May 24, 2005

MINUTES OF THE REGULAR MEETING OF THE
POWER AUTHORITY OF THE STATE OF NEW YORK
May 24, 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 (Excused)

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
Joseph J. Carline	Assistant General Counsel – Power and Transmission
Arnold M. Bellis	Vice President – Controller
Robert J. Deasy	Vice President – Energy Resource Management
John M. Hoff	Vice President – Procurement and Real Estate
Donald A. Russak	Vice President – Finance
William V. Slade	Vice President – Environmental Management
Thomas A. Warmath	Vice President and Chief Risk Officer
James H. Yates	Vice President – Major Accounts Marketing and Economic Development
Stephen P. Shoenholz	Deputy Vice President – Public Affairs
Michael E. Brady	Treasurer
Dennis T. Eccleston	Chief Information Officer
Angela D. Graves	Deputy Secretary
Frederick E. Chase	Executive Director – Hydro Relicensing
Paul W. Belnick	Director – Energy Services
Helen L. Eisenfeld	Director – Cost Control and Electric Transportation
Paul F. Finnegan	Director – Upstate Public and Governmental Affairs
James F. Pasquale	Director – Business Power Allocations, Regulation and Billing
Shalom Zelingher	Director – Research and Technology Development
Bill Helmer	Special Licensing Counsel
Amy J. Levine	Principal Attorney 1
Michael J. Huvane	Manager – Business Marketing and Economic Development
Peter Scalici	Deputy Inspector General – Investigations
Albert Swansen	Deputy Inspector General – Security
Mary Jean Frank	Associate Secretary
Michael A. Saltzman	Senior Information Specialist
Noelle M. Zandri	Secretary to General Counsel

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

As a preliminary matter, the Trustees concurred in the change of location of the meeting from the Richard M. Flynn Power Plant to the Clarence D. Rappleyea Building in White Plains.

1. <u>Approval of the Minutes</u>

The minutes of the Annual meeting of April 26, 2005 were unanimously adopted.

2. **Financial Report for the Four Months Ending April 30, 2005**

Mr. Bellis presented an overview of the Financial Report for the four months ended April 30, 2005.

3. Report from the President and Chief Executive Officer

President Zeltmann asked Mr. Hiney to present a report on the progress of the 500 MW combined cycle power project. Mr. Hiney said that overall progress on the project continues to be good. He reported that the total job and Slattery Skanska, Inc. ("SSI") completion percentages were approximately 92.5% and 91.5%, respectively and that SSI was staying close to the early-finish curve and had submitted 50 of 111 turnover packages, 46 of which have been accepted by General Electric ("GE"), whose start-up team has increased to seven full-time individuals. The first two contract milestones have been met and work continues on the gas turbines to prepare for Milestone 3, which is on schedule for June 21. Chemical cleaning of the heat-recovery steam generators is under way in support of Milestone 4, which is scheduled for August 10. The level of cooperation remains good. In response to a question from Chairman Ciminelli, Mr. Hiney said that design changes are minor and not more than expected and Chairman Ciminelli stressed the need for accountability in terms of signing off on SSI's work before GE starts in order to avoid finger-pointing.

Next, President Zeltmann asked Mr. Brady to report on the status of the Authority's bond rating from Moody's Corp. Mr. Brady that the Authority's AA2 rating had been reaffirmed by Moody's, although there had been some question as to whether it would be because of concerns about the cost and schedule of the 500 MW project. He said that he and the other Authority staff who are working with Standard & Poor's and Fitch on their ratings sense that those ratings will remain favorable as well. In response to a question by Trustee Carey, Mr. Brady stated that he expected a letter from Moody's setting forth its analysis within a week.

4. Allocation of 850 kW of Hydro Power

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve two allocations of available Expansion Power ('EP'), totaling 850 kW, to two industrial companies.

BACKGROUND

"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 two companies, as set forth in Exhibit '4-A.' The Exhibit shows, among other things, the amount of power requested by each company, the recommended allocations 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.

RECOMMENDATION

"The Director – Business Power Allocations, Regulation and Billing recommends that the Trustees approve the allocation of 850 kW of Expansion Power to the companies listed in Exhibit '4-A.'

"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 said that the Delaco Steel allocation was also important to retaining the Ford plant in Buffalo.

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

RESOLVED, That the allocation of 850 kW of Expansion Power, as detailed in Exhibit "4-A," 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 39 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 electricity savings reimbursement rebates to the 39 businesses listed in Exhibit '5-A.' Collectively, these organizations have agreed to retain more than 15,000 jobs in New York State in exchange for the rebate. The rebate program will be in effect until December 31, 2005, the program's sunset.

"The Trustees are requested to approve the payment and funding of rebates for the companies listed on Exhibit '5-A' in a total amount currently not expected to exceed $2,500,000. Staff recommends that the Trustees authorize a withdrawal of monies from the Operating Fund for the payment of such amount, provided that such amount is not needed at the time of withdrawal for any of the purposes specified in Section 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented. Staff expects to present the Trustees with requests for additional funding for rebates for the companies listed on the Exhibit in the future. The Treasurer has determined that such amount is not needed for any of the purposes specified in Section 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented.

"Completed applications were reviewed by EDPAB and recommendations were made at their meeting on May 24, 2005.

FISCAL INFORMATION

"Funding of rebates for the companies listed in Exhibit '5-A' is not expected to exceed $2,500,000. Payments will be 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 payment of electricity savings reimbursements to the PFJ customers listed in Exhibit '5-A.'

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

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

WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve electricity savings reimbursements to the Power for Jobs customers listed in Exhibit "5-A."

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves the payment of electricity savings reimbursements to the companies listed in Exhibit "5-A," as submitted to this meeting, and that the Authority finds that such 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 $2,500,000 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. Municipal and Rural Cooperative Economic Development Program Allocation to the Village of Green Island

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve an allocation of power under the Municipal and Rural Cooperative Economic Development Program ('Program') to the Village of Green Island ('Village').

BACKGROUND

"The 1991 amendment to the power sales agreement between the Authority and the Municipal and Rural Cooperative Systems reserved 108,000 kW of power for economic development in the systems. As of April 27, 2004, 32,950 kW had been allocated.

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

"The Village has submitted an application for power under the Program for consideration by the Trustees.

DISCUSSION

"An application has been submitted by the Village on behalf of Crystal IS, Inc. ('Crystal'), a privately held corporation. Crystal develops and manufactures single-crystal aluminum nitride ('AIN') substrates, which are considered critically important for next- generation high-performance electronic and optoelectronic III-semiconductor devices. Crystal's product is sold in the U.S. and exported to Japan. Crystal is considered the leading supplier of AIN substrates in the market.

"Crystal proposes to relocate its entire Watervliet NY development and manufacturing operations to the Village by September 1, 2005. The company will be moving to a currently vacant portion of an existing building remodeled to its specifications. Total investment related to the move is estimated to be $1.1 million. The relocation is required to expand manufacturing capacity and accelerate process development in order to handle increased demands for AIN substrates. Crystal selected the Village because of its preferred land, workforce availability, and availability of low-cost electrical power. The new facility will provide for approximately 57 new jobs over the next three years, adding revenue to the state and local economy. The estimated electrical load for the facility is approximately 300 kW. Authority staff recommends that the Trustees approve an allocation of 300 kW to the Village on behalf of Crystal.

"The Municipal Electric Utilities Association Executive Committee supports the recommended allocation to the Village.

"Under the Program, the recommended allocation consists of half hydropower and half incremental power. In accordance with the Authority's marketing arrangement with the municipal and cooperative customers, the hydropower will be added to the recipient system's contract demand at the time the project becomes operational. The hydropower earmarked for this Program is presently sold to the municipal and cooperative customers on a withdrawable basis. As a partial-requirements customer, the Village may purchase the incremental power from the Authority or an alternate supplier.

RECOMMENDATION

"The Director – Business Power Allocations, Regulation and Compliance recommends that the Trustees approve the allocation of power under the Municipal and Rural Cooperative Economic Development Program to the Village of Green Island in accordance with the above discussion.

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

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

RESOLVED, That the allocation of power to the Village of Green Island under the Municipal and Rural Cooperative Economic Development Program are hereby approved as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Senior Vice President – Marketing, Economic Development and Supply Planning or her designee be, and she hereby is, authorized to execute any and all documents necessary to effectuate such allocation, 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.

7. <u>Operations and Maintenance Payments for New York State Parks</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize payments totaling up to $8 million from the Operating Fund for expenditures of the New York State Office of Parks, Recreation and Historic Preservation ('OPRHP') in New York State fiscal year ('SFY') 2005-06. The funds are to be used for operation and maintenance of Robert Moses State Park ('Robert Moses'), Coles Creek State Park ('Coles Creek'), Art Park and Niagara Reservation (including Reservoir, Whirlpool, DeVeaux Woods and Devil's Hole State Parks and the Niagara Gorge Trails) ('Niagara Reservation'). Robert Moses and Coles Creek are directly associated with the St. Lawrence/FDR Power Project and have been incorporated into the Federal Energy Regulatory Commission ('FERC') project license issued in October 2003. Art Park and Niagara Reservation, although not part of the FERC-licensed project, are associated with the Niagara Power Project.

"The Trustees are further requested to authorize the President and Chief Executive Officer, or his designee, to sign any documents or enter into any agreements necessary to effectuate such payment, subject to approval as to the form thereof by the Executive Vice President, Secretary and General Counsel.

BACKGROUND

"During negotiations leading up to the introduction of the SFY 2003-04 Executive Budget, the Authority staff agreed to present to the Trustees for their approval a proposal to have the Authority assume of responsibility for operations expenses at four New York State parks, including Art Park, Robert Moses, Coles Creek and Niagara Reservation, in an amount not to exceed $8 million. Staff contemplated at that time that this level of funding would be a recurring expense to be presented to the Trustees for approval through fiscal year 2007-08.

"The approved New York State Budget for SFY 2003-04 adopted the Governor's recommendations. At their meeting of June 24, 2003, the Trustees were advised that while authorization was requested only for SFY 2003-04, it was expected that such payments would continue through the end of the current federal license for the Niagara Power Project in 2007. The Trustees authorized payments of up to $8 million to the OPRHP Patron Services Account for SFY 2003-04, and payments were subsequently made in conformance with such authorization. At their meeting of September 28, 2004, the Trustees authorized payments of up to $8 million to the OPRHP Patron Services Account for SFY 2004-05, and payments were subsequently made in conformance with such authorization.

"The 2005-06 Executive Budget includes a special Revenue-Patrons Fund Account appropriation of $64.425 million, which contemplates an $8 million contribution from the Authority for operations expenses at Art Park, Robert Moses, Coles Creek and Niagara Reservation.

DISCUSSION

"Payments made by the Authority would be used for OPRHP operating costs to include, but not be limited to, personal services, fringe benefits and non-personal services costs directly related to the operation of Art Park, Robert Moses, Coles Creek and Niagara Reservation.

"Payments would be made to the OPRHP Patron Services Account in three installments. An initial payment of $4 million for the first and second quarters of SFY 2005-06 would be made immediately upon the Trustees' approval and a finding by the Senior Vice President and Chief Financial Officer, the Vice President – Finance or the Treasurer that such amount is not needed for any of the purposes set forth in Section 503(1) (a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Subsequent payments of $2 million each would be made at the beginning of the third and fourth quarters of the SFY conditioned upon the Section 503(1) certification discussed above. All such payments would be subject to reconciliation based on OPRHP's actual O&M expenditures for such parks. The Treasurer has determined that such amount is not needed for any of the purposes set forth in Section 503(1) (a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented.

"Payments would be made pursuant to an annual spending plan approved by the New York State Division of the Budget and a quarterly reconciliation report documenting all costs to be provided by OPHRP to the Authority within 45 days of the end of the third and fourth quarters (November 15 and February 15).

FISCAL INFORMATION

"Payments pursuant to this authorization will be made from the Authority's Operating Fund.

RECOMMENDATION

"The Senior Vice President – Public and Governmental Affairs and the Vice President – Governmental Affairs and Policy Development recommend that the Trustees approve operating fund expenditures of up to $8 million for payment to the New York State Office of Parks, Recreation and Historic Preservation Patron Services Account for the operation and maintenance of Art Park, Robert Moses State Park, Coles Creek State Park and the Niagara Reservation (including Reservoir, Whirlpool, DeVeaux Woods and Devil's Hole State Parks and the Niagara Gorge Trails) in New York State fiscal year 2005-06.

"The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel and I concur in the recommendation."

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

RESOLVED, That Operating Fund expenditures of up to $8 million be made to the Special Revenue-Other Account (New York State Office of Parks, Recreation and Historic Preservation Patron Services Account) for the operation and maintenance of Art Park, Robert Moses State Park, Coles Creek State Park and the Niagara Reservation (including Reservoir, Whirlpool, DeVeaux Woods and Devil's Hole State Parks and the Niagara Gorge Trails), as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That such amounts shall be paid from the Operating Fund upon a certification by the Senior Vice President and Chief Financial Officer, the Vice President – Finance or the Treasurer that such amounts are not needed for any of the purposes set forth 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 President and Chief Executive Officer, or his designee, be and hereby is, authorized to sign any documents or enter into any agreements necessary to effectuate such payment, subject to approval as to 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 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. Execution Approval for Hedge Transactions to Satisfy Long-Term Agreement Obligations for Governmental Customers

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize the Vice President – Energy Resource Management, with the concurrence of the Executive Vice President – Power Generation and the Vice President – Chief Risk Officer, to approve the execution of fuel-price and energy-price financial hedging contracts and fuel-supply contracts (collectively, the 'Hedging Contracts') to satisfy the Authority's hedging strategy obligations under the recently executed long-term agreements with the Authority's four major southeastern New York Governmental customers ('Governmental Customers'), provided that aggregate nominal value of all Hedging Contracts shall not exceed $195 million. The authority sought herein shall be limited to the Governmental Customers' 2006 rate year only.

BACKGROUND

"At their meeting of February 9, 2005, the Trustees approved execution of new long-term contracts ('Long-Term Contracts') between the Authority and the Governmental Customers. The Long-Term Contracts provide for a collaborative approach by which decisions relating to acquiring fuel and energy to satisfy the Governmental Customers' load requirements are developed jointly, and with Governmental Customers' concurrence, Hedging Contracts are executed by the Authority. The Long-Term Contracts thus establish a collaborative process by which decisions are made, a sharing of market risk occurs, and, in some cases, a complete pass through of market risk to the Governmental Customers occurs. In addition, in the case of energy supply contracts developed through this collaboration process, the Governmental Customers will pay exit fees if they terminate the Long-Term Contracts.

"One factor to be considered in assessing this request for approval authority is the scope of electric energy and fuel purchasing activities by the Energy Resource Management group ('ERM'). The fuel expense for the Authority continues to increase due to increasing prices and increasing fuel requirements. For 2004, the fuel expense was $259 million. For 2005, the budget is estimated to be $347 million. The 2006 budget is estimated to be $430 million. Although higher per-unit fuel costs contribute to this increase, the increase in the 2006 budget is predominately related to the increase in overall fuel requirements due to the commencement of operation of the new 500 MW Combined Cycle Plant. Another very pertinent factor to be considered is the level of purchase power expense that the Authority has routinely expended in support of the Governmental Customers. In 2004 the purchase power expense for Governmental Customers was $174.4 million.

DISCUSSION

"Within the time frame agreed upon between the Authority and the Governmental Customers, the Governmental Customers will choose one of four hedging strategies (the 'Hedging Plan') previously submitted to them by the Authority and upon which analysis has been developed by the Authority. Three of the four strategies are developed based upon criteria selected by the Governmental Customers, with assistance from the Authority (collaborative process), and the fourth (default option) is based upon criteria selected solely by the Authority. The Governmental Customers are required to make a selection from the three strategies submitted. If the Governmental Customers are unable to reach agreement, the Authority's default option will be implemented. Once the Hedging Plan has been chosen, the Authority is obligated to immediately obtain market prices for the components of the Hedging Plan. If such prices are within a 5% tolerance of the prices of such components as previously submitted to the Governmental Customers for review, the Authority is authorized to proceed with execution of the Hedging Contracts.

"However, the dollar value of the Hedging Contracts, if acquired or executed as a single transaction, will likely exceed the maximum authority granted to Authority officers by the Trustees in their January 25, 2005 Resolution. Due to the possible rapid movements of fuel and energy prices within the energy and fuel markets, it is important that the Authority have the flexibility to immediately proceed with the execution of the Hedging Contracts. Given the possible large size of contemplated transactions, time delays in execution could be very costly. Consequently, it is recommended that approval authority be granted to the Vice President - Energy Resource

Management, with such approval authority being exercised in each instance only with the concurrence of both the Executive Vice President – Power Generation and the Vice President - Chief Risk Officer. In the event that either the Executive Vice President – Power Generation or Vice President – Chief Risk Officer is unavailable, the Senior Vice President – Chief Financial Officer would provide the required concurrence.

"Pursuant to this requested authority, the Vice President – Energy Resource Management would have the authority to approve Hedging Contracts that: (i) exceed the fuel and electric per- transaction limits for financial hedge transactions, and (ii) the spot trade limits for physical transactions, established in Appendices A and B of the January 25, 2005 Resolution, provided that, in addition to any other cumulative or per-day limits in Appendices A and B, such Hedging Contracts not exceed $195 million in cumulative nominal value. This approval authority would be limited solely to the Hedging Contracts required to meet the selected hedging plan for the Governmental Customers' 2006 rate year and shall supersede the per-transaction and spot-trade limits for entry into financial hedging contracts and fuel purchase contracts established by the January 25, 2005 Trustee resolution Thus, the maximum dollar value on an individual transaction limit, established by the January 25, 2005 Trustee resolution, shall be suspended but, again, only as it relates to acquisition and execution of positions required by the Hedging Plan, for the 2006 rate year, selected by the Governmental Customers. Depending upon the Hedge Plan ultimately selected by the Governmental Customers for the 2006 rate year, it may be necessary, in the future, to increase the cumulative nominal value limit for NYMEX contracts of $90 million.

"For the purpose of satisfying the hedging strategy plan requirements of the Long-Term Contracts, it is not contemplated that physical fuel supply contracts, as opposed to financial hedge contracts or NYMEX contracts, would normally be used. However, if a physical fuel supply contract is more effective in achieving the Hedging Plan, physical fuel supply contracts may also be entered into as Hedging Contracts.

"In assessing the financial obligations of the Authority created by the proposed authorization, it should be noted that, in the case of the most typical financial Hedging Contracts which may be used (swaps and NYMEX contracts), the financial obligations would be measured by the difference between the fixed price the Authority would pay and the floating price to be paid by the counterparty. If the market price rises above the fixed price, payments would be made to the Authority based on the difference. If the market price falls below the fixed price, the Authority would make payments based on the difference. It is these differences that determine the financial obligations.

"However, these Hedging Contract payments would serve to hedge actual purchases of energy or fuel in the future, and the net result of these Hedging Contacts would be to allow the Authority to fix the price paid for energy or fuel. For example, if the Authority entered into an energy swap where it paid $40 per MWH and the counterparty paid the market price, and the price fell to $30 per MWH, the Authority would have to pay $10 per unit to the counterparty. However, at the same time, the Authority would be buying energy in the market at the price of $30 per MWH. If one adds the $10 per MWH payment made to the counterparty to the $30 per MWH price paid by the Authority for the physical purchase of energy, the effective price paid for the energy is $40 per MWH, thereby fixing the Authority's price. A similar result would be obtained if market prices are above the Authority's fixed price and the Authority is then paid an amount by the counterparty. That payment would then be used by the Authority to offset physical purchases in the market at the higher price.

"While the cumulative authority sought (nominal value not to exceed $195 million) represents a significant commitment, these expenses do not give rise to exposure to the Authority as the commitment and ultimately the actual purchase of the hedging components, depending on the hedge strategy selected by the Governmental Customers, are required and are in accordance with the terms of the Long-Term Contracts. All of the costs to the Authority associated with the Hedging Contracts will be recovered from the Governmental Customers through the 2006 rates.

"Upon final completion of the execution of all transactions comprising the elements of the Hedging Plan selected by the Governmental Customers, the Vice President – Energy Resource Management will report the results to the Trustees.

FISCAL INFORMATION

"All of the costs to the Authority associated with the Hedging Contracts will be recovered from the Governmental Customers through the 2006 rates.

RECOMMENDATION

"The Vice President – Chief Risk Officer recommends that the Trustees authorize the Vice President – Energy Resource Management, with the concurrence of the Executive Vice President – Power Generation and the Vice President – Chief Risk Officer or in either of their absences, the Senior Vice President and Chief Financial Officer, to approve the execution of Hedging Contracts to satisfy the Authority's hedging strategy obligations under the Long-Term Contracts, within the limits specified above.

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

Mr. Warmath presented the highlights of staff's recommendations to the Trustees. In response to questions from Vice Chairman McCullough, Mr. Warmath explained that all costs incurred by the Authority would be recovered through the rates paid by the SENY customers.

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

RESOLVED, That the Vice President – Energy Resource Management, with the concurrence of the Executive Vice President – Power Generation and the Vice President – Chief Risk Officer (or in either of their absences, the Senior Vice President and Chief Financial Officer), is hereby authorized to approve and enter into, on behalf of the Authority, in connection with the Authority's obligations under the Long-Term Contracts, as described in the foregoing report of the President and Chief Executive Officer:

1. **hedging transactions relating to energy and fuel, including, but not limited to, swaps, including contracts for differences, calls, puts, covered calls, covered puts, swap options, covered call options, transmission congestion contracts, NYMEX contracts , other Over the Counter ("OTC") hedging instruments, and options on NYMEX or OTC contracts;**
2. **fuel-related transactions, including, but not limited to the physical purchase of natural gas and oil;**
3. **in addition to the authority granted under the April 27, 2004 Resolution adopted by the Trustees relating to NYMEX transactions, broker agreements with brokers selected by such officer, having such terms and conditions as such officer may deem necessary or advisable, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee, including provisions relating to collateral or margin payments under such agreements, provided that the release of monies from the Operating Fund for such collateral or margin payments under such provisions be governed by the same requirements and restrictions set forth in the April 27, 2004 Resolution;**

which may: (i) exceed the fuel and electric per-transaction limits for financial hedge transactions, and (ii) the spot-trade limits for physical transactions, established in Appendices A and B of the January 25, 2005 Resolution, provided, however, that, in addition to any other cumulative or per-day limits in Appendices A and B, the aggregate nominal value of all such transactions outstanding at any one time shall not exceed $195 million, with the term "nominal value" meaning, for the purposes of

this limitation, as applied to a particular transaction: (1) the aggregate amount to be paid by the Authority, or estimated to be paid by the Authority, pursuant to the transaction as determined as of the date of entry into the transaction by the Vice President – Energy Resource Management; (2) in the case of a NYMEX contract, the value of the contract based upon the price per dekatherm of the contract on the date of execution of the contract, and (3) in the case of conditional contracts (e.g., options to buy fuel), the value of the contract under the assumption that the conditions have been fulfilled and the contract were going forward; and be it further

RESOLVED, That the Vice President – Energy Resource Management is hereby authorized to execute agreements and to authorize his designees to execute agreements to effectuate transactions approved by the Vice President – Energy Resource Management pursuant to the foregoing Resolution, including ISDA Master Agreements and schedules and confirmations relating to such new or existing Master Agreements, having such terms and conditions as the Vice President – Energy Resource Management deems necessary or advisable, subject to the approval of the form of such agreements by the Executive Vice President, Secretary and General Counsel or his designee; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, and all other officers of the Authority, 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, documents, and agreements to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee.

9. Authorization to Enter into Agreement with the New York City Housing Authority Concerning the Prepayment of Funds to Implement Energy Services Projects and to Enter into a Related Escrow Agreement

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize the execution of an agreement with the New York City Housing Authority ('NYCHA') concerning NYCHA's prepayment of $25 million into an escrow fund ('Escrow Fund') established under an escrow agreement ('Escrow Agreement'), to be used for the implementation, by the Authority, of certain energy services projects ('Projects') at NYCHA housing developments. The Authority would draw on the monies in the Escrow Fund to pay for the costs of the Projects. The Projects would be implemented under the Authority's standard Cost Recovery Agreement ('CRA'). The special terms of the prepayment arrangement and a description of the Projects to be performed would be set forth in a Rider to such CRA, which Rider would constitute a supplement to the CRA. The Trustees are requested to authorize the execution of such Rider and any subsequent amendments to the Rider to cover additional future NYCHA projects to be implemented on a similar prepaid basis.

"The Trustees are also requested to authorize the execution of an escrow agreement among the Authority, NYCHA and a third party bank, which would establish the Escrow Fund.

BACKGROUND

"At their meeting of February 28, 1995, the Trustees approved funds in the amount of $40 million to implement a demand-side management program to promote the use of energy-efficient equipment for the Southeastern New York ('SENY') public housing customers as part of a long-term agreement for the sale of electricity. The primary focus of the program was the purchase and installation of super-efficient refrigerators for NYCHA, the largest housing authority in the country. NYCHA is responsible for more than 180,000 apartments in 2,700 master-metered buildings located throughout the five boroughs of New York City. An additional $35 million in funding was added to the program during the period 2000-04. This initiative has now been completed at a total installed cost of approximately $70 million. Approximately 185,000 refrigerators were installed, resulting in more than $7 million in energy savings for the customer and a decrease in greenhouse gases of 76,000 tons annually.

"Earlier this year, NYCHA and the Authority staff met to discuss next-phase energy efficiency projects. NYCHA identified a need to replace existing domestic hot water storage tanks in its buildings. In view of the success of the energy-efficient refrigerator initiative, NYCHA determined that the Authority would be its best option to implement a turnkey hot water heater Project. (Authority resources previously assigned to the Refrigerator Program can be made available to implement this Project.) Accordingly, NYCHA asked the Authority to undertake additional energy services work: replacement of existing domestic hot water storage tanks with instantaneous steam domestic hot water heaters in 500 NYCHA buildings (the 'Initial Project'). The total cost of installation for each of these 500 units is about $50,000, for a total Project cost of $25 million. A preliminary review of these units indicates that the average annual energy savings will be about $5,000 to $7,000 per unit, resulting in a 7- to 10-year payback. The Initial Project is to be completed by the end of 2006.

DISCUSSION

"On March 24, 2005, NYCHA and the Authority executed supplemental terms and conditions governing the supply of electricity to NYCHA (the 'LTA'). The LTA envisioned, in subsection A of Article IX, that the Authority and NYCHA will "continue to work in partnership to identify energy efficiency and clean technology projects at the Customer's facilities and to implement such projects that are economically feasible and agreeable to the Authority and the Customer." Furthermore, the LTA specified that the energy efficiency and clean technology projects would be implemented in the context of a cost-recovery agreement.

"Staff is requesting the Trustees to approve the execution of the Rider covering the Initial Project and also to authorize any subsequent amendments to the Rider that would cover additional energy services projects (the

'Additional Projects') at NYCHA to be implemented under the CRA. Such authorization would cover additional projects done on a prepaid basis similar to that governing the Initial Project.

"In addition, staff is also requesting the Trustees to authorize the entry by the Authority into the Escrow Agreement among the Authority, NYCHA and a third party bank for the deposit of the prepayment of funds for the Initial Project and for the Additional Projects, if any. NYCHA is expected to deposit $25 million into the Escrow Fund on or before June 30, 2005 to cover the Initial Project. Under the terms of the Escrow Agreement, these funds, once deposited, could be withdrawn only by the Authority to finance Initial Project costs. A similar restriction would govern deposits made for the Additional Projects. The Trustees are also requested to authorize successor escrow agreements, should they become necessary.

"If, in the future, NYCHA requests to add additional monies to the Escrow Fund to cover the Additional Projects, such Additional Projects would be covered by amendments to the Rider.

"By working with NYCHA under this prepayment arrangement, the Authority is helping NYCHA begin replacing the existing domestic hot water storage tanks with highly efficient instantaneous steam domestic hot water heaters in an expeditious manner. The Authority will be helping its customer, NYCHA, which is currently experiencing many operational problems with its existing domestic hot water storage tanks. These units, which provide residents with hot water in their apartments, were installed as early as the 1930s. Since these units were installed in multiple buildings during the same time period, NYCHA is experiencing multiple simultaneous failures.

"Therefore, time is of the essence for these Projects to be implemented and for these units to be replaced. This large-scale replacement at 500 NYCHA buildings will require the Authority to implement a fast-track program to avoid multiple simultaneous failures and to avoid the loss of hot water availability to the residents. The replacement of these units will provide energy savings, as well as operational and maintenance savings.

"If the Trustees authorize the execution of the agreement with NYCHA, the Rider would not become effective, and the Escrow Fund would not be established, unless the Authority receives confirmation from the U. S. Department of Housing and Urban Development ('HUD') that the Rider and the proposed funding comply with applicable HUD regulations and requirements. Counsel's office will review HUD's confirmation to assure that this condition has been met.

FISCAL INFORMATION

"The Initial Project and any Additional Projects implemented under the Rider and amendments to the Rider will be financed with prepayment funds provided by NYCHA. Any commitments made by the Authority for the Initial Project and any Additional Projects would not exceed monies deposited in the Escrow Fund. All Authority costs, including Authority overheads, will be recovered consistent with other Energy Services and Technology programs. Any fees related to the Escrow Account will be paid from monies in the Escrow Fund and will not be the Authority's responsibility.

RECOMMENDATION

"The Senior Vice President – Energy Services and Technology and the Director – Energy Services recommend that the Trustees authorize the Senior Vice President – Energy Services and Technology to enter into the Rider, as described above, and for the Treasurer to enter into the Escrow Agreement and any successor escrow agreement, as described above, and to authorize the Senior Vice President – Energy Services and Technology to enter into amendments to the Rider to cover the Additional Projects, as described above, provided that all such Additional Projects be done on a prepaid basis similar to that governing the Initial Project.

"The Executive Vice President – Power Generation, 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 Senior Vice President and Chief Financial Officer, the Vice President – Procurement and Real Estate and I concur in the recommendation."

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

WHEREAS, the Authority has a long-term energy supply agreement with the New York City Housing Authority ("NYCHA") under which the Authority agreed, among other things, to work in partnership with NYCHA to identify energy efficiency and clean technology projects and to implement such projects as are economically feasible and agreeable to both parties; and

WHEREAS, NYCHA has requested that the Authority work with it on a prepayment arrangement basis; and

WHEREAS, the Authority has determined that it will assist NYCHA, and that the prepayment arrangement would be advantageous to the Authority in that it would assure the Authority of payment for project work performed;

NOW THEREFORE BE IT RESOLVED, That the Trustees authorize the Senior Vice President – Energy Services and Technology to: (1) enter into a Rider with NYCHA, on behalf of the Authority, as described in the foregoing report of the President and Chief Executive Officer, having such terms and conditions as the Senior Vice President – Energy Services and Technology deems necessary or advisable, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, applicable to the Initial Project, as described in the foregoing report of the President and Chief Executive Officer, provided that such Rider incorporate the prepayment mechanism described in the foregoing report of the President and Chief Executive Officer, and (2) enter into any amendment to the Rider applicable to the Additional Projects, as described in the foregoing report of the President and Chief Executive Officer, having such terms and conditions as the Senior Vice President – Energy Services and Technology deems necessary or advisable, subject to the approval of the form thereof by the Executive Vice President, Secretary and General Counsel, and provided that such amendment incorporate the prepayment mechanism described in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Trustees authorize the Treasurer to enter into an escrow agreement among the Authority, NYCHA, and a third party bank, or any successor escrow agreement with any replacement bank chosen by agreement between the Authority and NYCHA, with such escrow agreement or successor escrow agreement having such terms and conditions as the Treasurer deems necessary or advisable to establish the Escrow Fund, as described in the foregoing report of the President and Chief Executive Officer, to cover the funding of the Initial Project and the Additional Projects; 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.

10. <u>Extension of Contract FD-13 - Brookhaven National Lab</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve an extension of Contract FD-13 to the United States Department of Energy ('DOE') for use by Brookhaven National Laboratory ('Brookhaven') for a period of three years.

BACKGROUND

"The Authority has been serving Brookhaven since November 1982 and has steadily increased the amount of electricity allocated to the current level of 60 MW. According to Brookhaven, these valuable electricity resources have saved the laboratory in excess of $188 million over the life of the contract, while at the same time giving it the ability to attract new, cutting-edge science projects to Long Island. These projects include the Alternate Gradient Synchrotron, the National Synchrotron Light Source and Relativistic Heavy Ion Collider ('RHIC'), with the potential of attracting a "next-generation" light-source facility, The Synchrotron Light Source II, in the near future. Brookhaven, a major employer on Long Island that attracts members of the scientific community from New York State, across the country and around the world, has more than 3,500 employees and a $450 million annual budget.

DISCUSSION

"Brookhaven is requesting an extension of the existing FD-13 for a three-year period commencing at the expiration of the current contract on June 30, 2005. The extended term would run until June 30, 2008. The contract extension will provide for a flow-through of market prices for all of Brookhaven's electricity requirements. The Authority will continue to offer Brookhaven the economic benefits associated with certain "grandfathered" transmission rights and other measures agreed to in separate Memoranda of Understanding concerning the control of Brookhaven's summer peak. Additionally, the Authority, the Long Island Power Authority, the Empire State Development Corporation and New York State Senator LaValle will provide financial incentives to further reduce the effective rate of electricity to Brookhaven. The Authority's financial incentive is $1.3 million per year for the term of the extension, which will be offset through the sale of low-cost power at market rates.

"New York State's goal is to offer an effective electricity price for Brookhaven that is substantially lower than the full market price for electricity on Long Island and to allow Brookhaven to compete within the National Lab System for world-class science. It is estimated that the measures outlined above could allow Brookhaven to move forward with its scientific endeavors.

FISCAL INFORMATION

"Extension of the Brookhaven contract for three years on the terms outlined above will be revenue-neutral to the Authority since Brookhaven will pay the cost of market power provided by the Authority at market rates.

RECOMMENDATION

"The Manager – Business Marketing and Economic Development recommends that Brookhaven National Laboratory's contract be extended as described herein and that the terms of service for the sale of power to Brookhaven be modified in accordance with the foregoing.

"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 recommendations."

Mr. Yates presented the highlights of staff's recommendations to the Trustees. In response to Vice Chairman McCullough's request for clarification about the sentence in the item regarding the $1.3 million

financial incentive to be offset through the sale of low-cost power at market rates, it was noted that the dollar value of the incentive equaled the estimated annual value of the sale of 5 MW of hydropower at market prices. Mr. Yates added that even with the contract extension, Brookhaven will experience an increase in electricity price because of an increase in market prices. However, in response to a question from Trustee Seymour, Mr. Yates explained that the Authority would recover all of its costs of service under the contract. President Zeltmann said the extension of this contract had resulted from an enormous amount of effort and innovation on the part of Authority staff. Chairman Ciminelli congratulated and thanked staff for a job well done.

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

RESOLVED, That the extension of contract FD-13 for a three-year period be approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; and be it further

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

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.

11. Procurement (Services) Contract - Fuel Cell for Wildlife Conservation Society at <u>Bronx Zoo – Increase in Contract Amount</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize an increase in the contract amount of the Authority's Agreement with International Fuel Cells, LLC ('UTC Fuel Cells') for the furnishing, delivering and commissioning of fuel cell power plants at various customer sites under Contract No. 4500048810. The increase in the contract amount will allow the Authority to procure a 200 kW fuel cell for installation at the Bronx Zoo in New York City. Such installation will be implemented pursuant to the Authority's Distributed Generation Program.

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.

"In November 2001, the Authority signed an agreement ('Agreement') with UTC Fuel Cells for the furnishing, delivering and commissioning of eight 200 kW fuel cell power plants. Such agreement was authorized by the Trustees at their meeting of April 17, 2001. Under the Agreement, two fuel cells were installed at the Red Hook Waste Water Treatment Facility ('WWTF'), two at the 26th Ward WWTF, three at the Hunts Point WWTF and one at the Oakwood Beach WWTF. All eight fuel cells were installed in 2003 and are currently operating. To date, $7,610,000 has been spent under that original agreement.

"Change Order No. 1 to the Agreement was issued in May 2003, extending the end date of the Agreement from December 31, 2002 to December 31, 2003, and including the option for the Authority to purchase additional fuel cell power plants prior to December 31, 2003. On March 15, 2004, the Authority issued Change Order No. 2, extending the term of the Agreement to December 31, 2005, and providing the Authority with the option of purchasing additional fuel cell power plants on or before December 31, 2005. Change Order No. 3 was issued on April 28, 2004 in the amount of $35,800 for the replacement of the integrated low shift converter ('ILS') on Unit 9274 at the Red Hook WWTF. On October 5, 2004, the President and Chief Executive Officer approved Change Order No. 4 in the amount of $2,900,000 for the purchase of four additional fuel cells to be installed as follows: one at the New York City Transit Corona Maintenance Yard, one at the Suffolk State Office Building and two at Grand Central Terminal.

"Authority staff recommends that the Authority exercise its option to purchase an additional 200 kW fuel cell for the amount of $725,000, as provided in Change Order No. 2. The fuel cell would be installed at the Bronx Zoo. A New York State Energy Research Development Authority ('NYSERDA') grant for the Bronx Zoo Fuel Cell Project in the amount of $584,000 was awarded to support costs associated with fuel cell procurement and installation. A U.S. Department of Defense ('DOD') grant for the Bronx Zoo Fuel Cell Project in the amount of $200,000 was also awarded to this project to support costs associated with the procurement of the fuel cell. Under the terms of the DOD grant, the Authority is required to issue a purchase order for the fuel cell by June 1, 2005. Authorization to execute Change Order No. 5 is requested in the additional amount of $725,000. This will bring the total value of the contract to $11,580,000, and the total value of cumulative change orders under this contract to more than $3,000,000. Under the Authority's Expenditure Guidelines, all equipment contracts with cumulative change orders exceeding $3,000,000 require Trustees' approval.

DISCUSSION

"The Wildlife Conservation Society ('WCS') operates all New York City zoos and aquariums under contract with the New York City Department of Citywide Administrative Services ('DCAS'). DCAS and the Authority have undertaken numerous distributed generation projects at New York City sites during the last several years, including the installation of a fuel cell at the New York City Aquarium in 2001. Presently, DCAS, WCS and the Authority have identified the need for a distributed generation system to provide both heat and power to the Lion House currently being renovated at the Bronx Zoo.

"The Bronx Zoo operates an aging 5 MW cogeneration facility for both heat and power. The cogeneration facility is operated at peak capacity for much of the year and does not allow for planned facility expansion efforts at the Zoo. As part of its major renovation of the Lion House, the Bronx Zoo has requested assistance from the Authority in meeting the expected increase in electric and thermal loads. A further requirement of this project is that the new electrical capacity be delivered with minimal air emissions and noise in consideration of the close proximity of the animals at the Zoo. The Bronx Zoo and the Authority determined that a 200 kW fuel cell would provide sufficient electric and thermal capacity for the Lion House while meeting its environmental requirements.

"The Bronx Zoo design team has prepared construction documents for the Lion House renovation project that include installation of a 200kW fuel cell. In addition, the Bronx Zoo construction contractor will complete most of the electrical and mechanical installation work required for the final placement of the fuel cell in the Lion House. The Authority will be responsible for procuring the fuel cell, delivery and final connections at the Lion House. The Authority will implement this work under a cost-recovery agreement, ensuring that all of its costs associated with its work effort are recovered.

ENVIRONMENTAL BENEFITS

"Fuel cells in a combined heat-and-power application have operating efficiencies of close to 70%. Operation of these fuel cells is estimated to result in a regulated emissions reduction of 20.7 tons per year and in a reduction of CO_2 emissions of more than 1,200 tons per year. Use of the thermal energy from the fuel cell will also offset the Zoo's use of natural gas for heating and cooling purposes.

FISCAL INFORMATION

"Under the Authority's Expenditure Guidelines, all equipment contracts with cumulative change orders exceeding $3,000,000 require Trustees' approval. Funding for the Bronx Zoo fuel cell will be from commercial paper debt financing or from Operating Fund monies. The project may also receive a small amount of Petroleum Overcharge Restitution ('POCR') funds. The total cost to the Authority of $725,000 will cover fuel cell procurement.

"Authority staff has secured a $200,000 co-funding commitment from DOD for this project. Authority staff also secured a co-funding commitment to support the procurement and installation of the fuel cell from NYSERDA in the amount of $584,000.

RECOMMENDATION

"The Senior Vice President – Energy Services and Technology, the Senior Vice President – Public and Governmental Affairs and the Director - Research and Technology Development recommend that the Trustees authorize an increase in contract amount for the Authority's Agreement with International Fuel Cells, LLC as described above.

"The Executive Vice President – Power Generation, the Executive Vice President, Secretary and General Counsel, the Senior Vice President - Marketing, Economic Development and Supply Planning, the Senior Vice President - Chief Financial Officer and I concur in the recommendation."

Mr. Zelingher presented the highlights of staff's recommendations to the Trustees. Trustee Carey said staff was doing a good job in recovering all costs associated with this project. In response to a question from Vice Chairman McCullough, Mr. Esposito said the costs would be recovered over a period of 10 to 12 years.

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

RESOLVED, That the Trustees hereby authorize an increase in the contract amount for the Authority's Agreement with International Fuel Cells, LLC as set forth in the foregoing report of the President and Chief Executive Officer, and that capital expenditures are hereby approved to be committed in accordance with the Authority's Expenditure Authorization Procedures for such projects in the amount and for the purpose listed below:

Capital	**Expenditure Authorization**
Bronx Zoo fuel cell procurement	
TOTAL PROJECT COST	**$725,000**

AND BE IT FURTHER RESOLVED, That the Authority's Commercial Paper Notes, Series 3, and Operating Fund monies may be used to fund project costs, as well as Petroleum Overcharge Restitution funds in an amount to be determined by the Senior Vice President - Energy Services and Technology; 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.

12. **Resolution – John L. Murphy**

The following resolution was unanimously adopted.

WHEREAS, John L. (Jack) Murphy served with dedication and distinction as a member of the New York Power Authority's Public Affairs Department staff for more than 18 years, including more than a decade as Director of Public Relations and head of the Department's Media Relations Division; and

WHEREAS, Mr. Murphy's career at the Authority was marked by a series of promotions to positions of increasing responsibility and by a singular blend of talent, professionalism and integrity that earned him the respect of his colleagues and of journalists throughout the State; and

WHEREAS, to his duties as the Authority's spokesperson on a broad range of critical matters, Mr. Murphy brought an acute awareness of the issues and an uncommon ability to frame them in graceful and understandable terms; and

WHEREAS, before joining the Authority staff, Mr. Murphy had worked as a reporter and editor for 22 years, a period that included 12 years as editor of The Evening Star of Peekskill and service as president of the New York State Society of Newspaper Editors; and

WHEREAS, this phase of his career brought him a redoubtable roster of personal contacts and a keen insight into the workings of the journalism profession that served him well in his duties at the Authority; and

WHEREAS, beginning with his days as a quintessential local editor, Mr. Murphy has devoted his time and talents to numerous civic activities in Peekskill, profoundly benefiting his fellow citizens and bringing credit to the Authority in that important community; and

WHEREAS, Jack Murphy has retired from the Power Authority, leaving a legacy of accomplishment and of commitment to the highest professional standards;

NOW THEREFORE BE IT RESOLVED, That the Trustees of the Power Authority of the State of New York wish Mr. Murphy a happy, healthy and fulfilling retirement and that they express their deepest appreciation to him for his many contributions to the Power Authority and to the people of New York State.

April 26, 2005

13. Motion to Conduct an Executive Session

"Mr. Chairman, I move that the Authority conduct an Executive Session to discuss matters related to settlement of administrative proceedings and potential litigation."

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

14. 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.

15. Next Meeting

The next meeting of the Trustees will be held on **Tuesday, June 28, 2005, at 11:00 a.m., at the Clarence D. Rappleyea Building in White Plains**, unless otherwise designated by the Chairman with the concurrence of the Trustees.

<u>Closing</u>

On motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 12:30 p.m.

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