

LONG ISLAND POWER AUTHORITY
MINUTES OF THE 185th MEETING
HELD ON DECEMBER 13, 2007

Pursuant to notice dated December 11, 2007, the Long Island Power Authority (the "Authority") was convened for the one hundred and eighty-fifth time at 11:20 AM at the Omni Teleconference Center, in Uniondale, NY.

The following Trustees of the Authority were present:

James Larocca, Chairman
Howard Steinberg, Vice Chairman
Michael Affrunti
Anthony Bonomo
Cristofer Damianos
Lawrence Elovich
John Fabio
Michael Fragin
Nancy Nugent
Jonathan Sinnreich
Suzette Smookler

The Officers representing the Authority were: Kevin Law, President and Chief Executive Officer; Lynda Nicolino, Acting General Counsel; Seth Hulkower, Chief Operating Officer; and Elizabeth McCarthy, Chief Financial Officer. Also present were: Richard Bolbrock, Vice President – Power Markets; Edward Dumas, Vice President – Communications; Michael Deering, Vice President - Environmental Affairs; Michael Hervey, Vice President – Operations; Bruce

Germano, Vice President – Retail Services; and Patricia Alberti, Acting Secretary to the Board of Trustees.

Chairman Larocca called the December meeting of the Board of Trustees of the Long Island Power Authority to order and noted that the meeting has been duly noticed and that a quorum is present. The Chairman then led the audience in the Pledge of Allegiance. After wishing everyone a good morning, the Chairman next introduced Cristofer Damianos as the newest Trustee of the Long Island Power Authority. The Chairman commented on Trustee Damianos's background, welcomed him to the Board and thanked him for his anticipated service.

Chairman Larocca next referred the Trustees to a 2008 calendar of proposed Board meetings, and indicated that he thought it might be valuable to lay out the schedule for the full year in light of the Trustees' busy schedules. He noted that there are a couple of additional dates in the early part of the year that are dictated by the SEQRA schedule for one of the Authority's projects, and that those meetings have been added with as much notice as possible, so that the Trustees can be available on those days.

Chairman Larocca stated that the Board agenda for this meeting enumerated an executive session, but that it does not appear that there will be a need for that session, and as a result, the Board will be in public session throughout the morning and the day. The Chairman continued that the Board has a full agenda, and that the President has a number of reports that he will be

making. He indicated that the Board has added some committees, and that he hopes to staff those committees in the year ahead. He added that he is very pleased with the transition that the Authority has been able to go through since his appointment, and that he has received great support and cooperation from the Board. He further commented on how engaged, involved and dedicated the Trustees are, and noted his pleasure to be working with them.

Chairman Larocca stated that he is also pleased with the staff, which has worked with both himself and President Law throughout the transition process. The Chairman indicated that some new people who have been brought in will be introduced today. Chairman Larocca also stated that the Board would devote time to the budget report. He again commented on the full agenda for the meeting and indicated that the public would have an opportunity to speak both at the end of the formal agenda, and as needed during the consideration of any resolutions.

Chairman Larocca then turned the meeting over to President Law for the delivery of the President and CEO's Report.

President Law stated that he has been in his new position for approximately two months, and that so far it has been an exciting experience for him with no shortage of challenges. He continued that for most of his first two months, he has been working on the budget that will be presented today. He indicated that going through the process is actually the best way to learn and understand an organization, and a great part of the transition.

President Law noted that he is beginning to bring in some new members of his team, and then introduced Edward Dumas as the Authority's new Vice President of Communications, and Michael Deering, as the Authority's new Vice President of Environmental Affairs. President Law thanked them for joining his team.

President Law further indicated that Ms. McCarthy has agreed to stay on as his CFO, and noted that in addition, he is promoting her to Senior Vice President and CFO. President Law commented on Ms. McCarthy's talents and efforts, and thanked her for agreeing to be part of his team.

President Law stated that although he believed the Authority had an agreement with a General Counsel candidate, certain issues arose on his end which led him to withdraw his offer to that candidate. President Law indicated that the Authority will begin a new search for General Counsel and will be taking out ads in the New York Times, the Wall Street Journal, the New York Law Journal and some trade magazines.

President Law then stated that Ms. Nicolino, who is the Authority's Acting General Counsel, has also agreed to be a member of his team. He commented on her assistance and thanked her for agreeing to stay on.

President Law stated that he is still evaluating LIPA's overall operations, and will be making some more changes. He added that he will continue this evaluation into January and February, and will be in contact with the Board as he

considers such changes. President Law commented that he feels good about having control of the organization and about the team that he is assembling.

President Law indicated that the Authority has issued a couple of Requests for Proposals (“RFP’s”) since he has been here. He noted that for the first time ever, the Authority put the Energy Management Agreement out to bid. He indicated that this agreement is currently being administered by National Grid, and that the contract expires in 2009. He added that he will keep the Board informed as that process continues, and that it will be interesting to see if there are other responses submitted.

President Law stated that yesterday, an RFP was issued to hire a consultant to examine the repowering opportunities at the Northport and Port Jefferson generation plants, which was agreed to and became part of the Management Services Agreement between LIPA, KeySpan and National Grid. He further stated that starting at the end of January, LIPA will create a stakeholders group with the community to gather their input, and that the group will include civic, community and business leaders, as well as elected officials. He indicated that responses to the RFP are expected to be in before the next Board meeting, and that he will report back to the Board on that accordingly.

President Law stated that LIPA is continuing to spend a lot of time doing its due diligence related to the generation purchase option to potentially purchase facilities from National Grid, including the E.F. Barrett, Far Rockaway and Shoreham-Wading River plants. He continued that the opportunity to exercise

the option extends to May 2008, and that LIPA has an internal interdisciplinary team examining those options, including the potential cost for exercising the option. He indicated that he will keep the Board abreast of those efforts. President Law stated that he is excited about the possibility of doing some repowering here on Long Island. He continued that if such opportunities exist, it will then become a policy decision as to how much cost the Authority can assume in connection with those opportunities.

President Law further reported that LIPA staff is preparing an RFP to hire a commercial real estate broker to examine LIPA's space needs. He continued that the Authority will probably issue the RFP after the holidays to help LIPA determine whether it makes sense to consolidate its office space or to look elsewhere. He noted that although LIPA has three years left on its lease, it may take a long time in terms of planning to figure out where LIPA is going and what it intends to do. President Law indicated that this effort should be at no cost to the Authority, since the brokers would make their money on commissions that are paid by the landlord. He indicated that this is a very preliminary stage of that endeavor and LIPA staff will keep the Board informed throughout the process. He further indicated that LIPA will not make any decisions or commitments without coming back to the Board and sharing some of the things that the broker may be telling LIPA staff.

President Law continued his report and stated that with regard to LIPA's energy efficiency program, LIPA staff is putting the finishing touches on it. He continued that he was hoping to have the Governor come down and announce

the program this month, but that LIPA is now looking at January to do that, and noted that he will brief the Board accordingly. He indicated that he is still very excited about it, and that he has put several new positions in the budget for 2008 to ramp up for that program.

Next, President Law reported on the Plug Power investigation undertaken by the Authority, and indicated that the report was recently shared with the Trustees, as well as the Attorney General and Comptroller. He noted that the report did not indicate evidence of the claims that were made in the newspaper regarding political favoritism, but unfortunately, LIPA did find shortcomings with respect to LIPA's management of the program.

President Law stated that Ms. McCarthy prepared the report on behalf of LIPA, and commented on the professional and independent nature of her work. He continued that Ms. McCarthy's investigation yielded a number of recommendations related to increased internal controls and procedures, and that he is happy to inform the Board that he has already implemented every one of the recommendations contained in the report. He explained that he has issued an Executive Directive, requiring the LIPA staff to comply with the recommendations in the report, effective immediately. He added that he took seriously the shortcomings identified in the report and immediately addressed them, and that the Board should feel comfortable that LIPA will stay on top of those things.

President Law continued that, as with any organization, whether in the public or private sector, there is always room for improvement. He continued that

he is looking at other operational issues in the organization, and that where LIPA can tighten things up, he would like to do so. He also indicated that he wants to make this Authority the best run Authority in the State of New York. He thanked the Board for their hard work, and indicated that he is looking at these things in order to take the organization in a new direction.

President Law reported that in his new budget, he has included a new position, namely a Compliance Officer that he will assign to the Legal Department. He indicated that the Compliance Officer will be an individual who will make sure that everything that LIPA does will be in compliance with the Board's directives and the Authority's By-Laws, as well as all other applicable laws. He added that the Compliance Officer will be responsible for making sure that LIPA's responsibilities have been met before LIPA enters into agreements or embarks on new projects or programs. President Law stated that he will be looking for a good candidate, and to the extent that someone is aware of a good person to fill the job, he would be happy to hear from them.

President Law continued that he thinks there are opportunities for more Board involvement. He noted that one of the shortcomings indicated in the Plug Power report was that the Board was not properly briefed as the program evolved, and he wants to have a relationship where LIPA staff will want to be briefing the Board and keeping them in the loop much more often than was previously done.

Chairman Larocca stated that he has also spent time with Ms. McCarthy reviewing the report, and thanks her for doing a terrific job. The Chairman

indicated that Ms. McCarthy came to the Authority after the events, and thus was able to look at them objectively. Commenting on the process and the paper, the Chairman noted that when a public body uses a sole-source process it is clear that the obligation for transparency and for specific findings that justify the sole-source method and all processes used must be fully documented.

Chairman Larocca stated that one of the findings in the report was that the process was insufficiently covered in the existing paperwork. He stated that he believes President Law has already undertaken to correct that problem in furtherance of the Authority's commitment to transparency and full disclosure. The Chairman continued that the way to prevent that problem from repeating itself is to have a record that is full, complete and transparent. He added that when the record is not complete and transparent, any number of inferences can be drawn about how the process was conducted, but without the record it is very hard to answer.

Chairman Larocca stated that the institution protects the public as well as itself by following those procedures, and that it is a commitment that the Authority will make going forward. The Chairman continued that along the way, it is clear that part of the processes that the Authority must be concerned about, are the Board processes. He noted that after the first phase of the project, the Plug Power matter did not come back to the Board for periodic reports, monitoring and overview, due to the assignment of the matter under the Authority's larger arrangement with KeySpan. He indicated that it is his intention to expect more complete and timely reports on key initiatives. He further indicated that this was an important initiative that came to the Board at the

beginning and then never again. The Chairman noted that one of the ways to improve the process would be for the Board to take a much more diligent role in the oversight, particularly when dealing in new territory.

Chairman Larocca stated that Research and Development (“R&D”) is such new territory, and that some R&D, although properly conducted, will fail. The Chairman further stated that although not everything done will be a complete success, the Board needs to be more fully involved, which is one of the important commitments that President Law and he have talked about. He indicated that the notion of R&D by the Authority is one that they have talked about taking a look at. He commented that we have a terrific R&D agency for energy in the State, NYSERDA, as well as other organizations that the Authority is a part of. He added that one of the consequences is that the Authority may reorder the way in which it does R&D, which will be discussed further.

Chairman Larocca then congratulated President Law and Ms. McCarthy and the staff for the directness with which they tackled the issue, the comprehensiveness of the report and the appropriateness of the directive that has been issued to correct the revealed shortcomings. The Chairman further stated that the net outcome of this will be much improved work by the Authority.

President Law stated that Chairman Larocca has his commitment that as the Authority embarks on projects there will be periodic reports to the Board related to budgeting and expenditures so that the Board is fully informed throughout the process.

Trustee Fabio stated that he can certainly appreciate the recommendations contained therein, and he thinks that it will stand the Authority well in the future. He indicated that he would like to take a look back in the sense that they spent an awful lot of money on the project, and from what he can see, LIPA got very little documentation as to what the final results were. He asked whether LIPA could expect any additional documentation to be forthcoming from this project to look at what was or was not achieved in a full and comprehensive way, assuming fuel cell R&D is not off the table, and the Authority wants to revisit it in the future. He added that he would hope that whatever information and knowledge, or lack thereof, that the Authority has gained from this particular effort, it can be applied going forward. He noted that without that documentation, the Authority is hamstrung in terms of future fuel cell projects that the Authority may want to consider.

President Law agreed and indicated that he has directed Ms. McCarthy to write a letter to KeySpan, now National Grid, requesting the completion and delivery of the final report, so that at least the Authority will have a final work product.

Chairman Larocca stated that he thinks that the report demonstrates that the deliverables were not in the appropriate places, including outcomes, and the Authority will not accept that result. The Chairman further stated that the Authority will demand that KeySpan produce all of the required deliverables.

President Law stated that, included in the 2008 budget is a financial analyst for LIPA's Clean Energy Office. He commented that this analyst will help manage

the large amount of money spent in that office and will go a long way in terms of the procedures and internal controls. He indicated that this position will assist the Clean Energy Office with implementing the very important programs that they not only run, but are looking to expand.

President Law next reported that he was invited to speak before the Long Island Regional Planning Board a couple of weeks ago. He continued that coincidentally, the week before, he had sat down with LIPA's staff, who briefed him on the recommendation that LIPA update its master plan. He indicated that even though the plan was updated only a few years ago, a lot has changed since then, including the spiraling cost of fuel, improvements in technology, as well as Governor Spitzer's call for 15 by 15, to help with supply and demand management by reducing New York's energy usage fifteen percent by the year 2015. He added that he has called for an update of that master plan, which will be an open and transparent process with a lot of public participation and Board involvement.

President Law stated that he expects LIPA to circulate an outline to the Board of what it will include in that master plan after the holidays, and then LIPA will share it with the public for comment on the outline of the plan. He continued that LIPA will prepare a plan next year, and hold more public hearings on that plan. He added that LIPA will brief the Board on the status of it all, and ultimately, if it goes well, LIPA staff will come back to the Board approximately one year from now to request approval for an updated master plan, which he is excited about.

President Law stated that it is important to have a plan and goals and to take steps to implement those goals. He further stated that he is looking forward to that process, and he will make sure that the Board and the public will be included along the way.

President Law reported that yesterday, he met with Moody's Investment Service organization upon their request. He continued that Moody's is looking to reevaluate the Authority, and he expects their report in January. He indicated that Moody's felt that he had command and control over the organization, and they were impressed with his budget. He noted that he told them that he was tempted to use some of the reserves to avoid having a rate increase, but Moody's was respectful of the fact that he did not engage in budget gimmicks, and they thought it was a solid budget.

President Law reported that Moody's liked some of the things that he has been trying to do in terms of reforms and transparency improvements, and that all-in-all, it was a good meeting. He continued that one issue of concern was that Moody's wanted him to clarify his call earlier in the year for PSC involvement in LIPA's rate setting. He indicated that Moody's informed him that throughout the country, public utilities have better ratings than private utilities because such public utilities are not subject to the public service commissions in their respective states, and have the ability to recapture their costs as needed when things such as the price of fuel goes up. He further indicated that he informed them that he was trying to strike a balance between those who are calling for

more PSC involvement without jeopardizing the Authority's ratings, which would impact its rates.

President Law reported that he was trying to come up with a proposal where the PSC would have access to LIPA's books and review LIPA's rate setting, along the lines of what he shared with the PSC this summer, and he informed Moody's that he is still interested in pursuing this. He indicated that they felt better about the hybrid that he came up with, and that this was the only concern that they raised. He added that Moody's was generally feeling very good about the organization and the direction in which LIPA is headed, as well as the budget.

President Law reported that on November 3rd, LIPA was expecting Hurricane Noel, and LIPA also expected a storm today that never materialized. He continued that LIPA did a lot of preparation with National Grid, and it was LIPA's first opportunity to coordinate with them in preparation for a major storm since the acquisition of KeySpan. He indicated that the good news is that the storm never materialized, but that the team in place at National Grid is terrific, and worked well with LIPA's team, led by Mr. Hervey, LIPA's Vice President of Operations.

President Law stated that he participated in the calls and went over to National Grid to see their operations. He further stated that if Long Island is in fact hit with a storm, LIPA is well-prepared for such an event, and that there is extremely good coordination between LIPA and National Grid. He indicated that this was a good test case, and it would have been both National Grid's and his own first hurricane with respect to the LIPA system. He noted that perhaps they

all went the extra mile in preparation to make sure that the first storm was a good one, but was pleased that the plans and the people are in place for future storm events.

President Law commented that Oklahoma is in its seventh day without power and lights due to an ice storm. He indicated that this is scary, because Long Island could also be hit by an ice storm, and since most of LIPA's facilities are overhead, such a storm could be just as disastrous as a hurricane. He reiterated, however, that the players are in place and the people are there, which is good news.

President Law continued his report by noting that Seth Hulkower, LIPA's Chief Operating Officer, will be moving on at the end of the year. He indicated that Mr. Hulkower has been a tremendous asset to LIPA, and Long Islanders owe him a great deal of gratitude for his service to LIPA and Long Island. He added that Mr. Hulkower has always been there for this Board to answer questions on operational issues. President Law thanked Mr. Hulkower for his commitment and his years of service to Long Island and LIPA.

With the President's Report concluded, Chairman Larocca turned to the next item on the agenda, the Operations Report, which was delivered by Mr. Hulkower.

Mr. Hulkower started his report by commenting on the day's current weather, indicating that LIPA is making sure that KeySpan has extra crews for all

shifts over the next 24 to 46 hours. He indicated that LIPA will be monitoring it, and Mr. Hervey will be on top of it.

Mr. Hulkower reported that for Sales and Marketing Load and Revenue Growth and Retention, as previously reported, LIPA will not reach the year-end goal of 44.8 MW, and LIPA expects to hit 38.3 MW, with the shortfall coming in the area of economic development. He continued that this is largely tied to the slow development in the Calverton Project, and that those megawatts will materialize in 2008.

Mr. Hulkower reported that with respect to the Clean Energy Initiative, lighting and appliances placed more than a million units against a goal of 715,000 units, which will result in annualized energy savings in excess of LIPA's goal of 43,000 Mwh. He indicated that the year-to-date actual is already 61,000 Mwh, and that has been a big success. He noted that earlier in the year a large promotion was done with several lighting resellers.

Mr. Hulkower reported that with respect to the Customer Care Programs, "Manage My Accounts," which is website registrations, looks to exceed the year-end enrollment goal. He continued that for On-line Energy Analysis, LIPA is already at 106,000 users, compared to a goal of 88,000. He added that this has been a big success.

Mr. Hulkower reported that with respect to the Balanced Billing, LIPA has added customers, but LIPA presently is at 430,000 customers, against a goal of

434,000. He stated that 30-day arrears are down, compared to last year, which is good news. He indicated that this speaks to LIPA's focus on outbound calling to drive those numbers down, and that is something that LIPA has worked heavily with KeySpan on.

Mr. Hulkower reported that LIPA continues to lead the State in both SAIFI, which is the frequency or infrequency of outages, and CAIDI, which is the duration of outages. He continued that this is something that LIPA continues to take into account and to make sure that the capital budget is focused on. He indicated that this concludes his report, and he noted that it has been an honor to serve the Board of Trustees and the customers of Long Island.

Chairman Larocca thanked Mr. Hulkower, and wished him good luck.

Trustee Sinnreich stated that as one of the two longest serving Trustees, he has had the privilege of knowing Seth the longest and always found him to be a consummate professional. He indicated that he also found Mr. Hulkower to be a fair and balanced presence on the staff, and responsive to the Board and the public. He added that Mr. Hulkower is one of the heroes that got LIPA started on the right foot and got LIPA to its present point. Trustee Sinnreich thanked Mr. Hulkower for his service.

Trustee Nugent stated that she concurs with Trustee Sinnreich's comments, and that she is honored to have known Mr. Hulkower personally and

professionally. She indicated that she wishes him the best, and that he will be missed.

Trustee Nugent also noted that with respect to the Operations Report, the on-line customer care has grown beyond expectations, and she wonders if LIPA has been able to absorb the tremendous public interest in terms of staffing and finessing the on-line registrations. Mr. Hulkower stated that the great thing about the on-line program is that they are very easy to scale and to administer with nominal incremental costs to add customers. He continued that this is the kind of focus that will continue in the next several years with regard to making on-line services available to customers, as more and more customers are comfortable with this kind of service are willing to do it. He indicated that it can ultimately lead to lower operating costs because customers are able to do more self-service as well. He added that it also concerns customer satisfaction, because they can get answers to questions at odd hours, when there may not be somebody in the Call Center to answer those kinds of questions. Trustee Nugent asked if there have been any reports of any kind of fraud or others representing valid ratepayers within those on-line accounts. Mr. Hulkower responded that LIPA has seen none.

Vice Chairman Steinberg stated that he wants to acknowledge what a fantastic job Mr. Hulkower has done over the years and wished him all the best in the future.

President Law stated that in terms of his team building, Mr. Hervey has agreed to stay on as his Vice President of Operations. He indicated that Mr. Hervey has been with LIPA for a number of years and does a terrific job, and he is

the one that oversees the agreements with National Grid. He thanked Mr. Hervey for agreeing to be part of his team.

Moving back to the agenda, Chairman Larocca asked for a motion on the minutes of the October 25, 2007 meeting of the Board of Trustees.

Trustee Fabio noted that there was a minor typographical error on page 14, where the word should have been “drives” rather than “dries”. Chairman Larocca indicated that the correction would be made.

Upon a motion duly made and seconded, the following resolution was approved unanimously:

**838. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT
THE OCTOBER 25, 2007 MEETING OF THE BOARD OF TRUSTEES OF THE
LONG ISLAND POWER AUTHORITY**

RESOLVED, that the Minutes of the meeting of the Authority held on October 25, 2007 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

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Chairman Larocca stated that the next item on the agenda is the Financial Report, to be delivered by Ms. McCarthy.

Ms. McCarthy reported that for the ten months ended October 31, 2007, as compared to budget, LIPA had an excess of revenues over expenses of \$120

million, compared to a budget of \$119 million. She indicated that LIPA was within one percent of its budget. She further indicated that revenues for the ten-month period were \$3 billion, which was \$64 million or two percent below budget, primarily due to the reduction in LIPA's power supply charge in February 2007.

Ms. McCarthy reported that overall, sales for the period were on budget. She continued that offsetting the unfavorable revenue variance was an \$82 million or five percent positive variance in fuel and purchased power costs as a result of lower-than-anticipated natural gas costs. She indicated that lower-than-budgeted administrative and general expenses of \$6 million and PILOTs of \$4 million added to this positive variance; however, operation and maintenance expenses were higher than budgeted as a result of retroactive billing from KeySpan in relation to certain electric service employee benefit programs that related to the original agreement with LIPA from 1998. She added that unbudgeted prior service costs relating to post-retirement health care benefits for LIPA employees were recognized as a result of a new governmental accounting standard that became effective this year.

Ms. McCarthy reported that other income exceeded the budget by \$18 million, due to higher investment balances and earnings rates. She continued that higher-than-budgeted sales of emission credits, and a timing difference related to the recognition of the Caithness benefits package also contributed to the positive variance. She indicated that interest expense was lower than budget by \$22 million or eight percent as a result of lower interest rates on the

Authority's variable rate debt portfolio and higher capitalized interest in connection with LIPA's construction program.

Ms. McCarthy reported that as of October 31, 2007, LIPA had a cash and cash equivalent balance of \$949 million, \$250 million of which is in LIPA's Rate Stabilization Fund. She continued that cash and cash equivalents are invested in a variety of instruments with 88 percent having a maturity of three months or less. She stated that from a fuel hedging perspective, at November 30, 2007, LIPA had hedges for 75 percent of its expected oil and natural gas consumption for the remainder of 2007. She added that LIPA's hedged position for oil, natural gas and power for 2008, 2009 and 2010 were; 82 percent, 38 percent and 22 percent, respectively.

Vice Chairman Steinberg asked Ms. McCarthy whether she anticipates that LIPA will likely finish the year on or close to budget. Ms. McCarthy answered that LIPA's expectation is that it will end the year right at or about \$75 million, which is LIPA's target.

Trustee Fragin stated that the staff needs to be commended for coming in at one percent of variance of the budget amount, especially given the volatility of prices this year. He continued that it is also due to the success of LIPA's hedging program, which allows LIPA to take into account a consistent amount of the costs of its fuel and quantity needs. He indicated that as the Board considers LIPA's budget in 2008, it has a lot of confidence in the numbers that the staff puts forward.

Chairman Larocca stated that one observation that he made in the Finance Committee that morning is that in understanding the impact that the world of supply and the world fuel environment creates, the trend has clearly been upward for a very long time. The Chairman continued that because of the nature of LIPA's business and the annualization of the various elements of it, and the kind of inter-year adjustments that inevitably get made, it sometimes can tend to mask the trend. He indicated that the trend is that the world price of petroleum continues to go up.

Chairman Larocca also stated that when we look at annualized reports, in any given year, it is possible to look at the fuel lines or where LIPA purchases power and energy from as having an effect one year or the next that have to do with adjustments. The Chairman continued that it can tend to obscure the larger reality of ever increasing world energy prices, which must be addressed. He indicated that this was especially apparent in the way numbers have come through this year. He further indicated that the tax and other issues go back a number of years, and there are adjustments that LIPA can make from one year to the next, but the reality is that the fuel, at the base of LIPA's system, continues to go up. He added that should anyone doubt what is happening there, they are reminded every second or third day when they go to the gas pump to purchase fuel for their cars.

Chairman Larocca extended congratulations for the terrific management of LIPA's financial affairs during these twelve months.

Trustee Nugent stated that, as Chairman Larocca mentioned earlier at the Finance and Audit Committee meeting, the dependence on foreign oil will get even keener because those countries that produce it are becoming more and more industrialized, and things are just going to get tighter and tighter.

Chairman Larocca stated that the oil-producing part of the world is itself becoming a larger consumer, and if you add in the factor of China's consumption, there is an enormous impact on fuel, so there is an even tighter market in which LIPA is struggling to buy the cheapest fuel.

The Chairman indicated that the next item on the agenda is the presentation of the 2008 budget.

President Law stated that he wants to present the budget to the Board, and he has spent a lot of time on it. He indicated that after he came in on October 9th, Ms. McCarthy informed him that the budget was due in six weeks, and he had his hands full with the transition, but did spend a lot of time on it.

President Law stated that in May of 1998, LIPA became Long Island's primary electric service provider, and LIPA operates as a non-profit state entity. He further stated that LIPA does not get one penny from the State of New York, but rather receives nearly 100 percent of its revenues from ratepayers. He noted that LIPA serves more than 1.1 million customers in Nassau and Suffolk counties, as well as the Rockaway Peninsula in Queens, and LIPA is either the second or third largest public utility in the country, depending upon how you look at it.

President Law stated that since acquiring LILCO, LIPA has invested more than 2.5 billion in the transmission and distribution system. He continued that for the fourth year in a row, LIPA was rated the number one overhead utility in the state for reliability, and the investment really shows.

President Law stated that LIPA released the budget on November 20th and immediately posted it on LIPA's website. He further stated that LIPA held public informational sessions on December 4th in the morning and the evening, and that neither was well attended. He indicated that LIPA staff proposes that the Board now approve the budget for 2008.

President Law stated that, as previously indicated, LIPA receives primarily all of its money from its ratepayers. He continued that residential sales make up 52 percent of LIPA's revenues and commercial and industrial customers account for approximately 46 percent, with some other operating revenues, some interest and pole attachment fees accounting for another two percent. He indicated that 55 percent of the budget is based on the cost of fuel, oil and natural gas, while operations and maintenance expenses, which is primarily associated with LIPA's agreement with National Grid, is about 17 percent. He further indicated that eleven percent goes to property taxes, either in the form of PILOTs or direct negotiated payments. He noted that when the State decided to acquire LILCO, since LILCO was a private entity that paid property taxes, the State decided that LIPA would also pay property taxes, as PILOTs, although it should not have to as

a non-profit state entity. He added that neither Suffolk nor Nassau Counties pay property taxes for their buildings.

President Law stated that depreciation interest accounts for another 16 percent, and a large portion of this is for the interest on the Shoreham Nuclear Power Plant that was never used. He continued that employee salaries and benefits are less than a half of one percent, and a customer's bill would go down about \$7 per year, or less than \$1 per month, if everybody at LIPA were fired today. He indicated that professional, administrative and consultant expenses are less than a half of one percent. He added that the cost of the fuel cannot be controlled by LIPA, as it is based upon geopolitics, demand, and a lot of things beyond LIPA's control.

President Law stated that the Management Services Agreement with National Grid is a fixed cost, as the decision was made that LIPA would contract with Brooklyn Union Gas, which became KeySpan, and now National Grid, rather than LIPA taking over the former employees of LILCO. He indicated that LIPA would cut its rates by eleven percent if it did not pay PILOTs, but it is a political dynamite issue, as all of the municipalities and school districts that host LIPA's facilities in their communities would be screaming if LIPA did not make such payments. He further indicated that LIPA cannot control interest expenses, as LIPA has seven billion dollars in outstanding debt that makes up almost seventeen percent of the budget, so he cannot do anything about that cost. He added that he also could not do anything about LIPA's operating and

maintenance agreement, which is fixed for another six years, and only the State Legislature could do anything with regard to property taxes.

President Law stated that LIPA's proposed budget is almost \$3.7 billion, which is a 1.6 percent increase, and more than \$2 billion of that will be just for the cost of fuel. He further stated that overall, operating expenses will be \$3.3 billion, an average increase of 2.96 percent, which is less than the CPI; so, despite what others might say, LIPA did try to hold the line. He indicated that everywhere that he could control, he reduced 20 percent, namely the professional, administrative and general expenses.

President Law stated that ultimately, LIPA will have excess revenues over expenses of \$75 million. He continued that three years ago, the Board used that \$75 million as a target of what LIPA should collect to build a reserve account to tap into to meet its cost in case LIPA were ever faced with a significant event, such as a big storm. He indicated that the typical LIPA customer averages 775 MW of usage, and LIPA is looking at a \$3 increase from \$147 to \$150 per month in the bill, or less than the cost of a gallon of gas.

President Law stated that he remembers standing with Mr. Kessel in February 2007, when LIPA reduced the budget by two percent. He indicated that LIPA has essentially restored what was cut in February to make up for the cost of fuel. He noted that when LIPA took over LILCO in 1998, oil was less than \$15 per barrel, and when he released his budget, it was \$95 per barrel, which is a

significant increase over the last nine years. He added that the cost of natural gas when LIPA acquired LILCO was \$2 a decatherm, and it is \$8 today.

President Law stated that the numbers are mind-boggling, in that there was a 286 percent increase for gas and 540 percent increase in fuel in the last nine years. He indicated that by comparison, home heating oil was \$1.52 per gallon in 2002, and it is \$3.37 now. He further indicated that the cost of gasoline was \$1.57 in 2002, and it is \$3.25 today.

President Law stated that he did not want to just go to the ratepayers and say that LIPA needs more money because of fuel. He continued that he wanted to show that he was getting his own house in order, and he wanted to cut those areas where he could. He indicated that he examined the way LIPA spends the discretionary portion of its budget, given the fact that approximately 96 percent of it is fixed.

President Law stated that, as he has previously discussed at the Board briefings, he did not provide in the budget for the incentive compensation plan. He continued that in addition he reduced LIPA's sponsorships and advertising by a half-million dollars; he cut out three management positions at LIPA to the tune of \$500,000; he will not renew the contracts with three government lobbyists, which will save more than \$228,000; the charitable donations program was eliminated, based on the Attorney General's Advisory Opinion, which is an outright savings of \$125,000; and he reduced the costs of meetings, conferences and seminars by about \$50,000. He indicated that he cut more than \$8 million in

expenses. He further indicated that it is important to show the ratepayers that LIPA is trying to reduce costs, because he really cannot do anything about the cost of fuel, which makes up almost 60 percent of the budget.

President Law stated that he does have some new initiatives and positions in the budget. He indicated that Mike Deering is LIPA's Vice President of Environmental Affairs, and LIPA has never had one before. He further indicated that he wants LIPA to be the best run Authority in the State of New York, and he wants people throughout the country pointing to LIPA in terms of what LIPA is doing when it comes to the environment, including protection, repowering and LIPA's commitments to renewable fuels. He added that he thought that it is important to highlight that, and to put those programs under the Vice President for Environmental Affairs.

President Law stated that as he previously indicated, for the first time ever, he has proposed a position of Compliance Officer to help LIPA make sure that it is complying with all of the rules and requirements that the Board or State requires. He continued that in furtherance of his commitment, and the fact that he is not afraid of having the PSC review LIPA's rates and books, he has created a position in the budget for a Director of Regulatory Rates, who will be the main interface with the PSC once LIPA establishes an arrangement with them. He noted that this further demonstrates his commitment to transparency.

President Law stated that the 2007 budget has 104 positions in it, and that his proposed staff in 2008 will consist of 103 positions, with the elimination of

some positions and the addition of others, particularly with respect to the Clean Energy Division. He indicated that he also increased LIPA's Energy Efficiency programs by 4 percent. He added that he increased LIPA's photovoltaic program by 34 percent; he increased LIPA's low-income conservation fund by 22 percent; and he funded \$2.6 million as a sort of "green premium" to implement the renewable portfolio standards that private utilities are going to be subject to next year.

President Law stated that LIPA's operational costs have been consistent from 1998 through 2007, but fuel has been driving the budget over the last few years. He continued that LIPA's bill is broken up into two different categories; the delivery charge and the power supply charge. He indicated that the delivery charge has stayed the same since 1998, while the power supply charge has been fluctuating. He added that the Authority tends to adjust the power supply charge once or twice a year, as opposed to companies like Con Ed, which change it monthly.

President Law stated that he would have liked to come in with a zero percent increase. He indicated that while the temptation was there to use some of LIPA's reserve accounts to avoid the increase, it would have meant that potential increases for 2009 would have been that much bigger. He added that he avoided that temptation and acted prudently.

President Law stated that he will come back to the Board in January to present to them a recommendation on what LIPA should be doing with some of

those reserves. He further stated that he would rather be in a position to cut the budget for the ratepayers, but he was not able to do so because he is looking for long-term rate stability. He indicated that this is the budget that LIPA staff submits to the Board for approval today.

Trustee Sinnreich asked how it is that President Law is able to cut so much from the professional services line, in that it amounts to \$5 million, and if you assume that average professional costs are approximately \$250 per hour, it would be approximately 200,000 hours of professional services. He further asked whether there was waste, whether the services would be brought in-house, and where the savings will be realized.

President Law answered that in terms of outside legal counsel, he plans on using the Attorney General to defend LIPA in litigation next year, which will reduce the cost of legal fees; so, he budgeted \$2 million less for legal during 2008 than 2007. He continued that he has also increased the legal staff by two positions, to be able to do more things in-house. He indicated that in terms of the consultants used by LIPA's various other departments, with the input of the LIPA staff, they chose to reduce the size of the dollar amounts that LIPA had allocated for consultants in the past, and that totaled approximately \$5 million between the two.

Vice Chairman Steinberg stated that he wants to compliment President Law and Ms. McCarthy on coming up with what is a very responsible budget for operating LIPA. He continued that budget time is a good time to reflect on a

couple of critical long-term issues. He indicated that the problem is that oil supplies are going down and demand is going up, which is not a good situation, and in addition, Congress is looking at a carbon emission tax, which would not be good for LIPA either. He further indicated that it is hard to look at a future where LIPA does not have substantially increased costs of electricity, and the question is what LIPA is going to do about it.

Vice Chairman Steinberg stated that this country did not learn any long-term lessons from the early 1970's, when we all stood on gas lines. He continued that the federal government has been slow at coming up with a comprehensive solution, so it has to be dealt with locally. He indicated that the answer has to be alternative energy sources for LIPA, and the fact of the matter is that we have rejected the silver bullet, which is nuclear power, which supplies 70 percent of the electric power in places like France. He further indicated that he is not sure what is available to LIPA, and to some extent, wind and solar were rejected because of high cost.

Vice Chairman Steinberg stated that the fact of the matter is that there is no way for LIPA to avoid substantially higher costs in the future. He further stated that rather than putting these costs into oil, LIPA ought to be looking at some point in the future to invest in some alternative energy programs that are workable, even though the cost is higher. He added that in the long, term, LIPA will be paying that one way or the other.

Trustee Fragin asked if LIPA has brought on somebody to be the Government Affairs Vice President. President Law answered that he hopes next week to share a resume with the Board of the individual that he wants to be Vice President of Governmental Relations. He indicated that this individual's salary will be \$175,000, like the other Vice Presidents, and noted that these salaries are less than that of their predecessors. He added that this will be a savings of about \$44,000 compared to what LIPA was paying for the three lobbying firms formerly engaged by LIPA. Trustee Fragin asked if President Law feels comfortable that one person will be able to successfully accomplish this role, as Long Island is a vast patchwork of different government entities. President Law stated that LIPA also has a Director of Government Relations and some community Relations Assistants.

Trustee Fragin asked whether the demand for electricity is going to continue to rise significantly. He indicated that the Wall Street Journal had an article this morning with regard to the energy consumption of flat panel plasmas and LCD televisions, and how much electricity they use, in comparison to their predecessors. He indicated that LIPA will probably see a significant amount of demand, and LIPA could see the average home consumption spike, which a lot of consumers may not take into account. He added that this plays into long term planning, and he asked how LIPA will deal with that.

President Law responded that Trustee Fragin has made some good points, and that after the holidays, he will share with the Board a package with regard to LIPA's new Energy Efficiency Program. He continued that LIPA cannot do a lot

about rates, which are based on fixed costs, but LIPA needs to help its customers control and reduce their bills, which will be a big commitment of his. He indicated that he thinks LIPA needs to have an educational marketing fund on its hands to help ratepayers control their bills, and that there is a distinction between bills and rates.

Trustee Fragin asked whether there is a specific cost within this budget that is dedicated toward achieving the goal of 15 by 15. President Law answered that he will be sending the materials to the Board concerning the Clean Energy Initiative that LIPA will be ramping up in 2008, and actually starting in 2009, so it will be included in the budget and submitted to the Board next December.

Trustee Nugent stated that she wishes to commend President Law and Ms. McCarthy for the budget that they put together. She continued that there is a provision in the budget for ramping up the assistance that is given to those who struggle with their LIPA bills and have a good intent to pay, but cannot always do so on a month-to-month basis. She indicated that this is an expansion of LIPA's good will, which has always been there.

Trustee Nugent asked what percentage the 1.1 million LIPA ratepayers represents of the total who use energy on Long Island, and whether there is an opportunity for LIPA to try to bring some of the users who have signed up with merchants back to LIPA. Mr. Hulkower answered that LIPA has the Long Island Choice program, which serves about 240 MW of load, and that is only a few thousand customers, which is negligible. He continued that some of them see

some small savings because of an oddity in the way their fuel is taxed compared to LIPA's, but it is not much of a difference. He indicated that municipal customers have an advantage in that Freeport, Greenport and Rockville Centre all have access to low-cost hydropower from the New York Power Authority, which is not available to Long Island as a whole.

Trustee Smookler stated that she is normally optimistic, but she is discouraged in seeing that every effort that this Board and LIPA has made in terms of exploring other resources. She continued that President Law went through the fuel cell issue in his report, and LIPA has gone through the windmills as well, and it is not for a lack of trying that LIPA has not done it. She asked whether in terms of this master plan, there is some dedicated space to what the vision is to solve this, because there are immediate, medium and long-term goals that LIPA should have, and it seems as if the Board has struggled with the same issues for a number of years.

President Law stated LIPA needs to reduce its reliance on Mideast oil, and LIPA's master plan will devote a big portion to alternative fuels. He continued that while LIPA needs to do things locally, it needs help from the Federal and State governments, and LIPA will not be able to implement alternative types of fuels until the incentives are there to bring the cost of using those fuels down. He indicated that whether you like it or not, and even if we do not do it here, places throughout the country are burning coal because it is the cheapest.

President Law stated that the Federal and State governments need to provide more incentives for LIPA to be able to implement some of the new

alternatives, but LIPA will be committed to it. He indicated that some things work out and some do not, but the master plan will include all types of options for LIPA to consider. He added that he is committed to exploring some renewable opportunities as well as repowering opportunities.

Trustee Smookler stated that she thanks President Law and that she appreciates the fact that it is a national issue, but she cannot see why members of the Board and the staff would be “gun-shy” to go down some of those roads. She continued that it seems that every time somebody has gone down an alternative fuel road, it has been a public relations disaster, or a failure in one way or another. She indicated that LIPA need some expert advice to find one that LIPA can put its money behind. She added that she is not suggesting coal either, but she doesn’t think that anything should be taken off the table, and she thinks that the Board will be talking about the same thing year after year if they do not come up with some concrete commitment to something that can work.

Trustee Fabio stated that with regard to expenditures from PILOTs and taxes, he thinks that President Law related the sort of fundamental inequity of some government agencies being able to escape taxation, and others not being able to. He further stated that he is wondering whether the Authority ought to consider a sort of ten-year program of phasing out its taxation and PILOT payments, working through government relations and legislators, and giving notice to the various taxing districts that over a period of ten years, that this funding will cease. He indicated that this should dovetail with many of the efforts to curtail school taxes and property taxes, so that there is a comprehensive plan

for LIPA to be exempt, without putting an unfair burden on those districts and municipalities that have been dependent on this funding. He added that LIPA should talk to the legislative leaders and see if there is an opportunity to explore this plan or another plan to recoup that eleven percent of LIPA's budget.

Chairman Larocca stated that there were two critical choices that Long Island and the State of New York made in the political environment. The Chairman continued that one was that public power would be put in place, but that the Authority would forgo one of the principal advantages of public power, in that LIPA would pay taxes as if it were private. He indicated that it was a choice that was made, and there are no right or wrong answers. He further indicated that eleven percent of every dollar goes to that, and LIPA can examine changing that choice. He added that in his own view, it would very difficult, because the beneficiaries of that system are the same people that LIPA serves, including the school districts and the people who send children to school.

Trustee Fabio indicated that at that time, the cost of oil was \$2 or \$3 per gallon. Chairman Larocca stated that he is not saying that LIPA cannot reexamine it, but he thinks that LIPA should recognize that it was not a choice imposed, but rather a choice that was made in the political process with respect to this new arrangement for its electric system.

Chairman Larocca stated that the other critical choice that was made when the Authority came into this new era was to pay for, in full, a plant that LIPA would not operate and use. The Chairman continued that there were many voices

at that time that said that it was not a good idea and that those who took the risk of that plant by purchasing the stock of a certain company and the banking company that fed money into that plant should not come out of the process whole. He indicated that a political choice was made that the Authority would pay for a plant that it would not use. He further indicated that the choice to tax the Authority as if it were a private entity and to pay for a plant that has produced not a single kilowatt hour of power, puts a burden on the Authority and the Board of Trustees and no utility in the United States of America can carry those twin burdens and achieve the rate stability that is being achieved. He added that there is a level of accomplishment at LIPA that is sometimes masked by these matters, but they were choices that were made approximately 20 years ago when the Authority agreed to buy the plant and close it, and ten years ago when LIPA agreed to pay taxes.

Chairman Larocca stated that the other point that Vice Chairman Steinberg was getting to concerns what this period of history is. The Chairman continued that Richard Nixon, Gerald Ford and Jimmy Carter agreed on almost nothing, but they all had a national energy plan, and at that period of time, the United States dependence on foreign oil reached a maximum of somewhere around twenty percent, or one gallon out of five. He added that on his seventh day in office, Ronald Reagan signed an Executive Order that basically ended the national energy plan of those three predecessor Presidents, in the belief that the market would allocate petroleum in the world, and therefore, we were operating in a fuel market, not knowing that there was a cartel in the midst of that market.

Chairman Larocca stated that by the time George Bush Sr. left office in 1992, as a twelve year administration, namely the eight year administration of Reagan and the four year administration of Bush, the United States went to almost fifty percent dependence on foreign oil. The Chairman continued that by the time Clinton left office, that number was more than sixty percent. He noted that the United States does not have a national energy plan except to remain dependent upon sources of energy outside of its borders and which are manipulated and controlled by others that include a cartel that would be breaking the law if it were meeting in this room today. He added that it is useful from time to time to remind ourselves about the environment in which we must operate.

Chairman Larocca stated that his conclusion over this lifetime of involvement with regard to energy matters at the state and local level, is that the highest and best dollar is the conservation dollar. The Chairman indicated that this is why what Governor Spitzer has laid out, and what LIPA will lay out shortly in terms of its strategy, has the highest and best yield potential in a world that is so far beyond LIPA's control. He further indicated that Congress is about to act on a National Energy Plan, and a lot of the focus there is on raising fuel standards again for cars, which is probably the single best strategy in there, as almost seventy percent of all petroleum consumed in this country is motor fuel. He added that a national energy policy that will ramp up motor fuel requirements is a very good strategy.

Chairman Larocca stated that the rest of what is in the bill is more of the same, and not only is OPEC petroleum in the base of all of this problem, but there are further subsidies in the bill to further reward that energy dependence. The

Chairman further stated that with respect to coal, which is an anathema to those in the Northeast, fifty percent of the electricity in the country is produced from coal, but the cost we pay is in the fallout that occurs atmospherically. He indicated that LIPA needs to concentrate on the things that locally can have the most effect, including efficiency, conservation and the furtherance of renewable and green strategies, which are within LIPA's reach, particularly now that the government in Albany shares that orientation and public policy. He added that he looks forward with great anticipation towards how LIPA will strategically flesh out how we try to get there, because it is the most urgent thing that LIPA can do.

Trustee Sinnreich indicated that he does not share Trustee Smookler's pessimism. He further indicated that all one has to do is drive on the Long Island Expressway and see the number of Prius's moving up and down the HOV lane to know that individual consumers by their individual choices, can lower their rates more than LIPA will ever be able to do. He stated that individual consumers can take an enormous number of actions to reduce their costs through the manner in which they purchase and use their own things. He added that when it gets painful enough, that will happen, and you can see it already in people's choices of automobiles, without the involvement of government.

Trustee Sinnreich stated that obviously one of the things that LIPA ought to consider, and which he assumes will be in the master plan, will be more money that will be spent on public education, because that is where the savings are going to come from. He continued that people are going to have to stop wasting power in their own daily and hourly choices. He indicated that if LIPA does that,

Long Island will save a lot more in energy than through anything that LIPA, the State or the Federal governments can impose.

Trustee Smookler stated that she hopes that Trustee Sinnreich is right. She continued that, with respect to the statement that there were no lessons learned from the gasoline shortages in the 1970's, she was one of those people who stood in line at that time. She indicated that she hopes the American public does what it needs to do both here and elsewhere to affect that. She added that she sees as many of those tremendous SUV's as she does cars on the HOV lanes, so she does not know that anybody learned any lessons from the 1970's.

Trustee Nugent stated that she believes that more investment in research, design and technology is needed, and that things that we used to abhor can be turned around through the right kinds of investment in research and technology, and she hopes that LIPA can expand in that area as well.

Prior to accepting a motion to adopt the 2008 Operating Budget, Chairman Larocca invited public comment.

Assemblyman Alessi stated that he wishes to applaud the work that President Law has done on the budget. He continued that some of the reforms that he is instituting are reforms for which he has been calling for a number of years. He indicated that some of his recent public comments have been that LIPA is turning the corner, and in President Law's first meeting, he changed the feeling of transparency at LIPA. He further indicated that he believes LIPA has done all

that it can do in terms of this budget, but wishes that it was not a two percent increase.

Assemblyman Alessi stated that he publicly called for a rate review of LIPA's books, because LIPA is the only utility in the state that does not get this kind of review when rates go up. He continued that although they have been called temporary fuel charges in the past, since 1998 the bill has gone up thirty percent, and it is important to have an independent set of eyes looking over the books. He indicated that in 2004, the Comptroller of the State of New York pointed out in his audit that there are administrative costs hidden in those fuel costs, and that even if that practice has been cleaned up, he does not know if everything has been detailed. He further indicated that the public's confidence needs to be restored.

Assemblyman Alessi stated that seventeen percent of the budget is attributable to contracts with KeySpan, which up until this point have been no-bid contracts, which reformers have called to be put out to bid. He indicated that for many contracts, the single-source explanations are not forthcoming. He stated that he applauds Ms. McCarthy for conducting the report on Plug Power, which detailed some issues with that no-bid contract. He added that the public also deserves an external report above and beyond that.

Assemblyman Alessi stated that each no-bid contract needs to be looked at, and somebody should pour over all of the contracts and all of the books, even though he appreciates the direction that LIPA has taken. He indicated that he

finds the following as positive developments: eliminating \$8 million in administrative costs; eliminating the charitable contributions program; having the Attorney General come in as counsel; the internal report by Ms. McCarthy; the master plan that will be put forward; and the allowance for a real public comment period. He noted that he found it very enlightening that there will be an extensive period of time where public hearings will be held.

Assemblyman Alessi stated that one suggestion the he has is to put notice of the public comment periods on the LIPA bill a month in advance, which would not cost any money. He further stated that he hopes that the master plan will include alternative energies, including the use of biodiesel at the power plants. He indicated that he is working with SUNY Stony Brook, Brookhaven National Lab and a number of policy think-tanks worldwide on biodiesel issues, and he will comment further on those matters.

Chairman Larocca thanked Assemblyman Alessi for his good input, and he invited further public comment with respect to the budget. Additional public comment was then heard.

Responding to the additional public comments just heard, President Law stated that \$36 million of the settlement with National Grid was credited in the budget to reduce fuel and purchased power costs, and that the figure represents approximately one percent of the budget. He indicated that if he did not use the \$356 million, there would have been a three percent increase in the bill, rather than two percent. He indicated that the temptation was there to use more of the \$72 million in settlement money, but that would create a \$100 million hole for next

year, and that is what he did not want to do. He added that he believes LIPA can handle the \$36 million, and that LIPA is looking for long-term rate stability, which was the reasoning and logic behind the numbers that he included in the budget.

Chairman Larocca stated that these matters were, in fact comprehensively considered, and that these are the outcomes. He further stated that he was particularly in favor of looking for rate stability and predictability over time.

President Law stated that LIPA will be presenting to the Board in January the policy matter concerning how to best use the rest of the settlement money, including whether to use it going forward for rate stability, or to subsidize energy efficiency programs.

Chairman Larocca invited a motion to adopt the budget, as presented by the President.

Upon a motion duly made and seconded, the following resolution was approved unanimously:

839. APPROVAL OF THE 2008 OPERATING BUDGET

WHEREAS, the Long Island Power Authority (“Authority”), through its wholly owned subsidiary, LIPA, owns and operates the electric transmission and distribution system (“T&D System”) serving the counties of Nassau and Suffolk and a small portion of the County of Queens known as the Rockaways; and

WHEREAS, the Board of Trustees is required to approve annual budgets for the operation and maintenance of the T&D System; and

WHEREAS, the Authority released its proposed 2008 Operating Budget on November 20, 2007; and

WHEREAS, the Authority conducted two public input sessions on the proposed 2008 Operating Budget on December 4, 2007;

NOW, THEREFORE, BE IT RESOLVED, that the proposed 2008 Operating Budget, as modified by Schedule A, all of which are attached hereto, are hereby approved; and be it further

RESOLVED, that the Authority intends to finance the requirements of the previously approved 2008 Capital Budgets through a combination of internally-generated funds and the issuance of tax-exempt debt of the Authority, to the extent permitted by law.

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Chairman Larocca stated that the next item on the agenda is Board consideration and approval of a Draft Environmental Impact Statement (“DEIS”) under SEQRA that relates to the process for the Southampton to Bridgehampton Transmission Line project. He indicated that Ms. Nicolino, LIPA’s Acting General Counsel, will present it.

Ms. Nicolino stated that LIPA is in the process of conducting the environmental review for the Southampton to Bridgehampton Transmission Line and Expansion of the Bridgehampton Substation Project, and LIPA staff was before the Board last month with a final scope document, which forms the basis of a DEIS. She continued that in the interest of time, the President and CEO accepted that DEIS and released it on December 4th. She indicated that LIPA staff is asking the Board to ratify his actions in that regard at this time. She noted that the DEIS was prepared by LIPA’s staff and its consultants and deemed to be adequate with respect to the scope and content for the purpose of commencing

public review under the SEQRA process. She added that based upon that review, President Law felt that it was adequate to put out for public comment at that time.

Ms. Nicolino stated that the DEIS describes the project and examines all the areas of potential environmental impact and concerns related to the four alternative routes that LIPA is contemplating for the project. She noted that the DEIS concludes that none of the four routes will result in any significant adverse impacts to the environment. She further noted that public hearings have been scheduled for December 18th, and that notice has been posted and advertised. She added that the public comment period will be held open until Monday, January 7, 2008.

Ms. Nicolino stated that she is happy to report that the challenge to LIPA's lead agency status, filed by the Southampton Town Planning Board, was decided in LIPA's favor by the Department of Environmental Conservation, so there is no longer any concern with regard to LIPA's status as lead agency, and on that basis LIPA is moving forward.

Ms. Nicolino then noted that several trustees had left the room and that a quorum was not present to take a vote, at which time Chairman Larocca took a question from Trustee Fragin.

Trustee Fragin asked what the timetable is for the project, and when the Authority will be making a determination as to the route of the line. Ms. Nicolino responded that LIPA's staff will come back to the Board, first in January with the

Final Environmental Impact Statement for the Board's review and consideration, and again in February to accept the final findings and the entire SEQRA process, absent any intervening circumstances. She indicated that this will be done with the goal of making sure that the project is operational by July 1, 2008. Trustee Fragin asked whether that is still a possibility, and Ms Nicolino answered that the Project is on schedule, so far.

The Chairman invited public comment, and after hearing none, took a motion to approve the DEIS process, which was duly made and seconded.

Upon determining that a quorum was once again present, the Chairman took a vote and the following resolution was approved unanimously:

840. ACCEPTANCE AND RELEASE OF DRAFT ENVIRONMENTAL IMPACT STATEMENT FOR THE SOUTHAMPTON TO BRIDGEHAMPTON TRANSMISSION LINE AND EXPANSION OF BRIDGEHAMPTON SUBSTATION PROJECT UNDER THE STATE ENVIRONMENTAL QUALITY REVIEW ACT

WHEREAS, the Long Island Power Authority ("LIPA") is committed to providing reliable electric service to its customers on Long Island; and

WHEREAS, the growing Long Island economy, increased development and other factors have resulted in an increasing demand for electricity on the North and South forks of Long Island, Suffolk County ("East End of Long Island") that is projected to continue into the foreseeable future; and

WHEREAS, the South Fork is currently served by an existing 69-kilovolt (kV) capacity double circuit transmission line, which runs between the Southampton and Bridgehampton substations; and

WHEREAS, in order to meet current and future service needs of LIPA's customers and ensure system reliability on the East End of Long Island, LIPA has identified the need to add increased transmission line capacity between the Village of Southampton and the Bridgehampton hamlet by the summer of 2008, and to expand the existing Bridgehampton Substation (the "Project"); and

WHEREAS, the Project would add a new 69-kV transmission line that provides for future growth and increased reliability for residents and businesses in the Village and Town of Southampton, as well as for residents and businesses across the East End of Long Island; and

WHEREAS, given the scope of and public interest in the Project, LIPA staff has determined that the Project has the potential to result in one or more significant adverse impacts on the environment, and accordingly issued a Positive Declaration under the State Environmental Quality Review Act (“SEQRA”) on July 10, 2007; and

WHEREAS, given the size and scope of the Project, LIPA advised all other potentially involved agencies that LIPA proposed to serve as “lead agency” under SEQRA in connection with the environmental review of the Project; and

WHEREAS, the New York State Department of Environmental Conservation has granted LIPA lead agency status following a dispute filed by the Southampton Town Planning Board; and

WHEREAS, with the assistance of its environmental engineers, consultants and counsel, LIPA prepared a Draft Scope for the Draft Environmental Impact Statement (“DEIS”) which was widely released on August 27, 2007, in order to ensure adequate public participation; and

WHEREAS, LIPA held a public hearing on the Draft Scope on September 18, 2007 and received public comment on such Draft Scope through and including October 2, 2007; and

WHEREAS, LIPA has considered all verbal and written comments received on the Draft Scope, and revised the Draft Scope in response to such comments accordingly, and in addition has prepared a written response to all comments received included as the Response to Scope Comments; and

WHEREAS, LIPA prepared the proposed DEIS, dated December 2007, pursuant to that Final Scope and determined that such DEIS is adequate with respect to its scope and content for purposes of commencing public review under SEQRA; and

WHEREAS, on December 4, 2007, LIPA’s President and Chief Executive Officer accepted the DEIS as complete by issuing a Notice of Completion, and released the DEIS for public review;

NOW, THEREFORE, BE IT RESOLVED, that LIPA hereby (i) ratifies the acceptance of the DEIS for the Project as adequate with respect to its scope and content for purposes of commencing public review; (ii) ratifies the release of the DEIS for public review and comment, including the scheduling and holding of a public hearing as required under SEQRA; and (iii) authorizes the President and Chief Executive Officer or his designee to perform such further acts and deeds as

may be necessary, convenient or appropriate in the judgment of the President and Chief Executive Officer or his designee, to ensure that the foregoing is carried out.

* * *

Chairman Larocca stated that the next item on the agenda is Board Consideration of approval of an extension of a financial advisor engagement, presented by Ms. McCarthy.

Ms. McCarthy stated that the Trustees are being asked to extend LIPA's current engagement with Bear Stearns & Company to provide financial advisory services to the Long Island Power Authority through September 30, 2008. She continued that the Authority retained Bear Sterns as a result of an RFP process in 2005, for a two-year contract and that the contract has expired. She indicated that LIPA is in the process of preparing an RFP for those services, and LIPA expects to put the RFP out in the first quarter of 2008. She further indicated that given the complexity of the current financial markets and the potential for financial transactions that the Authority is currently evaluating, LIPA staff believes that it is prudent to extend the contract with Bear Sterns while the RFP process is pending. She added that the LIPA staff proposes extending the agreement under the current terms, including costs, and she believes that this provides value to LIPA in the interim.

Chairman Larocca asked for public comment regarding the proposed resolution.

Assemblyman Alessi indicated that he applauded Mr. Law for what he was doing and applauded Chairman Larocca for some of the comments that he made. He further indicated that all sole-source contracts at LIPA should be reviewed internally and externally. He added that with respect to whether or not the books are looked at, LIPA's argument that it has an external auditor was the same one that was made at the school district level on Long Island, and they had problems. He stated that the public deserves accountability, and he believes that this is the kind of accountability and transparency that the Authority wants to put forward.

Assemblyman Alessi stated that with respect to PILOT payments, it was mentioned that they are a major percentage of the budget. He indicated that the important thing to realize with PILOTs is that it concerns a host community, because they are dependent upon it, now and for decisions that were made in the past. He further indicated that unless you get rid of "NIMBYism" on Long Island, the fact that folks are hosting a plant that may be releasing emissions lends itself to them having some kind of benefits package, which is what was done with Caithness in Yaphank.

Trustee Fragin asked whether it is not essentially a tax that LIPA is collecting for municipalities and that they are not calling a tax. He continued that LIPA is essentially recycling dollars that are not deductible for the homeowner.

Assemblyman Alessi stated that in the most recent instance with Caithness in Yaphank, the Board said that it was basically a community benefits package

and called it PILOTs. He indicated that a public debate is needed on how to restructure this.

Chairman Larocca stated that one of the things that are often missing from the discussion is that host communities do, in fact, earn some of that in the imposition of the facility. He asked Assemblyman Alessi what he sees as alternatives that might be examined if LIPA were prepared to fulfill the debate on PILOTs or not.

Assemblyman Alessi stated that in terms of an alternative to PILOTs the concept that LIPA would take a look at eliminating them is new, so at this point they have to identify what else can be done to benefit a host community. He indicated that right now he does not have a suggestion, but he will have suggestions ready, if LIPA will hold hearings on this in the next year.

Trustee Fragin stated that he did not intend to support any position. He indicated that all he is saying is that LIPA is essentially collecting a tax, but not calling it that, and people should be cognizant of the fact that this is really what is happening since eleven cents out of every dollar is going to subsidize taxes in various communities. He indicated that he is not saying that host communities should not benefit from that, as they probably should, but all of Long Island has to understand the “NIMBYism” issue, and need to understand what is occurring here because LIPA is collecting taxes on behalf of individual entities and subsidizing school districts and other districts throughout Long Island.

Assemblyman Alessi stated that a comparison was made between a power plant and a school district, and that is not a comparison, in that a school district is a tremendous benefit for the community in and of itself, but a power plant is not necessarily so. He continued that it is a benefit for the region as a whole within the jurisdiction of LIPA. He indicated that he is not saying that he is for or against PILOT payments, but that he just wanted to comment on that.

Chairman Larocca thanked Assemblyman Alessi for his diligence and the attention given to LIPA, and that LIPA really does welcome it as it is an important part of the process.

Upon a motion duly made and seconded, the following was approved, with Vice Chairman Steinberg abstaining:

841. EXTENSION OF ENGAGEMENT OF FINANCIAL ADVISOR

RESOLVED, that the President and Chief Executive Officer or his designee be, and hereby is, authorized to extend its engagement with Bear, Stearns & Co. Inc. as the Long Island Power Authority's Financial Advisor, with the contract term to expire on September 30, 2008.

*** * ***

Chairman Larocca stated that the next item on the agenda is Board consideration of a resolution approving the selection of a firm to provide IT support services to the Authority, to be presented by Ms. Nicolino.

Ms. Nicolino stated that the Trustees are being requested to approve a resolution authorizing the President and CEO, or his designee to engage two firms, on an as-needed basis, to provide information technology consulting services to LIPA for a term of five years. She continued that on June 19th, in order to supplement existing in-house resources, the Authority issued an RFP seeking firms to provide those services, which was distributed to thirty-four potential proposers. She added that it was also posted on LIPA's website and published in the New York State Contract Reporter.

Ms. Nicolino stated that on July 12th the Authority received sixteen responses to the RFP, and thereafter, the Selection Committee reviewed those proposals in relation to the RFP criteria and determined that two firms, Unique Comp., Inc. and Kenda Systems, Inc., are best suited to fulfill the Authority's needs, based on their proposals as submitted. She continued that specifically, Unique Comp., Inc. is selected to provide services to support and maintain the IT network and Kenda Systems has been selected to provide consulting services in relation to establishing IT policies and procedures. She noted that these firms will only be used on an as needed basis, thus they will only be paid for actual services rendered to the Authority. She indicated that based upon the foregoing, she recommends approval of the resolution at this time.

In the absence of the Chairman, Vice Chairman Steinberg called for a motion, which was seconded. He then asked for public comments, and hearing none, proceeded to take a vote.

The following resolution was then approved unanimously:

842. ENGAGEMENT OF FIRMS TO PROVIDE INFORMATION TECHNOLOGY CONSULTING SERVICES

RESOLVED, that the Chief Executive Officer or his designee be, and hereby is, authorized to engage Unique Comp Inc. and Kenda Systems Inc. to provide information technology consulting services to the Authority, with the contract term to be five years.

*** * ***

Chairman Larocca stated that the next item on the agenda is Board consideration of the amendment of the Authority's guidelines for the use of Interest Rate Exchange Agreements.

Ms. McCarthy stated that the Trustees are being asked to adopt an amendment to the Authority's guidelines for Interest Rate Exchange Agreements. She indicated that those guidelines were previously adopted by the Board in 1998, and have not been amended since. She further indicated that the only amendment sought with respect to the guidelines is as a result of the separation of the roles of the CEO and Chairman in accordance with the Public Authority Accountability Act, and as such, the references in the guidelines to the Chairman have been changed to that of the CEO.

The Chairman invited public comment, and after hearing none, requested that a motion be made to approve the guidelines for the Interest Rate Exchange Agreements.

Upon a motion duly made and seconded, the following resolution was approved unanimously:

843. AMENDED GUIDELINES FOR THE USE OF INTEREST RATE EXCHANGE AGREEMENTS OF THE LONG ISLAND POWER AUTHORITY

WHEREAS, the Long Island Power Authority (the “Authority”) has adopted Guidelines for the Use of Interest Rate Exchange Agreements for the regulation and management of the use interest rate swaps of the Authority; and

WHEREAS, the Authority wishes to revise its existing Guidelines for the Use of Interest Rate Exchange Agreements to reflect certain changes in the law made by the Public Authorities Accountability Act regarding governance requirements and practices and to more accurately reflect the current management and operation of the Authority;

NOW THEREFORE BE IT RESOLVED, that the Trustees hereby approve and adopt the “Guidelines for the Use of Interest Rate Exchange Agreements (as amended December 13, 2007)” in the form presented at this meeting; and be it further

RESOLVED, that such Guidelines for the Use of Interest Rate Exchange Agreements of the Long Island Power Authority are to be effective with respect to the regulation and management of the affairs of the Authority as of December 13, 2007.

* * *

Chairman Larocca stated that the next item on the agenda is Board consideration and approval of the execution of one or more Floating-to-Fixed Rate Swap Agreements to be presented by Ms. McCarthy. The Chairman commented that this is a straightforward matter in terms of what the Board needs to do today, but that this is a complex subject for a lengthier discussion.

Ms. McCarthy stated that currently the Authority has \$1.3 billion in un-hedged floating rate debt, and LIPA staff believes that there are some market

opportunities that make it financially advantageous, fiscally prudent and therefore convenient for LIPA to swap the portion of this floating rate debt to fixed rate for a period of time. She continued that LIPA staff is seeking the authority to enter into one or more swaps for a term no longer than the stated maturity of the underlying bonds, in an aggregate notional amount of \$300 million, and to have a fixed rate not higher than three percent. She indicated that LIPA would be looking at market opportunities to enter into those swaps, and the Authority has an existing pool of counterparties that were authorized by the Board. She further indicated that LIPA staff is also asking for the Authority to potentially enter a swap with a counterparty for an aggregate notional amount greater than \$250 million because the Authority has certain counterparties where it already has swaps and where they would be the Authority's best or most cost-effective counterparty for those particular swaps. She added that LIPA has evaluated the underlying risks inherent in swaps, and she believes that those risks can be managed in this situation and are outweighed by the benefit of a potential swap.

Chairman Larocca asked whether they fit within the overall investment guidelines. Ms. McCarthy answered that they are all within the Interest Rate Exchange guidelines.

Chairman Larocca stated that this is not new risk, and its purpose is to ultimately benefit the ratepayer and to manage the Authority's debit costs more effectively. Ms. McCarthy stated that LIPA staff estimates that over the period, the all-in interest rate would be lower than LIPA's current projection.

Trustee Fabio asked how much of the \$1.3 billion the Authority would be swapping out. Ms. McCarthy answered that LIPA staff is asking the Authority to swap up to an additional \$300 million.

Trustee Fabio asked whether it would be advantageous to do more. Ms. McCarthy responded that she believes that it is best to keep a balance between the Authority's fixed and floating rates, and that this would lower the Authority's floating rate exposure by about four percent and fix the rate for that period. She indicated that this is a good balance in a total portfolio.

Vice Chairman Steinberg asked whether the Authority's outside financial advisors offered any counsel and advice on this. Ms. McCarthy answered that they have helped the Authority evaluate both the market conditions, as well as products that have been presented to the Authority by its various underwriters. Vice Chairman Steinberg asked if this was consistent with the advice given by the Authority's outside financial advisors and Ms. McCarthy confirmed that it was.

Trustee Sinnreich commented that this obviously is a very complex area and a high risk to the Authority. He indicated that he received a personal briefing on the issue and that he got a lot of comfort from that briefing. He stated that this is a well managed program, both by Ms. McCarthy and by the Authority's outside advisors, and recommended that the other Trustees receive the same briefing because it is an area of very serious hidden risk, and that after talking to Libby they too would be comforted.

Chairman Larocca stated that there is a Risk Management Committee that Ms. McCarthy supported, with a lot of participation and monitoring.

Trustee Fragin stated that the Finance and Audit committee was briefed on the matter that morning, and that this would normally not require Board approval, but the funds did not originally allow for swaps, so the Authority is looking to potentially amend the bond issue right now to allow it. He continued that he thinks that generally, the Board has given the staff and financial advisors a lot of leeway in determining the best course of action with regard to locking in favorable interest rates, and they have done an excellent job. He indicated that he would defer to them on that, and swaps are common practice for those that issue debt.

The Chairman invited public comment, and after hearing none, asked that a motion be made to approve the resolution.

Upon a motion duly made and seconded, the following motion was approved unanimously:

844. EXECUTION OF FLOATING-TO-FIXED INTEREST RATE SWAP AGREEMENTS

WHEREAS, the Electric System General Revenue Bond Resolution (the "General Bond Resolution") adopted by the Long Island Power Authority (the "Authority") on May 13, 1998 permits the Authority to enter into Financial Contracts (as defined therein), which include interest rate caps or collars and forward rate, future rate and certain swap agreements with Qualified Counterparties (as defined therein); and

WHEREAS, the Authority has determined that the use of such agreements is appropriate in certain circumstances but recognizes that certain risks can arise in connection with their use; and

WHEREAS, on December 13, 2007, the Authority adopted revised guidelines (the "Swap Guidelines") for the use of such agreements in order to assure that such agreements are used for appropriate purposes and to assure that the risks potentially associated with such agreements are effectively managed and minimized; and

WHEREAS, the Authority has pre-selected a number of different Qualified Counterparties (as defined in the General Bond Resolution) to enter into these swaps and has identified these counterparties as having substantial and significant experience in the municipal bond swap market, all of which are within the three highest grade categories of at least two nationally recognized statistical rating agencies; and

WHEREAS, the Authority's Swap Guidelines provide that the Trustees shall expressly approve agreements having a term greater than one year with any single counterparty in an aggregate notional amount greater than \$250,000,000; and

WHEREAS, the Authority plans to enter into one or more floating-to-fixed interest rate swap agreements to reduce the Authority's variable debt rate exposure, with all or some of the counterparties in an aggregate notional value greater than \$250,000,000;

NOW THEREFORE BE IT RESOLVED THAT:

1. The President and Chief Executive Officer and the Chief Financial Officer of the Authority are, and each of them hereby is, authorized to enter into one or more floating-to-fixed interest rate swap agreements with one or more preselected Qualified Counterparties, which agreements shall (i) be for a set term no longer than the stated maturity of the underlying variable rate bonds for which they relate, as the President and Chief Executive Officer or Chief Financial Officer specifies, (ii) relate to a notional amount not to exceed \$300 million in the aggregate and may be in an aggregate notional amount great than \$250 million with any single Qualified Counterparty, (iii) commence on such date or dates as the President and Chief Executive Officer or Chief Financial Officer specifies, (iv) have a floating rate based upon the SIFMA (formerly BMA) Municipal Swap Index or upon a percentage of LIBOR, (v) have a fixed interest rate not higher than 3.0%, and (vi) be consistent with the Swap Guidelines and substantially in the form of the floating-to-fixed rate swap agreements previously entered into by the Authority, with such changes and additions to and omissions from such form as such authorized executing officer deems in his/her discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval. In connection with the authorizations herein set forth, the Authority hereby determines, after consideration of the risks inherent in the use of interest rate

swap agreements, including those outlined in the President and Chief Executive Officer's memorandum submitted to the Trustees relating thereto and the recommendation of the Authority's financial advisor relating to the use of the proposed interest rate swap agreements, that (a) the use of such interest rate swap agreements will reduce the Authority's exposure to changes in interest rates associated with floating rate debt and provide an effective rate below the rate budgeted for variable rate debt, (b) the risks of the proposed interest rate swap agreements are both manageable and reasonable in relation to the potential benefits; and (c) the proposed interest rate swap agreements are necessary or convenient in the exercise of the powers and functions of the Authority under the LIPA Act.

2. Each Authorized Representative (as defined in the General Bond Resolution) is hereby authorized and directed to execute and deliver any and all documents and instruments and to do any and all acts necessary or proper for carrying out the floating-to-fixed interest rate swap agreements and for implementing the terms of, and the transactions contemplated by, the floating-to-fixed interest rate swap agreements and this resolution and each of the documents authorized thereby and hereby.

3. This resolution shall take effect immediately.

* * *

After noting that the end of the scheduled agenda was complete, and that there would be no executive session, the Chairman opened the floor for public comment.

Upon the conclusion of the public comment period, Chairman Larocca entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 1:59 PM.

Respectfully submitted,

Lynda Nicolino

