

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

August 24, 1999

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Minutes of the regular meeting of the Power Authority of the State of New York held at the New York Office at 11:30 a.m.

Present: Clarence D. Rappleyea, Chairman
Louis P. Ciminelli, Trustee
Gerard D. DiMarco, Trustee
Frank S. McCullough, Jr., Trustee
Hyman M. Miller, Trustee

| | |
|-----------------------|---|
| Eugene W. Zeltmann | President and Chief Operating Officer |
| Robert A. Hiney | Executive Vice President - Project Operations |
| Vincent C. Vesce | Executive Vice President - Corporate Services and Human Resources |
| John F. English | Senior Vice President - Corporate Planning |
| Louise M. Morman | Senior Vice President - Marketing and Economic Development |
| H. Kenneth Haase | Senior Vice President - Transmission |
| Robert L. Tscherne | Senior Vice President - Energy Services & Technology |
| Michael H. Urbach | Senior Vice President and Chief Financial Office |
| Arnold M. Bellis | Vice President - Controller |
| Daniel Berical | Vice President - Policy & Governmental Affairs |
| Woodrow W. Crouch | Vice President - Project Management |
| Russell Krauss | Vice President - Chief Information Officer |
| Charles I. Lipsky | Vice President - Chief Engineer |
| Michael Petralia | Vice President - Public Affairs |
| Stephen P. Shoenholz | Deputy Vice President - Public Affairs |
| Carmine J. Clemente | Deputy General Counsel |
| Craig D. Banner | Director - Municipal & Cooperative Markets |
| Jordan Brandeis | Director - Performance Planning |
| Angelo S. Esposito | Director - Energy Services |
| Leonard J. Lufker | Director - Computer Applications |
| John L. Murphy | Director - Public Information |
| William V. Slade | Director - Environmental Programs |
| James H. Yates | Director - Business Marketing & Economic Development |
| Thomas P. Antenucci | Project Manager - Generation/Facility Improvement |
| James C. Ondishin | Manager - Fossil Fuel Supply - Marketing & Economic Development |
| George W. Collins | Treasurer |
| William Ernsthaf | Principal Attorney |
| Anne Wagner-Findeisen | Deputy Secretary |
| Vernadine Quan-Soon | Senior Assistant Secretary |
| Laura Badamo | Assistant Secretary - Legal Affairs |
| Angela Graves | Assistant Secretary |

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

1. Approval of the Minutes

The minutes of the Regular Meeting held on July 27, 1999 were approved.

2. Financial Report for the Seven Months Ended July 31, 1999

Trustee Ciminelli asked whether the current estimate of revenues includes the projection for unrealized gains and losses required by the GASB rules. Mr. Bellis responded in the affirmative, explaining that on a pure cash basis the projected revenues would be higher.

Trustee Ciminelli inquired about the anticipated duration of the current low river flows, which impact the Authority's hydro generation. Mr. Hiney explained that the Lake Erie water levels are currently some 1-½ feet below last year's and are projected to be some 4 inches below long term average over the next six months. Mr. Hiney added that the upper Great Lakes are less affected than the lower lakes, and that overall the impact on the Authority has resulted in generation lower than forecast by some 5% to date in 1999, and some 22% lower than in 1998. Trustee Ciminelli inquired whether the drought conditions experienced in New York State have been a factor. Mr. Hiney responded in the affirmative, noting that as a result, there is greater than usual uncertainty as to future river flows.

3. Report from the President and Chief Operating Officer

At President Zeltmann's request, Mr. Krauss then briefed the Trustees on the current status and developments in the ongoing Year 2000 Program effort. In particular, Mr. Krauss reported that the schedule and milestones for "mission critical" systems continue to be met. Mr. Krauss explained that the Authority is currently in the scheduled "freeze period," i.e., the window of time set aside for the modification and certification of the necessary systems. With respect to Inventory Readiness, Mr. Krauss reported that those systems which have required additional attention since the June 30th deadline will be ready in early September in time for the nationwide NERC drill of September 8th and 9th.

Mr. Krauss, referring to Trustee Ciminelli's continuing concern about the Authority's inter-dependency with other utilities, presented a report outlining the readiness status of all members of the NPCC (Northeast Power Coordinating Council) which identifies the very few areas in which 100% readiness remains to be attained by Hydro-Quebec, New Brunswick and New England entities. Mr. Krauss emphasized that all members have committed to achieving readiness in a timely fashion.

Mr. Krauss then reported on the principal aspects of the upcoming NERC drill, including NYPA's Rollover Occupancy Plan for 12/31, the back-up satellite telecommunications links and the hourly breakdown of the drill scenario, noting that certain NYPA office systems will actually be tested over the Labor Day weekend since this period will minimize business disruption and more closely parallel the conditions that will be present on December 31st.

In response to questions from Trustee Ciminelli, Mr. Krauss confirmed that the NERC drill had been scheduled deliberately for the potentially sensitive 9/9/1999 calendar date and that the satellite telephones, which will serve as back-up communications, are certified as Y2K compliant. Mr. Krauss stressed, however,

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that virtually all forms of regular communications would have to fail before the satellite phones would ever be the primary communication system.

In response to questions from Trustee Miller concerning the Labor Day weekend testing, Mr. Krauss stated that a controlled, non-disruptive shutdown of office systems would commence at 6 p.m. on Friday, September 3d, and that the systems would gradually be brought back on line over the rest of the weekend as a rehearsal for what would take place on New Year's weekend if the systems were to fail.

4. Village of Mayville - New Large Non-Commercial Retail Rate - Notice of Adoption

The President submitted the following report:

SUMMARY

“The Board of the Village of Mayville, New York has requested the Trustees to approve the creation of a new large non-commercial service classification. The rate will generate additional total annual revenues of about \$157,000 or 15.3 percent. There will be no changes in the rates for any other service classification. Nor are the Authority’s energy and power rates changing.

BACKGROUND

“The Village Board has requested the proposed rate increase to provide revenues to meet Mayville Municipal Lighting Department’s forecasted significant increase in operating expenses directly resulting from service to the new Chautauqua Lake Central School, serving Chautauqua County. It is anticipated that the school will increase Mayville’s demand by 15,000 KW or 25% annually.

“The management of the Village of Mayville has planned additions to plant-in-service amounting \$381,000. The capital program consists of a major upgrade of its distribution substation equipment, installation of new line transformers and overhead and underground conductors, exclusively to serve the new load.

“Mayville officials have requested the Authority to create a new large non-commercial service class, to ensure that all of the expenses incurred to serve the school are collected through an appropriate and approved rate. All of the rates to other customer classes remain unchanged. The large non-commercial service class average rate will be about 8 cents per kWh, compared to NIMO’s 12 cents per kWh.

“The proposed rate revisions are based upon a cost of service study requested by the Village and prepared by Authority staff.

DISCUSSION

“Pursuant to the approved procedures, the Senior Vice President - Marketing and Economic Development requested the Executive Vice President, Secretary and General Counsel to file notice for publication in the State Register of the Village’s proposed revision in retail rates. Such notice was published on May 19, 1999 and the Secretary has received no comments concerning the proposed action. A public hearing was held by the Village of Mayville on June 1, 1999. There was no opposition to the proposed rates and the Village Board has requested that it be approved.

“Expense and revenue summary and comparisons of present and proposed rates by service classification are attached as Exhibits ‘4-A’ and ‘4-B’, respectively.

RECOMMENDATION

“The Manager - Municipal and Cooperative Marketing & Regulation recommends that the attached schedule of rates for the Village of Mayville, New York, be approved as requested by the Village to take effect beginning with the first full billing period following this date.

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“It is also recommended that the Trustees authorize the Executive Vice President, Secretary and General Counsel 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 Senior Vice President – Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations, and I concur in the recommendation.”

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

RESOLVED, That the proposed rate for electric service for the Village of Mayville, New York, as requested by such Village, 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 Executive Vice President, Secretary and General Counsel 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 such other notice as is required by statute or regulation.

Village of Mayville

**Creation of New Rate Class SC-4 (Large Non-Commercial) for
Chautauqua Lake Central School District (CLCSD)**

| | Expense and Revenue Summary | |
|---|-----------------------------|---------------------|
| | <u>1997 COS</u> | <u>Proposed (1)</u> |
| Purchase Power Expense (NYPA hydro and incremental) | \$ 465,820 | \$ 739,551 |
| Distribution Expense (Village owned facilities) | 112,200 | 112,200 |
| Depreciation Expense (On all capital facilities and equipment) | 79,902 | 79,902 |
| General & Administrative (2) (Salaries, Insurance, Mgmt Services & Adm. Expenses) | 152,300 | 152,300 |
| Rate of Return – (Average 7.0%, Proposed 8.6%) (Includes debt service on current & planned debt, reserves, emergency & contingencies) | 87,879 | 107,147 |
| Miscellaneous Revenue Credit (E.g. Sale of used equipment, etc.) <u>(10,000)</u> | | <u>(2,000)</u> |
| Total Cost of Service | <u>\$896,101</u> | <u>\$1,181,099</u> |
| Revenue at Present Rates | 896,101 | <u>1,024,094</u> |
| Deficiency at Current Rates | | 157,005 |
| Revenue at Proposed Rates | | \$ 1,181,099 |
| Increase % at Proposed Rates (All to be incurred by CLCSD) 15.3% | | |

- (1) Based on 5 years historical & projected data.
(2) Includes salary & wages at \$ 90,000 (historical & forecast).

Village of Mayville
Comparison of Present and Proposed Net Monthly Rates

| <u>Present¹</u> <u>Rates</u> | | <u>Proposed¹</u> <u>Rates</u> |
|--|---------------------------------------|---|
| <u>Non-Winter</u> <u>(May-Oct.)</u> | <u>Residential (SC 1)</u> | <u>Non-Winter</u> <u>(May-Oct.)</u> |
| \$ 2.25 | Customer Charge | |
| \$ 2.25 | | |
| \$.0340 | Energy Charge, per kWh | \$.0340 |
| <u>Winter</u> <u>(Nov-Apr.)</u> | | <u>Winter</u> <u>(Nov-Apr.)</u> |
| \$ 2.25 | Customer Charge | |
| \$ 2.25 | | |
| \$.0340 | Energy Charge, per kWh | |
| \$.0491 | First 1,000 kWh | \$.0340 |
| | Over 1,000 kWh | \$.0491 |
| <u>Non-Winter</u> <u>(May-Oct.)</u> | <u>Small Commercial (SC 2)</u> | <u>Non-Winter</u> <u>(May-Oct.)</u> |
| \$ 2.75 | Customer Charge | |
| \$ 2.75 | | |
| \$.0473 | Energy Charge, per kWh | \$.0473 |

¹ Average annual purchase power adjustment (PPA) reflected in present and proposed rates.

Village of Mayville
Comparison of Present and Proposed Net Monthly Rates

| <u>Present¹</u> <u>Rates</u> | | <u>Proposed¹</u> <u>Rates</u> |
|--|---|---|
| Winter (Nov-Apr.) | <u>Small Commercial (SC 2)</u> | Winter (Nov-Apr.) |
| \$ 2.75 2.75 | Customer Charge | \$ |
| \$.0528 | Energy Charge, per kWh | \$.0528 |
| | <u>Large Commercial - Primary (SC 3)</u> | |
| \$ 3.50 | Demand Charge, per kW | \$ 3.50 |
| \$.0208 | Energy Charge, per kWh. | \$.0208 |
| | <u>Large Commercial - Secd'y (SC 3)</u> | |
| \$ 3.75 | Demand Charge, per kW. | \$ 3.75 |
| \$.0209 | Energy Charge, per kWh. | \$.0209 |
| | <u>Large Non-Commercial - Primary (SC 4)</u> | |
| N/A | Demand Charge, per kW. | \$ 3.50 |
| N/A | Energy Charge, per kWh. | \$.0653 |

¹ Average annual purchase power adjustment (PPA) reflected in present and proposed rates

Village of Mayville
Comparison of Present and Proposed Net Monthly Rates

| <u>Present¹</u> <u>Rates</u> | | <u>Proposed¹</u> <u>Rates</u> |
|--|---|---|
| <u>Security Lighting (SC 5)</u> | | |
| Per month, per unit of: | | |
| \$ 2.30 | 150 Watt High Pressure Sodium | \$ 2.30 |
| \$ 3.45 | 250 Watt High Pressure Sodium | \$ 3.45 |
| \$.0201 | Energy Charge, per kWh | \$.0201 |
| <u>Street Lighting (SC 6)</u> | | |
| \$ 4.75 | Facilities Charge, per lamp, per month | \$ 4.75 |
| \$.0230 | Energy Charge, per kWh | \$.0230 |

¹ Average annual purchase power adjustment (PPA) reflected in present and proposed rates.

5. 1999 Amendment to Gas Transportation and Balancing Service Agreement with Consolidated Edison Company of New York, Inc.

The President submitted the following report:

SUMMARY

“The Trustees are requested to authorize the execution of an amendment effective September 1, 1999 (‘Amendment’) to the Gas Transportation and Balancing Service Agreement (‘Agreement’) between Consolidated Edison Company of New York, Inc. (‘Con Edison’) and the Authority, which would extend the term of the Agreement through July 31, 2002 and would also modify certain contract provisions, including the price paid by the Authority for gas transportation and balancing services for the Poletti plant.

BACKGROUND

“As a result of Public Service Commission (‘PSC’) rulings relating to the restructuring of the New York electric utility industry, Con Edison, along with other New York utilities, has been required to divest itself of at least 50% of its generating assets. As part of the divestiture process, the PSC has required local gas distribution companies (‘LDC’s’) to file revised tariffs for gas transportation and balancing service for new (and existing) electric generators. The revised tariffs would standardize the basic rate structure and terms of gas service for electric generators throughout the state, thereby facilitating the competitive bidding process (for divested facilities) by providing price certainty as well as establishing a ‘level playing field’. In addition, the tariffs would permit individually negotiated contracts offering discounted rates and more favorable terms to large generators capable of bypassing LDC service providers, consistent with the PSC’s 1991 Bypass Policy Statement. Such negotiated terms and prices would be filed with the PSC as tariff addenda and would be available to all similarly situated generators, thereby ensuring comparability of service.

“Since the Authority began purchasing its own spot gas supplies in September, 1986, as permitted under the ‘Open Access’ rules set forth by the Federal Energy Regulatory Commission (‘FERC’), Con Edison has been the Authority’s sole source provider of local gas transportation and balancing service. This is due to the fact that the Poletti generating station is located in Con Edison’s franchise area and is connected directly to Con Edison’s gas distribution system. Although Con Edison service was initially provided under the terms of a PSC-approved tariff, the high cost of such service prompted staff to negotiate a more economical transportation rate, as permitted by the PSC. After the Authority’s warning to Con Edison of a possible bypass of its distribution system, Con Edison offered a discounted transportation rate to the Authority which resulted in a January 1, 1989 Agreement.

“Following expiration of the 1989 Agreement, the Authority has been party to several transportation and balancing service agreements with Con Edison, the most recent of which was entered into on June 1, 1997 and which expired on July 31, 1999. In order to ensure the Poletti unit’s ability to continue burning natural gas, staff initiated contract negotiations with Con Edison earlier this year which resulted in a proposed amended agreement, to be effective September 1, 1999. As an interim measure, pending adoption of the amended Agreement by the Trustees, Con Edison is providing service to the Authority for August, 1999 under the terms of the amended Agreement.

DISCUSSION

“The amended Agreement would provide firm and interruptible local transportation of Authority-owned gas from the New York city-gate to the Poletti generating station. In addition, the amended Agreement would provide for balancing service by Con Edison that would accommodate differences in the amount of daily gas scheduled versus the amount of gas consumed. The terms of the new service being offered by Con Edison under

the amended Agreement are identical in most respects to the Authority's existing service, with the following exceptions:

(1) Transportation Charge

The demand charge for transportation under the amended Agreement will increase twofold from \$1,410,924 annually to \$3,080,000, excluding taxes. (In contrast, the variable charge of \$0.01/dekatherm ('dth'), which is applicable to actual gas throughput, will remain unchanged.) This doubling of the demand charge component, although significant, is substantially less than the amount the Authority would be required to pay under Con Edison's recently filed tariff rate which would impose a \$6,500,000 annual demand charge.

As a large electric generator and end-user of natural gas within Con Edison's system, the foregoing \$3,080,000 annual demand charge represents a discounted rate equivalent to the rates being offered to similarly situated generators within Con Edison's service territory, thereby ensuring comparability of service. The reason for the dramatic increase in Con Edison's demand charge is due to the higher estimated cost currently associated with a Con Edison bypass, which is the basis used by Con Edison for determining the discounted demand charge for eligible customers in accordance with PSC policy. In order to ensure adequate compensation for gas transportation services provided by Con Edison, the PSC recently required Con Edison to update its bypass cost estimate study which was last undertaken in 1991.

In considering alternatives to a service agreement with Con Edison, there are only two possible options in staff's view. The first involves a physical bypass of Con Edison's gas distribution system. Due to the high cost and long lead time associated with a bypass, however, staff does not consider this a viable short term option. Notwithstanding the foregoing, the feasibility of such a bypass is currently being investigated within the context of a possible Poletti power augmentation which is longer term in scope. The second alternative involves burning low sulfur residual oil year round at the Poletti facility in lieu of natural gas. In staff's opinion, this is not a viable option due to serious emissions problems associated with burning large quantities of oil as well as potential economic considerations.

(2) Service Interruption

Under the terms of the amended Agreement, Con Edison is obligated to provide the Authority with both interruptible and firm transportation service totaling 200,000 dth's per day, sufficient to run the Poletti unit at its maximum daily operating capacity. In contrast to the existing service, the new Con Edison service contains a contract provision which allows Con Edison, at its sole discretion, to interrupt or curtail transportation service to the Authority, in whole or in part, for up to thirty (30) days equivalent each year (which would be in addition to curtailment for gas system maintenance or emergencies). Moreover, interruptions or curtailments exceeding thirty (30) days would entitle the Authority to a pro-rata reduction in the annual demand charge provided they occur for reasons other than system maintenance or emergencies.

The amended Agreement also contains a provision that would allow Con Edison to interrupt or curtail service to the Authority in favor of its firm and interruptible tariff customers, steam system and governmental customers under special contracts, exclusive of electric power generation customers. Con Edison has justified the foregoing by noting that its firm and interruptible tariff and special contract customers are paying a higher charge for transportation service. Staff has analyzed the risk of being interrupted or curtailed under this hierarchy and has determined that the risk is not significant. It should be noted that such interruptions or curtailments occurring under the amended Agreement would count toward the aforementioned thirty (30) days.

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The foregoing provisions are consistent with the terms of negotiated gas transportation contracts between Con Edison and other large electric generation customers as well as applicable tariff provisions.

(3) Balancing Provisions

Balancing services can be defined as accounts which are established to handle the differences in the amount of gas scheduled versus the amount of gas consumed ('imbalances'). Under the terms of the amended Agreement, imbalances are reconciled (or 'cashed-out') monthly via the sale or purchase of imbalance gas by the Authority in accordance with specific pricing provisions. Imbalance quantities exceeding certain threshold levels are subject to cash-out penalty charges which are applied to the price of the gas purchased or sold. Under the newly proposed service, all of the pricing provisions and associated balancing charges would remain the same with the exception of the imbalance penalty threshold level which will decrease from the current $\pm 5\%$ to $\pm 2.5\%$ of scheduled quantities, which is consistent with Con Edison tariff provisions.

(4) Contract Term

The extended term of the amended Agreement would terminate on July 31, 2002.

FISCAL INFORMATION

"Expenditures under the amended Agreement will be made from the Operating Fund.

RECOMMENDATION

"The Senior Vice President – Marketing & Economic Development recommends that the Trustees authorize the execution of the Amendment to the Agreement in the form set forth in Exhibit '5-A' hereto.

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

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

Trustee McCullough inquired whether, assuming that a by-pass of Con Ed is not viable over the short term, Authority staff is exploring the feasibility of an alternative over the long term. Mr. Ondishin responded in the affirmative, explaining that staff is reviewing both the feasibility and the economic viability of such a by-pass. In response to questions from Trustee Miller, Mr. Ondishin explained that the new annual demand charge of \$3 million would be payable by NYPA irrespective of how much gas is actually purchased, and that such fees are equally imposed on entities such as Orion, Ravenswood, Keyspan and others. Trustee Miller urged staff to pursue the most commercially advantageous course for the Authority.

Ms. Morman responded that a by-pass would provide NYPA with a much wider range of commercial options. Trustee McCullough also expressed concern over Con Edison's increased transportation charges. Ms. Morman stated that staff is actively investigating other options.

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Executive Vice President – Project Operations, and the Senior Vice President – Marketing and Economic Development be, and each hereby is, authorized, on behalf of the Authority, to execute the Amendment to the Gas Transportation and Balancing Service Agreement between Consolidated Edison Company of New York, Inc. and the Authority dated June 1, 1997 in substantially the form attached hereto as Exhibit “A” with such modifications, additions, and deletions as he or she may deem necessary or desirable; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations, and the Senior Vice President – Marketing and Economic Development, are, and each hereby is, 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, directions, consents, approvals, orders, applications, agreements, certificates, and further documents 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 effect the intent of the foregoing resolutions subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

**1999 AMENDMENT TO THE
GAS TRANSPORTATION AND BALANCING
SERVICE AGREEMENT**

This **1999 AMENDMENT**, made and effective as of the 1st day of September 1999 by and between the Power Authority of the State of New York("Authority") and Consolidated Edison Company of New York, Inc. ("Con Edison")

WITNESSETH

WHEREAS, Authority and Con Edison are parties to that certain **GAS TRANSPORTATION AND BALANCING SERVICE AGREEMENT** ("Agreement") made as of the 1st day of June, 1997 by and between them, and amended on June 5, 1998, July 2, 1998, and June 7, 1999, and desire to amend the Agreement as set forth below;

NOW, THEREFORE, in consideration of the promises and covenants contained herein, Authority and Con Edison agree as follows.

1. Section numbers 1.1 through 1.11 are changed to numbers 1.2 through 1.12 respectively, and a new Section 1.1 is added, as follows:

1.1 "Daily Delivery Quantity" means the number of Dt delivered by the Con Edison to Poletti and consumed on any day.

2. In the Sections now renumbered 1.2 and 1.3 pursuant to Section 1 hereof, the words "Poletti's burn" are deleted and replaced by the words "the Daily Delivery Quantity".

3. Section now renumbered 1.6 pursuant to Section 1 hereof is deleted in its entirety and replaced by the following:

1.6 "Gas" means natural gas that is owned by Authority and that is consumed at Poletti, including gas-well gas, casinghead gas, and/or residue gas

resulting from processing both casinghead gas and gas-well gas, and includes liquefied natural gas in a vaporized state and synthetic gas in a vaporized state.

4. Section now renumbered 1.11 pursuant to Section 1 hereof is deleted in its entirety and replaced by the following:

1.11 "Tariff Customers" means those customers who receive gas sales or transportation service from Con Edison pursuant to the terms and conditions of Con Edison's gas tariff P.S.C. No.9 - Gas (the "Schedule") on file with the Public Service Commission, as this Schedule may be amended from time to time. For purposes of this Agreement, "Tariff Customers" shall exclude power generation customers but include Con Edison's steam system and government entities, notwithstanding that service to such government entities is or may be furnished pursuant to special contract.

5. The first sentence in Section 2.1 of the Agreement is deleted in its entirety and replaced by the following:

Subject to the provisions of this Agreement and of Section 5.1 in particular, Con Edison shall on any Day receive for the account of Authority and transport and deliver to Poletti such quantities of Gas no greater than the MDQ as are scheduled pursuant to the provisions of Article IV hereof.

6. The following new Section 2.3 is added at the end of Article II of the Agreement:

2.3 Authority shall use all of the Gas delivered hereunder by Con Edison for the sole purpose of supplying the Authority's Poletti Generating Station, except that, in the event that as a result of an unplanned outage of Poletti Authority has available to it Gas in excess of Poletti's requirements, Authority may sell such excess Gas, in which case it shall give Con Edison a right of first refusal thereon.

7. Section 3.1 is deleted in its entirety and replaced by the following Sections 3.1, 3.2, and 3.3:

3.1 All Authority-owned Gas transported and delivered by Con Edison hereunder must be delivered to Con Edison for Authority's account, at Authority's option but subject to the entitlements specified pursuant to Section 3.3 hereof, at the Goethals Station delivery point of Texas Eastern Transmission Corporation, the White Plains Station of Tennessee Gas Pipeline Company pursuant to Section 6.4 hereof, the Manhattan delivery points, and Long Beach Station, of Transcontinental Gas Pipe Line Corporation; provided however that Gas delivered on a "reasonable efforts" basis pursuant to the provisions of

Section 2.1 hereof may, at Authority's option but subject to the above-noted entitlements, be delivered at the Iroquois Gas Transmission System at South Commack, New York.

3.2 Con Edison's receipts of Gas at any or all of the foregoing points may be limited by Con Edison on any Day to a maximum quantity determined by Con Edison; provided however that such maximum quantity at the Goethals and/or White Plains Stations may be reduced by the amount of Gas, if any, purchased that Day by Authority from any person or entity other than Con Edison which also has a right to receive Gas at those Stations. The foregoing limitations and/or reductions will not be imposed at any delivery point on any Day to the extent that, in Con Edison's sole judgment, the receipt of Authority-owned Gas in excess of the maximum or reduced maximum quantity would not impair Con Edison's ability to meet the requirements of its Tariff Customers and its electric and steam departments on a least cost dispatch basis. Notwithstanding anything else to the contrary in this Article III the aggregate of such entitlements shall be no less than the Scheduled Quantity on any given Day.

3.3 No later than three (3) business days prior to the close of the NYMEX for Gas Futures applicable to each month of the Term hereof, Con Edison shall give Authority written notice of Authority's entitlements to deliver the Gas at the various Delivery Points set forth in Section 3.1 hereof.

8. The following sentence is added at the end of Section 4.3 of the Agreement:

The elimination by Con Edison of hourly flexibility, resulting in Con Edison's imposing on Authority the obligation to take every hour one twenty-fourth (1/24th) of the scheduled total daily quantity, shall not be deemed a curtailment of service.

9. Section 5.1 of the Agreement is deleted in its entirety and replaced by the following:

5.1 Con Edison may, in its sole discretion, curtail or interrupt service, in whole or in part, (i) for up to 720 hours of Authority's maximum hourly quantity (thirty equivalent days) during each year of the Term and (ii) for such additional time as may be required for gas system maintenance or emergencies. If and to the extent that, other than due to emergencies threatening the integrity of the Con Edison system or to causes beyond Con Edison's control, Con Edison curtails or interrupts deliveries in excess of such time, Con Edison shall credit Authority for the pro rata portion of the Demand Charge set forth in Section 6.1 that is associated with such excess curtailment or interruption. Any curtailment or interruption by Con Edison of service to Authority under this

Agreement by reason of Con Edison's meeting the requirements of its Tariff Customers and not pursuant to clause (ii) of the first sentence of this Section 5.1 shall be deemed to be a portion of the 720 hours of curtailment or interruption of service specified in clause (i) of the first sentence of this Section 5.1

10. Section 5.2 of the Agreement is deleted in its entirety and replaced by the following:

5.2 If Con Edison interrupts or curtails deliveries to Poletti as provided in Section 5.1 or in Article VII, Con Edison will notify Authority to reduce or discontinue consumption and not to resume its prior rate of Gas use until further notice. In such case, Authority shall take immediate measures to curtail the use of Gas, and shall complete curtailment as soon as practicable, but in no event later than two (2) hours after Con Edison's notification. Any failure by Authority to comply with said notice will result in an unauthorized use charge of \$4.50 per therm. It shall be the responsibility of Authority to notify its suppliers and transporting pipelines to discontinue or reduce deliveries of Gas to Con Edison for Authority's account.

11. On the first line of Article VI, delete "6.8" and replace it by "6.9." Section 6.1 of the Agreement is deleted in its entirety and replaced by the following:

6.1 A Demand Charge equal to two hundred and fifty six thousand six hundred and sixty six dollars and sixty seven cents (\$256,666.67) in regard to each month of the Term hereof;

12. Section 6.5 of the Agreement is deleted in its entirety and replaced by the following:

6.5 A Balancing Penalty For Overburn for each Day upon which Poletti burns more than one hundred and two and a half percent (102.5%) of the Scheduled Quantity, which penalty shall be reflected by an adjustment in the next monthly invoice and shall be for each such Day the product of (i) the amount by which the Daily Overburn exceeds two and a half per cent (2.5%) of said Scheduled Quantity, and (ii) the higher of (a) the cost per Dt actually and reasonably incurred (and, at Authority's request, documented) by Con Edison (including any applicable pipeline penalties) to replace said Daily Overburn or (b) the price per Dt applicable to such Day and published in Pasha's Gas Daily publication under the title Daily Price Survey for Transco's Zone 6 City Gate Absolute Range High Point (or, if no such price is published, the published price applicable to the latest prior Day), an example of which published price is given in Exhibit II; and,

13. Section 6.6 of the Agreement is deleted in its entirety and replaced by the following:

6.6 A Balancing Penalty For Underburn for each Day upon which Poletti burns less than ninety-seven and a half per cent (97.5%) of the Scheduled Quantity, which penalty shall be reflected by an adjustment in the next monthly invoice and shall for each such Day result in a credit to Authority (or in a debit to Authority, should the unit price referred to in subclause (ii)(b) below exceed the unit price referred to in subclause (ii)(a) below) equal to the product of (i) the amount by which the Daily Underburn exceeds two and a half per cent (2.5%) of said Scheduled Quantity, and (ii) the difference between (a) the price per Dt applicable to such Day and published in Pasha's Gas Daily publication under the title "Daily Price Survey for Transco's Zone 6 City Gate Absolute Range Low Point" (or, if no such price is published, the published price applicable to the latest prior Day), and (b) the sum of the MVOC and a storage fee of \$0.26 per Dt.

14. Section 6.7 is deleted in its entirety.

15. Section 6.8 is renumbered as Section 6.7 and moved to follow directly after Section 6.6. Furthermore, the first sentence of the Section now numbered 6.7 (which was Section 6.8 of the Agreement) is deleted in its entirety and replaced by the following:

6.7 For any Day upon which a Daily Overburn or a Daily Underburn occurs, that portion of said Daily Overburn or Daily Underburn that falls within the range of 97.5% to 102.5% of the daily Scheduled Quantity shall be cumulated for every month of the Term hereof and debit or credit therefor shall be reflected by an adjustment in the next monthly invoice.

16. A new Section 6.8 is inserted after Section 6.7, as follows:

6.8 Any penalty imposed by pipelines on Con Edison as a result of the imbalances contemplated in Sections 5.2, 6.5, 6.6, and 6.7, provided that such penalties are equitably allocated among those Con Edison customers that contributed to such penalties and that Con Edison has used reasonable efforts to avoid such penalties; and.

17. A new Section 6.9 is inserted as follows:

6.9 The charges payable to Con Edison under Sections 6.1 through 6.8 shall be increased by a percentage equal to the aggregate percentage rate of taxes applicable to Con Edison's revenues in New York City.

18. Section 8.1 of the Agreement is deleted in its entirety and replaced by the following:

8.1 Should Authority tender to Con Edison at the Receipt Point(s) Gas at pressures that, in Con Edison's reasonable opinion, could jeopardize the reliability of Con Edison's system, Con Edison shall be under no obligation to accept said Gas or to transport it to Poletti, and Con Edison's refusal to accept or transport such Gas shall not be deemed a curtailment or interruption. Quantities of Gas received by Con Edison at any receipt point for Authority's account shall be measured in accordance with the measurement provisions of the tariff of the interstate natural gas pipeline company which delivers the Gas to the receipt point.

19. Starting in line 3 of Section 8.2 of the Agreement, the words "Leaf No. 10-D or any successor leaf of Con Edison's Gas Tariff" are deleted and replaced by the words "Leaf No. 74.0 or any successor leaf of the Schedule."

20. In Section 9.1, lines 2 and 3, of the Agreement, the words "Sections 6.1 through 6.8 net of any credit due pursuant to Section 6.8" are deleted and replaced by the words "Sections 6.1 through 6.9 net of any credit due pursuant to Section 6.7".

21. Subsection 10.2(b) of the Agreement is deleted in its entirety and replaced by the following:

10.2(b) in the event of an order or ruling by the New York Public Service Commission ("PSC") directly or indirectly imputing greater revenues to Con Edison for the transportation service or the balancing service or both than the revenues actually received or estimated to be received under this Agreement, including without limitation by requiring that Con Edison absorb all or a fraction of any discount resulting from the rates, charges or other compensation provided for in this Agreement, Con Edison shall have the right to terminate the Agreement on thirty (30) days' written notice to Authority, without liability or further obligation hereunder; provided, however, that in the case of an order imputing greater revenues for the balancing service only, Authority may, at its election, compel continuation of this Agreement as to the transportation service and this Agreement in that event shall be deemed to be amended to be limited to the transportation service only.

22. Section 11.1 of the Agreement is deleted in its entirety and replaced by the following:

11.1 Subject to the provisions of Article X hereof, the Term of this Agreement shall be from June 1, 1997 through July 31, 2002;

provided however that the provisions regarding billing and payment shall remain in effect for such time as may be required to carry out their intent.

23. Except as modified herein, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this 1999 Amendment as of the day and year first written above.

**CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC.**

Robert F. Crane
Vice President

**POWER AUTHORITY OF
THE STATE OF NEW YORK**

Louise M. Morman
Senior Vice President
Marketing & Economic Development

6. Amendment to Nuclear Decommissioning Trust Fund Investment Guidelines

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve an amendment to the Nuclear Decommissioning Trust Fund (‘Trust’) Investment Guidelines to authorize the use of Standard and Poor’s (‘S&P’) Index Futures.

BACKGROUND

“At their meeting of June 26, 1990, the Trustees authorized the Investment Guidelines for the Trust, which included the use of futures and options for up to 10% of the value of the fixed income portion of the Trust. The Guidelines were subsequently revised in March 1997 to allow up to 25% of the Trust to be invested in equities. The equity portion of the Trust was to be invested in an S&P Index Fund, which would be benchmarked against the S&P 500 Index. The authorization did not permit the use of futures or options in conjunction with the equity portion of the Trust.

“The Bank of New York, the Authority’s manager of the equity investments in the Trust, has asked for authorization to include the use of S&P Index Futures in the Trust. Futures would be limited to 5% of the value of the equity position of the Trust, or 1.25% of the Trust. The manager expects, at all times, to maintain a position in futures of approximately 1-2% of the value of the equity position, or .25 to .50% of the Trust.

DISCUSSION

“A futures contract is a standardized exchange traded contract to buy or sell a stock, commodity, financial instrument or index at a specified future date. A futures margin, a small amount of money, usually in the form of a U.S. Treasury, is held by a neutral third party to ensure each party to the agreement performs in accordance with the agreement. An S&P index futures contract would give the Trust an investment in the dollar value of the S&P index. The dollar amount is calculated in the following manner: the number of contracts, multiplied by the index level, divided by a fraction equal to one divided by two hundred fifty. On a daily basis, the futures contract is marked to market, i.e., valued daily based on current market conditions. If the value of the S&P index rises, the Trust would receive a payment from the counter-party equal to the amount of the increase. If the value of the S&P index declines, the Trust would make a payment to the counter-party, equal to the amount of the decrease. This replicates the performance of the actual securities held in the index fund.

“The use of futures is expected to improve the tracking of the Trust to the benchmark S&P 500 Index by maintaining a fully invested portfolio and at the same time reducing total transaction costs. Most of the equity index funds run by the larger mutual fund companies and banks invest in futures for the very same reason. For example, shares of an equity index fund at Vanguard or Fidelity would include some futures in the portfolio of stocks making up the funds.

“Managers use the futures to improve tracking to benchmarks, since most indexes assume that reinvestment of dividends occurs on the ex-date (the date at which dividends become payable to owners), not on the pay date. This timing difference could be weeks, and since managers cannot purchase stocks without cash, the only other way to invest dividends is by using futures and thus improve tracking performance. Buying futures equal to the value of the dividends to be received, gives the portfolio the same investment return as if the stocks were purchased.

“The second use of futures is to minimize transaction costs. If the portfolio needed to raise \$2 million, it would have to sell some 37,000 shares of stock to raise the cash. The transaction cost, even as cheap as the manager can trade stock, at \$.02 per share, would cost about \$740 as compared to a \$60 cost to sell 6 futures contract at \$10 per contract, a savings of \$680. The strong equity market over the last several years has caused numerous mergers and acquisitions. When this happens in the index, portfolio managers are forced to buy or sell entire holdings of one or more securities in order to rebalance the portfolios to match the target benchmark. If the securities to be purchased cost more than the one being sold, the manager must raise cash as illustrated above. If there are no futures in the portfolio, shares of stock must be sold, which is much more costly.

“The revised Investment Guidelines for the Trust would allow up to 5% of the value of the equity position, or 1.25% of the Trust, to be invested in futures. As discussed above, the goals would be to improve tracking performance to the benchmark, reduce transaction costs and provide a more efficient method of managing the equity position in the portfolio.

“Staff recommends that the Trustees approve modifying the Investment Guidelines (The Investment Guidelines, as modified, as shown in Exhibit ‘6-A’) to allow investment of up to 5% of the Trust’s equity assets, or 1.25% of the Trust, to be invested in S&P index futures. The Trustees will receive a report annually on the Trust’s performance.

“Exhibit ‘6-B’ is a description of the futures contract and includes examples of how it would be used in the Trust.

FISCAL INFORMATION

“All costs will be paid from the Trust.

RECOMMENDATION

“The Treasurer recommends that the Trustees approve modification to the Investment Guidelines as set forth in the attached Exhibit ‘6-A’, as an amendment to the Master Trust Agreement approved in 1990.

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

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

In response to questions from Trustee Miller, Mr. Collins explained that ¼ to ½% of the Authority’s equity would equal about \$25 million. Trustee Miller stated that he would normally have concerns about investing Authority funds for so long a time period in view of market uncertainties, but that the S&P 500 Index is clearly the most acceptable vehicle for pursuing this course. Trustee Ciminelli noted that most funds that deal in futures have established orderly liquidation schedules that are well ahead of the deadline. Mr. Collins responded that the NYPA funds would be handled similarly and that the equity portion will be the first to be liquidated. In response to further questions from Trustee Miller, Mr. Collins stated that NYPA staff monitors the S&P 500 index, which does not include non-viable

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companies in its listing. Trustee DiMarco noted that all forms of investment carry some degree of risk and that he believes the current vehicle proposed by staff is a reasonably prudent investment mechanism which should be pursued.

RESOLVED, That the Investment Guidelines for the Authority's Nuclear Decommissioning Trust be modified to read in their entirety as set forth in Exhibit '6-A' attached hereto; and be it further

RESOLVED, That the Treasurer be, and hereby is, 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, consents, approvals and agreements, necessary or advisable to effectuate the extent of the foregoing resolution, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

PERMITTED INVESTMENTS

Notes and Bonds

1. Obligations of the U.S. Government, and of an agency of the U.S. Government, directly guaranteed or insured by the U.S. Government or de facto guaranteed by the U.S. Government, including without limitation the Federal National Mortgage Association, acting without specific U.S. Government guarantees as obligors or as trustees for obligations of affiliation or subsidiary entities, and including notes insured by the Farmers Home Administration.
2. Direct obligations payable in U.S. dollars of the International Bank for Reconstruction and Development (World Bank), and obligations guaranteed by the IBRD and payable in U.S. dollars.
3. Bonds of the Inter-American Development Bank.
4. Obligations at the time of their purchase, rated in the top three credit categories by at least two nationally recognized credit rating agencies, securities rated A are limited to 20% of the total fixed income portfolio, and payable in U.S. dollars of:
 - (a) U.S. transportation, utilities, industrial, commercial or financial companies
 - (b) U.S. Government agencies not included under (1) above
 - (c) Private placements
 - (d) Eurodollar obligations
 - (e) Obligations of state and local governments
5. Governments other than the United States, other foreign governmental and public sector agencies international organizations and agencies (Yankee Bonds). Rated A or better.
6. Mortgage Pass-Through Obligation Collateralized Mortgage and Corporate Mortgage Obligations rated AA or better.

Money Market Securities

7.
 - (a) Commercial Paper rated A1 or P1.
 - (b) Certificates of Deposits, Eurodollar Certificates of Deposit and Banker's Acceptances of domestic banks with A+ rating or better.
 - (c) Certificates of Deposit, Eurodollar Certificates of Deposit, and Banker's Acceptances of foreign banks with an A rating or better, denominated in dollars (Yankees).
 - (d) Repurchase agreements, provided they are:

- (1) Purchased from dealers on the Federal Reserve Reporting Dealer list.
 - (2) Fully collateralized by permitted investments, marked to market daily and are held in our custody.
- (f) Short-term pooled investment accounts or "sweep accounts".

Foreign Securities

8. Obligations of governments other than the United States, other foreign governmental and public sector agencies, international organizations and agencies rated A or higher, and deemed by the investment manager to be of investment grade credit quality, denominated in currencies other than U.S. Dollars. No more than 20% of the market value of the portfolio may be invested in non-dollar denominated Fixed-Income securities. No more than 5% of the market value of the portfolio may be exposed to foreign currency fluctuation, i.e. must be hedged into U.S. dollars.
9. Certificate of Deposit and Bankers Acceptances of foreign banks with net worth in excess of \$1 billion, denominated in currencies other than U.S. Dollars.

Future, forwards and Options

10. Futures and options for fixed income securities, traded on public exchanges and over-the-counter with the 50 largest international and 25 largest U.S. banks in asset size and leading U.S. and foreign brokers and dollars. Forward transactions with these institutions are also permitted. Options and/or futures may not exceed 10% of the portfolio.

Equity Securities

11. Up to 25% of the assets (at cost) may be invested in a diversified portfolio of equity securities, managed to meet or exceed the overall market as measured by the S&P 500 Index. **Up to 5% of the value of the Trust's equity position, or 1.25% of Trust, may be invested in S&P Index futures.**

Portfolio Restrictions

Investments in the above-mentioned securities are limited by the following:

More than 5% of the portfolio may not be invested in the securities of any one issuer with the exception of U.S. government/agency securities. No more than 25% of the portfolio may be invested in securities of issuers in the same industry, no more than 20% of the portfolio may be invested in municipal, and no more than 20% in notes, bonds and foreign securities rated A, and the overall rating of the fixed income portion of the portion of the portfolio must be maintained at all times at AA.

S&P Index Future:

A standard exchange traded futures contract on the S&P 500 Index. The futures contract can have an expiration of up to 12 months. The value of a single contract is calculated in the following manner: one multiplied by the S&P index level divided by a fraction equal to one divided by two hundred and fifty.

The value on 8/3/99 was:
 1×1321.98 (level of S&P 500 Index) / $(1/250) =$
 $1321.98 / .004 = \$330,495$ value of single contract on 8/3/99

Dividends:

How futures would be used to improve tracking:
Fund has declared but not paid dividends payable of \$660,000 for the month of August. Number of futures contracts needed to improve tracking of benchmark:
 $\$660,000 / 1321.98 \times .004 = 2$ contracts

Reduce Transaction Costs: See example in Trustee item.

Rebalance Portfolio:

AOL is added to S&P 500 index, so Trust must buy \$990,000 of AOL shares and sell other shares in index to rebalance. Rather than sell securities, Trust could sell futures using the same calculation as above or 3 contracts.

7.

Next Meeting

“The regular meeting of the Trustees will be held on Tuesday, **September 28, 1999, at the Albany Office at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.”

NXMTGAUG

Closing

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

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