director – Energy Services, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York and the Regional Manager – Southeastern New York recommend the Trustees’ approval of the extensions, additional funding and increase in compensation ceiling of the procurement contracts listed in Exhibit ‘11-A.’

“The Executive Vice President – Corporate Services and Administration, the Executive Vice President and General Counsel, the Senior Vice President – Power Generation, the Senior Vice President and Chief Financial Officer, the Senior Vice President – Energy Services and Technology and I concur in the recommendation.”

*Mr. Hoff presented the highlights of staff’s recommendations to the Trustees. In response to a question from Chairman Seymour, Mr. Hoff advised that the Authority would be putting out a Request for Proposals for bond counsel services .*

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit “11-A,” attached hereto, is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further**

**RESOLVED, That pursuant to the Authority’s Expenditure Authorization Procedures, an increase in the compensation ceiling of the contract with Hawkins Delafield & Wood LLP is hereby approved, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount and for the purpose listed below:**

<u>O &amp; M</u>	<u>Contract Approval (Increase in Compensation Ceiling)</u>	<u>Projected Closing Date</u>
Provide for legal consulting services re finance, tax and legislative matters, bond issuance and other matters, as needed:		
Hawkins Delafield & Wood LLP 4500087608		
Previously approved amount	\$1,075,000	
Additional amount requested	<u>650,000</u>	06/30/06
<b>REVISED COMPENSATION CEILING</b>	<b><u>\$1,725,000</u></b>	

**AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**12. Appointments to the Governance Committee and Appointment of Additional Member to the Audit Committee**

The Chairman submitted the following report:

**SUMMARY**

“The Trustees are requested to make certain appointments to the Audit Committee and Governance Committee. On February 28, 2006, the Trustees, in accordance with the provisions of the Public Authorities Accountability Act, established a Governance Committee by amending the Authority’s By-laws and creating a new Section 3, Article V. Also, on February 28, 2006, the Trustees amended Section 2, Article V of the By-laws by increasing the membership of the Audit Committee to three members. This resolution provides for the appointment of members to the Governance Committee and Audit Committee.

**BACKGROUND**

“The Charter of the Governance Committee, adopted by the Trustees on February 28, 2006, provides that two (2) members are to be selected from eligible Trustees by vote of the Trustees and serve for a period of four years subject to their term of office, and may serve for additional periods subject to their term.

“The Charter of the Audit Committee, as amended by the Trustees on February 28, 2006, provides that three (3) members are to be selected from eligible Trustees by vote of the Trustees and serve for a period of four years subject to their term of office, and may serve for additional periods subject to their term.

**DISCUSSION**

“In accordance with Article V, Section 3 of the Authority’s By-laws, the Charter of the Governance Committee (Exhibit ‘12-A,’ attached hereto), which authorizes the Committee to oversee the activities, policies and procedures of the ethics, procurement and real estate staff of the Authority as adopted at the meeting of February 28, 2006, the Trustees are requested to select Trustees Elise M. Cusack as Chairperson and Thomas W. Scozzafava as a member of the Governance Committee, effective March 28, 2006.

“In accordance with Article V, Section 2 of the Authority’s By-laws, which authorizes the Audit Committee to oversee the activities, policies and procedures of the ethics, procurement and real estate staff of the Authority, adopted December 17, 1996, and as amended February 28, 2006, the Trustees are requested to select Trustees Thomas W. Scozzafava as a member of the Audit Committee and Michael J. Townsend be designated as Chairman of the Audit Committee, effective March 28, 2006.”

**RECOMMENDATION**

The following resolution, as submitted by the Chairman, was unanimously adopted.

**RESOLVED, That Trustees Elise M. Cusack and Thomas W. Scozzafava are hereby selected as members of the Governance Committee, and that Elise Cusack serve as Chairperson of the Governance Committee effective March 28, 2006, to serve for terms ending March 28, 2010; and be it further**

**RESOLVED, That Trustees Thomas W. Scozzafava is hereby selected as a member of the Audit Committee and Michael J. Townsend be designated as Chair of the Audit Committee, effective March 28, 2006, to serve for a term ending March 28, 2010: and be it further**

March 28, 2006

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**13. Notice of Proposed Rule Making – Revisions to Authority’s State Environmental Quality Review Act Regulations (21 NYCRR Part 461)**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize the Executive Vice President and General Counsel and his designees to publish a Notice of Proposed Rule Making (‘NOPR’) in the New York State Register in connection with the proposed adoption of amendments to the Authority’s regulations implementing the State Environmental Quality Review Act (‘SEQRA’), which appear as Part 461 of Chapter 21 of the New York Code of Rules and Regulations (‘NYCRR’) and are attached hereto as Exhibit ‘13-A’ (the ‘Part 461 regulations’). The Trustees are further requested to authorize the Executive Vice President and General Counsel and his designees to make any and all other filings and take all steps necessary or appropriate therewith in accordance with the requirements of the State Administrative Procedures Act (‘SAPA’), the Executive Law and SEQRA.

BACKGROUND

“SEQRA, signed into law by Governor Carey in 1975, directs State agencies (a term that includes public authorities) to review their regulations, policies and procedures for the purpose of insuring conformity of the same with the ‘purposes and provisions’ of SEQRA (Environmental Conservation Law, Section 8-109). Various sections of SEQRA and the implementing regulations adopted by the New York State Department of Environmental Conservation (‘DEC’) make it clear that an agency may adopt its own ‘SEQRA regulations’ and that, once adopted, such agency-specific regulations will generally supersede the DEC regulations. Both the DEC regulations and the Part 461 regulations include a list of actions that are categorically excluded from the process established by SEQRA for review of environmental impacts and which are referred to as ‘Type II actions.’

“Until 1985, the Authority relied on internal memoranda to guide its implementation of the requirements of SEQRA. Following a public hearing, the Trustees at their meeting of June 25, 1985 approved the Part 461 regulations, and the Authority has used them since that time to implement the requirements of SEQRA. The Part 461 regulations have not been amended since they were originally adopted.

DISCUSSION

“Changes in law and circumstances occurring in the last two decades make amendments to the Part 461 regulations appropriate at this time. SEQRA has been amended on a number of occasions and several provisions and references appearing in the Part 461 regulations have become obsolete, such as the continued identification of the location of DEC’s headquarters as 50 Wolf Road, a building vacated by DEC more than three years ago. In addition, the Authority’s Environmental Division has carefully reviewed the list of Type II actions appearing in the Part 461 regulations (the ‘Type II List’) and elicited from all business units within the Authority suggestions regarding the updating of the same. In order to reflect the changes in law and circumstances, as well as the Authority’s desire to make certain convenient changes to the Type II List and to other aspects of the Part 461 regulations, the Environmental Division and the Law Department have prepared a revised text of the Part 461 regulations (the ‘Revised Part 461 regulations’). Among other things, the revised text adds provisions for electronic filing via e-mail, updates definitions and corrects a number of cross-references.

“On December 16, 2005, in accordance with Executive Order No. 20, a Notice of Intent for Rule Making, together with other supplementary materials, was submitted to the Governor’s Office of Regulatory Reform (‘GORR’) regarding the proposed amendments to the Part 461 regulations. GORR authorized the Authority to proceed with the filing of the NOPR on March 9, 2006. Copies of the proposed amendments and the letter authorizing the Authority to proceed are attached hereto as Exhibits ‘13-B’ and ‘13-C,’ respectively.

“SAPA requires that, prior to action adopting the Revised Part 461 Regulations, the NOPR be published in the New York State Register. In addition, the Executive Law requires that the notice be transmitted to the

Temporary President of the Senate and the Speaker of the Assembly. SEQRA itself requires that a public hearing be held concerning the proposed amendments. Accordingly, notice of such hearing will be published in due course.

“Following conclusion of the hearing and consideration of all comments received, the Trustees will be requested to consider revisions to Part 461 regulations at a subsequent meeting.

RECOMMENDATION

“The Executive Vice President and General Counsel and the Vice President – Environmental Management recommend that the Trustees authorize the Executive Vice President and General Counsel and his designees to file a Notice of Proposed Rule Making in the New York State Register in connection with the proposed adoption of the Revised Part 461 regulations and to make any and all other filings and take all steps necessary or appropriate therewith in accordance with the requirements of the State Administrative Procedures Act, the Executive Law and the State Environmental Quality Review Act.

“I concur in the recommendation.”

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

**RESOLVED, That the Executive Vice President and General Counsel and Deputy Secretary or his designees be, and hereby are, authorized to file a Notice of Proposed Rule Making in the New York State Register in connection with the proposed adoption of the Revised Part 461 regulations and to make any and all other filings and take all steps necessary or appropriate therewith in accordance with the requirements of the State Administrative Procedures Act, the Executive Law and the State Environmental Quality Review Act; and be it further**

**RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

**14. 500 MW Combined Cycle Plant – Welsbach Electric Corp. – 138 kV  
Transmission Contract – Increase in CEAR and Compensation Ceiling**

The President and Chief Executive Officer submitted the following report:

**SUMMARY**

“The Trustees are requested to authorize an additional \$5 million in capital expenditures for the 500 MW Combined Cycle Plant. This amount will allow for the cost and use of fuel during commissioning and provides contingency funding for resolution of a potential commercial issue.

“The Trustees are also requested to approve a \$472,100 increase for Welsbach Electric Corp. (‘Welsbach’) to perform additional work and for final close-out of all contractual items with Welsbach.

**BACKGROUND**

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

“Also, in accordance with the Authority’s recently revised Expenditure Authorization Procedures, the Trustees’ approval is required for additional funding in excess of \$1,000,000 for non-personal services, construction and equipment contracts, where it is impractical to rebid.

“The 500 MW Combined Cycle Plant was declared commercial on December 31, 2005.

**DISCUSSION**

**CEAR Increase for Fuel and Contingency**

“During the September to December start-up and commissioning period, fuel and chemicals consumption exceeded energy sales to the New York Independent System Operator (‘NYISO’) by approximately \$6 million. This was due primarily to the spike in fuel prices resulting from Hurricane Katrina’s disruption of energy markets. The negative variance between fuel cost and energy sales necessitates an increase in project cost. The Capital Expenditure Authorization Request (‘CEAR’) also includes an allocation for resolution of potential commercial issues.

“Staff notes this increase in the CEAR does not include any additional costs currently claimed by General Electric.

**Welsbach Electric Corp.**

“During construction of the transmission line between the 500 MW Combined Cycle Plant and the Consolidated Edison Astoria West Substation, Welsbach was authorized to proceed with additional work including relocation of conduits, addition of high-tension line material, and modification of the grounding system. Welsbach also implemented unanticipated additional environmental personnel protection measures, and incurred increased costs associated with work completed. The aggregate value of this work is \$472,100.

**FISCAL INFORMATION**

“Payment will be made from the Capital Fund and will be financed by the issuance of up to \$5 million of the Authority’s Commercial Paper Notes.

RECOMMENDATION

“The Deputy Secretary and Deputy General Counsel, the Vice President – Project Management and the Vice President – Procurement and Real Estate recommend that pursuant to the Guidelines for Procurement Contracts and the Expenditure Authorization Procedures adopted by the Authority, the Trustees approve an increase in the Capital Expenditure Authorization Request for the 500 MW Combined Cycle Project and also authorize an increase in the Transmission Line Contract with Welsbach Electric, Corp., as discussed herein.

“The Executive Vice President – Corporate Services and Administration, the Executive Vice President and General Counsel, the Senior Vice President and Chief Financial Officer, the Senior Vice President – Power Generation, the Vice President – Controller and I concur in the recommendation.”

*Mr. Antenucci presented the highlights of staff’s recommendations to the Trustees and stated in response to questions that this claim covered everything except certain Slattery-related matters. In response to a further question from Vice Chairman McCullough, Mr. Antenucci said that the contract did not result in any third-party claims. However, President Carey clarified that the part of the contract related to fuel may be related to the third-party claims, but that the part related to electricity was not.*

**RESOLVED, That pursuant to the Guidelines for Procurement Contracts and the Expenditure Authorization Procedures adopted by the Authority, additional capital funding is hereby approved to be committed for the 500 MW Combined Cycle Plant at the Charles A. Poletti Power Project site in the amounts and for the purposes listed below:**

Description	Current Estimate (\$000)	Previously Authorized Amount (\$000)	Current Request (\$000)	Total Authorized Amount (\$000)
Legal/Licensing	\$10,600	\$10,600	0	\$10,600
Engineering/CM	\$34,930	\$35,600	(\$670)	\$34,930
Procurement	\$245,750	\$243,000	\$2,750	\$245,750
Construction	\$411,154	\$414,000	(\$2,846)	\$411,154
Working Capital	\$6,030	\$1,000	\$5,030	\$6,030
Direct/Indirect	\$36,536	\$35,800	\$736	\$36,536
<b>Total</b>	<b>\$745,000</b>	<b>\$740,000</b>	<b>\$5,000</b>	<b>\$745,000</b>

**AND BE IT FURTHER RESOLVED, That the Trustees hereby authorize the funding of an additional \$5 million in capital expenditures for the 500 MW Combined Cycle Plant through the issuance of up to \$5 million of the Authority’s Commercial Paper Notes, series 1, Series 2 or Series 3; and be it further**

**RESOLVED, That pursuant to the Authority’s Expenditure Authorization Procedures, authorization for an additional commitment in the amount of \$472,100 to Welsbach Electric Corp. for settlement of all claims and completion of the Transmission Line Contract, is also hereby approved as follows:**

<b>Capital</b>	<b>Initial Contract Authorization</b>	<b>Additional Subsequent Authorization</b>	<b>Current Authorization</b>	<b>Total Expenditure Authorization</b>
<b>Welsbach Electric Co.</b>	<b>\$3,000,000</b>	<b>\$773,226</b>	<b>\$472,100</b>	<b>\$4,245,826</b>

**AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, 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 agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.**

15. **Motion to Conduct Executive Session**

*“Mr. Chairman, I move that the Authority conduct an executive session to discuss (i) matters related to potential judicial and administrative litigation relating to particular corporations and (ii) matters leading to the award of contracts to a particular corporation.”* Upon motion moved and seconded, an executive session was held.

16. **Motion to Resume Meeting in Open Session**

*“Mr. Chairman, I move to resumethe meeting in open session.”* Upon motion moved and seconded, the meeting resumed in open session.

17. Other

*Chairman Seymour acknowledged the presence of Mr. Edward Gibbs, Executive Director of the County of Westchester Public Utility Service Agency, at the meeting.*

18. **Next Meeting**

The next Regular Meeting of the Trustees will be held on **Friday, April 28, 2006, at 11:00 a.m., at the Clarence D. Rappleyea Building in White Plains**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

On motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 12:15 p.m.

A handwritten signature in black ink, appearing to read "T. J. Kelly". The signature is written in a cursive style with a large initial "T" and "J".

Thomas J. Kelly  
Executive Vice President and General Counsel