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

October 29, 1996

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

Present: Clarence D. Rappleyea, Chairman
Thomas R. Frey, Vice Chairman
Louis P. Ciminell, Trustee
Hyman M. Miller, Trustee
Robert J. Waldbauer, Trustee

Robert G. Schoenberger	President and Chief Operating Officer
William J. Cahill	Chief Nuclear Officer
John F. English	Senior Vice President - Transmission
Robert A. Hiney	Senior Vice President - Power Generation
Louise M. Morman	Senior Vice President - Marketing and Economic Development
Philip J. Pellegrino	Senior Vice President - Energy Efficiency & Technology
Robert L. Tscherne	Senior Vice President - Business Services
Charles M. Pratt	General Counsel
Arnold M. Bellis	Vice President - Controller
Woodrow W. Crouch	Vice President - Project Management - Power Generation
John M. Hoff	Vice President - Procurement and Real Estate
Charles I. Lipsky	Vice President & Chief Engineer - Power Generation
John R. Bopp	Acting Vice President - Human Resources
Stephen P. Shoenholz	Vice President - Public Relations
Russell J. Krauss	Chief Information Officer
Ronald W. Ciamaga	Regional Manager - Northern New York
James Ford	Regional Manager - Western New York
Richard Kuntz	Regional Manager - Southeast New York
James J. McCarthy	Regional Manager - Central New York
Daniel P. Berical	Director - Intergovernmental Affairs
John W. Blake	Director - Environmental Programs
Carmine J. Clemente	Counsel
Jordan Brandeis	Director - Performance Planning
Joseph J. Brennan	Director - Internal Audits
Lydia Helle Maide	Director - Major Accounts - Governmental
John L. Murphy	Director - Public Information
Gary Paslow	Director - Policy Development
James H. Yates	Director - Business Marketing & Economic Development
Allison Shea	Attorney
Anne Wagner-Findeisen	Corporate Secretary
Laura M. Badamo	Assistant Corporate Secretary - Legal Affairs
Vernadine E. Quan-Soon	Assistant Corporate Secretary - Corporate Affairs

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

1. Approval of the Minutes

2. **Financial Report for the Nine Months Ended September 30, 1996**

In response to questions from the Vice Chairman concerning the status of the POCR-funded programs, Mr. Tscherne explained that implementation of the Independent College and University Energy Assistance loans is a lengthy process. It will likely take two years for the entire $11.3 million in loan funds to be disbursed. Five of the 11 potential recipient institutions have signed loan agreements to date.

3. Annual Review of Industrial Job Commitments

The President submitted the following report:

SUMMARY

Low-cost hydro and economic development power provided by the Authority is a key element in anchoring New York State's economic revival. In 1995, the Authority's industrial power allocations helped to support 146,231 jobs in the state. This number is actually 103% of the total jobs contractually committed by the Authority's customers in exchange for low-cost electricity. In addition, 72% of the Authority's customers exceeded 100% of their contractual job obligations.

Each year, Authority staff initiates a review of all industrial power allocations and the customers' performance against agreed-upon job commitments. The Authority currently has 300 contracts with industrial customers. This year's review covers a total of 259 contracts that require the customer to report job levels for 1995. This memorandum focuses specifically on 27 contracts (12 Expansion Power, 12 Replacement Power, and three Economic Development Power) with 21 customers. Eighteen of these customers had job commitments below the minimum threshold in 1995 as is more fully discussed below. Six customers are being reviewed for productivity reasons.

The contracts include a customer's commitment to retain or add a specific number of jobs. If the actual job level falls below 90% of that commitment (80% for 'vintage' customers), the Authority may reduce that customer's power allocation proportionately.

It is recommended that the Trustees reduce the power allocation for six companies, approve the continuation of current power allocations to nine companies that were below their job commitment levels, and adjust the future job commitment levels for six companies that have made productivity improvements.

BACKGROUND

In 1995, the 259 contracts which were reviewed by staff represent overall power allocations of 992 MW and total employment commitments of 142,056 jobs. In the aggregate, the customers who are required to report had actual employment numbers of 146,231 jobs. This represents 103% of the total job commitment for industrial customers reporting in 1995. The Authority's Internal Audit Department conducted an annual review of the Authority's Power for Jobs Program. Ten companies were statistically selected and audited. All were found to have reported job levels that were within the threshhold established by the Program.

This memorandum discusses 18 customers who have actual job levels below the minimum threshold.

DISCUSSION

Of the companies discussed below, staff recommends that six companies have their power allocations and job commitments reduced for the reasons discussed in Section I. Staff recommends that nine companies be allowed to continue their current power allocations and job commitments as discussed in Section II. Lastly, staff recommends that six companies be allowed to maintain their power allocations at lower job commitment levels to reflect productivity improvements as discussed in Section III. A summary of all contracts discussed in this memorandum is provided as Exhibit ‘3-A’.

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I. Allocations and Job Commitments To Be Reduced

ADVANCED REFRACTORY TECHNOLOGIES (‘ART’), Buffalo/Erie County

Allocation: 1,200 kW of Replacement Power and 107 jobs

Background: Advanced Refractory Technologies (‘ART’) manufactures advanced ceramic materials. ART has historically used half of its power allocation. In 1995, the company's employment rate averaged 73 jobs/month, or 68% of its total employment commitment.

The Authority has maintained ART's allocation for several years despite a continuing job shortfall in support of the company's efforts to commercialize some of its R&D projects.

In view of the company's under-utilization of its power and indefinite time-frame for when it will require its full allocation, staff recommends that ART's allocation be reduced. Staff will inform ART that it will have the opportunity to re-apply for additional power if it is needed in the future.

Recommendation: It is recommended that the Trustees lower Advanced Refractory Technologies' Replacement Power allocation from 1,200 kW to 815 kW and reduce its job commitment from 107 jobs to 73 jobs.

E.I. DUPONT DE NEMOURS & CO. INC., Niagara Falls/Niagara County

Allocation: 1,900 kW of Expansion Power and 620 jobs

Background: E.I. Dupont De Nemours & Company is a manufacturer of chemicals. In 1995, Dupont's monthly job rate averaged 468 jobs, or 75%, of its total commitment. As a ‘vintage’* Expansion Power customer, the company is contractually obligated to maintain job levels at 80% of its commitment.

This contract was reviewed by the Trustees last year. At that time, Dupont was granted a reduction in its overall job commitment due to productivity improvements. The company has not provided any new evidence of productivity improvements in 1995 to warrant a further employment reduction.

DuPont has requested a job commitment reduction similar to reductions granted by the Authority several years ago when many defense contractors had their job commitments lowered due to the job impact of wide-scale federal government defense contract cutbacks. The DuPont Niagara facility lost production and jobs due to the federally mandated phase-out of leaded gasoline in the early 1990's. A major customer of the Niagara Falls facility was a DuPont tetraethyl (‘TEL’) manufacturing plant in New Jersey. TEL is a component of the production of leaded gasoline.

The situations of lost product and jobs due to changes in federal product regulations, and lost

* **‘Vintage’ allocations** refer to those Expansion Power customers who signed contracts before 1989 and negotiated a target job ratio of level 80% versus 90% for other Expansion Power customers.

product and jobs due to less federal government purchasing under defense contracts, are not similar and do not warrant similar treatment. Therefore, staff recommends that the company's request for a job commitment reduction similar to prior defense industry reductions be denied.

Further, DuPont has not been able to submit plans or information indicating that the company's employment level will increase to at least 80% of its job commitment in a reasonable time frame.

Recommendation: It is recommended that the Trustees reduce E. I. Dupont De Nemours' allocation from 1,900 kW to 1,450 kW and lower its employment commitment from 620 jobs to 468 jobs.

F. N. BURT COMPANY, INC., Cheektowaga/Erie County

Allocation: Total: 700 kW
400 kW of Expansion Power and 240 jobs
300 kW of Replacement Power and 270 jobs

Background: F. N. Burt manufactures decorative paperboard packaging for consumer products such as cosmetics and liquor. This will be the third consecutive year that the company has fallen below its job commitment level. The continuing downturn in the packaging industry in the past year reflects the sluggish performance of the retail markets served by the company. Despite dramatic measures taken by the company's management and employees, F. N. Burts' poor job performance continues. In 1995, it realized only 79% of its Replacement Power employment goal, resulting in 213 jobs versus its commitment of 270 jobs. Although the company met 89% of its total Expansion Power job commitment, resulting in 213 jobs, management expects job levels to fall again in 1996.

Recommendation: It is recommended that the Trustees reduce F. N. Burt Company's Expansion Power allocation from 400 kW and 240 jobs to 350 kW and 213 jobs. Additionally, it is recommended that the Replacement Power allocation be reduced from 300 kW and 270 jobs to 250 kW and 213 jobs.

LORAL DEFENSE SYSTEMS - EAST (FORMERLY BELL AEROSPACE TEXTRON), Niagara Falls/Niagara County

Allocation: 355 kW of Replacement Power and 120 jobs

Background: Bell Aerospace Textron was originally allocated 1,100 kW in 1986 to consolidate and renovate a 450,000 sq. foot facility for high tech electronic and propulsion systems. As an aerospace manufacturer, Bell was severely affected by the loss of several major contracts which caused a dramatic drop in employment at the Niagara Falls facility. Bell originally employed 1,200 people in 1986. As employment dropped to 676 jobs in 1991, resulting from the relocation of jobs out of state, the Authority reduced the company's allocation to 500 kW. In 1992 Bell continued to move jobs out of state and its allocation was cut again, to 355 kW, with a proportional cut in its employment commitment to 480 jobs. In 1994, in support of the company's efforts to diversify into non-defense related products, the Authority permitted Loral to keep its allocation and lowered its job commitment to 120 with the understanding that no more jobs would be relocated out of New York.

In 1995, Loral purchased Bell Aerospace from Textron. Loral informed the Authority that it intended to make the business commercially viable and has requested that its allocation be maintained. Recently Lockheed/Martin merged with Loral. The company's average monthly employment figures fell to a new low of 32 jobs, or 27% of its total commitment in 1995. In view of this, and the fact that the Authority has done everything possible to support Bell Aerospace in the past, it is recommended that the company's allocation be reduced to 250 kW (the minimum allowable for Replacement Power contracts). Lockheed Martin has submitted a plan to the Authority that will increase employment at the facility to 45 jobs by mid-1997. In support of these efforts, it is recommended that the Trustees lower Loral Defense Systems - East's job commitment from 120 jobs to 45 jobs.

Recommendation: It is recommended that the Trustees reduce Loral Defense Systems - East's allocation from 355 kW to 250 kW (the minimum allocation as stipulated by the terms of the contract) and reduce the company's job commitment from 120 jobs to 45 jobs.

TRICO PRODUCTS CORPORATION, Buffalo/Erie County

Allocation: 300 kW of Expansion Power and 400 jobs

Background: Trico is a manufacturer of windshield wipers. In 1995, Trico had an average monthly job rate of 350 out of the total contractual commitment of 400 jobs. The company met 87% of its total job commitment in 1995; however, employment figures for the first six months of 1996 indicate a job shortfall with an average monthly employment rate of 278 jobs. Staff recommends the company's allocation be reduced.

Recommendation: It is recommended that the Trustees reduce Trico Products Corporation's allocation from 300 kW to 250 kW and reduce its job commitment from 400 jobs to 350 jobs.

OCCIDENTAL CHEMICAL CORPORATION, Niagara Falls/Niagara County

Allocation: Total: 16,700 kW
700 kW Expansion Power and 127 jobs (at the Grand Island Research Center)
16,000 kW of Replacement Power and 1,232 jobs, (in the remainder of Erie and Niagara Counties)

Background: In 1988, Occidental Chemical Corporation negotiated a unique provision in its 16,000 kW Replacement Power contract for its Niagara facility that allows the company the option to use jobs from its commitment at the Grand Island Research Center if there is a shortfall in its total commitment of 1,232 jobs in Erie and Niagara counties. If Occidental exercises this option, it must then relinquish 700 kW of Expansion Power at its Grand Island Research Center.

In 1995, Occidental exceeded its job commitment requirements for Expansion Power at the Grand Island facility with a monthly average of 157 jobs or 124% of its total commitment. However, Occidental fell below its commitment of 1,232 jobs on its Replacement Power contract for its Niagara Falls facility with 994 Erie and Niagara jobs, or 81% of the company's total employment commitment. This was due to the closing of the company's Durez plant and relocation of jobs out of state. Although Occidental is expanding its specialty products business, the jobs associated with the Replacement Power contract will continue to fall short of its total commitment in the foreseeable future.

According to the terms of its contract, Occidental could potentially lose 3,000 kW of its Replacement Power allocation as a consequence of the job shortfall on that contract. Rather than lose this power, the company chose to exercise its option to relinquish 700 kW of Expansion Power at the Grand Island facility and to use the associated 157 jobs to meet its Replacement Power employment commitment, bringing a total of 1,151 jobs or 93% of its 1,232 job commitment. Therefore, Occidental has requested that the Authority not invoke the withdrawal provision of its Replacement Power contract.

Recommendation: Consistent with contractual options available, and in accordance with Occidental's request, it is recommended that the Trustees reduce Occidental Chemical Corporation's Expansion Power contract to zero from 700 kW and that the 157 jobs associated with that commitment be applied to its Replacement Power contract in Erie and Niagara Counties.

With respect to Occidental Chemical Corporation's Replacement Power contract, it is recommended that the allocation remain at 16,000 kW and the job commitment at 1,232 jobs, and that in the future, jobs located at the Grand Island Center be counted towards meeting Occidental's goal for its Replacement Power contract.

II. Allocations to Continue With No Change

BRENNER PAPER PRODUCTS COMPANY, Glendale/Queens County

Allocation: 700 kW of Economic Development Power and 165 jobs

Background: Brenner Paper Company is a manufacturer of paper products that continues to recover from a downturn in 1993. In 1995, the company had an average monthly job rate of 147 as compared to its total job commitment of 165, thus meeting 89% of their total commitment. Employment figures for 1996 indicate that job loss has stabilized and that the average monthly employment rate is holding steady at 147 jobs. Staff recommends that Brenner Paper Products' allocation be maintained

Recommendation: It is recommended that the Trustees take no action at this time.

BUFFALO SPECIALTY PRODUCTS, Lackawanna/Erie County

Allocation: 900 kW of Expansion Power and 90 jobs

Background: Buffalo Specialty Products is a manufacturer of highway guard rails. In 1995, this customer averaged 77 jobs/month, or 85% of its total employment commitment. Buffalo Specialty has signed a contract with the Federal government that will enable it to reach its full job commitment by the end of 1996. For this reason, staff recommends that Buffalo Specialty Products' allocation remain unchanged.

Recommendation: It is recommended that the Trustees take no action at this time.

CERES CORPORATION, Niagara Falls/Niagara County

Allocation: 1,600 kW of Replacement Power and 65 jobs

Background: Ceres Corporation is a start-up company that relocated from Massachusetts. The company is expanding its original product line, cubic zirconia diamonds, into high tech ceramic powder products.

In 1995, two major substations that serve the company failed, causing numerous operational problems. The time needed to correct this situation caused delays in product delivery and a significant loss of sales and revenues. Consequently, Ceres fell behind its expansion schedule and, as a result, employment figures were also affected. The company's management is actively taking steps to remedy the situation. In 1995, Ceres had an average monthly employment level of 53 jobs or 82% of its total commitment. The company expects to be within range of its employment goal in 1996.

Recommendation: It is recommended that the Trustees take no action at this time.

METROPOLITAN LIFE INSURANCE COMPANY, INC. Troy/Rensselaer County

Allocation: 3,500 kW of Economic Development Power and 350 jobs

Background: Metropolitan Life Insurance Company owns and operates the MetLife Information Systems Center in Rensselaer, which fell below its target commitment level of 350 jobs to 288 jobs in 1995. This represents 82% of its total goal. The company plans to reduce staff at two out-of-state MetLife computer centers and transfer the jobs to the Rensselaer facility. 1996 job figures indicate that the relocation has already begun. Jobs at the Rensselaer facility have risen from 288 positions in 1995 to a total of 340 jobs today. This is 97% of MetLife's total commitment.

Recommendation: It is recommended that the Trustees take no action at this time.

PRAXAIR Tonawanda/Erie County

Allocation: 750 kW of Replacement Power and 1,322 jobs

Background: Praxair manufactures industrial gases and cryogenic equipment. In 1991, the company was allocated 750 kW to consolidate and centralize five regional and two satellite out-of-state offices and relocate its operation to the Tonawanda facility. The company made a commitment of 229 jobs in addition to the 1,093 employees already resident at the facility.

In 1995, Praxair closed some operations causing a slight decrease in average employment levels to 1,174 or 89% of its total goal. However, the company's employment trend for the latter part of 1995 and the first six months of 1996 indicate that employment numbers continue to rise. The average monthly job rate for 1996 to date is 95% of Praxair's total commitment. The company is fully utilizing its allocation and has a high jobs/MW ratio for this allocation. Staff recommends that Praxair's allocation be maintained.

Recommendation: It is recommended that the Trustees take no action at this time.

PRECISION ELECTRO MINERALS CO., INC. Niagara Falls/Niagara County

Allocation: 800 KW of Replacement Power and 30 jobs

Background: Precision Electro Minerals, ('PEMCO'), is a small company that manufactures fused silica. It originally applied for 2,000 kW of Replacement Power in 1989 and received an allocation of 800 kW. PEMCO's growth has been negatively affected by financial difficulties arising from escalating local utility rates. PEMCO has reduced operations to 60% of its total capacity and uses all of its Replacement Power allocation. PEMCO believes it is uneconomical for the company to operate with additional energy purchases from its local utility as part of its power mix.

This is the third year that PEMCO has been below its total job commitment. The company had an average monthly employment rate of 22 jobs in 1995, which is 73% of its commitment. Maintaining Pemco's allocation is critical if the company is to stay in business. The company has public loans in excess of $850,000 that are at risk of default if this power allocation is reduced. Therefore, staff recommends that PEMCO'S allocation be maintained and its job commitment lowered to 22 jobs

Recommendation: It is recommended that PEMCO's allocation be maintained and its job commitment lowered from 30 jobs to 22 jobs.

SGL CARBON CORPORATION, Niagara Falls/Niagara County

Allocation: Total: 12,052 kW
3,200 kW of Expansion Power and 188 jobs
8,852 kW of Replacement Power and 39 jobs

Background: SGL Carbon Corporation has had an Expansion Power contract since 1989 and qualifies as a 'vintage'** customer. The company met its job **c**ommitments until 1993. During that year, over-capacity within the industry forced the reduction of operations at the Niagara Falls facility resulting in an employment shortfall. Jobs were further affected by productivity improvements at the company.

This contract was reviewed by the Trustees last year. Although SGL had achieved only 58% of its job commitment, it was recommended that the allocation be maintained. In 1995, SGL's monthly employment average was 107 jobs or 57% of its total job commitment on the Expansion Power contract.
In early July, SGL submitted confidential plans for significant capital investments and job additions that will begin immediately. SGL also reported that current site employment is up to 127 persons. The plans show that SGL will add positions throughout the remainder of 1996 and into the first quarter of 1997. The company does not anticipate surpassing the 80% minimum threshold until the first quarter of 1997. Staff will closely monitor SGL's progress against the company's plan into the first quarter of 1997. If sufficient progress is not evident, staff will review this customer's job situation in April 1997 for possible Trustee action regarding its Expansion Power allocation.

Recommendation: It is recommended that the Trustees maintain SGL Carbon Corporation's allocation of 3,200 kW of Expansion Power at this time.

SPECIAL METALS CORPORATION, Dunkirk/Chautaqua County

Allocation: 1,000 kW of Expansion Power and 81 jobs

Background: Special Metals is a producer of super alloys. The company experienced some growth in 1995, as compared to its performance in 1992-1994 when it struggled to stay in business. In 1995, Special Metals had an average monthly employment rate of 68 jobs or 84% of the company's total commitment of 81 jobs. At present, employment levels have risen to 72 jobs or 88% of its job commitment. Special Metals also has a facility in New Hartford, New York that receives an Economic Development Power allocation of 4,000 kW for a job commitment of 387. Actual employment at the New Hartford operation was 432 jobs in 1995 or 112% of its commitment. The two plants, Dunkirk and New Hartford, are dependent upon each other in Special Metals' business operations.

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* '**Vintage' allocations** refer to those Expansion Power customers who signed contracts before 1989 and negotiated a target job ratio of level 80% versus 90% for other Expansion Power customers.

Recommendation: It is recommended that the Trustees take no action at this time.

ORION BUS INDUSTRIES OF AMERICA, (FORMERLY BUS INDUSTRIES OF AMERICA, INC.), Oriskany/Oneida County

Allocation: 700 kW of Economic Development Power and 463 jobs

Background: Bus Industries of America is a Canadian-U.S. manufacturer of transit buses. In 1995, the company reported an average monthly employment level of 357 jobs, which is 77% of its total commitment of 463 jobs. Bus Industries of America was recently acquired by Western Star, Inc. The company's new name is Orion Bus Industries, Inc. In 1996, Orion Bus has maintained an average monthly employment rate of 570 jobs or 123% of its total employment commitment. It is recommended that the Trustees continue this allocation until an agreement can be reached with the new corporate entity, Orion Bus Industries.

Recommendation: It is recommended that the Trustees take no action at this time.

III. Allocations to Continue With Job Commitment Changes for Productivity Improvements

AMERICAN AXLE AND MANUFACTURING INC., Buffalo/Erie County

Allocation: Total: 5,900 kW
2,700 kW of Expansion Power and 1,857 jobs
3,200 kW of Replacement Power and 1,857 jobs

Background: American Axle is a major manufacturer of drive axles, steering gears and linkage for several major auto manufacturers including General Motors. At 688 jobs/MW on its Expansion Power contract, and 580 jobs/MW on its Replacement Power contract, American Axle And Manufacturing is a high jobs/MW customer. The company has requested a reduction of its job commitments on both the Expansion Power and Replacement Power allocations from 1,857 jobs to 1,813 jobs due to productivity improvements. American Axle has spent $20 million on updating machines, re-arrangement of work space, and utilization of robots in paint booths and repetitive work areas. Authority staff visited the plant, reviewed the processes and documentation and concurs that the customer has met the criteria for a job commitment reduction as outlined in the contract.

Recommendation: It is recommended that the Trustees reduce American Axle's employee commitment on its Expansion and Replacement Power allocations by 45 jobs each and readjust the job commitment level from 1,857 jobs to 1,812 jobs/contract.

FORD MOTOR CO. (STAMPING PLANT), Lackawanna/Erie County

Allocation: Total: 7,200 kW
4,300 kW of Expansion Power and 2,244 jobs
2,900 kW of Expansion Power and 2,244 jobs

Background: The Ford Stamping Plant is one of two plants that manufacture hoods, side panels, rear panels, roofs, and trunk decks for all of Ford's assembly plants. A high jobs/MW customer, the Ford Motor Company averages 522 jobs/MW on one of its Expansion Power contracts and 774 jobs/MW on its other Expansion Power contract. The company has requested an employment commitment reduction of 90 jobs on each contract for a total of 90 jobs due to productivity improvements. The company has spent $35 million on replacing 10 presses with two auto fed presses. Other productivity improvements include: re-alignment of existing presses into a series

of configurations with robots moving parts between machines, the addition of 74 robot operated material handling trucks and four new robotically controlled cranes which bring feed-stock to the stamping machines. Authority staff visited the plant, reviewed the processes and documentation and concur that the customer has met the criteria for a job commitment reduction as outlined in the contract.

Recommendation: It is recommended that the Trustees reduce Ford Motor's employee commitment from 2,244 to 2,154 jobs on both its Expansion Power contracts.

GENERAL MOTORS CORPORATION
(DELPHI / HARRISON RADIATOR), Lockport/Erie County

Allocation: 14,300 kW of Expansion Power and 6,755 jobs

Background: General Motors-Delphi manufactures heat exchanger equipment for the auto, construction, and military industries. The company's jobs/MW ratio is 472 jobs/MW.

GM has requested a reduction in jobs from 6,755 to 6,668 jobs due to productivity improvements. The company has spent $9 million on the following productivity measures: re-alignment of work spaces, the consolidation of jobs, replacement of old furnaces with state of the art automatically fed furnaces, replacement of nine manual milling machines with seven computer controlled numeric milling machines, and installation of automated unload and transfer equipment. Authority staff visited the plant, reviewed the processes and documentation, and concurs that the customer has met the criteria for a job commitment reduction as outlined in the contract.

Recommendation: It is recommended that the Trustees reduce GM's employee commitment from 6,755 jobs to 6,668 jobs.

GLOBE METALLURGICAL, INC., Niagara Falls/Niagara County

Allocation: Total: 39,000 kW
23,000 kW of Expansion Power and 160 jobs
16,000 kW of Replacement Power and 125 jobs

Background: Globe Metallurgical Inc. is a major producer of silicon and ferrosilicon products used in such applications as synthetic motor oils, lubricating properties, cosmetics and health care products. Globe qualifies as a ‘vintage’[***] customer.

In 1995, Globe met its total job commitment for its Replacement Power allocation. The company had an average employment rate of 125 jobs or 78% of its total Expansion Power allocation in 1995.

Globe has requested a reduction in jobs on its Expansion Power contract from 160 jobs to 100 jobs and on its Replacement Power contract from 125 jobs to 100 jobs due to productivity

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* **‘Vintage’ allocations** refer to those Expansion Power customers who signed contracts before 1989 and negotiated a target job ratio of level 80% versus 90% for other Expansion Power customers.

improvements. The company has spent over $8.8 million on improvements including replacement, repair and upgrade of furnace shell/ liner and components, and various new equipment installations. These measures have resulted in a reduction in employment levels. Globe management has agreed to refrain from using ‘Productivity Improvements’ to modify its baseline employment level for three years from the date of this requested revision.

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To date, the Authority has received numerous letters from management, employees, and state and local officials requesting that Globe's allocation be maintained and its job commitment reduced. Authority staff has conducted a plant visit, reviewed the processes and documentation, and concurs that the customer has met the criteria for a job commitment reduction.

Recommendation: It is recommended that the Trustees reduce Globe Metallurgical Incorporated's Expansion Power job commitment from 160 to 100 jobs and reduce its Replacement Power job commitment from 125 to 100 jobs due to productivity improvements.

TULIP CORPORATION, Niagara Falls/Niagara County

Allocation: Total: 1,500 kW
300 kW of Expansion Power and 150 jobs
1,200 kW of Replacement Power and 140 jobs

Background: The Tulip Corporation is an injection molding company that recycles rubber and plastic and manufactures battery cases for the major battery manufacturers. Due to productivity improvements, Tulip has requested a reduction in jobs from 150 jobs to 122 jobs on its Expansion Power contract, and from 140 jobs to 122 jobs on its Replacement Power contract. Tulip spent $600,000 on productivity improvements including: a pneumatic material handling system which feeds all extrusion processes and the re-alignment of process machines with conveyor interconnect that eliminate all manual transfer of product between machines. Authority staff visited the plant, reviewed the processes and documentation, and concurs that the customer has met the criteria for a job commitment reduction as outlined in the contract.

Recommendation: It is recommended that the Trustees reduce Tulip Corporation's employee commitment from 150 jobs on its Expansion Power contract to 122 jobs and from 140 jobs on its Replacement Power contract to 122 jobs.

WASHINGTON MILLS ELECTRO MINERALS CORPORATION,
Niagara Falls/Niagara County

Allocation: 1,950 kW of Replacement Power and 270 Jobs

Background: Washington Mills manufactures fused alumina and specialty abrasive products. In 1995, the company had a monthly employment average of 241 jobs which is 89% of its total commitment. Washington Mills has invested over $1 million in productivity improvements that have reduced its employment level by 32 jobs. Included in these improvements are: computer controlled pneumatic conveying systems, computer controlled crushing systems, high capacity sifters, new crushers and realignment of production facilities. Also, special liners, and higher quality parts have been installed that have reduced maintenance and equipment down time. Authority staff visited the plant, reviewed the processes and documentation, and concurs that the customer has met the criteria for a job commitment reduction as outlined in the contract.

Recommendation: It is recommended that the Trustees reduce Washington Mills Electro Minerals Corporation's job commitment from 270 jobs to 238 jobs due to productivity improvements.

RECOMMENDATION

The Director - Business Marketing and Economic Development recommends that the Trustees approve reductions in power allocations and job commitments for six companies as set forth in this memorandum; that the Trustees defer action with regard to the other nine companies as set forth in this memorandum; and that the Trustees approve a lowering of the job commitment levels for six companies due to productivity improvements as outlined above. In addition, it is recommended that the Trustees authorize the Director - Business Marketing and Economic Development to provide written notice to those companies whose power allocations and/or job commitments are being reduced.

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

In response to questions from the Vice Chairman, Mr. Yates confirmed that the Ford Motor Company has two contracts for expansion power. In response to questions from Trustee Waldbauer concerning the recommended reduction in Trico Products' allocation, Mr. Yates explained that the report submitted for the Trustees' present consideration is based on staff's assessment of calendar year 1995, and that the customer's performance in calendar year 1996 would be evaluated by staff and submitted to the Trustees in 1997.

In response to further questions from the Vice Chairman, Mr. Yates confirmed that as a result of the reductions and adjustments, a quantity of 1.2 MW of expansion power and 0.6 MW of replacement power would become available for reallocation. With respect to the replacement power, Mr. Yates explained that under the terms of the settlement agreement, the Authority may seek to reallocate, once every three years, such quantities as are then available without waiting for a minimum of 10 MW to be available as a condition precedent to reallocation.

Trustee Ciminelli stated for the record, with regard to the proposed action, that he has business dealings with many of the affected companies and would therefore abstain from voting on the adoption of the resolution in its entirety. Trustee Waldbauer stated that he would abstain from voting on that portion of the proposed action as involves Praxair.

The following resolution was adopted by a vote of three in favor of the resolution in its entirety. Trustee Waldbauer voted in favor of all portions of the resolution excepting Praxair, with respect to which he abstained. Trustee Ciminelli abstained from voting.

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

RESOLVED, That the Authority hereby approves-the reduction of power allocations and job commitments to six companies; defers action with respect to the nine other companies identified in the report; and reduces job commitments to six companies for productivity improvements, as set forth in the foregoing report of the President; and be it further

RESOLVED, That the Director - Business Marketing and Economic Development be, and hereby is, authorized to provide written notice to those companies whose allocations and job commitments are being reduced.

4. Municipal and Rural Cooperative Economic Development Program - Allocations to Village of Churchville and City of Salamanca

The President submitted the following report:

SUMMARY

The Trustees are requested to approve allocations of power under the Municipal and Rural Cooperative Economic Development Program (‘Program’) to the Village of Churchville (‘Churchville’) and the City of Salamanca (‘Salamanca’).

BACKGROUND

The 1991 amendment to the power sales agreement between the Authority and the Municipal and Rural Cooperative Systems reserved 108,000 kW of power for economic development in the systems. As of December 19, 1995, 15,700 kW have been allocated.

Power from this block can be allocated to individual systems to meet the increased electric load resulting from eligible new or expanding businesses in their service area. Under the guidelines established for the Program, an allocation to a system should meet a target number of new jobs per megawatt. The guidelines provide that for businesses new to a system, the jobs per megawatt ratio is considered on a case-by-case basis. For projects involving existing businesses, the target jobs per megawatt ratio is determined by the level of employment prior to the expansion. Specifically, for companies employing 100 or less, the target ratio is 25 jobs per MW; for companies employing between 101 and 250, the ratio is 50; for companies employing between 251 and 500, the ratio is 75; and for companies employing over 500, the ratio is 100 jobs per megawatt.

An application for power under the program has been submitted by Churchville and Salamanca for consideration by the Trustees.

DISCUSSION

Village of Churchville

Varity-Zecal, a subsidiary of Varity Corporation (‘Varity’), is a manufacturer of high-quality hybrid circuit systems. The components are used in automotive, electronic, telecommunication and transformer industries. The company is relocating from Victor, NY to Churchville, NY in order to meet current production needs and future growth. Varity had plans to relocate to North Carolina or Florida, but chose to remain in NY State. Total project cost, including machinery and equipment, is estimated at $3.2 million. Employment is projected to increase from the existing level of 4 to 150 by end of 1997. Varity is currently leasing approximately half of a 55,000 square ft. facility, with an option to purchase the entire facility. For energy conservation purposes, Varity is planning to add a better controller for the optimization of furnaces. It is recommended that up to 1,200 kW be approved for allocation.

City of Salamanca

Norton/Smith Hardwoods, Inc. (‘Norton/Smith’) is a sawmill and radio frequency kiln operation serving furniture and staircase industries. These kilns dry wood much more quickly than conventional dry steam

boilers, thereby providing materials for furniture manufacturer on a ‘just-in-time’ basis. The expansion project includes the purchase of 10 acres of land to locate a 31,500 square ft. building to house dry kilns and secondary processing units. Total project cost, including machinery and equipment, is estimated at $1.25 million. Employment is projected to double from 20 jobs (prior to expansion) to 40 jobs by 1998. For energy conservation purposes, the facility will use the dry kilns for building heat. It is recommended that up to 850 kW be approved for allocation.

The Municipal Electric Utilities Association Executive Committee supports the recommended allocations to the Village of Churchville and the City of Salamanca.

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

RECOMMENDATION

The Senior Vice President - Marketing and Economic Development recommends that the Trustees approve allocations of power under the Municipal and Rural Cooperative Economic Development Program to the Village of Churchville and the City of Salamanca in accordance with the attached memorandum of the President.

The General Counsel, and I concur in the recommendation.

Vice Chairman Frey stated that he supports maximizing the use of the Program and suggested that the Program include a preference which would serve to promote new industry.

Trustee Miller commended Ms. Morman and other staff members for their efforts in connection with the negotiations and signing of the Long-Term Incremental Power Agreements.

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

RESOLVED, That allocations of power to the Village of Churchville and the City of Salamanca, under the Municipal and Rural Cooperative Economic Development Program are hereby approved in accordance with the foregoing report of the President; and be it further

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

5. New York State Office of General Services Long-Term Agreement - Authorization

The President submitted the following report:

SUMMARY

The Trustees are requested to authorize the execution of an agreement concerning electricity supply to the New York State Office of General Services (‘OGS’) (Exhibit ‘5-A’).

BACKGROUND

The State of New York's (‘State’) use of Authority electricity in its Westchester County and New York City facilities has made it an important Authority customer since its transfer from Consolidated Edison Company of New York, Inc. (‘Con Edison’) in 1976 as part of the purchase of the Indian Point 3 Nuclear Power Plant (‘IP3') and Charles Poletti Power Project (‘Poletti’). OGS is the Authority's fifth largest customer in Southeast New York (‘SENY’) and in 1995, its annual peak load was more than 52 MW.

The State uses Authority electricity in its myriad of facilities and functions in SENY, including, for example: the Adam Clayton Powell State Office Building, correctional facilities, the State University at Purchase and Downstate Medical Center, the Thruway Authority, mental health facilities, and legislators' district offices.

In 1995, annual revenues from the OGS were over $24 million; $14 million was for Authority production of electricity and $10 million for Con Edison delivery charges.

DISCUSSION

Consistent with the Authority's goal to ensure sales and revenue stability and the Authority's commitment to retain customers in a highly competitive market, as well as OGS's desire to stabilize its future electric costs, the parties entered into discussions seeking a mutually satisfactory agreement on these common objectives. The attached agreement is a result of those discussions.

The agreement is similar to the contract entered into by the Authority with the City of New York, the New York City Housing Authority, the Metropolitan Transportation Authority and the Port Authority.

The agreement's main provisions are as follows:

OGS will purchase its electricity requirements from the Authority at least through December 31, 2004; however, beginning January 1, 2002, OGS could seek other electricity suppliers to serve a portion of its load - up to a total of 20% of its electric load in annual transfers not to exceed one-third of that 20%. For example, if OGS's load is 50 MW, 20% of that amount is 10 MW. Beginning in the year 2002, OGS will be able to move one-third of 10 MW, which is 3.3 MW.

The Authority will have the right of first refusal to supply all or part of such load as to which notice of termination has been given, both in the case of termination at the end of the term (2004) and/or if OGS exercises its right to ‘test the market’ beginning in 2002.

The Authority will agree to freeze electric rates through the year 2001. After January 1, 2002 rate increases will be based on the Authority's demonstration that the then-current cost-of-service exceeds rate levels in effect. If the cumulative rate increase based on cost of service for the years 2002 and 2003

exceeds 7%, OGS may then exercise its right to transfer any remaining load not already transferred under the market test option (the 20% referenced above) to a non-Authority supplier on six months' written notice.

Beginning in 1998, OGS will have the opportunity to benefit from the Authority's operating efficiencies that reduce costs below revenues. If the SENY public customer cost-of-service is less than the SENY revenues from public customers, based on a two-year average, OGS's pro rata share of such difference will be refunded to it in the form of a rate rebate.

The Authority will undertake financing up to $12.9 million of energy efficiency programs on behalf of the OGS. This financing is the same as that provided the City of New York after being adjusted for the relative contribution of OGS to the Authority's SENY production revenues. Individual energy efficiency programs will be submitted for Trustees' approval on an individual basis, as is current practice.

Consistent with the July 30, 1996 Trustee resolution authorizing the funding of the SENY Public Customer Energy Efficiency Services Program for long-term energy partners, staff is requesting that the authorized funding level for that program be increased by $4.3 million. This will enable us to finance energy efficiency projects for OGS, pursuant to this long-term agreement, for a three year period from 1996 to 1998. The requested amount also includes approximately $400,000 for an incentive payment (rebate) for lighting improvements at the Adam Clayton Powell State Office Building. Although this lighting project qualified for an incentive payment prior to the June 1996 expiration of the rebate program, payment of the rebate was made contingent upon OGS's acceptance of this long-term agreement.

Agreements entered into by OGS, such as this one, must also receive the approval of the Attorney General of the State of New York and the Office of the State Comptroller. This Agreement will become effective once that approval is granted.

In the current competitive environment, it is essential that the Authority seek longer term relationships with its customers. This agreement serves as a vehicle to cement a long-term partnership and commitment between the Authority and the New York State Office of General Services.

RECOMMENDATION

The Director - Major Accounts Group - Governmental recommends that the Trustees authorize the execution of an agreement with the New York State Office of General Services substantially in the form attached hereto as Exhibit '5-A' and authorize additional funding to finance energy efficiency projects for OGS.

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

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

WHEREAS, the New York State Office of General Services is one of the Authority's

largest Southeast New York customers and a valued and long-term customer of the Authority; and

WHEREAS, the New York State Office of General Services desires rate predictability and stability and the Authority desires sales and revenue stability;

October 29, 1996

NOW THEREFORE BE IT RESOLVED, That the Chairman, the President and Chief Operating Officer, the Senior Vice President - Marketing and Economic Development be, and each of them hereby is, authorized to execute an agreement (the 'Agreement') between the New York State Office of General Services and the Authority, in substantially the form attached hereto as Exhibit 5-A , with such amendments, deletions, and supplements along with any other documents necessary to effectuate the foregoing, as the Chairman, the President and Chief Operating Office, or the Senior Vice President - Marketing and Economic Development deems necessary or advisable; and be it further

RESOLVED, That the authorized funding level for the SENY Public Customer Energy Efficiency Services Program be increased by $4.3 million to cover a three year period from 1996 through 1998 to allow for the financing of energy efficiency programs for the New York State Office of General Services pursuant to this long-term agreement.

6. Budget Information Pursuant to Section 2801 of the Public Authorities Law

The President submitted the following report:

SUMMARY

The Trustees are requested to authorize the Secretary to submit budget information to the Governor and the legislative leaders pursuant to Section 2801 of the Public Authorities Law.

DISCUSSION

Each year the Trustees are requested to authorize the Secretary to file the attached budget information (Exhibit '6-A') pursuant to Section 2801 of the Public Authorities Law which provides as follows:

> Each authority or commission heretofore or hereafter continued or created by this chapter shall submit to the governor, chairman and ranking minority member of the senate finance committee and the chariman and ranking minority member of the assembly ways and means committee, for their information annually not less than sixty days before the commencement of its fiscal year, in the form submitted to its members or trustees, budget information on operations and capital construction setting forth the estimated receipts and expenditures for the next fiscal year and the current fiscal year, and the actual receipts and expenditures for the last completed fiscal year.

As requested by Executive Order No. 173, this information will also be submitted to the Division of the Budget.

RECOMMENDATION

The Vice President - Controller recommends the Trustees' authorization to submit the attached budget information (Exhibit '6-A').

The General Counsel, the Senior Vice President - Business Services, and I concur in this recommendation.

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

RESOLVED, That the Secretary be, and hereby is, authorized to submit to the Governor, the Chairman and Ranking Minority Member of the Senate Finance Committee, the Chairman and Ranking Minority Member of the Assembly Ways and Means Committee, and the Division of the Budget, the attached budget information on operations and capital construction setting forth the estimated receipts and expenditures for the next fiscal year and the current fiscal year, and the actual receipts and expenditures for the last completed fiscal year in accordance with the foregoing report of the President.

7. Lease of Space - Sixth Floor - Centroplex Building - Thomas M. Bona, P.C.

The President submitted the following report:

SUMMARY

The Trustees are requested to authorize the execution of a lease of approximately 10,656 square feet of office space on the sixth floor of the Centroplex Building, White Plains, New York by the Authority, as landlord, to Thomas M. Bona, P.C. as tenant. The proposed lease is for a term of ten years and four months, at an average annual base rent of $20.50 per square foot, as more specifically described in Exhibit '7-A' attached hereto.

BACKGROUND

The Authority acquired the Centroplex Building by deed dated July 10, 1991. This is a commercial office building with the majority of the existing space occupied by Authority personnel. Due to staff reductions, relocation of employees within the building, and expiration of leases with Travelers Insurance Company and the National Economic Research Association over the past few years, the Authority no longer has a need to occupy the sixth, seventh, and eighth floors. In July 1995, the Authority engaged the real estate brokerage services of Rostenberg-Doern Company to solicit offers for leasing all or portions of this space. Thomas Bona has decided to expand and relocate his law firm within the White Plains Central Business District in early 1997 and has chosen premises on the sixth floor of the Centroplex Building.

DISCUSSION

Thomas Bona started the firm in 1988, with a primary focus on representing insurance companies. Due to current and projected expansion needs, the firm has requested that the Authority lease to it approximately 10,656 square feet of office space. Preliminary negotiations on this space have resulted in the basic lease terms set forth in Exhibit '7-A'. A review of local market conditions indicates that this transaction compares favorably to other deals recently completed in downtown White Plains.

FISCAL INFORMATION

Payment for standard brokerage commissions, tenant improvements, and architectural and engineering fees as set forth in Exhibit '7-A' will be made from the Operating Fund.

RECOMMENDATION

The Director - Corporate Support Services, the Director - Real Estate, and the Vice President - Procurement and Real Estate recommend that the Trustees approve entering into a lease agreement with Thomas M. Bona, P.C. for commercial office space in the Centroplex Building on terms substantially in accordance with the foregoing report and Exhibit '7-A'.

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

In response to questions from Trustee Waldbauer, Mr. Hoff explained that the price of $21.25 includes electricity. In response to questions from Trustee Miller, Mr. Hoff explained that the dollar amount allocated to and the terms of the "tenant improvement allowance" are typical features of office space leases in the White Plains area.

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

RESOLVED, That the Chairman, the President or the Senior Vice President - Business Services be, and hereby is, authorized to enter into a lease agreement for office space in the Centroplex Building with Thomas M. Bona, P.C. on substantially the terms set forth in the foregoing report of the President; and be it further

RESOLVED, That the Chairman, the President, the Senior Vice President - Business Services, or the Director - Real Estate be, and hereby is, authorized on behalf of the Authority to execute any and all other agreements, papers, or instruments which may be deemed necessary or desirable to carry out the foregoing.

Exhibit '7-A'
October 29, 1996

BASIC LEASE TERMS

Authority to Thomas M. Bona, P.C.

Premises: Approximately 10,656 square feet on the 6th floor of the Centroplex Building

Initial Term: Ten years and four months, rent to commence four months after delivery of all the demised space improved in accordance with the lease terms.

Fixed Rent: For the first three years at $226,440 annually or $21.25 per square foot, for years four through six, $237,096 annually or $22.25 per square foot, and for years seven through ten, $258,408 annually or $24.25 per square foot. The fixed rent includes an electric inclusion factor of $2.25 per square foot.

Renewal Option: One five-year renewal term at 95% of fair market value. In no case shall the rent be less than the then-escalated rent.

Operating Escalation: Pro-rata share of increases in operating expenses over a base year of 1997.

Real Estate Tax Escalation: Pro-rata share of increases in real estate taxes over a weighted average base year of 1997.

Parking: Tenant to be entitled to 17 unreserved parking spaces at $75.00 per month, and one reserved space at no charge.

Tenant Improvement Allowance: Work letter of $32.26 per square foot (total $343,787). All additional tenant improvement costs will be paid by tenant.

Additional Space: Tenant shall have a one-time right of first refusal on all contiguous space on the 6th floor.

8. James A. Fitzpatrick Nuclear Power Plant - Feedwater Heater Replacement Project - Expenditure Authorization

The President submitted the following report:

SUMMARY

The Trustees are requested to approve a capital expenditure of $4,800,000 for engineering, material procurement, and installation of three replacement feedwater heaters at the James A. FitzPatrick Nuclear Power Plant ('JAF') as part of the Feedwater Replacement Program. The replacement of these feedwater heaters is required for continued operation of the Plant. This request has been considered and included in the 1996 Capital Plan.

BACKGROUND

There are 12 feedwater heaters in the JAF feedwater and extraction steam system. Two feedwater heaters were replaced at JAF in 1980. The feedwater heaters must be replaced because they have reached the end of their service life as documented in maintenance inspection reports. The tubes in the feedwater heaters have already been damaged beyond the Heat Exchanger Institute ('HEI') recommended plugging limits. This degradation of feedwater heaters impacts the plant heat rate and power output. A failure of a feedwater heater can result in power reductions or forced plant shutdowns.

DISCUSSION

Two of the three problem feedwater heaters are scheduled for minor modification during the cycle 12 refueling outage (October 1996) in order to prolong operation until the current planned replacement during cycle 13 (October 1998). The manufacturer recommends that two heaters be modified to bypass some feedwater flow by installing an internal bypass orifice. This modification will extend the feedwater heater life but in doing so, will reduce the plant heat rate which may result in as much as a 0.7 megawatt-electric loss at power uprate conditions. The third problem feedwater heater is scheduled for inspection during this outage. The results of this inspection will determine the schedule for this heater replacement (1998 or 2000).

Planning and field verification for the feedwater heater replacements will also be conducted during the 1996 refueling outage. As the procurement of replacement feedwater heaters is a long lead item, the order for feedwater heaters will be placed immediately to allow delivery in mid-1997. This will provide insurance in the case of an unanticipated, major feedwater heater failure prior to the end of cycle 13 (December 1996 through October 1998) operations.

FISCAL INFORMATION

The James A. FitzPatrick Improvement Projects Proceeds Account has a current balance of $58 million of which $30 million is available to fund this request and additional tasks, not yet authorized, identified in the capital plan. Based upon current cash flow projections, funds are available through the year 1999. Payment will be made from the appropriate Construction Fund - James A. FitzPatrick Improvement Project Proceeds Account.

RECOMMENDATION

The Plant Manager - James A. FitzPatrick Nuclear Power Plant, the Vice President - Nuclear

Operations, the Vice President - Nuclear Engineering and Project Management, and the Chief Nuclear Officer recommend that the Trustees approve capital expenditures in the amount of $4,800,000 for the Feedwater Heater Replacement Project at the James A. FitzPatrick Nuclear Power Plant.

The Vice President - Controller, the General Counsel, the Senior Vice President - Business Services, and I concur in the recommendation.

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

RESOLVED, That expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

Capital	**Expenditure Approval**
James A. FitzPatrick Nuclear Power Plant:	
Feedwater Heater Replacement Project	**$4,800,000**

9. Enrichment Services Procurement - United States Enrichment Corporation

The President submitted the following report:

SUMMARY

The Trustees are requested to approve the award of a contract to the United States Enrichment Corporation ('USEC'). The USEC contract would provide 70% of the Authority's enrichment services requirements as measured in separative work units ('SWU') in the years 2000 through 2004, at an estimated cost of approximately $60 million in 1996 dollars. The contract will also provide near-term savings to the Authority, during the period 1996 through 1999, in an amount up to $3.4 million in 1996 dollars.

BACKGROUND

Prior to sending fabricated nuclear fuel bundles to a reactor, enriched uranium must be provided to the fabricator. There are three steps involved in that process: first, the uranium is purchased in the form of yellowcake, or uranium oxide, as U_3O_8. Then the uranium oxide is converted to uranium hexafluoride, or UF_6, which is a gaseous compound at temperatures slightly above normal room temperature. The uranium hexafluoride is then sent to an enricher. Enrichment is the process of raising the fraction of the uranium isotope called U_{235}. Natural uranium has 0.7 percent U_{235}; nuclear reactor fuel requires 3 to 5%U_{235}. The services provided by the enricher includes receipt of the natural uranium, as uranium hexafluoride, storage, and delivery of the enriched uranium. A SWU is a measure of the enrichment services required to concentrate the isotope U_{235} in uranium to the desired level.

Enrichment services represent the largest single cost component of the nuclear fuel cycle. The most recent James A. FitzPatrick Nuclear Power Plant ('JAF') reload, reload number 12, cost approximately $46.5 million, with enrichment accounting for $ 20.9 million, or 45% of the total costs.

The Authority currently holds two enrichment contracts. The older is with USEC. In 1984 a contract was signed with the Department of Energy ('DOE') which was essentially for the life of both nuclear plants. This contract was assigned to USEC in 1993. Firm supply is established 10 years in advance for 70% of the requirements, and five years in advance for the remaining 30%. Currently the Authority is committed through 1999 with USEC for 70% of its requirements. The requirements for the years 2000 through 2002 have been terminated. The Authority can still terminate years 2003 and beyond at no cost.

Thirty percent of the Authority's requirements through 2002 is being supplied by URENCO. On October 1, 1996, the Authority had the option to extend the URENCO contract to 50% in the years 2000-2002; however, this option is not recommended in view of the bids which have been submitted.

A complicating factor in the evaluation is a claim filed with USEC that it overcharged for the SWU's delivered for JAF reload 11. When the contract was assigned in 1993, the price that the DOE was charging was cost-based, and included such costs as the Decommissioning and Decontamination ('D&D') of the enrichment facilities. When the contract was assigned to USEC, a number of US, and several foreign utilities, sued USEC because it charged the same price as DOE had, despite not having responsibility for the D&D charges, which responsibilities remained with DOE. Although the Authority did not initially participate in the lawsuit, appeals have been filed with USEC, and subsequently rejected, on the same basis as the prior claims from other utilities.

The Authority now has the option of accepting USEC's bid and terminating actions leading to the lawsuit, or continuing with an appeal.

To address the issue of responding to the October 1 URENCO option (to increase its requirements from 30 to 50%, in the years 2000-2002), and to secure future supply at reasonable prices, the Authority solicited enrichment bids in July 1996 from six potential suppliers. The bids were for the period 2000 through 2004. Five bids were received and evaluated, with the results shown in Exhibit '9-A'. The USEC offer was evaluated as the low cost bid.

DISCUSSION

USEC is currently a government corporation, created from an enterprise of the DOE as a result of the 1992 energy bill. USEC is the world's largest, enrichment service provider, leasing and operating two large enrichment facilities. It is planning to become privatized in the next year or two. USEC's proposal provides for a price reduction of about $3.00 to $8.00 per SWU for the Authority's next four reloads currently scheduled for delivery during the 1996 through 1999 period, including the JAF reload just taken. The new contract term would be extended for five years and reach completion at the end of 2004. In addition, the minimum quantity to be purchased would be continued at 70% of actual plant requirements.

A price reduction of $3.00 to $8.00 per SWU in the price translates to a reduction of about $3.4 million for the four reloads under contract. In addition, the analysis shows that the USEC bid is about $5.9 million lower, in 1996 dollars, than URENCO, the next lowest bidder. Exhibit '9-A' shows the bids in order of total value. NUKEM's bid was for a spot sale, and was immediately rejected as not responsive. GNSS's bid was contingent on a current trade restriction with the Russian government being lifted, which is considered speculative at this time. URENCO failed to offer additional SWU's in the year 2000, which, if it were selected, would leave the Authority short in that year. Because some of the bids were for different quantities, a present value based upon price per SWU is shown for comparative purposes. The SWU used in the comparison were the total SWU being evaluated, because the USEC offer includes discounts on current SWU requirements. It is clear from Exhibit '9-A' that USEC has submitted the lowest bid.

The total net present value cost of 70% of the Authority's enrichment requirements through 2004 is estimated at $130.2 million. The analysis shows USEC's new costs from 2000-2004 will equal about $59.6 million. There will be some added charges with a contract with USEC that are not included in that number. USEC plans to charge for shipping and handling fees, about .35 to .50 cents/SWU. In addition, the State of Ohio plans on charging a personal property tax for uranium, which could add up to 1% to the USEC cost when it becomes a private company. There may also be added charges after USEC becomes privatized if the NRC changes licensing rules and regulations. These charges may not arise at all, and should be minor if they do occur. A reduction in the cost, which was also not included, is a 50 day reduction in the time to deliver uranium. This will save the equivalent of about .50 cents/SWU. In addition, USEC offered an option that could significantly reduce the escalation, but its value cannot be quantified at this time. The Authority will get the lowest value calculated from two escalation formulas.

Accepting the USEC offer will mean that the Authority will need to enter into a new contract, and drop all claims for prior actions. Several other utilities, including Commonwealth Edison, have settled the lawsuit.

Accepting USEC's offer is expected to yield significant savings for the Authority for the period 1996 through 2004. Although the Authority would be committing to taking a large portion (70%) of its uranium from a single supplier years in advance, the benefits outweigh the risk.

There is a savings of about $3.4 million for the

four reloads taken through the year 1999, including $400,000 in 1996. In addition, the Authority will be paying significantly lower prices every year through 2004 than has been projected to date. Because this will be a requirements contract, the purchases will be reduced if either or both nuclear plants were to close or operate less than currently planned. With enrichment services becoming tight in a market that has exhibited greater demand each year, along with reduced sources of supply, locking in a firm supply at very reasonable prices is a reasonable choice at this time.

FISCAL INFORMATION

The estimated cost of the extension of the USEC contract is $56.2 million in 1996 dollars which includes the estimated $3.4 million reduction in costs from 1996 through 1999. Payment will be made from the Fuel Reserve Account, Operating Fund.

RECOMMENDATION

The Supervisory Nuclear Fuel Supply Engineer recommends that the Trustees approve the award of a five year contract to United States Enrichment Corporation for the purchase of enrichment services at the costs, quantities and terms previously stated.

The General Counsel, the Senior Vice President - Business Services, the Senior Vice President - Power Generation, and I concur in the recommendation.

In response to questions from Trustee Miller, Mr. Lemberg confirmed that the contract is strictly on a "requirements" basis and that the Authority need purchase only what it actually requires.

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

RESOLVED, That the Trustees approve the extension of the existing contract with United States Enrichment Corporation for the term of four years, as recommended in the foregoing report of the President, in the estimated amount and for the purpose listed below:

O&M	**Projected Closing Date**	**Contract Aproval Estimated ($ millions)**
Uranium Enrichment Services		
United States Enrichment Corporation	**09/30/99**	**$(3.4)**
New Contract	**09/30/04**	**59.6**

Exhibit '9-A'
October 29, 1996

ENRICHMENT BID ANALYSIS - 1996			
	TOTAL SWU IN ANALYSIS	TOTAL PV $, 1,000	$PV/TWSU
USEC-OPT.1	1,366,827	$130,238	$ 95.29
USEC-OPT.2	1,152,127	$116,104	$100.77
USEC-OPT.3	1,152,127	$117,944	$102.37
URENCO	1,366,827	$136,208	$ 99.65
GNSS	1,152,127	$119,322	$103.57
COGEMA	1,152,127	$123,248	$106.97

10. Proposed Schedule of Trustees' Meetings in 1997

The Corporate Secretary submitted the following report:

The following schedule of regular meetings for the Authority for 1997 is recommended:

Date	Location	Time
January 28, 1997 (Tuesday)	NYO	11:00 a.m..
February 25, 1997 (Tuesday)	NYO	11:00 a.m..
March 25, 1997 (Tuesday)	NYO	11:00 a.m.
April 30, 1997 (Wednesday)(**Annual**)	NYO	10:00 a.m.
May 20, 1997 (Tuesday)	NYO	10:00 a.m.
June 24, 1997 (Tuesday)	Open	10:00 a.m.
July 29, 1997 (Tuesday)	Open	10:00 a.m.
August 26, 1997 (Tuesday)	Open	10:00 a.m.
September 30, 1997 (Tuesday)	Open	10:00 a.m.
October 28, 1997 (Tuesday)	NYO	10:00 a.m.
November 25, 1997 (Tuesday)	NYO	10:00 a.m.
December 16, 1997 (Tuesday)	NYO	10:00 a.m.

October 29, 1996

11. Collective Bargaining Agreement Between the Authority and Local 1-2, Utility Workers Union America, AFL-CIO - Extension

The President submitted the following report:

SUMMARY

The Trustees are requested to approve an Agreement for Contract Extension ('Agreement') to the Collective Bargaining Agreement between the Authority and Local Union 1-2 of the Utility Workers Union of America, AFL-CIO ('UWUA'). This Agreement, which increases the term of the existing collective bargaining agreement by four years and expires on January 17, 2000, covers approximately 364 production, maintenance, and clerical employees at the Authority's Indian Point 3 Nuclear Power Plant ('IP3) and Charles Poletti Power Project.

BACKGROUND

The Authority and the UWUA are parties to an Agreement that was effective from January 18, 1991 through January 17, 1994, and in 1994 was extended until January 17, 1996. Negotiations for an additional extension or successor agreement began in the last quarter of 1995 and continued into the third quarter of 1996. During this period, the terms of the prior contract remained in effect while negotiations proceeded.

In May 1995, the Authority and the International Brotherhood of Electrical Workers ('IBEW'), which represents employees at the Authority's five upstate facilities, reached an agreement for an extension to the collective bargaining agreement that will expire on July 1, 2000. That extension was based on a guarantee of set wage increases, maintenance of benefit levels, and limited job security in return for productivity enhancements, including certain work rule changes. In June 1995, the Authority and the International Brotherhood of Teamsters ('Teamsters') reached an agreement for a similar contract extension to October 2, 2000. Each of these extensions received approval of the Trustees.

During the initial negotiating sessions, the Authority and the UWUA had agreed in principle to a contract extension similar to those achieved with the IBEW and Teamsters; however, a number of negotiating sessions were necessary to resolve the productivity issues. The negotiating committees reached final agreement and concluded negotiations for such an extension on September 3, 1996.

DISCUSSION

Attached is the Agreement for Contract Extension (Exhibit '11-A') between the Authority and the UWUA, subject to ratification of the union membership and approval by the Trustees. The union membership ratified the extension agreement on October 11, 1996 by a vote of 244 in favor to 70 opposed.

The union members will receive a 3% general wage increase retroactive to January 18, 1996. In addition, they are entitled to a 1% signing bonus because they ratified the contract by the date established by the Authority. This bonus is not part of base pay. The wage increase for the year beginning January 18, 1997 will be 3.25% with a 3.5% increase in January of 1998 and 1999, respectively. These wage increases are identical to those granted to the Authority's other bargaining unit employees. The maintenance of benefits and limited job security provisions contained in the IBEW and Teamsters agreements are mirrored in this Agreement. A

Preamble that keeps the contract open for review and negotiation of work rule changes during contract the term is also contained in this Agreement.

Agreement was reached on two significant productivity items -- temporary occupational changes, and scheduling of work hours within the eight hour workday. The temporary occupational change provision will provide increased flexibility in making job assignments without concern for job classification jurisdictional barriers. The parties agreed to form committees at each facility to review work practices such as the scheduling of breaks, wash-up, and meal periods with the intent of increasing work-time productivity. Included in this clause is a provision for binding arbitration on any unresolved issue(s).

The Acting Vice President - Human Resources consulted with a representative of the Governor's Office of Employee Relations regarding the terms of this contract extension.

FISCAL INFORMATION

The wage increases for 1996 are in the 1996 O&M Approved Budget. The wage increases for the 1997-1999 period are consistent with the Authority's long-term financial forecast. The estimated annual costs are:

1996 - $885K
1997 - $817K
1998 - $909K
1999 - $941K

RECOMMENDATION

The Acting Vice President - Human Resources, the General Counsel, the Senior Vice President - Power Generation, the Senior Vice President - Business Services, the Chief Nuclear Officer, and I concur in the recommendation.

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

RESOLVED, That the Acting Vice President - Human Resources be, and hereby is, authorized on behalf of the Authority to execute an Agreement for Contract Extension further extending the collective bargaining agreement with Local 1-2, Utility Workers Union of America, AFL-CIO, dated October 13, 1994 covering specified production, maintenance, and clerical employees of the Indian Point 3 Nuclear Power Plant and Charles Poletti Power Project with such changes to that agreement as described in the foregoing report of the President.

Exhibit '11-A'
October 29, 1996

AGREEMENT FOR CONTRACT EXTENSION

BETWEEN

POWER AUTHORITY OF THE STATE OF NEW YORK

AND

UTILITY WORKERS UNION OF AMERICA, LOCAL 1-2

Subject to ratification of the membership of Local Union 1-2 and the approval of the Power Authority's Trustees, it is agreed to amend the collective bargaining agreement between the parties dated October 13, 1994 as follows:

Preamble: Because the parties recognize they are involved in an increasingly changing and more competitive industry, there exists a desire for some measure of predictability. To the extent that wage and benefit levels can be determined, this agreement achieves that objective. However, in order to keep pace with changing business conditions and to remain competitive, they also recognize the need to continuously review present work practices. Therefore, the parties agree to continue to meet and discuss and attempt to resolve any pertinent issue that may arise in this regard in connection the current collective bargaining agreement and in conformance with the requirements of the Public Employment Relations Board.

1. Term of the Agreement:
Term to run from January 18, 1996 through January 17, 2000.

2. Wage Increases:
- Effective retroactively to January 18, 1996: a 3.0% wage increase for all regular employees to be applied to each eligible employee's basic straight-time hourly rate in effect on January 17, 1996 and the minimum and maximum rate for each job title will be increased by 3.0%.
- Effective January 18, 1997: a 3.25% wage increase for all regular employees to be applied to each eligible employee's basic straight-time hourly rate in effect on January 17, 1997 and the minimum and maximum rate for each job title will be increased by 3.25%.
- Effective January 18, 1998: a 3.5% wage increase for all regular employees to be applied to each eligible employee's basic straight-time hourly rate in effect on January 18, 1998 and the minimum and maximum rate for each job title will be increased by 3.5%.
- Effective January 18, 1999: a 3.5% wage increase for all regular employees to be applied to each eligible employee's basic straight-time hourly rate in effect on January 18, 1999 and the minimum and maximum rate for each job title will be increased by 3.5%.

In addition, a 1.0% signing bonus based on an employee's base annual rate of pay (2080 hours times the hourly rate of pay) contingent upon ratification by the union membership on or before October 16, 1996. Such bonus shall not increase an employee's hourly rate of pay.

3. Benefits:
During the term of this extension agreement the Authority agrees to maintain the pension, welfare and miscellaneous other benefits as described in Article V and Exhibit A of the collective bargaining agreement. Effective September 3, 1996 the Authority shall reimburse retired

employees (excluding spouses) who have retired or who retire prior to January 1, 2000, for their individual monthly Medicare Part B premiums but in no event shall the reimbursement exceed fifty dollars ($50) per month.

4. Job Security:

Excluding a plant closing, sale of a facility or a catastrophic event the Authority agrees there will be no layoffs during the first two and one-half years of the extension (January 18, 1996 through June 30, 1998). At the end of this period the Authority agrees to meet with the Union to determine whether the Authority can extend this security provision for the remainder of the extension. Among other things such discussions will be based upon the anticipated productivity gains achieved during the first two and one-half years of the extension.

5. Successor Clause:

The Agreement will be reworded to be ‘between Power Authority of the State of New York, (hereinafter called ‘the Authority’), its successors or assigns and the Utility Workers Union of America AFL-CIO, Local 1-2 (hereinafter called ‘the Union’).’

6. Temporary Occupational Changes: (New subsection (b))

During outages (scheduled or unscheduled), reserve shutdowns, emergencies or for purposes of efficiency, the Authority may temporarily reassign employees in all titles to perform some or all of the duties of other classifications. Upon such reassignments employees shall be paid their regular hourly rate of pay or the hourly rate of the reassigned classification, whichever is greater, for all reassignments provided they perform it for a full eight (8) hour day or more. No such reassignment shall be made unless the employee to be reassigned is qualified to perform the tasks he/she will be required to perform in the reassigned classification. The Authority agrees to provide training to employees to the extent necessary to qualify such employee to perform the task or tasks he/she will be performing in the reassigned classification.

In the event the Authority deems it necessary to reassign employees temporarily for purposes of efficiency, the Authority before making such changes will discuss the proposed changes with the Union reasonably in advance of implementation.

7. Work Time Productivity:

In order to keep pace with changing business conditions and to remain competitive, a joint Union-Management Committee will be established to review, and attempt to resolve, present work practices with the intent of increasing productive work time. It is specifically understood that this does not reintroduce the Authority’s proposal to establish a standard eight and one-half hour day for all non-watch employees but may include other issues related to work time within the basic eight hour working day.

The Committee will consist of three persons for each party established at each Facility and shall begin meeting no later than twenty days following final approval of the new Bargaining Agreement.

If any issue considered by the committees remains unresolved four months after initial presentation of the issues, the unresolved issues shall be referred to the union-management negotiating committee for review (to occur within twenty days). If any issues remain unresolved after the negotiating committee review, the Authority may implement its plan within ten days after notifying the Union in writing of its intent to do so, unless the Union notifies the Authority in writing within ten days of the Authority’s notification of intent-to-implement that it desires to refer the matter to interest arbitration. The arbitrator shall be selected from the collective bargaining agreement panel of arbitrators that hear grievance disputes .

8. Wage Progression Plan

Wage progression increases shall be in the amount of forty (40) cents per hour effective on April 7,1996 (retroactively), August 11, 1996 (retroactively), December 8, 1996, April 13, 1997, August 3, 1997, April 12, 1998, August 2, 1998, April 11, 1999, and August 1, 1999.

For the Authority:	**For Local 1-2:**
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________

Date: ____/____/____

12. Next Meeting

The next regular meeting of the Trustees will be held on **Tuesday, November 26, 1996**, **at** the **New York City Office** at **11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

13. Motion to Conduct Executive Session

Mr. Chairman, I move that the Authority conduct an executive session in connection with three matters leading to the appointment and employment of services of particular persons or corporations. Upon motion duly made and seconded, an executive session was held. President Schoenberger kept the minutes of the executive session.

After Executive Session

Mr. Chairman, I move that the Authority resume the meeting in open session. Upon motion duly made and seconded, the meeting was reconvened in open session. President Schoenberger announced the Trustees' appointment of Gerard V. Loughran to the position of Vice President - Human Resources.

14. Personnel - Position of Vice President -
<u>Human Resources - Gerard V. Loughran</u>

The President submitted the following report:

I recommend the promotion of Gerard V. Loughran from his present position of Principal Attorney to the position of Vice President - Human Resources.

BACKGROUND

Mr. Loughran joined the Authority in August 1977 as Attorney, after four years of service in the office of the District Attorney for New York County. In March 1991, Mr. Loughran was appointed Principal Attorney II in the Law Department, following intermediate promotions. Mr. Loughran has been actively involved in all aspects of Human Resources issues for the past 15 years. Mr. Loughran was graduated from St. John's University with a Bachelor of Arts Degree in English. He was awarded a Juris Doctor Degree, also from St. John's University.

DISCUSSION

As a member of the Authority's Labor Relations Negotiating Committee, Mr. Loughran has actively participated in contract negotiations with the unions representing the Authority's three collective bargaining units. He has been the principal adviser of the Human Resources Department on legal issues for over five years. Frequently, he has assisted in the development of employee policies and participated in administration and enforcement of them. From time to time Mr. Loughran has made presentations to the Management Committee, individual departments or groups of employees on emerging issues of interest in the employment and benefits arena. During the past two years he has been responsible for coordination of the work of the Authority's employee benefits counsel. Lastly, he has reviewed and made valuable recommendations concerning legislation on such diverse subjects as recruitment, safety, drug testing and pension matters.

Mr. Loughran's detailed knowledge of the full breadth of issues addressed by the Human Resources Department has given him a unique diversity of experience. His judgment and insight has long been an essential part of the Authority's administration of human resources policies. Mr. Loughran is the best available candidate for this position.

RECOMMENDATION

I recommend that Gerard V. Loughran be appointed to the position of Vice President - Human Resources at a salary of $136,000.

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

RESOLVED, That the Authority approves the appointment of Gerard V. Loughran to the position of Vice President - Human Resources, effective October 29, 1996 and that he be offered a salary of $136,000.

Closing

Upon motion duly made and seconded, the meeting was closed at 12:30 p.m.

Anne Wagner-Findeisen
Corporate Secretary

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