

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

March 29, 2005

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Minutes of the Regular Meeting of the Power Authority of the State of New York held at the White Plains Office at 11:05 a.m.

Present: Louis P. Ciminelli, Chairman
Frank S. McCullough, Jr., Vice Chairman
Timothy S. Carey, Trustee
Joseph J. Seymour, Trustee
Michael J. Townsend, Trustee

Eugene W. Zeltmann	President and Chief Executive Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President – Power Generation
Vincent C. Vesce	Executive Vice President – Corporate Services and Administration
Joseph Del Sindaco	Senior Vice President and Chief Financial Officer
Angelo S. Esposito	Senior Vice President – Energy Services and Technology
Edward Hubert	Senior Vice President – Transmission
Louise M. Morman	Senior Vice President – Marketing, Economic Development and Supply Planning
Brian Vattimo	Senior Vice President – Public and Governmental Affairs
Carmine J. Clemente	Deputy Secretary and Deputy General Counsel
Joseph J. Carline	Assistant General Counsel – Power and Transmission
William Ernsthaf	Assistant General Counsel – Finance and Risk Management / Ethics and Regulatory Compliance
Thomas P. Antenucci	Vice President – Project Management
Arnold M. Bellis	Vice President – Controller
John M. Hoff	Vice President – Procurement and Real Estate
Charles I. Lipsky	Vice President and Chief Engineer
Donald A. Russak	Vice President – Finance
James H. Yates	Vice President – Major Accounts Marketing and Economic Development
Michael E. Brady	Treasurer
Brian C. McElroy	Deputy Treasurer
Dennis T. Eccleston	Chief Information Officer
Angela D. Graves	Deputy Secretary
John J. Suloway	Executive Director – Licensing, Implementation and Compliance
Jordan Brandeis	Director – Supply Planning, Pricing and Power Contracts
Thomas A. Davis	Director – Financial Planning
Noel P. Deschamps	Director – Power Generation Support Services
Paul F. Finnegan	Director – Upstate Public and Governmental Affairs
John L. Murphy	Director – Public Relations
James F. Pasquale	Director – Business Power Allocations, Regulation and Billing
Joan Tursi	Director – Budgets
Daniel Wiese	Director – Corporate Security/Inspector General
Shalom Zelingher	Director – Research and Technology Development
Peter Scalici	Deputy Inspector General – Investigations
Albert Swansen	Deputy Inspector General – Security
Steven Lockfort	Manager – Risk Reporting
Anthony C. Savino	Manager – Business Power Allocations and Compliance
Mary Jean Frank	Associate Secretary
Lorna M. Johnson	Assistant Secretary
Bonnie Fahey	Executive Administrative Assistant
Timothy Faulds	Safety and Fire Protection Specialist

Philip S. Astuto	Senior Business Planner
Edward Holman	Senior Environmental Engineer II
Oksana U. Karaczewsky	Senior Procurement Compliance Coordinator
Michael A. Saltzman	Senior Information Specialist
Edward R. Smith	Senior Industrial Hygienist / Occupational Health Specialist
Joann M. Duffy	Strategic Change Consultant
John Cashin	Executive Administrator, Battery Park City Authority
Kent Gardiner	Director, Economic Analysis Center for Governmental Rochester

Chairman Ciminelli 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 of February 23, 2005 were unanimously adopted.

2. **Financial Report for the Month of February 2005**

Mr. Bellis presented an overview of the report to the Trustees. In response to a question from Trustee Carey, Mr. Bellis said that, while fuel costs continue to rise, the Authority is using its oil inventory, but that the price for natural gas remains quite high. Mr. Hiney added that oil prices also are higher than had been expected relative to the price of natural gas. Responding to another question from Trustee Carey, Mr. Hiney said that the Authority is continuing to build its forward positioning on commodities through a hedging strategy.

3. **Report from the President and Chief Executive Officer**

President Zeltmann said that the Authority had once again won the 2004 First Place Electric Utility Safety Award from the American Public Power Association for Group G systems with 1,000,000 to 3,999,999 worker-hours of exposure. He complimented Noel DesChamps, Tim Faulds and Ed Smith, along with the other members of the Authority's safety committee (Al Bieler, Bob Burton, Dave Neary, John Nowicki, Dennis Richards, Susan Sims and Don Sytkowski) for having done the outstanding job that resulted in this national recognition. Chairman Ciminelli also thanked the health and safety team for the great job they were doing. Mr. DesChamps thanked President Zeltmann for his continued strong support of the health and safety program.

4. Allocation of 3,490 kW of Hydro Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve four allocations of available Replacement Power (‘RP’) or Expansion Power (‘EP’), totaling 3,490 kW to four industrial companies.

BACKGROUND

“Under the RP Settlement Agreement, Niagara Mohawk Power Corporation (‘NiMo’), with the approval of the Authority, identifies and selects certain qualified industrial companies to receive delivery of RP. Qualified companies are current or future industrial customers of NiMo that have or propose to have manufacturing facilities for the receipt of RP within 30 miles of the Authority’s Niagara Switchyard. RP is the 445,000 kW of firm hydro power generated by the Authority at its Niagara Power Project that has been made available to NiMo, pursuant to the Niagara Redevelopment Act.

“Under Section 1005 (13) of the Power Authority Act, the Authority may contract to allocate or reallocate directly, or by sale for resale, 250 MW of firm hydroelectric power as EP to businesses in the state located within 30 miles of the Niagara Power Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

DISCUSSION

“On October 22, 2003, the Authority, NiMo, Empire State Development Corporation and the Buffalo Niagara Enterprise signed a Memorandum of Understanding (‘MOU’) that outlines the process to coordinate marketing and allocating Authority hydro power. The entities noted above have formed the Western New York Advisory Group (‘Advisory Group’) with the intent of better using the value of this resource to improve the economy of Western New York and the State of New York. Nothing in the MOU changes the legal requirements applicable to the allocation of hydro power.

“Based on the Advisory Group’s discussions, staff recommends that the available power be allocated among four companies, as set forth in Exhibit ‘4-A’ and ‘4-B’. The Exhibit shows, among other things, the amount of power requested by each company, the recommended allocation and additional employment and capital investment information. These projects will help to maintain and diversify the industrial base of Western New York and will provide new employment opportunities. They are projected to result in the creation of 64 jobs.

“These RP contracts will be for a term expiring August 31, 2007, subject to legislation being passed that authorizes extension of the Replacement Power program.

RECOMMENDATION

“The Director – Business Power Allocations, Regulation and Billing recommends that the Trustees approve the allocation of 3,490 kW of hydro power to the companies listed in Exhibits ‘4-A’ and ‘4-B.’

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

Mr. Pasquale presented the highlights of staff’s recommendations to the Trustees. Chairman Ciminelli thanked staff for their efforts on the compromise reached in the negotiation of the 3 MW Dupont hydro power allocation.

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

RESOLVED, That the allocation of 3,120 kW of Replacement Power and 370 kW of Expansion Power, as detailed in Exhibits “4-A” and “4-B,” be, and hereby is, approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

5. Power for Jobs Program – Extended Benefits

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve extended benefits for 73 Power for Jobs (‘PFJ’) customers as listed in Exhibits ‘5-A’ and ‘5-B.’ These customers have been recommended to receive such extended benefits by the Economic Development Power Allocation Board (‘EDPAB’).

BACKGROUND

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

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

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

“In July 2002, legislation was signed into law by Governor Pataki that authorized another 183 MW of power to be allocated under the program. The additional MW were described in the statute as ‘phase five’ of the program. Customers that received allocations in Year Two or Year Three were given priority to reapply for the program. Any remaining power was made available to new applicants. The program’s sunset date is December 31, 2005.

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

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

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

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

DISCUSSION

“As a result of its meeting, EDPAB recommended that the Authority’s Trustees approve the allocations and/or electricity savings reimbursement rebates to the 73 businesses listed in Exhibits ‘5-A’ and ‘5-B.’ Exhibit ‘5-A’ lists businesses that have requested and are being recommended for contract extensions, while Exhibit ‘5-B’ lists those businesses that have requested and are being recommended for electricity savings reimbursements. Collectively, these organizations have agreed to retain more than 67,000 jobs in New York State in exchange for the contract extension or rebate. The contracts will be extended and the rebate program will be in effect until December 31, 2005, the program’s sunset. The power will be wheeled by the investor-owned utilities as indicated in the exhibits.

“The Trustees are requested to approve contract extensions for the companies listed on Exhibit ‘5-A,’ and the payment and funding of rebates for the companies listed on Exhibits ‘5-A’ and ‘5-B’ in a total amount currently not expected to exceed \$2,700,000. Staff recommends that the Trustees authorize a withdrawal of monies from the Operating Fund for the payment of such amount, provided that such amount is not needed at the time of withdrawal for any of the purposes specified in Section 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented. Staff expects to present the Trustees with requests for additional funding for rebates for the companies listed on the Exhibits in the future.

“Completed applications were reviewed by EDPAB and recommendations were made at their meeting on March 29, 2005.

FISCAL INFORMATION

“Funding of rebates for the companies listed on Exhibits ‘5-A’ and ‘5-B’ is not expected to exceed \$2,700,000. Payments will be made from the Operating Fund.

RECOMMENDATION

“The Senior Vice President and Chief Financial Officer and the Director – Business Power Allocations, Regulation and Billing recommend that the Trustees approve the contract extensions for, and the payment of electricity savings reimbursements to, the Power for Jobs customers listed in Exhibits ‘5-A’ and ‘5-B.’

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

Ms. Pasquale presented the highlights of staff’s recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Pasquale said that the Power for Jobs program is set to expire at the end of this year.

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

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

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves contract extensions for those companies listed on Exhibit “5-A,” and the payment of electricity savings reimbursements to the companies listed in Exhibits “5-A” and “5-B,” as submitted to this meeting, and that the Authority finds that such extensions and payments for electricity savings reimbursements are in all

respects reasonable, consistent with the requirements of the Power for Jobs program and in the public interest; and be it further

RESOLVED, That based on staff's recommendation, it is hereby authorized that payments be made for electricity savings reimbursements as described in the foregoing report of the President and Chief Executive Officer in the aggregate amount of up to \$2,700,000 and it is hereby found that amounts may properly be withdrawn from the Operating Fund to fund such payments; and be it further

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

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

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

6. 2004 Annual Report on Investment of Authority Funds

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to: (i) review and approve the attached 2004 Annual Report on Investment of Authority Funds (Exhibit ‘6-A’), and (ii) amend the Authority’s Investment Guidelines to reflect the reestablishment of the position of Vice President – Finance.

BACKGROUND

“Section 2925 of the Public Authorities Law requires the review and approval of an annual report on investments. Pursuant to the statute, the attached report includes Investment Guidelines that set standards for the management and control of the Authority’s investments, a summary of the Guidelines, the total investment income earned in 2004, a statement on fees paid for investment services, the results of an independent audit, a detailed inventory report for each of the Authority’s eight portfolios at December 31, 2004, and a summary of purchases from dealers and banks. The approved annual report is filed with the State Division of the Budget, with copies to the Office of the State Comptroller, the Senate Finance Committee and the Assembly Ways and Means Committee. The report is also available to the public upon written reasonable request.

DISCUSSION

“In 2004, the Authority’s investment portfolios averaged approximately \$863 million and earned approximately \$25 million. This level of earnings is approximately \$8 million less than in 2003. The decrease in investment earnings is due to the effect of lower reinvestment rates on securities purchased during a time of historically low interest rates. Income for the year from the Authority’s portfolios had an average yield of 3.18%, exceeding the Authority’s established performance measure by 86 basis points (86/100 of 1%). The performance benchmark for 2004 was the three-year rolling average yield on the two-year Treasury note plus 20 basis points.

“At December 31, 2004, the portfolio consisted of 6% in direct obligations of the U.S. government; 77% in agencies of the U.S. government; 7% in Certificates of Deposit and Repurchase Agreements and 10% in Municipal Bonds.

“Investment management fees associated with the Nuclear Decommissioning Trust Fund totaled \$718,275 in 2004.

“In connection with its examination of the Authority’s financial statements, Ernst & Young, LLP, performed tests of the Authority’s compliance with certain provisions of the Investment Guidelines, the State Comptroller’s Investment Guidelines and Section 2925 of the Public Authorities Law. Its report, a copy of which is attached as Exhibit ‘6-B,’ states that the results of such examination disclosed no instances where the Authority was not in compliance with these Guidelines.

“Staff is recommending that the Investment Guidelines be updated to reflect the reestablishment of the position of Vice President – Finance, with the Vice President – Finance being given certain of the responsibilities previously granted to the Senior Vice President and Chief Financial Officer under Paragraph (II) of the Investment Guidelines, dealing with general responsibility for supervising the Treasurer and Deputy Treasurer in the investment of Authority funds, and granted under Section B.4 of Paragraph VII of the Investment Guidelines, dealing with the authority to waive certain restrictions relating to Repurchase Agreements.

“The Investment Guidelines and procedures have not been amended since last presented and approved by the Trustees at their meeting of March 30, 2004. They remain fundamentally sound and meet the requirements of the Power Authority

RECOMMENDATION

“The Treasurer recommends that the Trustees approve the attached 2004 Annual Report on Investment of Authority Funds and approve the amendment to the Guidelines as discussed above.

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

Mr. McElroy presented the highlights of staff’s recommendations to the Trustees. After a discussion among the Trustees and staff as to certain language in the resolution related to the supervisory role of the Vice President– Finance position as it relates to the Treasurer position, it was agreed that the resolution would be amended to eliminate this language.

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

RESOLVED, That the 2004 Annual Report on Investment of Authority Funds be, and hereby is, approved; and be it further

RESOLVED, That the Investment Guidelines be amended as follows (new language underlined; deleted language in brackets):

Section B.4 of Paragraph VII, Policies Concerning Certain Types of Investments Diversification Standards Required, shall be amended to read as follows:

4. No more than \$50 million of Authorized Investments shall be purchased under a Repurchase Agreement with any one Dealer or Bank. This requirement may be waived by the [Senior Vice President and Chief Financial Officer] Vice President – Finance on a single transaction basis only if warranted by special circumstances and documented in writing.

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

**2004 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 Resolution Authorizing Revenue Obligations, adopted February 24, 1998 (the "Resolution"), the lien and pledge of which covers all accounts and funds of the Authority and that governs the Authority's existing policies and procedures concerning the investment of funds as contained in these Guidelines. In a conflict between the Guidelines and the Resolution, the latter shall prevail. In addition, these Guidelines are intended to effectuate the provisions of Section 2925 of the New York State Public Authorities Law.

II. Responsibility for Investments

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

III. Investment Goals

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

IV. Authorized Investments

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

"Authorized Investments" shall mean:

1. Direct obligations of or obligations guaranteed by the United States of America or the State of New York;
2. Bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Financing Bank, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, Federal Housing Administration, Federal Farm Credit Banks Funding Corporation, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks or any other agency controlled or supervised by and acting as an instrumentality of the United States government;
3. Obligations of any state of the United States of America or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision that shall be rated at the time of the investment in any of the three

highest long-term Rating Categories, as such term is defined in the Resolution, or the highest short-term Rating Category by a Rating Agency, as such term is defined in the Resolution.

4. Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America; or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided that such Bonds or Notes are guaranteed by the United States of America.

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

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

V. Provisions Relating to Qualifications of Dealers and Banks

- A.1. The purchase and/or sale of Authorized Investments shall be transacted only through banks, trust companies or national banking associations (herein collectively termed "Banks") that are members of the Federal Reserve System and government security dealers (herein termed "Dealers"), which are Banks and Dealers reporting to, trading with and recognized as primary dealers by the Federal Reserve Bank of New York. Banks and Dealers shall have demonstrated an ability to:
 - a) offer superior rates or prices on the types and amounts of securities required;
 - b) provide a high degree of attention to the Authority's investment objectives; and
 - c) execute trades in a timely and accurate manner.
- A.2. Authorized Investments may also be purchased or sold through minority- and women-owned firms authorized to transact business in the U.S. government and municipal securities markets. Such qualified firms shall demonstrate the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- A.3.A. Municipal securities qualifying as Authorized Investments may also be purchased or sold through any municipal bond dealer registered in the State of New York that demonstrates the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- B. Authorized Certificates of Deposit and time deposits ("Time Deposits") shall be purchased directly from Banks that:
 - (1) are members of the Federal Reserve System transacting business in the State of New York;
 - (2) have capital and surplus aggregating at least \$50 million; and
 - (3) demonstrate all the qualities detailed in clauses (a), (b) and (c) of Section V.A.1.
- C. Authorized Investments purchased by the Authority or collateral securing its investments shall be deposited only with custodians designated by the Authority. Such custodians shall be Banks that are members of the Federal Reserve System transacting business in the State of New York.
- D. The Authority shall file with each qualified dealer a letter agreement that designates the (1) type of authorized investments, (2) Authority employees who are authorized to transact business and (3) delivery instructions for the safekeeping of investments.

- E. The Authority shall enter into a written contract with any (1) Dealer from which Authorized Investments are purchased subject to a repurchase agreement and (2) Bank from which Authorized Certificates of Deposit are purchased.

VI. General Policies Governing Investment Transactions

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

VII. Policies Concerning Certain Types of Investment Diversification Standards Required

A. Authorized Certificates of Deposit and Time Deposits

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

B. Repurchase Agreements

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

- 1. A Repurchase Agreement shall be transacted only with a Dealer or Bank qualified to sell Authorized Investments to the Authority that is recognized by the Federal Reserve Bank as a primary dealer.

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

VIII. Review

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

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

IX. Reports

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

X. Miscellaneous

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

Section II

EXPLANATION OF INVESTMENT GUIDELINES

Section II Responsibility for Investments

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

Section III Investment Goal

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

Section IV Authorized Investments

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

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

Section V Provisions Relating to Qualifications of Dealers and Banks

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

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

Section VI General Policies Governing Investment Transactions

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

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

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

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

Section VII Policy Concerning Certain Types of Investment Diversification Standards Required

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

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

Section VIII Review

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

Section IX Reports

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

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

Section III

A. Investment Income Record

During 2004, the Authority's investment portfolio averaged approximately \$863 million and earned approximately \$25 million.

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

Operating Fund	\$19
Capital/Construction Funds	5
Other (Energy Con./Note Res.)	1
Total	<u>\$25</u>

The investment income is approximately \$8 million less than in 2003. The average size of the portfolio increased by approximately \$3 million in 2004. The decrease in investment earnings is due to the effect of lower reinvestment rates on securities purchased during a time of historically low interest rates.

B. Fees Paid for Nuclear Decommissioning Trust Fund Investment Services

\$317,199	Blackrock Financial Management, Inc.
\$322,673	Tattersall Advisory Group, Inc.
\$ 78,403	The Bank of New York

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

C. Results of the Annual Independent Audit

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

7. Procurement (Services) and Other Contracts – Business Units and the Facilities – Award

The Executive Vice President – Power Generation submitted the following report:

SUMMARY

“The Trustees are requested to approve the award and funding of the multiyear procurement contracts listed in Exhibit ‘7-A’ for the Authority’s Business Units/Departments and Facilities. Detailed explanations of the nature of such services, the bases for the new awards and the intended duration of such contracts are set forth in the discussion below.

BACKGROUND

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

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

DISCUSSION

“The terms of these contracts will be more than one year; therefore, the Trustees’ approval is required. Except as noted, all of these contracts contain provisions allowing the Authority to terminate the services for the Authority’s convenience, without liability other than paying for acceptable services rendered to the effective date of termination. Approval is also requested for funding all contracts, which range in estimated value from \$50,000 to \$9,000,000. Except as noted, these contract awards do not obligate the Authority to a specific level of personnel resources or expenditures.

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

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

“The contract with **Day & Zimmermann NPS, Inc. (‘D&Z NPS’; Q-02-3509; PO # TBA)**, would become effective on April 1, 2005, subject to the Trustees’ approval. The purpose of this contract is to provide for craft labor support for the commissioning and start-up of the Authority’s 500 MW Combined Cycle Plant. Services would also include testing activities, as well as certain maintenance work required during start-up. Such work would be performed on a time and material basis, under the guidance and supervision of General Electric, the original equipment manufacturer/supplier. D&Z NPS would supply all necessary tools and equipment (including metering, rigging and personal protection), verify welders’ qualifications and perform safety training, etc., in compliance with all regulatory requirements. The contractor would also provide the services of a superintendent, who would be responsible for supplying and coordinating all craft labor, attending all required meetings, handling all labor issues and being responsible for overall day-to-day operations. Bid packages were sent to 18 firms, including any that may have responded to a notice in the New York State Contract Reporter. Five proposals were received and evaluated. Based on its qualifications, experience and ability to perform such work, its proposed subcontractors and safety program, its willingness to meet the Authority’s schedule and its competitive pricing, staff recommends the award of the subject contract to D&Z NPS, the lowest evaluated bidder and the most qualified to perform such services. The intended term of this contract is 15 months, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, \$5,000,000 (including contingency).

“The contract with **Durham Staffing, Inc. (PO # TBA)** would become effective on April 1, 2005, subject to the Trustees’ approval. The purpose of this contract is to provide for temporary secretarial services to support the upgrade program and other site improvements at the Niagara Power Project and also to provide support for the Project’s Real Estate Office. The subject contract is awarded on the basis of ‘piggybacking’ on a state contract that was competitively bid by the New York State Office of General Services. Based on its satisfactory qualifications and reasonable pricing, staff recommends the award of the subject contract to Durham Staffing, which has provided satisfactory services under an existing contract. The intended term of this contract is two years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$60,000.

“The contract with the **Electric Power Research Institute (‘EPRI; PO # TBA)** would become effective retroactive to January 1, 2005, subject to the Trustees’ approval. The purpose of this co-funding agreement is to provide for the continuation of the Authority’s participation in Intelligrid, an industry consortium for developing the science and technology for an electric infrastructure to support a digital society. Intelligrid is a multiyear initiative to assure an adequate supply of high-quality, reliable electricity for a digital economy and to integrate energy users and markets. The Authority’s participation, ongoing since 2002 under a previous contract, is important since it affords the Authority (as a generator and transmitter of electricity) the opportunity to be at the forefront of technological developments that will most likely embrace this enterprise-wide use of advanced automation and information technology and that may be adopted as standards for future power systems operations and control. Recent projects in which the Authority has participated include, but are not limited to: (1) the Integrated Electricity and Communications Systems Architecture project – to provide for a self-healing transmission grid through the use of real-time information for intelligent and automated control, as well as for linking energy users with energy markets; (2) Fast Simulation and Modeling (‘FSM’) – to provide for real-time computer analysis capability for fast response to system contingencies (applied to Transmission ‘T-FSM’ and Distribution ‘D-FSM’) and (3) Distributed Energy Resources (‘DER’) – to develop analytical models addressing operations and interconnection issues. Initiatives for 2005 include: workshops at various member utilities to demonstrate hands-on use of the aforementioned developed methodologies; initiating a follow-up project to the T-FSM and continuation of the D-FSM and DER projects. The intended term of this contract is four years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$1,500,000 (\$375,000 per year).

“The contract with **Hartgen Archaeological Associates (‘HAA’; Q-02-3557; PO # TBA)** would become effective on April 1, 2005, subject to the Trustees’ approval. The purpose of this contract is to provide for cultural resources support services, consistent with the Historic Property Management Plan prepared pursuant to Article 422 of the new Federal Energy Regulatory Commission license for the St. Lawrence/FDR Power Project (‘Project’). Services are primarily related to the management of historic properties at the Project, including but not limited to: (1) implementation of various field and office investigations related to the potential effect of Project activities on historic properties at the Project; (2) Historic American Buildings Survey/Historic American Engineering Record documentation of structures to be demolished; (3) monitoring of existing historic properties to assess the potential effects of Project activities; (4) supporting the Authority’s response to unanticipated discoveries of archaeological resources and (5) preparing nomination documents for certain properties that will comprise an Historic Engineering District and an Historic Recreational District. Services would also include activities that support compliance with historic preservation regulations at all Authority facilities, under the auspices of the Authority’s Environmental Division (e.g., shovel tests at the Blenheim-Gilboa Project to support an underground cable installation, etc.). Two proposals were received and evaluated (of seven potential bidders, including any that may have responded to a notice in the New York State Contract Reporter). Based on its technical qualifications, experience, proposal responsiveness and completeness and reasonable pricing, staff recommends the award of the subject contract to HAA, the low bidder. In addition, HAA has a proven track record, as the firm has provided satisfactory services to the Authority in the past and is familiar with the Project area and associated historic properties. The intended term of this contract is three years, with an option to extend for up to two additional years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$520,000 (comprising approximately \$470,000 to support such services related to relicensing projects and approximately \$50,000 for services performed under the auspices of the Environmental Division or other Authority staff).

“The long-term nature of the Authority’s current power supply procurement effort, combined with the need for customer review and approval of supply decisions, make this process quite complex. At its New York City government customers’ request, Authority staff are working in partnership with them and their consultants to evaluate possible energy purchases in order to determine which best meet the long-term goals of the Authority and the governmental customers. Going forward, the Authority expects more frequent supply-planning activities in partnership with its governmental customers. Forthcoming efforts include providing for in-city capacity and meeting the energy supply needs of customers formerly served by the James A. FitzPatrick Nuclear Power Plant, as well as meeting customers’ renewable power needs. The need to expand supply planning consulting resources became apparent during the most recently completed Request for Proposals (‘RFP’) for long-term energy supplies. Staff determined that in order to obtain the most favorable energy supplies for customers, it would be in the best interests of both the Authority and its customers to retain multiple power supply planning consultants in order to provide access to a wider range of expertise than one consulting firm can provide. To this end, the Authority issued a RFP for consulting services in connection with the Authority’s long-term supply planning. Six proposals were received and evaluated (of 18 potential bidders, including any that may have responded to a notice in the New York State Contract Reporter). Of the six respondents, one firm was considered to have insufficient experience to meet the Authority’s needs and another to be non-compliant with the RFP. Staff therefore recommends the award of four contracts to the lowest-cost/most technically qualified bidders: **ICF Consulting, Quantec LLC, PACE Global Energy Services and Stone & Webster Management Consultants (Q-02-3539; PO #sTBA)**. Such contracts would become effective on April 1, 2005, subject to the Trustees’ approval. Services will involve assisting the Authority in maintaining a long-term power supply plan to meet the evolving needs of its customers. Projects may include evaluation of the Authority’s existing generation and transmission assets, customers’ current and projected requirements and the marketplace of available supply alternatives. The intended term of these contracts is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the combined total amount expected to be expended for the term of the contracts, \$2,000,000 (to be allocated to the contracts as needs arise). It should be noted that all costs incurred under the subject contracts on behalf of the governmental customers will be recovered under the cost-of-service-based rates in their long-term contracts.

“The single largest cause of electric power outages is trees growing into or falling onto overhead power lines, as illustrated by the massive Northeast power blackout of August 14, 2003, which was attributed to allowing trees to grow too tall on three separate 345kv transmission lines in Ohio. The Federal Energy Regulatory Commission (‘FERC’), the National Electric Reliability Council (‘NERC’) and the New York State Public Service Commission (‘PSC’) have all taken proactive steps to ensure that all utilities have a strong Integrated Vegetation Maintenance (‘IVM’) program in place. Continuation of the four-year treatment cycle will ensure that the Authority continues to be a leader in this now widely scrutinized and sensitive aspect of the utility industry. To this end, the contract with **Lewis Tree Service, Inc. (Q-02-3515; PO # TBA)** would become effective on April 1, 2005, subject to the Trustees’ approval. The purpose of this contract is to provide for right-of-way (‘ROW’) vegetation management services, including various chemical and mechanical/manual treatments, over a range of vegetation sites within the ROW of high-voltage transmission lines under the maintenance jurisdiction of the Authority, covering approximately 16,000 managed acres. The contractor will supply all necessary labor, supervision, materials, chemicals, tools and equipment for the control of undesirable target trees along more than 1,400 miles of high-voltage transmission lines. The Authority is committed to a four-year treatment cycle; approximately 4,000 acres per year will be subject to vegetation management. Although the majority of the ROW vegetation management work will occur during the normal treatment season (April – December), 10% of the contract price will be withheld to ensure complete treatment, which will be determined during the following growing season. The ROWs are to be maintained to the widths of each previously legally cleared ROW easement. In some locations, and to various extents, encroachment of the bordering forest has resulted in the growth of substantially sized trees on the formerly cleared, legally defined ROW; these trees must be removed and disposed of. On occasion, certain ROW sites located on other Authority transmission lines may require some limited ‘hotspot’ treatments, as needed. Such services are more important than ever, in view of the recent blackout. To this end, four proposals were received and evaluated (of seven potential bidders, including any that may have responded to a notice in the New York State Contract Reporter). Staff recommends the award of the subject contract to Lewis Tree Service, the lowest-cost, technically qualified bidder. Lewis Tree Service is a licensed pesticide applicator in New York State and also a line clearance contractor, in compliance with ANSI standards. It should be noted that the U.S. Environmental Protection Agency awarded the 2004 Pesticide Environmental Stewardship Award to the Authority in recognition of its ROW vegetation management program; Lewis Tree Service was the contractor that performed such services. The intended term of this contract is four years (to be released on an annual basis), subject to the Trustees’ approval, which is

hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$9,000,000.

“In 1998-99, the Authority participated in collaborative projects with the Electric Power Research Institute (‘EPRI’) to develop the theoretical framework and initial tools to produce an ‘electric price forward curve’ and associated volatility structure. As a result of the unique work they had done in this field and their role as the key consultants for the Authority in the aforementioned collaborative development effort with EPRI, the Authority awarded contracts to **The NorthBridge Group and Portal Solutions (‘NorthBridge’ and ‘Portal’)** on a sole source basis in June 2000. Such contracts provided for consulting services to further develop a statistical and analytical platform for projecting regional electric prices and NYPA generator dispatch, and to support associated risk management activities. With the guidance of these consultants, Authority staff developed the initial capability to produce an electric forward curve for the New York region and successfully produced financial projections that reflected the impact of uncertainty related to both the fuel and deregulated electric markets. In addition, the specialized probabilistic tools, proprietary to NorthBridge, provided a basis to derive a range of market valuations of generating assets by capturing a spread of possible price projections. These concepts and related tools were then applied to SENY supply and rate options, hedge strategies and customer pricing strategies. Given the Authority’s continuing need for such expertise and the proprietary software provided by NorthBridge and Portal to assist the Authority’s Energy Risk Assessment and Control (‘ERAC’) and Energy Resource Management (‘ERM’) staff with various critical risk assessment efforts and to support key short- and long-term decisions to be made by the Authority’s senior management, the Trustees approved two new multi-year sole source contracts with NorthBridge and Portal at their meeting of September 17, 2002. Due to the unanticipated rate of usage and corresponding expenditures (primarily due to the rapidly expanding need to support the changing SENY customer relationship), such contracts will be closed prior to completion of the previously-approved contract term. In order to remain competitive in today’s volatile energy markets, it is imperative that the Authority continually upgrade and modify the proprietary software that has been customized for the Authority, to provide not only the critically needed statistical data, but also the ability to drive other important management strategy assessments and decisions. Such risk assessment efforts would include, but not be limited to, forecasts and hedge strategies that continue to support (and expand, where needed) the SENY Risk Platform, as well as forward electric prices for four key zones within New York State, natural gas and fuel oil forwards, Unforced Capacity market prices, forecasts of the Authority’s generating units, hydro water flows, etc. To this end, two new contracts (PO #s TBA) with NorthBridge (primary) and Portal (secondary) would become effective on April 1, 2005, to provide for continued energy risk management consulting services in connection with the aforementioned matters. The intended term of these contracts is three years, with an option to extend for two additional years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the combined total amount expected to be expended for the initial three-year term of the contracts, \$2,500,000.

“The contract with **SAP Public Services, Inc. (PO # TBA)** would become effective on April 1, 2005, subject to the Trustees’ approval. The purpose of this contract is to provide for remote consulting services to Authority staff, on an ‘as needed’ basis, that are not covered under the Authority’s existing professional services agreement with SAP (the developer of the enterprise-wide system implemented by the Authority in 1999). The subject contract affords Authority staff with timely access to SAP expertise for the analysis and resolution of emergent SAP software-related issues. The award is made on a sole source basis, since SAP is uniquely qualified as the original developer of the software. It is in the Authority’s best interest to use SAP resources for such services, due to the company’s familiarity and expertise with the suite of SAP products, its ability to provide support on a timely basis and the secure environment in which it accesses our systems. SAP has a worldwide network of dedicated personnel familiar with and experienced in working with the Authority’s suite of SAP products and available to support the Authority’s remote consulting needs when needed. Hourly rates are based on the level of expertise required from SAP. The intended term of this contract is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$50,000.

“The contract with **SEA Consulting Services (‘SEA’; Q-02-3556; PO # TBA)** would become effective on April 1, 2005, subject to the Trustees’ approval. The purpose of this contract is to provide for engineering services for the Clarence D. Rappleyea Building. Services include, but are not limited to, providing as-built mechanical, electrical and structural record drawings for all projects assigned to the engineering consultant, as well as surveying spaces throughout the building, in order to assess the existing mechanical, fire protection and electrical conditions.

Nineteen bids were received and evaluated (of 53 potential bidders, including any that may have responded to a notice in the New York State Contract Reporter). One firm was disqualified since staff determined that the prices quoted were not comprehensive and did not fully address the Authority's requirements and needs as set forth in the Request for Proposals. Based on its qualifications, interview with Authority staff, and reasonable cost, staff recommends the award of the subject contract to SEA, the lowest cost qualified bidder. The intended term of this contract is three years, with an option to extend for two additional years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the total term of the contract, \$500,000 (including the option years).

"The Energy Management System ('EMS') at the Authority's Energy Control Center ('ECC') was awarded under contract to Siemens as a result of the competitive bidding process conducted in 1992. The completed system was placed into service on March 1, 1999. The EMS is used to communicate with the Authority's three Supervisory Control and Data Acquisition ('SCADA') computer systems, five Authority Remote Terminal Units ('RTU'), Energy Resource Management's ('ERM') portal and Risk Management System, the New York Independent System Operator ('NYISO') and the other New York State transmission utilities. The data acquired from and transmitted to these sources is used to meet the Authority's increasing operational and market commitments. In order to meet this challenge, the Authority made a commitment to the 'evergreen' process to keep the EMS hardware and software current with technological industry developments. This commitment led to the upgrade of the EMS system in 2001 to Siemens Spectrum software version 3.6, which was approved by the Trustees at their meeting of June 26, 2001. The award was made on a sole source basis, since Siemens is the original equipment manufacturer of the EMS system and the developer of the Spectrum software installed at the ECC. The upgraded system was placed into service in June 2002. The ECC is about to embark on another Spectrum software upgrade to implement and integrate the current version (3.9). The contract with **Siemens Power Transmission and Distribution, Inc. (Q-02-3541; PO # TBA)** would become effective on April 1, 2005, subject to the Trustees' approval. The subject contract is awarded on a sole source basis for the aforementioned reasons, as well as the fact that Siemens continues to provide operational maintenance support for the existing system. The intended term of this contract is two years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the total term of the contract, \$2,100,000.

"At their meeting of June 24, 2003, the Trustees approved expenditures of up to \$8,000,000, to be committed in accordance with the Authority's Expenditure Authorization Procedures, for spare parts required to enhance the reliability of Feeder Y49 associated with the Long Island Sound Cable Project. The procurement of a spare 450 MVA rated phase angle regulating transformer was included in the funding estimate. In 2004, the Authority initiated a competitive bidding process to procure the aforementioned spare transformer. Seven proposals were received and evaluated (of 17 potential bidders, including any that may have responded to a notice in the New York State Contract Reporter). Based on its technical qualifications, experience, proposal responsiveness and completeness and reasonable pricing, staff recommends award of the subject contract to SMIT, the lowest-cost, technically qualified bidder. The contract with **SMIT Transformer Sales, Inc. ('SMIT'; Q-02-3491; PO # TBA)** became effective on March 9, 2005, subject to the Trustees' subsequent ratification and approval. In an effort to expedite the commencement of services and to protect the Authority against potential price increases resulting from the volatility of the steel market, the President and Chief Executive Officer authorized interim approval to award the subject contract, pursuant to the Authority's Guidelines for Procurement Contracts. The initial authorization was for engineering services and procurement of long-lead-time material, in the not-to-exceed amount of \$500,000, for work related to the design, manufacture, testing, furnishing and delivery of the aforementioned spare transformer to be used at the Long Island Power Authority's ('LIPA') East Garden City Substation. The intended term of this contract is approximately one year. The Trustees are requested to ratify the previously authorized interim approval to commence services and to approve the award of the full contract to SMIT. Approval is also requested for the total amount expected to be expended for the term of the contract, \$3,819,851 (including performance bond, spare parts and freight). It should be noted that all costs will be reimbursed to the Authority by LIPA in the form of an additional monthly surcharge for transmission service.

"The contract with **Universal Office Cleaning (RFQ 6000056206; PO # TBA)** would become effective on April 1, 2005, subject to the Trustees' approval. The purpose of this contract is to provide for janitorial services for the Richard M. Flynn Power Plant and the Brentwood Power Station. Bid packages were sent to 18 firms, including any that may have responded to a notice in the New York State Contract Reporter. Based on its satisfactory qualifications and reasonable pricing, staff recommends the award of the subject contract to Universal

Office Cleaning, the low bidder of six bids received and evaluated. The intended term of this contract is three years, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$74,330.

"On June 28, 2004, Consulting Solicitation Q-02-3446 appeared in the New York State Contract Reporter, advising potential bidders that the New York Power Authority was seeking responses from parties interested in entering into continuous service agreements for legal services. After receiving the responses, the Law Department conducted a review of the need for the assistance of outside counsel and consulting services and the availability of resources to meet that need in the form of both existing firms providing legal services and prospective firms responding to the solicitation. The committee conducting this review (the 'Evaluation Committee') offered its final recommendations in a memorandum dated February 11, 2005. The General Counsel and his Deputy have reviewed the memorandum and are prepared at this time to enter into new continuous service agreements for general legal services with the following three firms: **Mintz Levin Cohn Ferris Glovsky & Popeo, PC and Troutman Sanders LLP**, recommended by the General Counsel, and the firm of **Holland & Knight LLP**, recommended by the Deputy General Counsel. (Such further contract approvals, as may be endorsed by the General Counsel, will be sought during the course of 2005.) The intended term of the new contracts is three years, with an option to extend for two additional years. The Trustees' approval is therefore hereby requested for the procurement of services under the new contracts for the full five-year period (including option years). Approval is also requested for the release and allocation of funding to these contracts with the subject firms, from an aggregate total \$3,500,000 for the three-year period ending March 31, 2008, to be drawn from Legal Outside Counsel Budget funds, as assignments are made by the Executive Vice President, Secretary and General Counsel and the Deputy General Counsel. (It should be noted that the aggregate amount would also be available under the previously-approved contract with Bond Schoeneck & King, as further discussed in the Extensions Item presented on this date.).

RECOMMENDATION

"The Deputy Secretary and Deputy General Counsel, the Vice President – Procurement and Real Estate, the Vice President and Chief Engineer, the Vice President – Project Management, the Vice President – Controller, the Vice President and Chief Risk Officer, the Vice President – Environmental Management, the Executive Director – Licensing, Implementation and Compliance, the Director – Research and Technology Development, the Director – Corporate Support Services, the Director – Supply Planning, Pricing and Power Contracts, Director – Power System Operations, the Chief Information Officer, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York, the Regional Manager – Southeast New York and the General Manager – Transmission Maintenance recommend the Trustees' approval of the award of multiyear procurement contracts to the companies listed in Exhibit '7-A' for the purposes and in the amounts set forth above.

"The Executive Vice President, Secretary and General Counsel, the Executive Vice President – Corporate Services and Administration, the Senior Vice President – Marketing, Economic Development and Supply Planning, the Senior Vice President and Chief Financial Officer, the Senior Vice President – Energy Services and Technology, the Senior Vice President – Transmission, the Senior Vice President – Public and Governmental Affairs and I concur in the recommendation."

The following resolution, as submitted by the Executive Vice President – Power Generation, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the multiyear procurement services and other contracts set forth in Exhibit "7-A," attached hereto, are hereby approved for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the Executive Vice President – Power Generation; and be it further

March 29, 2005

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

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

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the continuation and funding of the procurement contracts listed in Exhibit ‘8-A’ in support of projects and programs for the Authority’s Business Units/Departments and Facilities. In addition, the Trustees are requested to approve an increase in the compensation ceiling of the contract with VanNess Feldman P.C. Detailed explanations of the nature of such services, the reasons for extension, the additional funding required and the projected expiration dates are set forth below.

BACKGROUND

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

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

DISCUSSION

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

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

Contracts in Support of Business Units/Departments and Facilities:

“The contract with **Airmatic Compressor Systems Inc. (4600001260)** provides for energy efficient compressed air system audit services for various Authority energy efficiency projects located throughout the five boroughs of New York City and Westchester County. The purpose of the audit services is to identify potential energy savings for on-site compressed-air systems in the various facilities serviced by the Authority. The original award, which was competitively bid, became effective on May 15, 2004 for an initial term of one year, with an option to extend for up to two additional years. A two-year extension is now requested to exercise the option in order to continue services, as may be required. The current contract amount is \$100,000; it is anticipated that an additional \$33,000 may be required for the extended term. The Trustees’ approval is requested to extend the subject contract through May 14, 2007, and to approve the additional funding requested.

“The contract with **Bernier Carr & Associates, PC** (‘BC&A’; 4500079264) provides for detailed design/engineering and construction support services for the new St. Lawrence Visitors’ Center at Hawkins Point. The original contract, which was competitively bid, became effective on October 30, 2003 for a term of up to one year, including completion of as-built drawings. The contract was subsequently modified to add construction support services and oversight of the work to be performed by the construction contractor, H. Schickel. Due to code and seismic design issues, the construction schedule was delayed and Schickel did not commence work until June 2004. This delay resulted in a revised project schedule and completion date of January 31, 2005 for the building proper. Since BC&A is also responsible for soliciting bids to move the existing exhibits from the St. Lawrence facility to the new building, it is currently anticipated that the firm will be required to provide such oversight through June 30, 2005 (during which time weather conditions will permit BC&A to provide oversight of any outstanding construction completion activities and punch list items, as may be required, and to complete the required as-built drawings. An interim extension through March 31, 2005 was authorized in accordance with the Authority’s Guidelines for Procurement Contracts and Expenditure Authorization Procedures. It is currently projected that an additional three-month extension through June 30, 2005 will be required for completion of all required work. The current contract amount is \$211,087; since certain issues are unresolved and subject to negotiation with BC&A, staff cannot currently project if any additional funding will be required. However, should additional funding be required, it would be authorized in accordance with the Authority’s Expenditure Authorization Procedures. The Trustees are requested to ratify and approve the previously authorized interim extension of the subject contract through March 31, 2005 and funding in excess of 25%, and to approve an additional extension through June 30, 2005.

“The contract with **Bloomville Disposal Service** (4500087451) provides for trash removal and disposal services for the Authority’s Blenheim-Gilboa Project. Services also include providing various waste containers as per specifications and landfill disposal fees. The original award, which was competitively bid, became effective on April 1, 2004 for an initial term of one year, with an option to extend for up to two additional years. A two-year extension is now requested to exercise the option in order to continue services. The current contract amount is \$40,000; it is anticipated that an additional \$80,000 may be required for the extended term. The Trustees’ approval is requested to extend the subject contract through March 31, 2007, and to approve the additional funding requested.

“The contract with **Bond Schoeneck & King, PLLC** (‘BS&K’; 4500095667) was issued to address urgent needs and assignments related to appropriation matters in connection with services provided to the Long Island Power Authority (‘LIPA’) for the summer 2005 Capacity Program. The overall purpose of this continuous service agreement is to provide for specialized legal services rendered to address various issues when they arise, performing discrete and specific work assignments when and if needed by the Authority. Such services would include, but not be limited to, intellectual property and patent matters, representation in lawsuits involving transmission lines, and providing advice and assistance to the Authority in eminent domain and other real property matters or other discrete emergent matters, as may be required. The subject contract, which was awarded as the result of a competitive search, became effective on July 30, 2004. At their meeting of September 17, 2004, the Trustees ratified the initial authorization to commence services due to time constraints, and approved a full five-year term (including option years), as well as initial funding in the amount of \$100,000. The current contract amount is \$100,000. As additional funding is required for the previously-approved contract term, it will be drawn from an aggregate \$3,500,000 to be funded through the Legal Outside Counsel Budget, as further discussed in the Awards Item presented on this date. It should be noted that all costs associated with the LIPA program will be reimbursed to the Authority by LIPA.

“The contract with **C & S Engineers, Inc.** (‘C&S’; 4500075017) provides for design services related to recreation facilities in the towns of Waddington, Louisville and Massena, in fulfillment of commitments made by the Authority to enhance such local recreation facilities, as part of the New License Issuance for the St. Lawrence/FDR Power Project. At their meeting of July 22, 2003, the Trustees approved the award of a four-year contract for such services to C&S in the amount of \$500,000. The original contract, which was competitively bid, became effective on August 1, 2003. An additional \$83,896 was subsequently authorized in accordance with the Authority’s Guidelines for Procurement Contracts and Expenditure Authorization Procedures. The current contract amount is \$583,896; it is anticipated that an additional \$166,104 may be required for the remaining contract term. It should be noted that funding for such services has been included in the approved Capital Expenditure Authorization Request (‘CEAR’) for this purpose and is within budget. Such services will include, but not be limited to: (1) additional design services for dredging the channel to the Wilson Hill boat launch, including construction drawings and specifications and support during bidding and construction; (2) continued support to complete the review of 2004 construction-related documents, e-mails and phone calls regarding field conditions; (3) continued support for

meetings with towns to discuss design questions; (4) continued support during the final construction phase (2005-06), from bidding through construction and (5) attending additional project meetings and site observation visits through construction completion. The Trustees are requested to approve the additional funding requested, increasing the total authorized contract amount to \$750,000.

“The contract with **Gannett Fleming Engineers & Architects, P.C. (‘Gannett Fleming’; 4500056820)** provides for remedial site investigation services at the Vernon Boulevard Small Clean Power Plant site, as part of the Authority’s negotiations with the New York State Department of Environmental Conservation (‘NYSDEC’) resulting from the excavation and disposal of contaminated soil during construction of the facility. Subsequently, the Authority entered into a Voluntary Cleanup Order (‘VCO’) with NYSDEC; the VCO committed the Authority to conduct further site characterization studies. The Authority retained Gannett Fleming to prepare the VCO-mandated Site Investigation Work Plan (‘SIWP’), which was submitted to NYSDEC for approval. The original award became effective on May 30, 2002 for a term of up to one year. More than one year elapsed before NYSDEC and the New York State Department of Health approved the SIWP and there was no activity under the subject contract for some time. At their meeting of September 23, 2003, the Trustees approved a 15-month extension through December 31, 2004 to accommodate NYSDEC’s review and approval process, as well as to subsequently complete the requisite field work and related reporting services. The execution of the SIWP in the field is being held in abeyance while the Authority negotiates with the U.S. Army Corps of Engineers and other agencies and/or interested parties regarding riverbank stabilization activities and additional site sampling. The SIWP commits the Authority to installing five new monitoring wells and to advancing 11 new soil borings. Gannett Fleming will analyze the resulting monitoring well groundwater and soil-boring data to determine the presence of metal contamination. If metal contamination is found, Gannett Fleming will develop computer models to ascertain if the site could potentially contaminate the East River. An additional 18-month extension is now requested in order to provide for Gannett Fleming’s installation of the new groundwater monitoring wells, collection of new soil samples, data analysis and preparation of a report to NYSDEC, as well as the development of computer models, if required. The current contract amount is \$55,000; it is currently anticipated that no additional funding will be required for the extended term. Should additional funding be required, it would be authorized in accordance with the Authority’s Expenditure Authorization Procedures. The Trustees are requested to extend the subject contract through June 30, 2006, with no additional funding requested.

“The contract with **General Physics Corp. (‘GP’; 4500088213)** provides for an EtaPRO Plant Performance Monitoring System, including 12 custom reports, to support the Authority’s 500 MW Combined Cycle Plant. EtaPRO provides advanced power plant monitoring, diagnostic and analytical tools for operators, technicians and engineers that are custom-tailored to the configuration of the plant. The system enables real-time and historical data trending and analysis to be performed quickly and intuitively by the end user through EtaPRO’s built-in Trend Recovery feature. Diagnostic flow charts are also available to aid in troubleshooting plant performance problems. The optional EPreporter reports make summaries of operational and performance information readily available to plant and White Plains Office personnel. The original award became effective on March 30, 2004 for an initial term of approximately six months (but not to exceed one year). It was awarded on a sole-source basis, since GP is the sole developer of the EtaPRO system and, as such, is uniquely qualified to provide such a system; GP has in-depth knowledge of the system and has a successful track record for installing EtaPRO systems for the Authority, as well as for other clients. (The underlying 500 MW EtaPRO is identical to the EtaPRO systems presently installed at the Poletti and Flynn plants, as well as at the Small Clean Power Plants.) Since the Authority cannot accept the EtaPRO system until after the plant is operational, a one-year extension is now requested. The current contract amount is \$191,500; it is anticipated that no additional funding will be required for the extended term. The Trustees’ approval is requested to extend the subject contract through March 29, 2006, with no additional funding requested.

“The contract with **Hack, Piro, O’Day, Merklinger, Wallace & McKenna (4500089360)** provides for legal services to the Authority’s indemnitee, American Telephone and Telegraph Company, in connection with a pending action (*Peralta v. AT&T*). AT&T demanded that the Authority assume its defense and indemnify it in the above-referenced lawsuit by an employee of an Authority contractor (Pinnacle) who was allegedly injured during the Authority’s preparation of office space that it leased in AT&T’s building. The lease between the Authority and AT&T contained an indemnification provision that required the Authority to indemnify AT&T against liability in connection with or arising from the ‘acts, omissions or negligence’ of the Authority’s ‘contractors.’ Plaintiff’s actions would seem to fall within the scope of the Authority’s obligation. The Authority assumed the costs of AT&T’s defense in this matter on the condition that AT&T vigorously pursues its rights under the Pinnacle policy by initiating a declaratory action demanding a defense and indemnification coverage by the insurer; AT&T accepted

those terms. The original contract, which was awarded on a sole source basis, became effective on April 15, 2004 for an initial term of one year with an option to extend for up to two additional years. The Peralta litigation is now in its discovery phase and a trial of this matter may occur later this year. Pre-trial preparations have taken longer than anticipated and the original contract amount may not be sufficient to conclude this matter. A two-year extension is now requested to exercise the option in order to continue to provide services through resolution of this matter. The current contract amount is \$55,000; it is anticipated that an additional \$40,000 may be required for the extended term. The Trustees' approval is requested to extend the subject contract through April 14, 2007 and to approve the additional funding requested.

“The Authority is required to dispose of regulated wastes (i.e., hazardous waste, PCB waste, universal waste, etc.) only at an approved facility. To that end, the Authority maintains a list of approved waste-handling facilities, known as Transportation, Storage and Disposal Facilities (‘TSDFs’), in accordance with the Authority’s Environmental Corporate Procedure for the Disposition of Waste Materials. Such facilities are approved by the Authority’s environmental staff as the result of an audit, which consists of a site visit, documentation review, compliance history, financial review and query of the U.S. Environmental Protection Agency (‘EPA’) personnel responsible for a particular facility. It is beneficial to have more than one facility approved for a particular waste stream to ensure that the Authority can ship waste off site in a timely manner and avoid exceeding EPA’s stipulated storage limitations. Given that the Authority incinerates 85% of its regulated waste, it is beneficial to have a second hazardous waste incinerator approved for use, as needed. The contract with **Heritage Environmental Services, LLC (‘HES’; 4600001229)** provides for such waste treatment and disposal services for all Authority facilities. Services include removal, processing, recycling and/or disposal of non-hazardous and hazardous waste generated or accumulated by Authority facilities, as well as by Authority customers participating in the Authority’s Energy Services. While HES also owns other disposal facilities, the subject contract allows for disposal of Authority waste only at the Von Roll/WTI incinerator in East Liverpool, Ohio. The original contract, which was awarded as the result of a competitive search, became effective on March 15, 2004 for an initial term of one year, with an option to extend for up to four additional years. A nine-month extension is now requested in order to exercise part of the option and continue services, as may be required. The Trustees’ approval for extension of the subject contract through the full term will be sought at their December 2005 meeting in a consolidated environmental agenda item, in order to make all such contracts coterminous. The current target value is \$250,000; no additional funding will be required for the extended nine-month term. The Trustees’ approval is requested to extend the subject contract through December 31, 2005, with no additional funding requested.

“The contract with **Machal Service Systems Corp. (4500081975)** provides for maintenance of the Authority-owned window-washing rig machine at the Clarence D. Rappleyea Building. Services include scheduled preventive maintenance, as well as regular or emergency repairs (performed on a ‘time and material’ basis) for work not covered under regular maintenance. The original award, which was competitively bid, became effective on January 1, 2004 for an initial term of one year, with an option to extend for two additional years. A short-term interim extension through March 31, 2005 was authorized in accordance with the Authority’s Guidelines for Procurement Contracts and Expenditure Authorization Procedures. A two-year extension is now requested in order to exercise the option and continue services, as scheduled or needed. The current contract amount is \$12,670; it is anticipated that an additional \$24,000 may be required for the extended term. The Trustees are requested to ratify the previously authorized interim extension of the subject contract through March 31, 2005 and to approve an extension of the subject contract through December 31, 2006, as well as the additional funding requested.

“The contract with **Maric Mechanical Inc. (4500078779)** provides for construction services related to the climate control system at Public School 158M in New York City, as part of the Authority’s Clean Air for Schools Program (‘CASP’). The original award, which was competitively bid, became effective on October 20, 2003 for a term of one year. A short-term interim extension through March 31, 2005 was subsequently authorized, in accordance with the Authority’s Guidelines for Procurement Contracts and Expenditure Authorization Procedures, in order to perform additional electrical and boiler repair work requested by the customer. The current contract amount is \$263,130; it is anticipated that an additional \$17,807 will be required for the extended term. The Trustees are requested to ratify and approve the previously-authorized interim extension of the subject contract through March 31, 2005 and to approve the additional funding requested. It should be noted that all costs will be reimbursed to the Authority through the New York City Board of Education.

“The two contracts with **Riverdale Electrical Services (4500077691 and 4500077287)** provide for electrical lighting installation services for various New York Police Department precincts in Queens and Brooklyn, as part of the Authority’s High Efficiency Lighting Program (‘HELP’). The original awards, which were competitively bid, became effective on October 6 and November 3, 2003, respectively, for an initial term of less than one year. Due to delays related to the commencement of services and the delivery of material (procured under separate contracts with several vendors), a short-term interim extension through March 31, 2005 was subsequently authorized for both contracts, in accordance with the Authority’s Guidelines for Procurement Contracts and Expenditure Authorization Procedures. An additional three-month extension of the latter contract is now requested in order to complete the various projects. The current contract amounts are \$167,599 and \$160,453, respectively; it is anticipated that an additional \$5,000 and \$12,000, respectively, may be required for the extended term of the contracts. The Trustees are requested to ratify the previously-authorized interim extension of the subject contracts through March 31, 2005, and to approve an additional 3-month extension of the latter contract through June 30, 2005, as well as the additional funding requested. It should be noted that all costs will be recovered by the Authority.

“In November 1997, the Federal Energy Regulatory Commission (‘FERC’) ordered the Authority to test acoustic fish-deterrence systems at the Crescent and Vischer Ferry Projects and to file plans and schedules for fish protection. Per FERC order dated March 16, 2001, the Authority was further mandated to install a permanent fish-protection system at the Vischer Ferry Project and also to conduct additional testing to demonstrate the effectiveness of the relocated deterrent sound field at the Crescent Project. Such work, including studies of sonic fish-deterrence systems and acoustic monitoring of fish abundance, was performed under a previous sole-source contract with BAE Systems Aerospace, Inc. (‘BAE’). The contract with **Ultra Electronics Ocean Systems (4500088317)**, which acquired the BAE division that previously performed such work, currently provides for installation and demobilization services for fish protection/deterrence systems at the Crescent and Vischer Ferry Projects. Services include, but are not limited to, spring mobilization; lease and installation of fish-deterrent control electronics, as well as installation of Authority-owned transducers; calibration and storage of projectors; maintenance and repair services, as needed and fall demobilization services. The original contract, which was awarded on a sole-source basis, became effective on April 15, 2004 for an initial term of one year, with an option to extend for up to two additional years. A two-year extension is now requested in order to exercise the option and continue services, as may be required. The current contract amount is \$68,044; it is anticipated that an additional \$150,000 may be required for the extended term. The Trustees’ approval is requested to extend the subject contract through April 14, 2007, and to approve the additional funding requested.

Increase in Compensation Ceiling

“The contract with **VanNess Feldman, P.C. (‘VNF’; S98-00371)** has provided for strategic advice and counsel to the Authority relating to the relicensing process for the Niagara and St. Lawrence/FDR Power Projects (‘Projects’) and the substantive issues involved. In addition, this firm has significant experience and familiarity with the Federal Energy Regulatory Commission (‘FERC’) and with issues of national policy relating to environmental and hydro-licensing concerns, and has the resources to supplement the efforts of Authority staff when necessary. The original agreement became effective on February 1, 1998 for an initial term of one year. At their meetings of December 15, 1998, December 19, 2000, December 17, 2002 and March 30, 2004, respectively, the Trustees approved contract extensions through January 31, 2005 and a revised compensation ceiling of \$3,701,735. An additional \$439,589 was subsequently authorized in accordance with the Authority’s Expenditure Authorization Procedures. VNF has been an integral part of the relicensing teams for both Projects and it is anticipated that the firm will continue to play a critical role in the relicensing process, as well as in the implementation phase. VNF has also been instrumental in helping the Authority recover \$1.48 million in FERC overcharges, based on the inclusion of unwarranted administrative costs submitted by eight federal agencies under the Energy Policy Act of 1992. In addition, the Authority will require the assistance of experienced FERC counsel in Washington, D.C. to address federal energy policy issues involving reform of the licensing and relicensing process under the Federal Power Act, and VNF is well-suited for this role. An additional extension through September 30, 2005 is now requested in order to provide for continued services. The current contract amount is \$4,141,324; it is estimated that an additional \$900,000 may be required for the extended contract term in order to support the aforementioned efforts. The Trustees’ approval is requested to extend the subject contract through September 30, 2005 and to approve the additional \$900,000 requested, thereby increasing the compensation ceiling to \$5,041,324.’

FISCAL INFORMATION

“Funds required to support contract services for various Headquarters Office Business Units/Departments and the Facilities have been included in the 2005 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

“Funds required to support contract services for capital projects have been included as part of the approved capital expenditures for those projects and will be disbursed from the Capital Fund in accordance with the Project’s Capital Expenditure Authorization Request (‘CEAR’). Payment for contracts in support of the Energy Efficiency projects and HELP programs will be made from the Energy Conservation Effectuation and Construction Fund.

“The Law Department also is requesting approval by the Trustees for the release and allocation as may be necessary to support specific work assignments from an aggregate \$3,500,000 to the continuous service agreement with the law firm of Bond, Schoeneck & King, which was approved for award by the Trustees at their meeting of September 27, 2004, for the purposes of funding payment thereunder through Legal Outside Counsel Budget funds. (It should be noted that the aggregate amount would also be available to fund work assigned under three new continuous service agreements, as further discussed in the Awards Item presented on this date).

RECOMMENDATION

“The Deputy Secretary and Deputy General Counsel, the Vice President – Procurement and Real Estate, the Vice President – Project Management, the Vice President – Environmental Management, the Executive Director – Licensing, Implementation and Compliance, the Director – Energy Services, the Director – Corporate Support Services, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York and the Regional Manager – Southeast New York recommend the Trustees’ approval of the extensions, additional funding and increase in the compensation ceiling of the procurement contracts listed in Exhibit ‘8-A.’

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

Mr. Hoff presented the highlights of staff’s recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Hoff said that while the Authority had selected the law firm of Bond Schoeneck and King LLLC through a competitive solicitation to provide services related to the Long Island Power Authority’s (“LIPA”) Summer 2005 Capacity Program, LIPA would reimburse the Authority for the cost of such services.

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

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, each of the contracts listed in Exhibit “8-A,” attached hereto, is hereby approved and extended for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That pursuant to the Authority’s Expenditure Authorization Procedures, an increase in the compensation ceiling of the contract with VanNess Feldman, P.C. is hereby approved, as recommended in the foregoing report of the

President and Chief Executive Officer, in the amount and for the purpose listed below:

<u>O&M & Capital</u>	<u>Contract Approval (Increase in Compensation Ceiling)</u>	<u>Projected Closing Date</u>
Provide for legal services in connection with hydroelectric relicensing matters for NIA & STL and energy policy issues:		
VanNess Feldman, P.C. S98-00371		
Additional Funding Requested	\$ 900,000	09/30/05
Previously Approved Contract Amount	\$3,701,735	
Additional Funding Authorized per EAPs	<u>\$ 439,589</u>	
REVISED COMPENSATION CEILING	<u>\$5,041,324</u>	

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

9. Authorization to Enter into a Forward-Starting Interest Rate Swap Agreement Relating to Partial Refunding of the Series 2000A Bonds

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize one or more forward-starting floating-to-fixed-rate interest-rate swap agreements that would commence in September 2005, relating to the refunding of a portion of the Authority’s Series 2000A Revenue Bonds (‘2000A Bonds’), with such swap agreements having an aggregate notional amount not to exceed \$186,870,000, a termination date of not later than November 15, 2020, a fixed rate to be paid by the Authority and a floating rate to be paid by the counterparty(ies) based on a percentage of the one-month London Interbank Offered Rate (‘LIBOR’), which in combination would generate, at a minimum, 5% present-value debt-service savings. The Trustees are also requested to authorize an agreement with the Long Island Lighting Company, the wholly owned subsidiary of the Long Island Power Authority (‘LIPA’), relating to certain protections to be provided by LIPA in connection with the proposed swap agreements.

BACKGROUND

“Pursuant to a resolution adopted by the Trustees on November 28, 2000, the Authority issued \$300 million in principal amount of the 2000A Bonds to pay for a portion of the cost of the Niagara Power Project modernization and relicensing and certain information technology expenditures, and to refund debt that financed the Long Island Sound Cable Project (‘LIC’). Of the \$272,395,000 in principal amount of 2000A Bonds currently outstanding, \$195,180,000 relates to the LIC. The majority of the 2000A Bonds are not eligible to be advance refunded, but may be current refunded on or after September 16, 2005.

DISCUSSION

“Staff has considered the refunding of a portion of the 2000A Bonds for some time and believes that conditions are now suitable to proceed with such a transaction. Since the proposed refunding relates to the LIC, LIPA would be the primary beneficiary of the transaction, as LIPA reimburses the Authority for the full cost of the debt service on the LIC.

“Several refunding alternatives have been considered, including: (1) a fixed-rate bond sale in September 2005; (2) a forward sale of fixed-rate bonds; (3) a sale of variable-rate bonds in September 2005 with a ‘swaption’ arrangement (that would involve an ‘upfront’ cash payment to the Authority in connection with the swap, representing effectively the present value of the interest rate savings) with a fixed rate based on the LIBOR and, finally, (4) a sale of variable-rate bonds with a forward-starting fixed-rate LIBOR-based swap arrangement.

“After careful consideration and consultation with the Authority’s financial advisor, PFM, staff has concluded, based on PFM’s recommendation, that issuing variable-rate bonds and hedging them with one or more forward-starting LIBOR-based fixed-payer swaps to create a synthetic fixed-rate arrangement is the best option. The other alternatives were rejected either because of the delay inherent in implementing these proposals, allowing interest rate volatility, or, in the case of the swaption proposal, concerns arising from the payment of a large upfront cash amount in the face of uncertainty concerning LIPA’s future constitution.

“Under the proposed arrangement, the Authority would enter into one or more forward-starting floating-to-fixed interest-rate swap agreements with a counterparty(ies) to be selected through a competitive bid process. The maximum aggregate notional amount of the transaction would be \$186,870,000 (the maximum amount of 2000A Serial Bonds that could be refunded as of September 16, 2005) and would have a termination date of not later than November 15, 2020. The swap would serve as a hedge against interest-rate volatility relating to the proposed variable-rate bonds that would be issued to refund the 2000A Bonds. Such a refunding is estimated to generate substantial present-value debt-service savings.

“Under the proposed swap agreements, the Authority would pay the counterparty(ies) during the term of the swaps, commencing on or after September 16, 2005, a fixed rate on the notional amount of the swaps. The counterparty(ies), in turn, would make payments to the Authority at a rate based on a percentage of the one-month LIBOR. The fixed rate and the LIBOR-based rate would be set so as to generate, at a minimum, 5% present-value debt-service savings. These payments by the counterparty(ies) would serve to meet the Authority’s payment obligations under the variable-rate bonds issued for the refunding. Thus, assuming a perfect offset of the counterparty(ies)’ payments against bond payments, the Authority would be effectively paying debt service on the bonds based on the fixed rate under the swap agreements.

“Staff may deem it advisable in connection with the swap agreements to execute credit support annexes (‘CSAs’). The CSAs would obligate the Authority and the counterparties to provide collateral to support the swap agreements if the Authority’s or the counterparties’ credit ratings were downgraded. Staff proposes that any such CSAs have provisions that would limit the aggregate amount of collateral to be transferred without further approval by the Trustees to \$25 million. If the Trustees were to decline to approve such additional collateral, the counterparty to the swap agreement in question would have the option to terminate the swap agreement, with payment to be made in accordance with whether market conditions favored the Authority or the counterparty.

The risks associated with entering into the swap transaction outlined above include the following:

1. LIPA has announced a full review of its organization and ownership structure, including consideration of privatization. It is possible that privatization could adversely impact the tax-exempt status of the 2000A Bonds and any bonds issued to refund them and could require the Authority to redeem any outstanding tax-exempt bonds and refund them with taxable debt. This would result in the interest on the bonds being only partially hedged by the swap agreement. Under this scenario, the Authority would pass on to LIPA, or its successor, any additional costs.
2. The possibility that the floating rate received from the counterparty(ies) would be insufficient to reimburse the Authority for the interest paid to its bondholders. Any deficiency would be passed on to LIPA, or its successor, as a component of debt- service costs.
3. Failure of the counterparty(ies) to perform in accordance with the terms of the swap. This is considered a minimal risk because of the high credit quality of the potential counterparty(ies) that would be involved in the transactions.
4. Failure of LIPA to comply with its obligations under the reimbursement agreement with the Authority described below.

“Staff is currently finalizing its negotiations with LIPA to develop an agreement that would ensure that LIPA is obligated to provide the reimbursement discussed above, along with other protections for the Authority in case the swap agreements are terminated for any reason other than the Authority’s default of its obligations under them. The swap agreements would not be executed until the contemplated agreement with LIPA has been executed.

“Staff has analyzed the risks associated with entering into the proposed swap agreements, as discussed above, and finds that such risks are: (i) manageable; and, (ii) reasonable in relation to the potential savings.’

RECOMMENDATION

“The Treasurer recommends that the Trustees authorize the Vice President – Finance and the Treasurer to execute on behalf of the Authority: (1) one or more forward-starting floating-to-fixed interest-rate swap agreements, including any credit support annexes, relating to the partial refunding of the Series 2000A Bonds for a term not extending beyond November 15, 2020, in an aggregate notional amount not to exceed \$186,870,000, with a fixed rate to be paid by the Authority and a floating rate to be paid by the counterparty(ies) based on a percentage of the one-month LIBOR, which in combination would generate, at a minimum, 5% present-value debt-service savings; and, (2) an agreement with the Long Island Lighting Company, which is the wholly owned subsidiary of LIPA, related to the proposed swap agreements and consistent with the discussion above.

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

Mr. Brady presented the highlights of staff’s recommendations to the Trustees. In response to a question from Trustee Seymour, Mr. Brady said that Authority staff are in the process of negotiating with LIPA an agreement whereby LIPA would absorb any risk related to this transaction. Vice Chairman McCullough said that the resolution should be amended to make it contingent on such a final agreement with LIPA. Mr. Russak said that LIPA’s staff and bond counsel were amenable to such an agreement, which still had to be approved by LIPA’s Chairman. Following a discussion, the Trustees adopted the amendment proposed by Vice Chairman McCullough.

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

RESOLVED, That the Vice President – Finance and the Treasurer be, and each hereby is, authorized on behalf of the Authority to enter into one or more forward-starting floating-to-fixed-rate interest-rate swap agreements, including any credit support annexes, with entities to be selected by the Vice President – Finance or the Treasurer as a result of a competitive bidding process, provided that: (1) the notional amount of such agreements, in the aggregate, shall not exceed \$186,870,000; (2) such agreements shall provide for the Authority making fixed-rate payments to the selected entities for the term of the swap period, and for such entities to make payments to the Authority based on a percentage of the one-month LIBOR rate, with such fixed rate and LIBOR-based rate being set so that the combination of such rates would generate present-value debt-service savings of 5% or more; (3) the term of such agreements shall commence in September 2005 and shall not exceed November 15, 2020; (4) any credit support annexes shall allow for transfer of up to an aggregate of \$25 million in collateral without further approval of the Trustees; (5) such swap agreements may provide for their termination if the Authority declines to provide additional collateral beyond the \$25 million discussed in clause (4) above and (6) such agreements shall have such terms and conditions, not inconsistent with the requirements set forth in clauses (1)–(5) above, as the Vice President – Finance or the Treasurer in his discretion shall deem necessary or advisable, such execution to be conclusive evidence of such approval, provided, however, that no such swap agreement shall be entered into unless and until the Authority and the Long Island Lighting Company have entered into the agreement described in the resolution below; and be it further

RESOLVED, That prior to the release of any monies from the Operating Fund for the payment of collateral under any credit support annexes, the Vice President – Finance or the Treasurer shall certify that any such amount to be withdrawn for such purpose shall not be needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority’s General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Vice President – Finance and the Treasurer be, and each hereby is, authorized on behalf of the Authority to enter into an agreement with the Long Island Lighting Company in connection with the swap agreements discussed above that would have such terms and conditions as the Vice President – Finance or the Treasurer deems necessary or advisable and as are consistent with the foregoing report of the President and Chief Executive Officer; and be it further

March 29, 2005

RESOLVED, That the President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Vice President – Finance, the Treasurer, the Deputy Treasurer and all other Authority officers be, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

10. **Motion to Conduct an Executive Session**

“Mr. Chairman, I move that the Authority conduct an Executive Session to discuss matters related to ongoing or potential administrative or judicial litigation relating to particular persons and corporations.”

On motion duly made and seconded, an Executive Session was held.

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

“Mr. Chairman, I move to resume the meeting in Open Session.”

On motion duly made and seconded, the meeting resumed in open session.

**12. Procurement (Services) Contracts – 500 MW Combined
Cycle Project – General Work Contract – Slattery Skanska, Inc. –
Increase in CEAR and in Compensation Ceiling**

The Executive Vice President – Power Generation submitted the following report:

SUMMARY

“The Trustees are requested to authorize an additional \$90 million in capital expenditures for the 500 MW Combined Cycle Plant (the ‘Project’). This will increase the compensation ceiling of the General Work Contract with Slattery Skanska, Inc. (‘SSI’) by \$58 million. The increase in the value of the SSI contract is for settlement of outstanding claims and other matters with significant incentives to achieve a commercial operation date of January 2006. The remaining money in the CEAR is for other costs to complete the project, including extended costs of support services, construction clean-up expenses and labor to support start-up and commissioning.

BACKGROUND

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

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

“At their meeting of November 26, 2002, the Trustees authorized the award of a lump sum General Work Contract, as a result of competitive bidding, to SSI with a compensation ceiling of \$249 million for the construction of the Project’s ‘Power Island.’ The ‘Power Island’ includes the turbine building, gas and steam turbines, steam generators, air-cooled condenser and other equipment. At their meetings of June 29 and September 27, 2004, the Trustees approved additional amounts of \$5 million and \$15 million, respectively, to cover the direct cost of extra work changes to the General Work Contract. This resulted in a total approved amount of \$269 million for the SSI contract, of which \$256 million has been authorized to date through the issuance of formal Change Orders.

“During the summer of 2004 it became evident that SSI had fallen behind its work schedule and that it would not meet the contractual September 1, 2004 substantial completion date. There has been a significant difference between the parties regarding the causes of these performance deficiencies, with SSI submitting claims of approximately \$110 million for delays, extra work changes and other impacts beyond the current contract amount of \$256 million. The Authority has countered with claims against SSI for deficiencies in planning, supervision and craft productivity. In the midst of these disputes, Authority staff and management (including its construction management consultants) have been in ongoing discussions with SSI in order to remediate their performance and to finish Project construction. At this time, SSI’s work is approximately 84% complete, with extensive mechanical, electrical and testing work remaining.

“Faced with these circumstances and searching for the optimal approach to complete this Project, the Authority conducted a detailed analysis of realistic options to achieve timely commercial operation. The options considered and rejected were: (i) continuing with the status quo (with no settlement of outstanding claims) or (ii) terminating SSI and having either the Authority or a third party complete the work. Neither of these options was acceptable, as both forecasts resulted in the potential for both significant additional delays in completion of the work and substantial and uncertain cost increases.

“Accordingly, a decision was made to negotiate a settlement with SSI of all current claims and to secure a commitment from SSI to complete the work within a schedule acceptable to the Authority. This option results in the least amount of schedule and cost impacts to the Authority and, with certain incentive provisions, should achieve commercial operation by January 2006.

DISCUSSION

I. Adjusted Contract Terms

“The Authority and SSI senior management met to negotiate the terms of a settlement, emphasizing appropriate incentive provisions, as well as developing schedule milestones to maximize the potential for commercial operation of the facility by January 2006. The terms of this settlement are more fully set forth in the proposed Change Order provided to the Trustees. The new compensation schedule provides sufficient incentives for SSI to deploy the necessary manpower and other resources to support first fire of the gas turbines in September 2005 so as to allow commissioning and start-up by General Electric (‘GE’) to achieve a commercial operation date of January 2006. SSI understands that the settlement is contingent on approval by the Trustees.

“As consideration for an increase in the base contract price and for incentive and overtime amounts, SSI has agreed to release all its claims for extra work, delays, inefficiencies, impacts and other matters through January 31, 2005, and has agreed to a mechanism for resolving any other extra work items from February 1, 2005 through February 28, 2005 on a direct-cost basis only, with no other financial or schedule impacts. In addition, SSI has agreed that future changes will be reviewed by a team of SSI, Authority, DMJM+Harris and Lockwood Greene personnel in accordance with the existing contract terms to determine if there is any direct cost or schedule impact resulting from the changes.

II. CEAR Increase

“As a result of this settlement with SSI and expected increased costs for the services of DMJM+Harris, Lockwood Greene and other third parties to provide construction management support for the extended schedule of this work, the Trustees are requested to approve an increase in the CEAR for the Project of \$90 million. This increase comprises \$58 million to settle the SSI claims through the end of January 2005, plus an additional \$32 million to complete the project, including extended costs of support services, construction clean-up expenses and labor to support start-up and commissioning. The revised total cost of \$740 million amounts to \$1,450 per kW which is within the \$1,350 to \$1,900 per kW range of costs reported for the other three major plants recently completed or under construction in New York City.

“Staff notes that the CEAR does not include any additional costs currently claimed by GE for its commissioning and start-up services over a longer duration of time to support the revised schedule. There are also currently significant backcharges by the Authority against GE for its equipment requiring re-work or correction in the field by SSI, and other issues to be discussed with GE and its architectural/engineering consultant, Sargent & Lundy, regarding potential impacts on completing the Project work.

FISCAL INFORMATION

“Payment will be made from the Authority’s Capital Fund.

RECOMMENDATION

“The Vice President – Project Management, the Vice President – Procurement and Real Estate and the Senior Project Manager recommend that pursuant to the Guidelines for Procurement Contracts and the Expenditure Authorization Procedures adopted by the Authority, the Trustees approve an increase in the Capital Expenditure Authorization Request for the 500 MW Combined Cycle Project and authorize an increase in the General Work Contract with Slattery Skanska, Inc., both as discussed herein

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

The following resolution, as submitted by the Executive Vice President – Power Generation, was unanimously adopted.

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

Description	Current Estimate (\$000)	Previously Authorized Amount (\$000)	Current Request (\$000)	Total Authorized Amount (\$000)
Legal/Licensing	\$10,600	\$11,000	\$(400)	\$10,600
Engineering/CM	35,600	18,000	17,600	35,600
Procurement	243,000	255,000	(12,000)	243,000
Construction	414,000	330,000	84,000	414,000
Working Capital	1,000	1,000	- 0 -	1,000
Direct/Indirect	35,800	35,000	800	35,800
Total	\$740,000	\$650,000	\$90,000	\$740,000

AND BE IT FURTHER RESOLVED, That pursuant to the Authority’s Expenditure Authorization Procedures, authorization for an additional commitment to Slattery Skanska, Inc. as set forth below for settlement of all claims and completion of the General Work Contract, is hereby approved:

Capital	Initial Contract Authorization	Additional Subsequent Authorization	Current Authorization	Total Expenditure Authorization
Slattery Skanska, Inc.	\$249,000,000	\$20,000,000	\$58,000,000	\$327,000,000

AND BE IT FURTHER RESOLVED, That the Authority’s Commercial Paper Notes, Series 1, Series 2 and Series 3, and the Authority’s EMCP Notes, may be issued to finance the additional funding for the 500 MW Combined Cycle Plant, as described in the foregoing resolutions, and any other available funds of the Authority may also be used to finance the additional funding for the 500 MW Combined Cycle Plant, as described in the foregoing resolutions; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

13. Lease of 8th Floor Office Space, Clarence D. Rappleyea Building – Misys International Banking Systems, Inc.

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize the execution of a lease of approximately 29,400 square feet of office space which encompasses the entire 8th floor of the Clarence D. Rappleyea Building (‘Rappleyea Building’), White Plains, New York, by the Authority, as landlord, to Misys International Banking Systems, Inc. (‘Misys’), as tenant. The proposed lease is for a term of 10 years, 11 months, at an average annual base rent of \$24.00 per rentable square foot, as more specifically described in Exhibit ‘13-A’ attached hereto.

BACKGROUND

“By deed dated July 10, 1991, the Authority acquired the Rappleyea Building, a commercial office building, the majority of which is occupied by Authority personnel. The space to be leased on the 8th floor was previously leased to KPMG Peat Marwick LLP, which executed the early termination option of its lease as of December 31, 2003. Due to staff reductions and relocation of employees within the building over the past few years, the Authority does not need to occupy the 8th floor, so it has been actively marketing this space. Misys has decided to relocate within the White Plains Central Business District in the latter part of 2005, and has chosen the 8th floor of the Rappleyea Building.

DISCUSSION

“Misys, which has been in business approximately 15 years, provides banking system services from its current location at 525 North Broadway in White Plains. Misys has requested that the Authority lease to it approximately 29,400 square feet of office space. Preliminary negotiations on this space have resulted in the basic lease terms set forth in Exhibit ‘13-A.’ A review of the local market conditions indicate that this transaction compares favorably with other commensurate space being offered in downtown White Plains and the Rappleyea Building.

FISCAL INFORMATION

“Payment for standard brokerage commissions, tenant improvements and architectural and engineering fees as set forth in Exhibit ‘13-A’ will be made from the Operating Fund.

RECOMMENDATION

“The Vice President – Procurement and Real Estate, the Director – Corporate Support Services and the Director – Real Estate recommend that the Trustees approve entering into a lease with Misys for office space in the Clarence D. Rappleyea Building on terms substantially in accordance with the foregoing and with Exhibit ‘13-A’ attached hereto.

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

Mr. Hoff presented the highlights of staff’s recommendations to the Trustees. In response to a question from Vice Chairman McCullough, Mr. Hoff said that the average rent the tenant would be paying over the 10 years of the lease was \$24 per square foot

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

RESOLVED, That the President and Chief Executive Officer, the Executive Vice President – Corporate Services and Administration or the Vice President – Procurement and Real Estate be, and hereby is, authorized to enter into a lease for office space in the Clarence D. Rappleyea Building with Misys International Banking Systems, Inc. on substantially the terms set forth in the foregoing report of the President and Chief Executive Officer and the attached Exhibit “13-A” and subject to approval of the lease documents by the Executive Vice President, Secretary and General Counsel; and be it further

RESOLVED, That the Executive Vice President – Corporate Services and Administration, 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 that may be deemed necessary or desirable to carry out the foregoing, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel.

BASIC LEASE TERMS

New York Power Authority to Misys International Banking Systems, Inc.

AREA: 29,400 rentable square feet ("rsf") (approximate)

TERM: 10 years and 11 months

ELECTRICITY: To be sub-metered

FIXED ANNUAL RENTAL RATE: Years 1-3 - \$22/rsf, or \$646,800 per annum.
Years 4-7 - \$24/rsf, or \$705,600 per annum.
Years 8-10 - \$26/rsf, or \$764,400 per annum.

TERM COMMENCEMENT: On or about November 1, 2005, subject to substantial completion

RENT COMMENCEMENT: October 1, 2006 (approximately)

LANDLORD'S CONTRIBUTION TO TENANT'S WORK: Landlord shall provide tenant with a work contribution of \$30/rsf, or \$882,000. Landlord will provide up to an additional \$10/rsf, or \$294,000, toward space improvements amortized over the lease term at 10%.

ESCALATIONS: Proportionate share of increases in real estate taxes over a base year of 2005-06. Proportionate share of increases in operating expenses over a base year of 2006.

BROKERAGE COMMISSION: Brokerage commission per separate agreement.

RENEWAL OPTION: One five-year renewal.

SECURITY DEPOSIT: Equal to nine months' average rent in the form of cash or Letter of Credit. Deposit will decrease one month after each of the first three anniversaries, leaving six months' rent as security for the remainder of the term.

PARKING: Reserved and unreserved to be billed separate from base rent.

14.

15.

16. **Next Meeting**

The Annual Meeting of the Trustees will be held on **Tuesday, April 26, 2005, at 11:00 a.m., at the New York Office**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

On motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 1:35 p.m.

A handwritten signature in black ink that reads "David E. Blabey". The signature is written in a cursive style with a long, sweeping tail on the letter "y".

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