

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

February 25, 1997

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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 11:00 a.m.

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

Trustee Ciminelli was excused from attendance

| | |
|------------------------|--|
| Robert G. Schoenberger | President and Chief Operating Officer |
| Peter W. Delaney | Senior Vice President - Business Services |
| 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 |
| Charles M. Pratt | General Counsel |
| Woodrow W. Crouch | Vice President - Project Management |
| John M. Hoff | Vice President - Procurement and Real Estate |
| Russell J. Krauss | Chief Information Officer |
| Charles I. Lipsky | Vice President & Chief Engineer - Power Generation |
| Gerard V. Loughran | Vice President - Human Resources |
| Harry P. Salmon, Jr. | Vice President - Nuclear Operations |
| Stephen P. Shoenholz | Vice President - Public Relations |
| Ronald W. Ciamaga | Regional Manager - Northern New York |
| James L. Ford | Regional Manager - Western |
| Richard E. Kuntz | Regional Manager - SENY Southeast New York |
| James J. McCarthy | Regional Manager - Central New York |
| Daniel P. Berical | Director - Intergovernmental Affairs |
| Jordan Brandeis | Director - Performance Planning |
| Joseph J. Brennan | Director - Internal Audits |
| Frederick E. Chase | Director - Community Relations |
| Carmine J. Clemente | Counsel |
| John L. Murphy | Director - Public Information |
| James H. Yates | Director - Business Marketing & Economic Development |
| George W. Collins | Treasurer |
| Anne Wagner-Findeisen | Corporate Secretary |
| Laura M. Badamo | Assistant Corporate Secretary - Legal Affairs |
| Vernadine E. Quan-Soon | Assistant Corporate Secretary - Corporate Affairs |

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

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1. Approval of the Minutes

"The minutes of the Regular Meeting held on January 28, 1997 were approved."

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2. **Financial Report for the Year Ended December 31, 1996
and the month of January 1997**
-

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3. Resolution - Dr. John W. Blake

Trustee Miller offered the resolution for adoption and expressed the Trustees' thanks to Dr. Blake. The resolution was unanimously adopted.

WHEREAS, John Blake prepared for a career in science by earning a bachelor's degree in chemistry from the Massachusetts Institute of Technology; and

WHEREAS, he earned his master's degree in marine ecology at the University of North Carolina and became "Doctor Blake" by achieving his Ph.D. in biochemistry, also at the University of North Carolina; and

WHEREAS, he joined the New York Power Authority staff as Director of Environmental Programs on November 1, 1976; and

WHEREAS, he presided over the Power Authority's environmental matters during a period of increased awareness and concern for protecting the environment; and

WHEREAS, he charmed his co-workers with his clever wit and ready smile, not to mention his environmentally-correct neckwear; and

WHEREAS, he served the Power Authority and the people of the state with dedication and distinction; and

WHEREAS, he has decided to retire from his position at the New York Power Authority;

NOW THEREFORE BE IT RESOLVED, That the Trustees of the New York Power Authority officially convey their thanks for his many years of service and join with his colleagues in wishing him and his wife, Virginia, a long and happy retirement.

4. Village of Churchville - Increase in Retail Rates - Notice of Adoption

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve revisions in the base retail rates of each customer service classification for the Village of Churchville, New York. These revisions will result in additional total annual revenues of \$60,000 or 8.9%.

BACKGROUND

"The proposed rate increase is required to provide adequate revenues to meet the electric department's additional debt service obligations, increase its emergency reserves, and allow for sufficient working funds to meet forecasted increases in operation and maintenance expenses. Current rates have been in effect since October 28, 1992, when the Trustees approved a service class rate redistribution, without changing the total system revenue.

"The electric department has planned capital additions and replacements of \$167,000 through fiscal year 1997. These include the purchase of a bucket truck and installation of meters, transformers and street lights for a new residential housing development. The Village plans to debt finance \$100,000 and fund the remainder through the revenue increase.

"The proposed rate revisions are based upon a cost of service study prepared by Authority staff, working closely with the Village's staff throughout all stages of the rate case.

DISCUSSION

"Pursuant to the Authority's Administrative Procedures, the Senior Vice President - Marketing and Economic Development authorized the Secretary to file notice for publication in the State Register of the proposed revisions in retail rates. Such notice was published on December 24, 1996. A public hearing was held by the Village Board on November 18, 1996. No objections were raised to the proposed rates.

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

"Comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits "4-A" and "4-B", respectively.

RECOMMENDATION

"The Manager - Municipal and Cooperative Marketing recommends that the attached schedule of rates for the Village of Churchville, New York, be approved to take effect beginning with the first full billing period following this date.

"It is also recommended that the Trustees authorize the Secretary to file notice of adoption with the

Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation.

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

In response to questions from Vice Chairman Frey, Mr. Banner explained that manufacturing entities would fall within the “large commercial” category set forth in the exhibit to the Memorandum from the President and that the proposed increase is based on the results of the cost-of-service study. In response to questions from Trustee Waldbauer, Mr. Banner explained that with respect to the street lighting category, the propose rate reflects the actual amount of usage by each of the four affected customers rather than a formula based on the demand charge.

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

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

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

5. Prospective Allocation of Expansion Power

The following report was submitted by the President:

SUMMARY

"The Trustees are requested to approve the notice and advertisement of a prospective allocation of 1,500 kilowatts of Expansion Power to Ingram Micro, Inc. ("Ingram Micro"). Ingram-Micro presently has 1,257 employees and has committed to an additional 1,200 for the new facility if the allocation is effectuated.

BACKGROUND

"Ingram Micro is the leading wholesale distributor of microcomputer products worldwide. The company markets microcomputer hardware, networking equipment and software products to more than 100,000 resale customers in approximately 120 countries worldwide. Ingram Micro distributes microcomputer products through warehouses in eight strategic locations in the continental United States and 21 international warehouses located in Canada, Mexico, most countries of the European Union, Norway, Malaysia and Singapore. Ingram Micro states that it is the market share leader in the U. S., Canada, and Mexico, and is the largest full-line distributor in Europe. In 1995, approximately 31% of the company's net sales were derived from operations outside the United States. The company's suppliers include Apple Computer, Cisco Systems, Compaq Computer, Creative Labs, Hewlett-Packard, IBM, Intel, Microsoft, NEC, Novell, Quantum, 3Com, Toshiba and U.S. Robotics.

"Ingram Micro has grown rapidly over the past five years with net sales and net income increasing to \$8.6 billion and \$84.3 million worldwide, respectively. The company's growth reflects substantial expansion of its existing domestic and international operations, resulting from the addition of new customers, increased sales to the existing customer base, the addition of new product categories and suppliers, and the establishment of Ingram Alliance Reseller Company, the company's master resale business launched in late 1994, as well as the successful integration of ten acquisitions worldwide. Ingram Micro is a publicly owned Delaware corporation qualified to do business in New York State.

DISCUSSION

"Ingram Micro is located in a 170,000 square foot facility located at 1759 Wehrle Drive, Williamsville, New York. The Wehrle Drive facility is the headquarters for all activities east of the Mississippi River and is the sales distribution center for computer software and related products. Specific activities include sales, credit, customer services, technical support and order fulfillment. A newly-constructed 150,000 square foot facility is to be located at 1760 Wehrle Drive and is to be leased for an initial term of 15 years with an "option to buy". The cost of the facility over the life of the lease will be in excess of \$30 million.

"The new 150,000 square foot facility is necessary to provide space for 1,200 additional employees (over a period of five years) to service Ingram Micro's expanding customer base and to accommodate additional functions transferred from other locations outside of New York State. The company also anticipates capital expenses in the amount of \$5.1 million for the purchase of machinery, equipment and installation. It is estimated that the new facility will be completed and ready for occupancy by November 1997. The power will be delivered by Niagara Mohawk Power Corporation.

"The application was reviewed in accordance with the applicable criteria set forth in Part 460 of the

Authority's Rules and Regulations governing the Allocation of Industrial Power (21 NYCRR 460 (1988)).

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"Section 460.2 of the Authority's regulations allows the Authority to make a prospective commitment of power, subject to advertisement and notice of such commitment. This notice would seek competing proposals from other interested businesses, which the Authority would consider in accordance with Section 460.2 before taking final action on the commitment to these companies.

RECOMMENDATION

"The Director - Business Marketing and Economic Development recommends that the Trustees authorize the notice and advertisement of this prospective allocation of Expansion Power to Ingram Micro Inc. as described in the foregoing report, subject to solicitation and consideration of competing applications.

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

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

RESOLVED, That the Secretary be, and hereby is, authorized to publish notice and advertisement of the Authority's intent to allocate Expansion Power to Ingram Micro Inc., absent receipt of better competing proposals.

6. Authorization of Clean Air for Schools Projects Program - Procurement (Services) Contracts - Goldman Copeland Associates, P. C. and Parsons Brinckerhoff - Extensions

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the implementation of the Clean Air for Schools Projects ("CASP") Program using the Clean Water/Clean Air Bond Act of 1996 (the "Bond Act") funds to be disbursed to the Authority by the State of New York for the purpose of carrying out CASP as set forth in Section 56-0609 of the New York Environmental Conservation Law. The Trustees are also requested to authorize the Senior Vice President - Energy Efficiency and Technology to administer the program with criteria consistent with the requirements of the Bond Act and to establish a mechanism pursuant to which the funds will be distributed. The Program criteria include the conversion of existing coal-fired boiler plants to clean, modern, gas and/or oil-fired plants in qualifying public schools. The program will progress on a schedule consistent with obtaining the air quality benefits of the Clean Water/Clean Air Bond Act of 1996 quickly and for as many projects as possible. Accordingly, the Trustees are requested to approve an increase in the compensation limitation of the existing procurement contracts with Goldman Copeland Associates, P.C. and Parsons Brinckerhoff, which currently provide implementation services for the Energy Efficiency and Coal Conversion Pilot ("EECCP") Program, up to those amounts made available by the state to the Authority from 1996-97 Bond Act appropriations. Further, the Trustees are requested to authorize an extension in the term of these contracts for an additional year to November 30, 1999.

BACKGROUND

"On November 5, 1996, the voters of New York State approved the Clean Water/Clean Air Bond Act of 1996. As part of the Bond Act, the New York Environmental Conservation Law was modified to add a new Section 56-0609. This section states that \$125 million shall be available for Clean Air for Schools Projects (the "Projects") for elementary, middle and secondary schools, with the Authority administering the Program. These Projects are defined to include, but are not limited to, Projects that replace coal-fired furnaces and heating systems with furnaces and systems fired by oil and/or gas.

"The Authority previously offered to undertake the EECCP Program. EECCP was designed to assist the New York City Board of Education in accelerating its conversion of coal-fired boiler plants. EECCP has 11 participating coal-fired public schools in Brooklyn, Manhattan, the Bronx and Queens that will receive new low pollution, dual-fuel (gas and oil) burning boilers.

"At their meeting of August 30, 1994, the Trustees authorized the implementation of the EECCP with \$5 million in Authority funds. At their meeting of January 30, 1996, the Trustees authorized a \$6 million grant from the Petroleum Overcharge Restitution Funds for total EECCP Program funding of \$11 million. Authority funds (\$5 million) will be recovered through a surcharge on the schools' electric bills, for up to 10 years.

"The Authority currently has numerous existing agreements to provide energy efficiency services. To expedite Project implementation, qualified Projects may be implemented through the existing contract framework.

"Conversions at three schools have been placed on an accelerated schedule: PS 29 at 425 Henry Street

in Brooklyn; PS 146 at 98-01 159th Avenue in Howard Beach, Queens; and, Mabel Bacon High School at 127 East

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22nd Street in Manhattan. These projects are now advancing to construction. The contractors, Goldman Copeland and Parsons Brinckerhoff, are currently expected to complete the coal conversion work for all 11 schools by the fall of 1998. Contracts with these firms were initially approved by the Trustees at their meeting of November 29, 1994.

DISCUSSION

"New York State remains possibly the last place in the country where public schools burn coal for heating. Out of about 1,100 public schools in New York City, approximately 270 still burn coal. The NYC Board of Education has been unable to complete the conversion of these remaining coal plants due to competing needs for capital funds. Therefore, it is anticipated that the CASP Program will fund public school coal-fired boiler conversions in New York City and in other school districts that have qualifying Clean Air for Schools Projects. For example, the Buffalo School District still has seven schools that burn coal. Such conversion Projects would result in significant improvement in air quality, both in the affected schools and in the surrounding environment.

"Under the CASP Program, school districts would apply for funding for these CASP Projects. The school district may specify whether it desires the Authority to perform the Project or desires only to obtain funding to hire a third party to perform the Project. The Bond Act directs the Authority to review such Projects consistent with the criteria set forth in the Bond Act and any other criteria, standard, rule or regulation that the Authority may establish relative to the Projects. Exhibit "6-A" sets forth the complete text of Section 56-0609.

"The Authority intends to invite public comment on and input to the criteria proposed for use in evaluating and selecting the applications that will be funded as Projects. The Senior Vice President - Energy Efficiency and Technology, would thereafter propose criteria and procedures, consistent with the Bond Act provisions, to evaluate all applications, and such criteria would include, but not be limited to, the following:

- Extent to which the Project provides the greatest improvement in air quality both within the school and in the surrounding neighborhood;
- Age of the system being replaced; and
- Potential for energy cost savings from efficiency improvements.

A report on the final criteria established by the Act and as a result of public input will be provided to the Trustees.

"After the criteria have been finalized, the Authority will publish a notice of availability for school districts in the State. The notice will include instructions on the application process. Applications will be reviewed by a CASP implementation task force consisting of Authority staff. Based on recommendations by the task force, final decisions on applications will be made by the Senior Vice President for Energy Efficiency and Technology.

"The Bond Act permits the Authority to provide the participating school district with complete turn-key services, including complete technical, design and construction management services. This will allow the Authority to expeditiously implement any coal-fired boiler conversion Projects approved pursuant to the

Program. Additional near term technical design and construction services for the CASP Program would be provided by EECCP Contractors Goldman Copeland Associates, P.C. and Parsons Brinkerhoff. Existing contracts with these firms would be extended for an additional one-year term and the compensation limits increased in aggregate up to those amounts made available by the State to the Authority from 1996 - 97 Bond Act appropriations.

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“The Authority may also proceed to directly engage additional Implementation Contractors: or, through the EECCP contractors, subcontractors identified by an Authority approved competitive process. Projects will be assigned based on contractor performance. All construction work will be competitively bid by the Implementation Contractors. For those Projects for which the Authority provides full turn-key implementation services, reasonable costs, including overhead, will be recovered.

“Projects that receive funding under CASP may be supplemented by additional funding, such as State Building Aid, private funds, and, in the case of New York City, the Board of Education's share of funds available under the Long Term Energy Partnership Agreement (“LTEPA”).

“In the case of coal-fired conversion Projects, staff proposes that the Authority initiate as many projects as feasible each year under the CASP Program.

“Funding for qualified Projects implemented by a third party would be provided as State Assistance Payments made to the school district, subject to agreement with the Authority. State assistance payments will be provided as progress payments to the school district for actual Project expenses.

FISCAL INFORMATION

“This Program would be funded from Bond Act funds made available to the Authority by the State of New York. The Bond Act funds, including any interest accruing on such funds until they are disbursed, would be held in an escrow account established by the Authority and devoted to the purposes of the Program, from an initial allocation for Fiscal Year 1996 - 1997.

“The New York City Board of Education may supplement Bond Act funds with its share of the City of New York's LTEPA energy services funds. Such funds would be limited to those funds made available by the Authority to the City of New York under LTEPA and would be recovered from the City within ten years at the Authority's actual borrowing costs, including interest during construction.

RECOMMENDATION

“The Senior Vice President - Energy Efficiency and Technology recommends that the Trustees authorize the Clean Air for Schools Projects described above, contingent upon the transfer of Bond Act monies from the State in the amount necessary to fund such Program. It is further recommended that the Senior Vice President - Energy Efficiency and Technology, or other designated officers, be authorized to implement the Program, to disburse funds for such implementation, and to execute any agreements or other documents between the Authority and participating school districts as necessary or desirable to implement the Program.

“It is further recommended that the Trustees approve an increase in the compensation limitation and an extension for an additional one-year term of the existing procurement contracts with the firms of Goldman Copeland Associates, P.C. and Parsons Brinkerhoff, which currently provide implementation services for the Energy Efficiency and Coal Conversion Pilot Program.

“The Director - Environmental Programs, the General Counsel, the Senior Vice President - Business Services, the Director of Governmental Relations, and I concur in the recommendation.”

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Mr. Pellegrino summarized the principal aspects of the Program and explained that under the existing LTEPA agreement, New York City has the power to direct the Authority to expand the scope of the Bond Act program; this would be effectuated by the loaning of Authority funds; however, all such monies would be repaid to the Authority within 10 years. Trustee Miller requested, in the event that expenditures of more than \$5 million of Authority funds, i.e., in addition to the \$6 million of POCR funds, are contemplated in the future, that the Trustees' approval be obtained by staff. Trustee Miller reiterated his long-standing reservations about this type of expenditure, and also relayed a question from Trustee Ciminelli concerning the seven apparently eligible schools in Erie County. Mr. Pellegrino confirmed that if such schools are burning coal they would be eligible to apply for the program. Vice Chairman Frey requested that the Trustees be provided with a list of all coal-burning schools within the State and expressed his support for the Program, noting that, although the Bond Act monies are not reimbursable by the beneficiary schools, any Authority funds utilized will be recouped.

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

RESOLVED, That a Clean Air for Schools Projects Program be authorized and implemented in accordance with the Clean Water/Clean Air Bond Act of 1996 using Bond Act funds; and be it further

RESOLVED, That the Senior Vice President - Energy Efficiency and Technology is authorized to implement the Program in accordance with the above resolution and foregoing report of the President, including the obtaining of public comment on proposed criteria governing the Program, establishing the criteria and procedures governing the Program, and upon the recommendation of the implementation task force, selecting those Projects that will be funded under the Program, and authorizing the disbursement of funds to finance approved Projects; and be it further

RESOLVED, That the President and the Senior Vice President - Energy Efficiency and Technology, or his designee, be, and hereby is, authorized, on behalf of the Authority, to use existing agreements or, where necessary, to enter into new agreements with school districts or other entities under the Program to perform the Projects described in the foregoing report of the President, and to enter into any agreements with school districts or other entities governing the disbursement of funds under the Program to perform such Projects by third parties, with such agreements having such terms and conditions as such officer deems necessary, advisable, or appropriate; and be it further

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RESOLVED, That the President, the Senior Vice President - Energy Efficiency and Technology, the Senior Vice President - Business Services, and the Treasurer be, and hereby are, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, demands, directions, consents, approvals, orders, applications, vouchers, agreements, including escrow agreements, certificates, supplements, and further assurances or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effectuate the intent of the foregoing resolution; and be it further

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, approval is hereby granted to increase the compensation limitations of the contracts awarded to Goldman Copeland Associates, P.C. and Parsons Brinckerhoff, in connection with the Energy Efficiency and Coal Conversion Program, as recommended in the foregoing report of the President, up to the amount made available for that purpose by the State.

| | <u>Increased Contract Approval</u> | <u>Projected Closing Date</u> |
|--|---|-----------------------------------|
| Energy Efficiency and Coal Conversion Program Implementation Services | | |
| Goldman Copeland Associates, P.C. Parsons Brinckerhoff | {Total Award not to exceed amount made available by the State to the Authority from 1996-97 Bond Act appropriations} | 11/30/99 11/30/99 |

CLEAN WATER/CLEAN AIR BOND ACT OF 1996

The Act states:

S 56-0609 Clean Air for Schools Projects

1. Of the monies received by the state from the sale of bonds pursuant to the Clean Water/Clean Air Bond Act of 1996, one hundred twenty-five million dollars (\$125,000,000) shall be available for disbursements for clean air for schools Projects.

The power authority is authorized to undertake clean air for schools Projects for elementary, middle and secondary schools. The power authority may undertake such Projects in cooperation with local gas and electric corporations and/or energy service companies.

For the purposes of this section, "clean air for schools Projects" shall mean Projects to improve air quality by schools including, but not limited to, Projects that replace coal-fired furnaces and heating systems with furnaces and systems fired by oil or gas.

2. Any school district may make an application to the power authority for state assistance payments from funds made available under this article toward the costs of clean air for schools Projects.

a. The power authority shall review such applications and may approve, deny, or recommend modifications thereto, consistent with applicable law and consistent with criteria, standards, or rules and regulations, as the power authority may establish, relative to such Projects. In the event that an application is denied, the power authority shall provide, in writing, reasons for the denial to the applicant.

b. In reviewing such applications, the power authority shall give due consideration to the following criteria:

(i) the extent to which the Project provides the greatest improvement in air quality both within the school and in the surrounding neighborhood;

(ii) the age of the system being replaced; and

(iii) the potential for energy cost savings from efficiency improvements.

c. Upon approval of an application, the power authority may enter into a contract with the school district to undertake a clean air for schools Project.

3. Notwithstanding any provision of law to the contrary, the comptroller is authorized and directed to release monies constituting state assistance payments, in amounts set forth in a schedule approved by the director of the budget, to the power authority for the purposes authorized by this section. Any monies constituting state assistance payments made available to the power authority for the purposes specified by this section shall not be subject to the requirements of section one thousand thirteen of the public authorities law.

7. 1996 Annual Report on the Authority's Investments

The President submitted the following report:

SUMMARY

"The Trustees are requested to review and approve the attached 1996 Annual Report on Investment of Authority Funds (Exhibit "7-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, a detailed inventory report for each of the Authority's 11 portfolios at December 31, 1996, the total investment income earned in 1996, the results of an independent audit, a summary of purchases from dealers and banks, and a statement on fees paid for investment services. The approved annual report is filed with the State Division, of Budgets, with copies to the Department of Audit and Control, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon reasonable request therefor.

DISCUSSION

"In 1996, the Authority's investment portfolios exclusive of Nuclear Decommissioning Trust Funds, averaged \$935 million and earned \$60 million. This is \$3 million less than in 1994 due to a reduction in the portfolios' size. Income in 1996 from the Authority's portfolios had an average yield of 6.46%, exceeding the Authority's established performance measure by 26 basis points (26/100 of one percent). The performance benchmark is the five-year rolling average yield on the five-year Treasury note. This benchmark is used because the five-year Treasury note has a duration approximating the Authority's projected cash flow requirements.

"In the aggregate, the portfolios consisted of: 34% direct obligations of the U.S. Government; 60% Agencies of the U.S. Government; and 6% municipal securities. To comply with arbitrage rules contained in the tax code, approximately \$404 million of Authority investments are now yield-restricted at interest rates averaging 5.87%.

"The Authority's Annual Report states that the Authority's Nuclear Decommissioning Trust (the "Trust") account paid \$624,829 to Strong Capital and RCM Capital for investment management services. The managers are paid a percentage of the funds under management, and in 1996, fees represented approximately 15 basis points. At year-end, the Trust's market value was approximately \$468 million. The Nuclear Regulatory Commission ("NRC") mandates that minimum decommissioning reserves be segregated from the Authority's other assets and be beyond the day-to-day administrative control of the Authority to afford protection from the claims of creditors in the event of bankruptcy. To comply with this mandate, the Trustees approved a Master Decommissioning Trust at their meeting of June 26, 1990. The Trust allows for investments in a broad range of high quality government, corporate, and foreign securities and allows for the use of futures and options. Recognizing the greater flexibility for investment types and duration, the Trust's performance is measured against the Shearson Lehman Aggregate Bond Index. In 1996, the Trust achieved a 4.74% total return net of management and trustee fees, exceeding the benchmark return for the year by 111 basis points. On a cost basis,

the Trust achieved a 6.00% positive return and realized \$28 million in earnings. Since its inception in August 1990, the Trust's annualized total return has been 9.63% and has outperformed the Index by 63 basis points. The

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Trust is currently yielding approximately 7.10%. The management of these funds is competitively bid on a regular basis.

"In connection with its examination of the Authority's financial statements, Coopers & Lybrand L.L.P. reviewed and tested the Authority's compliance with the Guidelines, the State Comptroller's Investment Guidelines and Section 2925 of the Public Authorities Law. Their report, a copy of which is attached as Exhibit "7-B", states that the results of such 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 February 27, 1996.

RECOMMENDATION

"The Treasurer recommends that the Trustees approve the attached 1996 Annual Report on Investment of Authority Funds.

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

In response to questions from Vice Chairman Frey and Trustee Miller, President Schoenberger and Mr. Collins explained that the investment restrictions on trust funds, such as the Nuclear Decommissioning Trust, are generally less stringent than on other Authority funds and that "futures" investments are permissible. Messrs. Delaney and Collins added that staff would shortly be seeking Trustee approval for further broadening the scope of permissible investments of the trust funds to include either Standard & Poor's 100 or 500 indices.

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

RESOLVED, That the 1996 Annual Report of Investment of Authority Funds be, and hereby is, approved.

**1996 Annual Report on
Investment of Authority Funds**

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Section I

New York Power Authority Guidelines for the Investment of Funds

I. General

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

II. Responsibility for Investments

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

III. Investment Goals

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

IV. Authorized Investments

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

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

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

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

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

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

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

V. Provisions Relating to Qualifications of Dealers and Banks

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

- (2) have capital and surplus aggregating at least \$50,000,000; and
 - (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of V.A.1.
- C. Investment Securities purchased by the Authority or collateral securing its investments shall be deposited only with custodians designated by the Authority. Such custodians shall be Banks which are members of the Federal Reserve System transacting business in the State of New York.
- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business, and (3) delivery instructions for the safekeeping of investments.
- E. The Authority shall enter into a written contract with any (1) Dealer from whom Investment Securities are purchased subject to a repurchase agreement and (2) Bank from whom Authorized Certificates of Deposit are purchased.

VI. General Policies Governing Investment Transactions

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

VII. Policies Concerning Certain Types of Investments Diversification Standards Required

A. Authorized Certificates of Deposit and Time Deposits

1. Authorized Certificates of Deposit and Time Deposits shall be purchased directly from a Bank in the primary market.

2. Authorized Certificates of Deposit and Time Deposits shall be continuously secured by Investment Securities defined in subsection (1) or (2), having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such Certificates of Deposit or Time Deposits. Such Investment Securities shall be segregated in a separate custodian account on behalf of the Authority.
3. Investments in Authorized Certificates of Deposit or Time Deposits shall not exceed 25% of the Authority's invested funds. The par value of Authorized Certificates of Deposit purchased from any one Bank shall not exceed 5% of that Bank's total capital surplus.

B. **Repurchase Agreements**

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

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

VIII. Review

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

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

XI. Reports

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

X. Miscellaneous

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

Section II

EXPLANATION OF INVESTMENT GUIDELINES

Section II Responsibility for Investments

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

Section III Investment Goal

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

Section IV Authorized Investments

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

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

Section V Provisions Relating to Qualifications of Dealers and Banks

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

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

Section VI General Policies Governing Investment Transactions

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

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

Establishes authorized employees to approve the purchase or sale of securities. Establishes control procedures whereby the Controller shall compare the custodian's confirmation to Authority records.

Section VII Policy Concerning Certain Types of Investment Diversification Standards Required

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

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

Section VIII Review

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

Section IX Reports

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

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

Section III

A. Investment Income Record

During 1996 the Authority's average daily investment portfolio was approximately \$935 million and earned \$60 million.

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

| | | |
|-------------------|----|-----------|
| General Fund | | \$30 |
| Construction Fund | 12 | |
| Operating Fund | | <u>18</u> |
| Total | | \$60 |

The investment income is \$3 million less than the prior year due to the average size of the portfolio decreasing by \$65 million.

B. Fees Paid for Investment Associated Services

| | |
|--------------|-------------|
| \$315,649.70 | Strong |
| \$309,179.37 | RCM Capital |

Investment management fees were paid by the Nuclear Decommissioning Trust Fund. By NRC mandate, the Trust is beyond the Authority's administrative control and is therefore not part of this Annual Report. As a point of information, the Trust balance was \$468 million at December 31, 1996. The Trust's investments are in high quality fixed income securities, and earned \$28 million in 1996. For the year, the Trust had a 4.74% total return after payment of the above management service fees.

C. Results of the Annual Independent Audit

In connection with their examination of the Authority, the Authority's independent auditors, Coopers & Lybrand L.L.P. 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 the results of their tests disclosed no instances where the Authority was not in compliance with these Guidelines.

8. Indian Point 3 Nuclear Power Plant - Radiation Monitoring Upgrade Project - Expenditure Authorization

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve a capital expenditure of \$4,700,000 for engineering, procurement, and installation of modifications to the Radiation Monitoring System ("RMS") at the Indian Point 3 Nuclear Power Plant ("IP3"). These modifications are part of the required system and equipment redesigns which are necessary to maintain the system functional. Retirement of one radiation monitor; replacement of four radiation monitors; troubleshooting and repair of five monitors, and minor rewiring of the Bantam 11 computer comprise the most pressing scope of the radiation monitoring upgrade program. The work is scheduled to be performed during Refueling Outage #9 and during Operating Cycle 10 (1997-1998). The balance of the upgrades which have been identified in Revision 2 of the Radiation Monitoring System Upgrade Plan (1999-2002) will be reviewed and evaluated in detail for future funding consideration.

BACKGROUND

"The RMS monitors radioactive effluents in affected areas of the IP3 plant and is required by IP3 Technical Specifications. Over the past ten years, changes in regulatory requirements and monitoring technology have required a number of design changes to the system. During a refueling outage in 1987, a replacement RMS was installed in order to conform to Nuclear Regulatory Commission ("NRC") Regulatory Guide 1.97, with specific application of the Three Mile Island accident to radiation monitoring capability. The base system was designed to allow radiation monitoring from a central processing unit (Bantam 11 computer) in the control room with the capability for future system expansion and tie-in by adding additional monitors as original monitors became obsolete, design requirements changed, or technology advanced.

"Previous Trustee authorizations to install the base RMS and monitors were approved at their meetings of February 25, 1986 and March 31, 1987. After the initial monitoring system was installed, four additional monitors were added to the system in 1988 and 1992. The total authorization for the RMS to date is \$6,846,000 of which \$6,388,897 has been expended.

"Since 1987, there have been continued regulatory and plant concerns regarding the performance of the RMS system. As a result of a reliability review of the RMS to IP3 Technical Specifications and the Final Safety Analysis Report ("FSAR"), several action items were identified for resolution. This review was a commitment to the NRC following Violation 91-22-02 which was issued by the NRC in December of 1991 as a result of equipment failure and subsequent failure to take continuous "grab samples" required by plant Technical Specifications in the event of monitor malfunction. A Radiation Monitoring System Task Force was formed in early 1996 to address these system deficiencies and provide the proper plant priority and exposure to implement required corrective actions.

DISCUSSION

"The RMS task force has developed and issued an RMS Upgrade Plan which provides a phased approach for monitor troubleshooting, replacement, and computer upgrade in order to increase the reliability and performance of the RMS system. The phased implementation of the plan spans through Refueling Outage #11

and

February 25, 1997

methodically replaces those system components which have the greatest impact on system performance. The scope included in this request is for identified RO#9 RMS work in addition to the engineering and procurement of RMS replacement components which will be performed during the post-RO#9 operating cycle. Installation costs for post RO#9 replacement and the balance of the scope identified in the RMS Upgrade Plan are not included in this request and will be reviewed and evaluated in detail for future funding consideration after the outage.

"The scope of work to be performed during RO#9 includes the retirement of the Control Room Particulate Process Radiation Monitor (R-32), the replacement of the Control Room Radiogas Process Radiation Monitor, the Control Room Area Radiation Monitor and rewiring to provide proper annunciation for process radiation monitors. The control room monitors have been out of service approximately half of the time in the last 18 month period with repair parts unavailable. These monitors are necessary to assure control room habitability.

"The scope of engineering and procurement work for post RO#9 includes the replacement of the Steam Jet Air Ejector Exhaust Radiogas Monitor (R-15) which detects and prevents radiological effluent release to the environment, troubleshooting and repair of the Fan Cooler Unit Service Water Outlet Monitors (R-16A/B) which provides the control room operator the ability to take corrective action before radiological effluent is released to the Hudson River, replacement of the Administration Building Radiogas Monitor, and troubleshooting and repair of the Sewage Treatment Monitors (R-56A-C).

FISCAL INFORMATION

"The Indian Point 3 Improvement Project Proceeds Account has a current balance of \$131.1 million of which \$102.7 million is available to fund this project and additional tasks, not yet authorized, but is identified in the capital plan. Based on current cash flow projections, funds are available through the year 2006. Thereafter, funding will be from the General Reserve or Bond Reserve Accounts. Payment will be made from appropriate Construction Fund - Indian Point 3 Improvement Project Proceeds Account.

RECOMMENDATIONS

"The Site Executive Officer - Indian Point 3 Nuclear Power Plant, the Vice President Nuclear Engineering and Project Management, and the Vice President - Nuclear Operations recommend the Trustees' approval of capital expenditures in the amount of \$4,700,000 for the Upgrade to the Radiation Monitor System at the Indian Point 3 Nuclear Power Plant.

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

The attached resolution, as recommended by the President, was unanimously approved.

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

Expenditure

Capital

Approval

Radiation Monitoring Upgrade Project

Indian Point 3 Nuclear Power Plant

\$4,700,000

9. **Indian Point 3 Nuclear Power Plant - Service Water System Improvement Plan - Small Bore Pipe Replacement - Expenditure Authorization**

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve a capital expenditure of \$7,300,000 for the engineering, material procurement, and installation of small bore replacement piping for the Service Water System at the Indian Point 3 Nuclear Power Plant ("IP3"). This request includes those portions of the small bore pipe which must be replaced during the 1997 Refueling Outage #9 ("RO#9") as identified in the Service Water Improvement Plan (November 1996). Also included in this request is funding for the engineering of the balance of small bore pipe identified in the improvement plan for replacement prior to and during the 1999 Refueling Outage #10.

"This project was identified in the 1997 Capital Plan as a \$22,000,000, multi-phased project scheduled over five years and three refueling outages. The \$42,000,000 amount was a conceptual estimate that assumed complete replacement of the service water piping system; both large and small bore. As a result of a preliminary survey of the Service Water System performed by MPR Associates, it is expected that the large bore piping will not require replacement. The large bore status will be confirmed by inspections which will be performed during RO#9. If required, the large bore pipe would be repaired locally. This considerably reduces the conceptual replacement estimate.

BACKGROUND

"The Service Water Piping System circulates brackish Hudson River Water as a cooling media to various heat exchangers throughout the plant which in turn cool various pieces of equipment. The service water piping is carbon steel pipe with a protective cement inner liner. The liner has performed well in protecting the pipe as designed. An inherent problem with this type of pipe is that the narrow seams inside the pipe which occur at the joints do not have any protection. On large bore piping the welded joints were "grouted" with cement after welding because it was possible to get inside these large pipes. The deterioration of the small bore piping (1" - 4" diameter) joints has been severe because it was not feasible to get inside these pipes to grout the seams of the cement inner liner. It is at these unprotected valves, joints and connections that there has been considerable corrosion causing leaks, leaving joints weak and susceptible to failure.

"A failure in this Safety Related System could cause the plant to shutdown for repairs. Over the past five years the rate at which leaks have occurred has accelerated. In 1991 there were 9 leaks, in 1996 there were 28 leaks. The leaking joints are an indication of joint deterioration and possible joint failure. Service Water Pipe corrosion is an industry problem which has already surfaced at Salem, Haddam Neck, Susquehanna and Indian Point 2 ("IP2"). Consolidated Edison Company of New York, Inc. ("Con Edison") has addressed this problem at IP2 by replacing portions of the lined piping with stainless steel piping. The IP3 Engineering Department developed the Service Water Improvement Plan which is a comprehensive action plan outlining the steps and timing to rectify the Service Water Piping problem. The Nuclear Regulatory Commission ("NRC") is very concerned about Service Water Piping as an industry wide problem and how IP3 in particular will be addressing it. A copy of the Improvement Plan has been forwarded to the NRC for their information, which addresses small bore pipe replacement and the large bore pipe repair plans.

DISCUSSION

"During RO#9 all small bore piping (approximately 2000 feet) leading to safety related equipment will be replaced with 6% Molybdenum Stainless Steel (AL6XN) piping and fittings. This material is highly resistant to salt water corrosion and is expected to eliminate any future problems of this type. During RO#9, inspections and if required, repair will be performed on the high risk areas of the large bore pipe. The scope, if any, for large bore pipe replacement will be identified at this time.

"Isolation valves will be installed during the RO#9 outage in order to allow replacement of three sections of service water pipe with the unit on line. Engineering for these three modifications in addition to six Improvement Plan modifications scheduled for replacement during RO#10 will be performed during 1997 and is included in this request. Balance of procurement and installation for these nine modifications and any large bore replacement initiative if deemed required will be requested when better information and scope becomes available.

FISCAL INFORMATION

"The Indian Point 3 Improvement Project Proceeds Account has a current balance of \$131.1 million of which \$102.7 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 2006. Thereafter, funding will be from the General Reserve or Bond Reserve Accounts. Payment will be made from the appropriate Construction Fund - Indian Point 3 Improvement Project Proceeds Account.

RECOMMENDATION

"The Site Executive Officer - Indian Point 3 Nuclear Power Plant, the Vice President - Nuclear Engineering and Project Management, and the Vice President - Nuclear Operations recommend that the Trustees approve capital expenditures in the amount of \$7,300,000 for Phase 1 of the Service Water System Improvement Plan.

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

The attached 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 and in accordance with the foregoing report to the President, in the amount and for the purpose listed below:

| <u>Capital</u> | <u>Expenditure Authorization</u> |
|------------------------------------|--------------------------------------|
| Indian Point 3 Nuclear Power Plant | |
| Service Water Improvement Project | <u>\$7,300,000</u> |

10. **Sublease of Space - 21st Floor - Paramount Building - The People of the State of New York**

The President submitted the following report:

SUMMARY

"The Trustees are requested to authorize the execution of a sublease of approximately 40,122 square feet of office space at 1633 Broadway between the Authority as sublandlord and The People of the State of New York as subtenant. The proposed sublease is for a term of 10 years at an average annual net rent of \$18.00 per square foot, excluding electricity, plus adjustments to recover increases in taxes and operating expenses over a base year, as more specifically described in Exhibit "10-A" attached hereto.

BACKGROUND

"At their meeting of September 29, 1987, the Trustees approved the execution of a lease for 169,234 square feet of office space at 1633 Broadway, New York City, as the new site for the Authority's New York City office. The term of that lease was for 20 years. The premises under lease initially included the entire 19th, 21st and 22nd floors and approximately 45% of the 20th floor. Subsequently the Authority took possession of the remainder of the 20th floor as well.

DISCUSSION

"The State will use the premises, i.e., most of the 21st floor, for a general business office for the New York State Office of Alcoholism and Substance Abuse Services ("OASAS"). OASAS is responsible for developing, approving, funding and regulating prevention and treatment services for alcoholism and substance abuse. The approximately 150 staff who would be relocated to 1633 Broadway are a significant proportion of OASAS's overall administrative capacity. Visitors to this office would primarily be officials from community-based service provider agencies, representatives of New York City public agencies, staff of other State agencies and visiting staff from its main office in Albany. This premise will not be used as a treatment facility.

"It should be noted that final approval of this transaction by the Authority's landlord and the Office of the State Comptroller as well will be required prior to this lease becoming effective.

FISCAL INFORMATION

"The Authority currently pays its lease obligations from the Operating Fund. By recouping average annual net rent of \$18 per square foot over the 10 year term of this proposed lease, the Authority will substantially offset this existing liability.

"OASAS will take possession of the premises essentially "as is" and there will be no brokerage commissions. No additional initial expenditures will be required to complete this transaction. It is anticipated that costs to the Authority for making minor modifications to the space to accommodate OASAS will be minimal.

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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 sublease agreement with The People of the State of New York for the sublease of commercial office space at 1633 Broadway on terms substantially in accordance with the foregoing and Exhibit '10-A.'

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

In response to questions from the Vice Chairman, Mr. Hoff stated that OASES will be eligible to receive Authority power, although other existing Authority tenants are not similarly eligible.

The attached resolution, as recommended by the President, was adopted by a vote of three in favor, one in opposition.

RESOLVED, That the President, the Senior Vice President - Business Services, or the Vice President - Procurement and Real Estate be, and hereby is, authorized to enter into a sublease agreement for office space at 1633 Broadway with The People of the State of New York on substantially the terms set forth in the foregoing report of the President; and be it further

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

BASIC SUBLEASE TERMS

Authority to The People of the State of New York

Premises: Approximately 40,122 square feet on the 21st floor of 1633 Broadway.

Initial Term: 10 years with projected commencement date of September 1, 1997.

Net Rent: Average annual rent is \$722,196 or \$18.00 per square foot, exclusive of electricity.

Electricity: NYPA will provide electricity to the subtenant at its cost, plus a reasonable markup.

Operating Escalation: Pro-rata share of increases in operating expenses over a base year of 1998.

Real Estate Tax Escalation: Pro-rata share of increases in real estate taxes over a base year commencing July 1, 1997 and ending on June 30, 1998.

Tenant Improvement

Allowance: All tenant improvement costs will be paid by tenant. Costs to the Authority for minor modifications to the space, for example to meet current requirements of the American Disabilities Act, will be minimal.

Brokerage

Commissions: There is no brokerage commission associated with this transaction.

Other

Considerations: Sublease is subject to formal approval by the landlord (Paramount).

**11. Procurement (Services) Contracts - Nuclear Advisory Committee -
James K. Asselstine, William F. Conway, and Gregory E. Kane -
Extensions and Approval of Revised Compensation**

The President submitted the following report

SUMMARY

"The Trustees are requested to approve the continuation and funding of the procurement contracts with James K. Asselstine, William F. Conway, and Gregory E. Kane as Nuclear Advisory Committee consultants for a period of two years through January 3, 1999, in the revised compensation amounts of \$165,000, \$160,000, and \$150,000, respectively.

BACKGROUND

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

"At their meeting of June 29, 1993, the Trustees established the Nuclear Advisory Committee ("Committee") and approved a Committee Charter. The Committee functioned as established until mid-1994 when Committee Chairman Leon Eliason resigned as a result of accepting other professional obligations. Subsequently, Committee member Ken Harris withdrew for similar reasons.

"At their meeting of January 31, 1995, the Trustees approved retaining two distinguished nuclear experts, William F. Conway and Gregory E. Kane to serve on the Committee to replace the two Committee members who had withdrawn. In addition, the Trustees named the remaining member of the Committee as originally constituted, James K. Asselstine, as Chairman of the Committee.

DISCUSSION

"The Committee Charter would continue unchanged except as necessary to reflect any internal staff reorganization. An increase of \$5,000 in the annual retainer of each Committee member is recommended. The original compensation terms would remain otherwise unchanged, as approved by the Trustees at their meeting of January 31, 1995.

"A two-year extension through January 3, 1999 is now requested. The current contract amounts are \$150,000 for James K. Asselstine and \$70,000 each for William F. Conway and Gregory E. Kane. It is recommended that the Trustees approve additional funding for each of the subject contracts that would increase the total compensation to be paid to Committee members to the following revised limits: \$165,000 for James K. Asselstine, \$160,000 for William F. Conway, and \$150,000 for Gregory E. Kane (Exhibit "11-A").

FISCAL INFORMATION

"Funds required for the Committee have been included in the 1997 Approved O & M Budget. Funds required for 1998 will be included in the budget submittal for that year. Payment will be made from the Operating Fund.

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RECOMMENDATION

"The Vice President - Nuclear Operations recommends that the Trustees approve the extension of and revised compensation for the existing procurement contracts with James K. Asselstine, William F. Conway, and Gregory E. Kane to continue to serve on the Authority's Nuclear Advisory Committee, as set forth above and in accordance with the Committee Charter.

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

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the existing contracts with James K. Asselstine, William F. Conway, and Gregory E. Kane as Nuclear Advisory Committee consultants are hereby approved and extended for a period of two years, as recommended in the foregoing report of the President, in the amounts and for the purpose listed below:

| <u>O & M</u> | <u>Projected Date</u> | <u>Approval</u> |
|---|---------------------------|------------------|
| Nuclear Advisory Committee: | | |
| James K. Asselstine (C93-Z0013) Chairman | 01/03/99 | \$165,000 |
| William F. Conway (C95-Z0001) Member | 01/03/99 | \$160,000 |
| Gregory E. Kane (C95-Z0002) Member | 01/03/99 | \$150,000 |

12. Procurement (Services) Contract - Engineering Support Services for Hydroelectric, Pumped Storage, Fossil Fuel Generation and Transmission Facilities - Acres International Corporation - Award

The President submitted the following report:

SUMMARY

"The Trustees are requested to approve the award of a procurement (services) contract to Acres International Corporation ("Acres"), Amherst, NY, in an amount not to exceed \$450,000 for a period of 36 months commencing March 1, 1997. The contract provides for professional engineering and consulting services in support of the operation and maintenance of the Authority's hydroelectric, pumped-storage, fossil fuel generation plants and its transmission facilities.

BACKGROUND

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

"Following development of the Niagara and St. Lawrence/FDR Power Projects, the Authority has been utilizing consulting engineering services, under various agreements, to provide engineering, licensing, and construction support services in connection with various existing and proposed Authority projects. For the 1997-2000 period, staff anticipates expenditures of about \$150,000 per year based on scheduled and proposed work.

"The services to be provided to Power Generation are required to support operations and maintenance of Authority facilities. These services will be used only when engineering requirements are beyond the resources of existing Authority manpower, or during emergencies when Authority staff is not immediately available. The Federal Energy Regulatory Commission ("FERC") requires that Licensees maintain the resources necessary to respond to unusual or changed conditions which may affect public safety. Such supplemental resources are now being provided by Acres under a three year agreement that will expire on March 28, 1997.

DISCUSSION

"Requests for Proposals were sent to a total of twenty-two companies which responded to the Contract Reporter advertisement. On October 24, 1996, nine proposals were received for the subject work. Seven firms declined to bid due to reasons such as insufficient experience, heavy workload, and overly broad scope of work. Six firms did not respond.

"A technical evaluation of the proposals was performed by the Power Generation staff. Each proposal was evaluated through a review of resumes of principal personnel, experience level of each consultant, anticipated level of effort proposed by each consultant, quality of proposal, and inquiries within the Authority relative to past services. A cost evaluation was made of each bidder to determine the lowest cost provider. This evaluation was based on the proposed hourly billing rate, including travel and living expenses. The results of this evaluation indicated that Acres was found to be technically acceptable and the lowest evaluated bidder. (Exhibit "12-A" attached hereto)

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"Acres will be able to support the Authority's staff on an intermittent basis for the 36 month contract period. Based on a reasonable estimate of anticipated work, staff projects that expenditures will be \$150,000 per year. It is therefore recommended that the contract compensation limit be set at \$450,000.

"Awarding this contract with the terms and conditions described above is the most effective way of accomplishing the desired purposes at minimum cost and with maximum benefit to the Authority.

FISCAL INFORMATION

"Funds required for this contract are included in the 1997 Approved O&M Budget. Funds required for 1998, 1999, and 2000 will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

RECOMMENDATION

"The Vice President & Chief Engineer - Power Generation recommends that the Trustees authorize the award of a procurement (services) contract for engineering support services to Acres International Corporation for a period of 36 months with a contract limit of \$450,000.

"The Vice President - Controller, the Vice President - Procurement and Real Estate, 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 Trustees Waldbauer and Frey, Mr. Lipsky confirmed that the services would be used only on an "as-needed" basis and the contract therefore reflects that it has been assigned a zero dollar value.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award of a contract to Acres International Corporation, Amherst, NY, for the supply of engineering support services for hydroelectric, pumped-storage, fossil, and transmission projects be, and hereby is approved, as recommended in the foregoing report of the President, in the amount and for the purpose listed below:

| <u>O&M</u> | <u>Projected Closing Date</u> | <u>Contract Amount</u> |
|--|---------------------------------------|----------------------------|
| Engineering Support Services | | |
| Acres International Corp. Amherst, NY | 03/28/2000 | <u>\$450,000</u> |

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13. Next Meeting

The next regular meeting of the Trustees will be held on **Tuesday, March 25, 1997, at the New York City Office at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

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Closing

“Upon motion made and seconded, the meeting was closed at **11:55 a.m.**”

Anne Wagner-Findeisen
Corporate Secretary

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