

February 24, 1999

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

February 24, 1999

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Minutes of the regular meeting of the Power Authority of the State of New York held at the New York Office at 11:45 a.m.

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

Eugene W. Zeltmann	President and Chief Operating Officer
David E. Blabey	Executive Vice President, Secretary and General Counsel
Robert A. Hiney	Executive Vice President - Project Operations
Russell Krauss	Chief Information Officer
James Knubel	Senior Vice President – Chief Nuclear Officer
Louise M. Morman	Senior Vice President – Marketing and Economic Development
Robert L. Tscherne	Senior Vice President – Energy Services and Technology
Vincent C. Vesce	Senior Vice President - Human Resources
H. Kenneth Haase	Senior Vice President - Transmission
John M. Hoff	Vice President – Procurement and Real Estate
Michael Petralia	Vice President – Public Affairs
Stephrn P. Shoenholz	Deputy Vice President – Public Affairs
Arthur T. Cambouris	Assistant General Counsel
Carmine J. Clemente	Deputy General Counsel
Richard E. Kuntz	Regional Manager – Southeast New York
James J. McCarthy	Regional Manager – Central New York
Jordan Brandeis	Director – Performance Planning
Joseph J. Brennan	Director – Internal Audit
Thomas J. Concodoro	Director – Accounting
Angelo Esposito	Director – Energy Services
John L. Murphy	Director – Public Information
James J. Peterson	Director – Power Contracts
James H. Yates	Director – Business Marketing & Economic Development
George W. Collins	Treasurer
Michael Brady	Deputy Treasurer
Anne Wagner-Findeisen	Deputy Secretary
Angela Graves	Assistant Secretary
Vernadine Quan-Soon	Assistant Secretary

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

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1. Approval of the Minutes

The minutes of the Regular Meeting held on January 26, 1999 were approved.

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2. Financial Report for the One Month Ended January 31, 1999

Trustee Miller inquired about the \$7.6 million shown as “non-operating income” and whether it includes the LIPA repayment. Mr. Collins explained that although LIPA repaid the full \$9 million of the loan, which loan was reflected as an expense in 1997, the \$7.6 amount reported as income for 1998 is a net figure partially offset by lower revenues. In response to questions from Trustee Ciminelli, Mr. Collins confirmed that for 1999 budgeting purposes, assumptions have been based on historic river flow levels.

3. Report from the President and Chief Operating Officer

At President Zeltmann's request, Mr. Krauss briefed the Trustees on the current status and developments in the ongoing Year 2000 Program effort. In particular, Mr. Krauss reported that there are currently zero unknown systems and that all aspects of the Y2K program are on schedule to meet the June 30th deadline set by the NRC. Mr. Krauss explained that of the Authority's approximately 200 some "critical" systems, the vast majority are in the nuclear generation function and that, in turn, some of those systems contain hundreds of components which must be Y2K compliant.

Trustee Ciminelli asked how we are handling Y2K issues that will actually arise earlier, in the fall, when other date-related issues may occur. Mr. Krauss explained that such issues are being tested as part of the normal system checkout process. Mr. Krauss added that the Y2K problem is further compounded by the fact that the year 2000 is also a leap year.

Mr. Hiney then introduced Mr. James McCarthy, the Regional Manager – Central New York, who briefed the Trustees on the Y2K readiness status of the Central Region. Mr. McCarthy reported that all critical, severe, and high systems at the Blenheim-Gilboa Project and the Clark Energy Center are ready, with the exception of the SCADA system at BG, which requires additional attention regarding communications with remote facilities via "remote terminal units." He explained that new Y2K compliant computer chips will be installed in each of six remote terminal units by May 1st.

President Zeltmann expressed the Authority's thanks to Mr. Lou Thompson, who had recently retired from his position in the Governor's Office, and to Ms. Diana Taylor, his assistant who had recently resigned, for their many contributions to public service and their extensive work with the Authority and its senior management. He also referenced the January Electric World cover story on FACTS and stated it reflected the terrific work on the project performed by staff.

4. Power Allocations Under the Power for Jobs Program

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve 45 allocations of available power under the Power for Jobs program to the businesses listed in Exhibit ‘4-A’ which have been recommended for such allocations by the Economic Development Power Allocation Board (‘EDPAB’).

BACKGROUND

“In July 1997, Governor George E. Pataki and the New York State Legislature approved a program to provide low-cost power to businesses that agree to retain or create jobs in New York State. The Power for Jobs program originally made available 400 megawatts of power; 200 provided from the Authority’s James A. FitzPatrick Nuclear Power Project and 200 purchased by the Authority through a competitive bid process. The program was to be phased in over three years; with approximately 133 megawatts being made available each year. In July 1998, as a result of the initial success of the program, Governor Pataki and the Legislature have made an additional 50 megawatts of power available and have accelerated the distribution of the power. 267 megawatts were made available in Year 1.

“Approved allocations will entitle the customer to receive the power from the Authority pursuant to a sale for resale agreement with the customer’s local utility. A separate allocation contract between the customer and the Authority will contain job commitments enforceable by the Authority.

“The program is designed to assist New York State businesses that are at risk of reducing or closing their operations or moving out of State or are willing to expand job opportunities. Small businesses and not-for-profit corporations are also eligible. Businesses are required to create or maintain a specific number of jobs in order to qualify for an allocation. At seven meetings from December 1997 through November 1998 the Trustee’s approved allocations to 331 businesses under the Power for Jobs program.

DISCUSSION

“In an effort to receive quality applications and to announce the program, advertisements announcing the program were placed in major newspapers and business publications statewide; a direct-mail piece was distributed; regional meetings were hosted around the state; and the program was promoted through television ads within and without the state. To date, over 2,600 inquiries have been received and over 1,290 applications have been sent to prospective customers.

“Completed applications were reviewed by EDPAB and recommendations were made based on a number of competitive factors including the number of jobs retained or created, the amount of capital investment in New York State and whether a business is at a competitive disadvantage in New York. 45 applications were deemed highly qualified and presented to the EDPAB for its review on February 23, 1999. All remaining applications are still under review and will be considered at a later date.

“As a result of its meeting, the EDPAB recommended that the Authority’s Trustees approve the allocations to the 25 businesses, 11 small businesses and 9 not-for-profit corporations listed in Exhibit ‘4-A’. Collectively, these organizations have agreed to create or retain over 19,390 jobs in New York State in exchange for allocations totaling 28.04 megawatts (MW). The allocation contracts will be for a period of three years. The

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power will be wheeled by the utilities as indicated in Exhibit '4-A'. The basis for EDPAB's recommendations is also included in Exhibit '4-A'.

RECOMMENDATION

"The Director – Business Marketing and Economic Development and the Manager – Business Power Allocations and Compliance recommends that the Trustees approve the allocations of power under the Power for Jobs program to the companies listed in Exhibit '4-A'.

"The Senior Vice President – Marketing and Economic Development, the Executive Vice-President Secretary and General Counsel, the Executive Vice-President – Project Operations and I concur with the recommendation."

Trustee Miller inquired whether allocation of this power to certain hospitals could be perceived as providing support to institutions which are not otherwise fiscally viable. Chairman Rappleyea explained that the applicant hospitals are encompassed within the not-for-profit segment of Power for Jobs recipients identified in the enabling legislation, and that hospitals have proven to be an impressive source of jobs. Trustee McCullough, noting that he has familiarity with hospitals' financial operations, explained that no allocation of power would per se be capable of prolonging an institution that is otherwise about to fail. Mr. Yates added that under this phase of the Power for Jobs program, not-for-profit organizations have provided some 50% of the total number of jobs retained. Trustee Miller then expressed his support for the proposed allocation.

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

WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve an aggregate 28.04 MW of allocations of Power for Jobs power to the companies listed in Exhibit "4-A";

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves allocations of Power for Jobs power to the companies listed in Exhibit "4-A" (the "Customers"), as submitted to this meeting, and that the Authority finds that such allocations are in all respects reasonable, consistent with the requirements of the Power for Jobs program and in the public interest; and be it further

RESOLVED, That a total of 28.04 MW of power from the James A. FitzPatrick Plant and power purchased by the Authority in a competitive bid process be sold to the utilities that serve such Customers for resale to them for a period of up to three years under the terms of both the Authority's Power for Jobs sale for resale contracts with the utilities and separate allocation contracts between the Authority and such Customers; and be it further

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

**5. Approval of Rider B to Service Tariff No. 39A (Firm Hydroelectric Wholesale Power Service) and Approval of Rider C to Service Tariff No. 39B (Firm Nuclear Wholesale Power Service) –
Notice of Proposed Rule Making**

The President submitted the following report:

SUMMARY

“The Trustees are requested to approve Rider B to Service Tariff No. 39A (Firm Hydroelectric Wholesale Power Service) pursuant to which participating partial requirements municipal electric system customers of the Authority (‘Partials’) would purchase capacity under that tariff on an as-used basis rather than on a monthly contract demand basis. The Trustees are also requested to approve a Rider C to Service Tariff No. 39B (Firm Nuclear Wholesale Power Service) pursuant to which Partials participating in the Authority’s Municipal Industrial Economic Development Program (‘the Program’) would purchase capacity under that tariff on an as-used basis rather than on a contract demand basis. Both riders if approved would be given retrospective effect to July 1, 1998. The Trustees are also requested to authorize the Executive Vice President, Secretary and General Counsel to file with the Secretary of State a Notice of Proposed Rule Making for these Riders for publication in the State Register.

BACKGROUND

“Prior to May 1, 1998 all but five of the Authority’s 47 in-state municipal electric system customers (‘the Systems’) purchased their full requirements from the Authority. The bulk of such requirements were met by the Niagara Project with the incremental needs supplied from a blend of FitzPatrick and Blenheim-Gilboa purchases.

“On or about May 1, 1998, 30 of the systems transferred to Partial status after transmitting the contractually mandated three-year notice to the Authority. The 30 Partials have elected to secure their incremental power requirements from out-of-state entities through the recently established New York Municipal Power Agency (‘NYMPA’).

“While the Authority has historically been responsible for the energy scheduling requirements of the Systems, NYMPA contracted with an out-of-state consultant to prepare the hourly schedules for the 30 Partials. The Authority staff and NYMPA’s consultant have agreed on Niagara power scheduling procedures to be applied to the Partials.

DISCUSSION

“As full requirements customers of the Authority, the 30 Partials had purchased Niagara power and incremental power on an as-used basis. For example, if a system had a Niagara contract demand of ten megawatts, but in a particular month experienced a peak of eight megawatts, it would be billed for only eight megawatts of Niagara power. If the same system experienced a peak of 12 megawatts in a subsequent month, it would be billed by the Authority for 10 megawatts of Niagara power and two megawatts of incremental power.

“The Authority tariff applicable to Partials (Service Tariff No. 39A) currently requires that these systems pay for Niagara power on a contract demand basis. For example, if the hypothetical system in the foregoing paragraph had been a Partial, it would have been billed for 10 megawatts of Authority power in both months. The two megawatts of incremental power used during the second month would have been supplied from a non-Authority source.

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“Service Tariff No. 39A includes a provision which entitles the Partial to receive an amount of Niagara energy in any month up to the maximum of the product of (a) the Partial’s Niagara power contract demand, (b) the number of hours in the billing month and (c) the Partial’s system load factor for the corresponding billing month in the previous year. As many of the 30 Partials have peak demands in non-winter months that are substantially lower than their Niagara power contract demands, this provision of Service Tariff No. 39A would entitle those systems to more Niagara energy than they received as full requirements customers. However, to realize the benefit of this provision, the Partials would need to perfect banking arrangements with a third party. Such arrangements would entail banking the energy not required during non-winter months for ultimate drawdown in the winter when the monthly hydro energy entitlements are insufficient to meet the Partials’ full requirements. The Partials have been unsuccessful in attempts to secure such arrangements.

“Attached is a copy of Rider B (Exhibit ‘5-A’) to Service Tariff No. 39A which provides that the monthly Niagara billing demand applicable to the participating Partials would be based on the lesser of the Partial’s monthly peak or its Niagara contract demand. Rider B provides for the insertion of this revised billing demand in the formula in the tariff employed to compute the monthly hydro energy allocation, resulting in a reduction to the Partial’s hydro energy entitlement in those months in which its peak demand is less than its contract demand.

“Certain Partials are participants in the Program under which the Authority provides a block of low-cost power comprising 50 percent Niagara power and 50 percent incremental power in connection with specific industrial development applications. Pursuant to their power supply contracts with the Authority, the Partials would purchase the incremental power under Service Tariff No. 39B. In order for these Partials to realize an economic benefit on the same general level that they had enjoyed under full requirements service with the Program, certain modifications to Service Tariff No. 39B are required. Accordingly, the attached Rider C (Exhibit ‘5-B’) to Service Tariff No. 39B, which accommodates such modifications, is recommended for approval.

“Rider C ensures that the Partials will continue to purchase incremental power on an as-used basis solely with respect to participation in the Program. Absent this change, each Partial participating in the Program is required to purchase such power on a contract demand basis which would be detrimental to the economics of the Partial’s overall power supply purchase and, ultimately, to industrial customer(s) of the Partial served under the Program.

“Following the statutorily mandated 45-day publication/comment period in the State Register, the Trustees will be asked to take final action to adopt these Riders.

FISCAL INFORMATION

“The proposed Rider B to Service Tariff No. 39A and Rider C to Service Tariff No. 39B has been reviewed by the Authority, which supports their adoption. In addition, any Partial executing Rider B waives any rights to entitlements to Niagara energy predicated on a contract demand formula.

“At current rates, changing the billing demand under Rider B from a contract demand to an as-used basis would produce approximately \$500,000 less in annual hydropower revenues if all NYMPA members executed such rider. Application of Rider C to Service Tariff No. 39B would reduce annual revenues that otherwise would have been realized under that service tariff by about \$400,000. The foregoing revenue reductions are less than the projected costs associated with support power or foregone wholesale market transactions that could be incurred by the Authority if the Partials maintained and fully utilized their energy entitlements under Service Tariff No. 39A. It should be noted that Authority transmission revenues will not be impacted by the changes proposed herein.

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RECOMMENDATION

“The Director – Power Contracts and Billing recommends that the Trustees authorize the Executive Vice President, Secretary and General Counsel to file Notice of Proposed Rule Making with the Secretary of State for publication in the State Register, and to file such other notice as may be required by statute or regulation; and that subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee, the Senior Vice President – Marketing and Economic Development or her designee be authorized to execute Rider B and Rider C with individual Partials on behalf of the Authority, and provide refunds, retroactive to July 1, 1998, to those customers who execute such Riders.

“The Vice President – Controller, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Transmission, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations, and I concur in the recommendation.”

Trustee Miller inquired as to the impact, if any, of the proposed tariff riders on those Authority customers who purchase firm power. Mr. Peterson explained that the class of firm power customers enjoys different benefits under the terms and conditions of the agreement that they entered into with the Authority several years ago. Trustee Miller noted that it is important that loyal customers be rewarded.

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

RESOLVED, That the Executive Vice President, Secretary and General Counsel be, and hereby is, authorized to file Notice of Proposed Rule Making with the Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation to effectuate the foregoing; and be it further

RESOLVED, That subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee, the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to execute Rider B and Rider C on behalf of the Authority, and provide refunds, retroactive to July 1, 1998, to those customers who execute such riders.

POWER AUTHORITY OF THE STATE OF NEW YORK
RIDER B TO SERVICE TARIFF NO. 39A

This Rider B shall modify Service Tariff ("ST") No. 39A (Firm Hydroelectric Wholesale Power Service) as set forth below.

A. EXISTING CONTRACT

The supply of service under this Rider B is subject to all provisions of the Customer's 1986 power supply contract with the Authority as modified by a 1991 amendment. Such contract as amended shall be referred to herein as "the Contract."

In the event of any inconsistency, conflict or difference between the provisions of this Rider B and ST No. 39A, or a successor tariff, the provisions of this Rider B shall govern.

B. TERM OF SERVICE

Subject to execution by the Authority and the Customer, this Rider B shall become effective on the date specified below and shall remain in effect with respect to service to the Customer for the unexpired term of the Contract unless the Contract is terminated by the Authority or the Customer pursuant to the provisions incorporated therein or unless the Authority and the Customer mutually agree to terminate service hereunder.

C. HYDROELECTRIC CONTRACT DEMAND

The Hydroelectric Contract Demand shall be the maximum amount of hydroelectric kilowatts contracted for in the Application for Electric Service, as such amount may be modified from time to time pursuant to the terms of the Contract, as measured at Authority's generating station switchyards.

D. BILLING DEMAND

The Billing Demand shall be the lesser of (a) the Hydroelectric Contract Demand, or (b) Customer's highest 30-minute integrated demand measured during the billing period, adjusted for losses.

E. ALLOCATION OF ENERGY

The kilowatt-hours allocated to the Customer under this Service Tariff during a billing period shall be the amount scheduled for the billing period up to a maximum of the product of (a) the Billing Demand, (b) the number of hours in the billing period and (c) the Customer's system load factor for the corresponding billing period in the previous year.

F. ENERGY SCHEDULING

Subject to the provisions of NYPA Partial Requirement Scheduling and Dispatch Procedures ("the Procedures"), which are incorporated herein as if set forth at length and which may be modified by the Authority from time to time upon thirty(30) days' prior written notice, Customer may schedule during billing period an amount of energy equaling up to the product of (a) the Hydroelectric Contract Demand, (b) the number of hours in the billing period and (c) Customer's system load factor for the corresponding billing period in the previous year. Customer reserves the right to challenge any modification of the Procedures by the Authority.

Customer will use Good Utility Practices (as defined in Paragraph G herein) to ensure that it does not schedule in any hour more energy than the lesser of Customer's load in such hour, adjusted for losses, or the Customer's Hydroelectric Contract Demand. Over the course of a billing period, Customer will use Good Utility Practices to ensure that it does not schedule more energy than the lesser of the Customers total monthly energy requirements, adjusted for losses, or the Customer's energy entitlement for the billing period as determined in the foregoing Paragraph E entitled "Allocation of Energy".

In the event that the amount of energy scheduled by Customer in any hour during the billing period exceeds the "highest 30-minute integrated demand" referenced in the foregoing Paragraph D entitled "Billing Demand", then for purposes of computing the Billing Demand, the highest hourly schedule submitted by Customer for the billing period shall be deemed to be the highest 30-minute integrated demand measured during the billing period, adjusted for losses. Over-scheduled energy shall be reconciled in accordance with the Procedures.

G. GOOD UTILITY PRACTICES

For the purposes of this Rider B, "Good Utility Practices" shall mean any of the practices, methods and acts engaged in or accepted by the New York Power Pool ("NYPP") or its successor, the Northeast Power Coordinating Council ("NPCC") and a significant portion of the electric utility industry ("Industry") at the time the decision was made, which would have been expected to accomplish the desired

Effective Date: July 1, 1998

result at a reasonable cost given the circumstances, consistent with the NYPP's the NPCC's and the Industry's standards and practices for economy, reliability, safety and expedition with due regard for the protection of the environment. Good Utility Practices are not intended to be limited to the optimum practices, methods or acts to the exclusion of all others, but rather to a spectrum of possible practices, methods or acts engaged in or accepted by the NYPP, NPCC and Industry at the time the decision was made. Should there be conflicts between the practices, methods and acts of the NYPP and NPCC versus the Industry, the NYPP NPCC standards and practices shall prevail.

H. NO UNILATERAL AMENDMENT

This Rider B shall be subject to amendment by the Authority only upon the written concurrence of all customers receiving service hereunder.

IN WITNESS WHEREOF, the parties have cause this Rider B to be executed by their proper officers there unto duly authorized as of the date written below :

POWER AUTHORITY OF THE STATE OF NEW YORK

BY: _____

TITLE: _____

DATE: _____

CUSTOMER

BY: _____

TITLE: _____

SYSTEM: _____

DATE: _____

Effective Date: July 1, 1998

POWER AUTHORITY OF THE STATE OF NEW YORK
RIDER C TO SERVICE TARIFF NO. 39B

This Rider C shall modify Service Tariff ("ST") No. 39B (Firm Nuclear Wholesale Power Service) as set forth below.

A. APPLICABILITY

To partial requirements municipal and rural electric cooperative systems in New York (individually referred to herein as "the Customer") participating in the Authority's Municipal Industrial Economic Development Program ("the Program").

B. EXISTING CONTRACT

The supply of service under this Rider C is subject to all provisions of the Customer's 1986 power supply contract with the Authority as modified by a 1991 amendment. Such contract as amended shall be referred to herein as "the Contract."

In the event of any inconsistency, conflict or difference between the provisions of this Rider C and ST No. 39B, or a successor tariff, the provisions of this Rider C shall govern.

C. TERM OF SERVICE

Subject to execution by the Authority and the Customer, this Rider C shall become effective on the date specified below and shall remain in effect with respect to service to the Customer for the unexpired term of the Contract unless the Contract is terminated by the Authority or the Customer pursuant to the provisions incorporated therein or unless the Authority and the Customer mutually agree to terminate service hereunder.

D. CAPACITY RATE

The Capacity Rate applicable to service provided pursuant to the Program shall be the Capacity Rate applicable under ST No. 38B.

E. NUCLEAR CONTRACT DEMAND

Solely with respect to the Program, this provision shall be eliminated from ST No. 39B.

F. BILLING DEMAND

Solely with respect to the Program, the Billing Demand under ST 39B for any billing period shall be the lesser of (i) the aggregate amount of incremental power (as determined pursuant to the Contract) made available by the Authority to the Customer under the Program, or (ii) the amount by which the Customer's highest 30 minute integrated demand during the billing period exceeds the Customer's Hydroelectric Contract Demand under the Contract, both (i) and (ii) as measured at the Authority's generating station switchyards. In no event will the Billing Demand be less than zero.

G. ALLOCATION OF ENERGY

Solely with respect to the Program, the term "Billing Demand" shall be substituted for "Nuclear Contract Demand" under the Allocation of Energy provision of ST 39B.

Effective Date: July 1, 1998

H. NO UNILATERAL AMENDMENT

This Rider C shall be subject to amendment by the Authority only upon the written concurrence of all Customers receiving service hereunder.

IN WITNESS WHEREOF, the parties have caused this Rider C to be executed by their proper officers thereunto duly authorized as of the dates written below:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: _____

Title: Senior Vice President-Marketing and Economic Development

Date: _____

CUSTOMER

By: _____

Title: _____

System: _____

Date: _____

Effective Date: July 1, 1998

**6 Longer-Term Contractual Arrangements for Authority
Business Customers –Transmittal to the Governor**

The President submitted the following report:

SUMMARY

“The Trustees are requested to authorize transmittal to the Governor of longer-term contractual arrangements for certain Authority business customers in the Economic Development Power Program and the High Load Factor Manufacturer Program.

BACKGROUND

“The Authority sells electricity to businesses under several State authorized economic development programs with power service provided by the FitzPatrick Plant and augmented by other Authority resources, as needed. These power sales are made through the Economic Development Power Program, High Load Factor Manufacturer Program, Municipal Distribution Agency Industrial Power Program and other power sales programs (collectively, the ‘Programs’). In some instances, these customers are served directly by the Authority (‘Direct Sale Customers’); in other cases, the customers receive Authority power through resale arrangements with municipal distribution agencies or investor-owned utilities (the ‘Resale Customers’).

“On July 7, 1998, the Governor announced the Authority’s long-term contract proposal, which include electric rate reductions designed to protect jobs. The Authority structured the Governor’s proposal into six distinct options and presented these options to all of the Authority’s business customers that buy electricity under the Programs. The options which are summarized in Exhibit ‘6-A’ provide real certainty of supply and stable prices for the electric power needs of business customers of the Authority.

“The basic elements of the options include:

- An extension of the existing contract or power allocation with the Authority;
- A price freeze for three years for the Authority electricity production price;
- A near-term price reduction for the Authority electric production price based on an agreement concerning the contract term;
- Agreement by the Authority to absorb a portion of future price increases related to increases in delivery charges (transmission and distribution).

“Of the 100 business customers eligible for the options, 87 customers selected a long-term contract and business relationship with the Authority; 45 customers selected Option 3 (seven-year term) and 42 customers selected Option 5 (nine-year term).

“On October 28, 1998, the Trustees authorized the implementation of this longer-term contractual program.

“As a result of these selections, a public hearing was required for 16 Direct Sale Customers, since the term of the existing power allocations are shorter than the long term options they selected. Further, for 15 of these customers, Economic Development Power Allocation Board (‘EDPAB’) approval was required prior to the public hearing. Summarized on Exhibit ‘6-B’ for each of the 16 business customers is the type of power

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purchased from the Authority, the EDPAB approval date, the public hearing date, the original contract expiration date and the contract extension date.

DISCUSSION

“At its meeting of November 24, 1998, the EDPAB approved contract extensions for the 15 EDP customers in question and recommended the contract extensions to the Authority.

“A public hearing on the extension of the terms of the contracts with each of the 15 EDP customers and the 1 High Load Factor manufacturer was held on January 12, 1999. Comments were received from three individuals.

“Mr. Arthur L. Kindred, General Associate for the E.G. Bowman Company, a minority woman owned insurance brokerage firm, spoke at the hearing and submitted a written statement. Mr. Kindred noted that his firm does business with the Authority and one of the 16 firms covered by the hearing. Mr. Kindred had no objection to the contract extensions, but requested that pursuant to existing contract language the Authority monitor the use of women and minority-owned businesses. While none of the subject contracts require a specific percentage utilization of such firms, the Authority should take note of Mr. Kindred’s comments in connection with its regular review of the annual reports filed by the subject companies.

“A written statement, and amendment thereto, were submitted by Peter Quinn, Energy Analyst, Initiative for Competitive Energy, recommending rejection of the 16 contract amendments. Mr. Quinn suggests that the contracts do not require current maintenance of jobs and he cites examples of companies that have reduced employment in recent years. The Authority monitors the contracts to ensure compliance with the terms and applicable regulations. The contracts to be extended provide for reductions in power allocation in the event that employment or power usage levels are not maintained at specified levels. Companies that do not meet their commitments are reviewed annually by the Authority’s Trustees for possible power reductions. Specifically, in the past the Authority has reduced allocations to two of the customers addressed at the hearing. All 16 customers are currently in full compliance with their job commitments.

“Mr. Quinn levels a number of general criticisms of the Authority’s power allocations, claiming, among other things that rates should be reduced for all Long Island customers and that the State’s efforts should be redirected towards energy efficiency. Mr. Quinn’s criticisms are unfounded. The Authority has been given a mandate to allocate power to companies on Long Island and elsewhere in the state, that will create and retain jobs in return for lower cost electricity. The subject contract amendments are consistent with those goals. All of the job commitments under the 16 contracts will remain in force for the new, extended terms, thus preserving employment levels at these companies well into the future.

“Mr. Giuliani appeared on behalf of the Northeast Utilities and asked several questions relating to Authority power sales, but offered no comment on or criticism of the proposed contract amendments.

“None of the comments submitted warrant the denial of the extensions. The contract extensions provide certainty of supply and stable prices for the electric power needs of business customers of the Authority, thereby protecting jobs, the contract extensions should not be modified and are in the public interest and should be recommended to the Governor for his approval.

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RECOMMENDATION

“The Director – Business Marketing and Economic Development recommends that the proposed contract extensions for the sale of Economic Development Power and High Load Factor Manufacturer Power as shown in Exhibit ‘6-B’, be transmitted to the Governor with the recommendation that they be approved.

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

Trustee Miller asked whether, under the proposed contractual arrangements, it is possible that the Authority would have to sell the power for less than it costs to make it. Mr. Yates responded in the negative, explaining that such an eventuality should not arise in connection with this particular group of EDP and High Load Manufacturer customers.

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

WHEREAS, on November 24, 1998 the Economic Development Power Allocation Board has recommended that the Authority extend the contract expiration dates of the 15 Economic Development Power customers listed on Exhibit “6-B”; and

WHEREAS, on January 12, 1999, the Authority held a public hearing on the extension of the contract expiration dates of the 15 Economic Development Power customers and 1 High Load Factor Manufacturer Power customer listed on Exhibit “6-B”, upon more than 30 days’ notice given by publication once each week during such period in at least six newspapers within the State of New York ; and

WHEREAS, after such public hearing the Authority reconsidered the proposed extended contract termination dates of each of the 16 customers and does not deem it necessary or advisable to modify them;

NOW THEREFORE BE IT RESOLVED, That the Authority hereby approves the contract extensions for the sale of power between the Authority and the 16 business customers listed on Exhibit “6-B”, and that the Authority believes such contracts to be in the public interest; and be it further

RESOLVED, That the Secretary shall transmit the contract extension dates to the Governor, the Speaker of the Assembly, the Chairman of the Assembly Committee on Ways and Means, the Temporary President of the Senate, and the Chairman of the Senate Finance Committee, together with the record of the public hearing held on the contract extensions and the recommendation of the Authority that such contract extensions be approved; and be it further

RESOLVED, That the Chairman and the Secretary be authorized and directed to execute these contract extensions in the name and on behalf of the Authority whenever the contract extensions shall be approved by the Governor.

Long Term Contract Options

Option 1: Five-year contract/allocation term extension through October 31, 2003. Production prices frozen at current Authority prices for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ("Index"), with Index-based increases not to exceed 3% but not less than 1% per year.

Option 2: Six-year contract/allocation term extension through October 31, 2004. Current Authority production prices will be reduced by 5% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ("Index"), with Index-based increases not to exceed 3% but not less than 1% per year.

Option 3: Seven-year contract/allocation term extension through October 31, 2005. Current Authority production prices will be reduced by 10% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ("Index"), with Index-based increases not to exceed 3% but not less than 1% per year.

Option 4: Eight-year contract/allocation term extension through October 31, 2006. Current Authority production prices will be reduced by 5% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ("Index"), with Index-based increases not to exceed 3% but not less than 1% per year. Should the delivery portion of the total electric price increase at any time over the option term, the Authority will absorb one-half of the non-Authority portion of the price increase up to a maximum of 5% of the Authority's production price.

Option 5: Nine-year contract/allocation term extension through October 31, 2007. Current Authority production prices will be reduced by 10% then frozen for three years through January 1, 2002. Production price changes for the remaining term will be based on the Bureau of Labor Statistics PPI for Electric Power ("Index"), with Index-based increases not to exceed 3% but not less than 1% per year. Should the delivery portion of the total electric price increase at any time over the option term, the Authority will absorb one-half of the non-Authority portion of the price increase up to a maximum of 5% of the Authority's production price.

Option 6: Continuation of existing terms and conditions of the customer's contract.

Exhibit '6-B'
February 24, 1998

CUSTOMER NAME	POWER TYPE	EDPAB APPROVAL DATE November 24, 1998	PUBLIC HEARING DATE January 12, 1999	ORIGINAL CONTRACT EXPIRATION DATE	CONTRACT EXTENSION DATE
Encore Paper Company	HLF	N/A	YES	December 31, 2005	October 31, 2007
Aluf Plastics	EDP	YES	YES	December 31, 2003	October 31, 2005
B. Dalton Booksellers	EDP	YES	YES	December 31, 2001	October 31, 2005
Burton Industries	EDP	YES	YES	December 31, 2003	October 31, 2007
GEC Marconi-Hazeltine	EDP	YES	YES	December 31, 2001	October 31, 2005
General Instruments	EDP	YES	YES	December 31, 2002	October 31, 2007
IBM Watson Research Center	EDP	YES	YES	December 31, 1999	October 31, 2005
Island Container Corporation	EDP	YES	YES	December 31, 2005	October 31, 2007
J.J. Cassone Bakery	EDP	YES	YES	December 31, 2005	October 31, 2007
Kozy Shack	EDP	YES	YES	December 31, 2006	October 31, 2007
Lawson Mardon Label	EDP	YES	YES	December 31, 2001	October 31, 2005
Monitor Aerospace	EDP	YES	YES	December 31, 2002	October 31, 2007
NBTY	EDP	YES	YES	December 31, 2005	October 31, 2007
Newsday	EDP	YES	YES	December 31, 2002	October 31, 2007
Olsten Corporation	EDP	YES	YES	December 31, 2004	October 31, 2005
Southside Laundry	EDP	YES	YES	May 31, 2003	October 31, 2007

**7. Service Tariffs No. 1, 1B, and 1S, "Direct Firm Power Service"-
Adoption of Tariff Riders-Notice of Adoption**

The President submitted the following report:

SUMMARY

"The Trustees are requested to adopt as a Final Action, Tariff Riders to Service Tariffs No. 1, 1B, and 1S, 'Direct Firm Power Service', and authorize the Executive Vice President, Secretary and general Counsel to file with the Secretary of State a Notice of Adoption for publication in the State Register.

BACKGROUND

"At their meeting of October 27, 1998, the Trustees, under the emergency provisions of Section 202(6) of the State Administrative Procedure Act ('SAPA'), adopted Tariff Riders to Service Tariffs No. 1, 1B, and 1S, 'Direct Firm Power Service (the 'Direct Sale Tariffs').' Such adoption was one aspect of the Authority's program, authorized at the October 1998 meeting, to implement longer-term contractual arrangements for Authority business customers served by the FitzPatrick Plant, with such service augmented by other Authority resources and purchases, as needed. The effectiveness of the Tariff Riders was extended under the provisions of SAPA until March 28, 1999.

DISCUSSION

"The Tariff Riders provide that by mutual agreement between a customer served under the Direct Sale Tariffs ('Direct Sale Customer') and the Authority, one of the options set forth in the Tariff Riders could be implemented. The option selected would govern pricing and the term of the service, with the remaining aspects of the underlying Tariff remaining unaffected. In the case of certain Direct Sale Customers, the extension of the term of the service must follow the procedures prescribed by Section 1009 of the Public Authorities Law, including a public hearing and contract approval by the Governor.

"Pursuant to the authorization given at the October 27, 1998 meeting, the Secretary was authorized to file notice for publication in the State Register of the emergency adoption and of proposed Authority action to permanently adopt the Tariff Riders. Such notice of proposed action was published in the State Register on November 18, 1998. No comments concerning the proposed action have been received by the Secretary's office in response to the publication.

"To clarify certain termination rights set forth in the Tariff Riders, the provisions in the Tariff Riders specifying the terms of the various Options have been modified. The revised Tariff Riders are set forth in Exhibit '7-A' hereto, with the underlined portions of the term provision of each option indicating revisions from the original versions of the Tariff Riders.

RECOMMENDATION

"The Director - Business Marketing and Economic Development recommends that the Tariff Riders adopted on October 27, 1998 on an emergency basis, as revised by the revisions reflected in Exhibit '7-A' hereto, be adopted as final.

February 24, 1999

“It is also recommended that the Trustees authorize the Secretary of the Authority to file Notice of Adoption with the Secretary of State for publication in the New York State Register and to file such other notice as may be required by statute or regulation.

“The Senior Vice President - Marketing and Economic Development, the Executive Vice President, Secretary and General Counsel, the Executive Vice President – Project Operations, and I concur in the recommendations.”

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

RESOLVED, That the Tariff Riders to Service Tariffs No. 1, 1B, and 1S, "Direct Firm Power Service," set forth in Exhibit "7-A" hereto, be adopted as a final action, and take effect as soon as accepted for filing by the State Register as recommended in the foregoing report of the President; and be it further

RESOLVED, That the Secretary be, and hereby is, authorized to file notice of adoption with the Secretary of State for publication in the State Register and to file such other notice as may be required by statute or regulation; and be it further

RESOLVED, That the Chairman, the President and Chief Operating Officer, the Executive Vice President, Secretary and General Counsel, the Senior Vice President-Marketing and Economic Development, the Treasurer, and the Director-Business Marketing and Economic Development are, and each hereby is, authorized to do and perform or cause to be done and performed in the name and on behalf of the Authority, all other acts, to execute and deliver or cause to be executed and delivered all other notices, requests, demands, directions, consents, approvals, orders, applications, agreements, certificates, supplements, and further documents or other communications of any kind under the corporate seal of the Authority or otherwise as he, she or they may deem necessary, advisable or appropriate to effectuate the intent of the foregoing resolutions.

TARIFF RIDER MODIFYING SERVICE TARIFF

The Customer and the Authority may by mutual agreement select one of the following Options to become effective, the terms of which shall modify those aspects of this Tariff affected by the Option selected, with the remaining provisions of this Tariff being unmodified and effective.

Option 1:

Term: Through and including October 31, 2003. The Customer shall not exercise any termination right under the Tariff to which this Tariff Rider relates, with an effective date on or prior to the termination date of the term of this Option except for (1) termination for cause as provided in the Authority's Rules and Regulations for Power Service, and (2) termination pursuant to paragraph (2) of the "Provisions Common to All Options" of this Tariff Rider.

Capacity and Energy Charge: Subject to paragraph (2) of the "Provisions Common to All Options," prior to January 1, 2002 the Capacity and Energy Charge shall be \$8.16 per month per kilowatt of billing demand and 23.00 mills per kilowatt-hour, respectively (the "Base Rates"). Subject to paragraph (2) of the "Provisions Common to All Options," prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2001, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled "Provisions Common to All Options."

Option 2:

Term: Through and including October 31, 2004. The Customer shall not exercise any termination right under the Tariff to which this Tariff Rider relates, with an effective date on or prior to the termination date of the term of this Option except for (1) termination for cause as provided in the Authority's Rules and Regulations for Power

Service, and (2) termination pursuant to paragraph (2) of the “Provisions Common to All Options” of this Tariff Rider.

Capacity and Energy Charge: Subject to paragraph (2) of the “Provisions Common to All Options,” prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.75 per month per kilowatt of billing demand and 21.85 mills per kilowatt-hour, respectively (the “Base Rates”). Subject to paragraph (2) of the “Provisions Common to All Options,” prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2002, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled “Provisions Common to All Options.”

Option 3:

Term: Through and including October 31, 2005. The Customer shall not exercise any termination right under the Tariff to which this Tariff Rider relates, with an effective date on or prior to the termination date of the term of this Option except for (1) termination for cause as provided in the Authority’s Rules and Regulations for Power Service, and (2) termination pursuant to paragraph (2) of the “Provisions Common to All Options” of this Tariff Rider.

Capacity and Energy Charge: Subject to paragraph (2) of the “Provisions Common to All Options,” prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.34 per month per kilowatt of billing demand and 20.70 mills per kilowatt-hour, respectively (the “Base Rates”). Subject to paragraph (2) of the “Provisions Common to All Options,” prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2003, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled “Provisions Common to All Options.”

Option 4:

Term: Through and including October 31, 2006. The Customer shall not exercise any termination right under the Tariff to which this Tariff Rider relates, with an effective date on or prior to the termination date of the term of this Option except for (1) termination for cause as provided in the Authority's Rules and Regulations for Power Service, and (2) termination pursuant to paragraph (2) of the "Provisions Common to All Options" of this Tariff Rider.

Capacity and Energy Charge: Subject to paragraph (2) of the "Provisions Common to All Options," prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.75 per month per kilowatt of billing demand and 21.85 mills per kilowatt-hour, respectively (the "Base Rates"). Subject to paragraph (2) of the "Provisions Common to All Options," prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2003, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Delivery Charge Discount: If during the term of this Tariff Rider, the Delivery Charges, as described below, paid by the Customer attributable to non-Authority entities increase over those in effect on August 31, 1998, then the Authority shall provide the Customer with a credit on each monthly bill of an amount equal to one-half of the amount of the difference between (a) the aggregate non-Authority Delivery Charges paid by the Customer during the immediately preceding billing period to which such bill relates, and (2) those Delivery Charges that would have been paid by the Customer in connection with the power and energy purchased by the Customer during such billing period had the non-Authority delivery rates in effect on August 31, 1998 been applicable, provided, however, that in no event shall such amount to be credited by the Authority be in excess of 5% of the aggregate capacity and energy charges that the Customer would have paid for service hereunder during such billing period had the capacity and energy rates in effect on October 1, 1998, under the Tariff to which this Tariff Rider relates, been applicable. For those customers executing this Tariff Rider after December 1, 1998, credit shall be given, if necessary, on the first monthly bill rendered after the date of execution to account for the period after November 1, 1998, subject to the same methodology and limitations set forth in the preceding sentence. For the purposes of this paragraph, "Delivery Charges" shall mean those payments by the Customer, and/or by Authority on behalf of the Customer, to New York transmission and distribution providers, including investor-owned utilities or their successors, the Long Island Power Authority and the New York Independent System Operator ("ISO") associated with the delivery of Authority power sold to the Customer pursuant to this Tariff Rider. Such charges shall include, as applicable, base transmission and distribution charges, ancillary service charges and any other

applicable transmission or distribution-related charges. Charges for losses associated with the transmission, distribution and transformation of the subject power and the “NYPA Transmission Adjustment Charge” to be imposed by the ISO shall not be included in the term “Delivery Charges”.

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled “Provisions Common to All Options.”

Option 5:

Term: Through and including October 31, 2007. The Customer shall not exercise any termination right under the Tariff to which this Tariff Rider relates, with an effective date on or prior to the termination date of the term of this Option except for (1) termination for cause as provided in the Authority’s Rules and Regulations for Power Service, and (2) termination pursuant to paragraph (2) of the “Provisions Common to All Options” of this Tariff Rider.

Capacity and Energy Charge: Subject to paragraph (2) of the “Provisions Common to All Options,” prior to January 1, 2002 the Capacity and Energy Charge shall be \$7.34 per month per kilowatt of billing demand and 20.70 mills per kilowatt-hour, respectively (the “Base Rates”). Subject to paragraph (2) of the “Provisions Common to All Options,” prior to January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses.

Notice: On or prior to October 31, 2004, the Customer shall provide the Authority with written notice of whether or not it intends to negotiate a new power service agreement with the Authority.

Delivery Charge Discount: If during the term of this Tariff Rider, the Delivery Charges, as described below, paid by the Customer attributable to non-Authority entities increase over those in effect on August 31, 1998, then the Authority shall provide the Customer with a credit on each monthly bill of an amount equal to one-half of the amount of the difference between (a) the aggregate non-Authority Delivery Charges paid by the Customer during the immediately preceding billing period to which such bill relates, and (2) those Delivery Charges that would have been paid by the Customer in connection with the power and energy purchased by the Customer during such billing period had the non-Authority delivery rates in effect on August 31, 1998 been applicable, provided, however, that in no event shall such amount to be credited by the Authority be in excess of 5% of the aggregate capacity and energy charges that the Customer would have paid for service hereunder during such billing period had the capacity and energy rates in effect on October 1, 1998, under the Tariff to which this Tariff Rider relates, been applicable. For those customers executing this Tariff Rider

after December 1, 1998, credit shall be given, if necessary, on the first monthly bill rendered after the date of execution to account for the period after November 1, 1998, subject to the same methodology and limitations set forth in the preceding sentence. For the purposes of this paragraph, "Delivery Charges" shall mean those payments by the Customer, and/or by Authority on behalf of the Customer, to New York transmission and distribution providers, including investor-owned utilities or their successors, the Long Island Power Authority and the New York Independent System Operator ("ISO") associated with the delivery of Authority power sold to the Customer pursuant to this Tariff Rider. Such charges shall include, as applicable, base transmission and distribution charges, ancillary service charges and any other applicable transmission or distribution-related charges. Charges for losses associated with the transmission, distribution and transformation of the subject power and the "NYPA Transmission Adjustment Charge" to be imposed by the ISO shall not be included in the term "Delivery Charges".

Additional Provisions: Additional provisions applicable to this Option, including capacity and energy charge provisions, are set forth in the section of this Tariff Rider entitled "Provisions Common to All Options."

Provisions Common to All Options

(1) Subject to paragraph (2) hereof, on and after January 1, 2002, the Authority shall not increase the Base Rates, including charges for losses, except for Index Increases. For the purposes of this paragraph, an "Index Increase" means for any January 1 date of determination, as described below, the higher of (i) one percent or (ii) the percentage increase in the average annual Bureau of Labor Statistics Producer Price Index for electric sales to industrial power users for the second preceding calendar year as compared to the third preceding calendar year (the first such comparison being of the calendar years 2000 and 1999), with such increase to go into effect on January 1, 2002, and each succeeding January 1, provided, however, that in no event shall such increase be more than 3% in any year, and provided further, that in no event shall the increased Base Rates be greater than the rates effective under the Tariff to which this Tariff Rider relates.

(2) (a) The Base Rates, or any increased Base Rates, shall be subject to increase by the Authority at any time, upon sixty (60) days' prior written notice to the Customer, upon a determination by the Authority that such increase is necessary (i) to permit the Authority to meet its obligations to the holders of its bonds, notes or other instruments of indebtedness or (ii) to recover increases in costs to the Authority resulting from actions of the New York Independent System Operator or a similar organization responsible for the reliable operation of the New York State electricity generation and

transmission system, including, but not limited to, the implementation of local or regional installed capacity requirements or reliability rules.

(b) With respect to a rate increase pursuant to clause (i) or (ii) of paragraph (a) above, the Authority shall forward to the Customer an explanation of the reasons for the increase, which explanation shall accompany the notice of increase referenced in paragraph (a) above.

(c) With respect to a rate increase pursuant to clause (i) or (ii) of paragraph (a) above, the Customer shall have the right, in its sole discretion, to terminate this Tariff Rider without further liability to the Authority, except for outstanding payments to be made by the Customer under the terms of this Tariff Rider, by giving written notice of termination to the Authority within sixty (60) days of receipt of the Authority's notice pursuant to paragraph (a) above. Such termination shall become effective upon the Authority's receipt of the Customer's notice.

(3) Upon the termination of this Tariff Rider, service to the Customer shall revert to service under the terms and conditions of the Tariff to which this Tariff Rider relates, including any modifications of such terms and conditions which become effective during the term of this Tariff Rider. In the period following the termination of this Tariff Rider, termination of service under the Tariff shall be conditioned upon the Customer providing the notice required by the Tariff, which notice may be given prior to the termination of this Tariff Rider.

(4) Nothing in this Tariff Rider shall affect the Authority's rights under its contract with the Customer to reduce or terminate Customer's power allocation for failure to meet the job and power usage requirements set forth in such contract. In the event and as of the date the allocation is so terminated, this Tariff Rider shall terminate.

**8. Sublease of Office Space - Paramount
Building Fortis Benefits Insurance Co.**

The President submitted the following report:

SUMMARY

“The Trustees are requested to authorize the renewal of the sublease of 9,471 square feet of office space on the 20th floor at 1633 Broadway, New York, New York by the Authority as sublandlord to Fortis Benefits Insurance Co., (hereinafter ‘Fortis’) as subtenant. The proposed renewal is for an additional nine years and one month to commence December 1, 1999 at the annual fixed rent of \$34.00 per square foot. In addition, Fortis will pay for electricity at \$2.75 per square foot and other adjustments to recover increases in taxes and operating expenses over a base year, as specifically described in Exhibit ‘8-A’ attached hereto.

BACKGROUND

“At their meeting of September 29, 1987, the Trustees approved the execution of a lease of 169,234 square feet of office space at 1633 Broadway, New York City. The term of this lease is 20 years and 4 months commencing on September 1, 1988 and terminating on December 31, 2008. The premises includes the entire 19th, 20th, 21st and 22nd floors of the building. Due to evolving space needs since the inception of the lease, the Trustees approved a sublease of 9,471 square feet of office space on the 20th floor to First Fortis Life Insurance Co., Inc. at their meeting of June 28, 1994. In early 1998, First Fortis Life Insurance Co., Inc. served the Authority with a notice of name change to Fortis Benefits Insurance Co. The nature of the business and the occupants remained the same. Presently Fortis is paying rent of \$23.00 per square foot in addition to \$2.75 per square foot for electricity.

DISCUSSION

“In December, 1998, the Authority received a notice from Fortis advising that Fortis is exercising its option under the current sub-lease to extend the term for an additional 5 year period. Subsequent negotiations with Fortis resulted in an agreement to renew and extend this lease for a period concurrent with the remainder of the Authority's lease, a term of nine years and one month. The proposed sublease rent for the renewal term shall be \$34 per square foot plus \$2.75 per square foot for electricity. This sublease will generate in excess of \$3.1 million in revenues over the term of the renewal.

“Fortis will remain in the space without any allowance for tenant improvements or rent abatement, as may have been the case if a new subtenant were to occupy the premises. Preliminary negotiations have resulted in basic sublease terms as set forth in Exhibit ‘8-A’.

FISCAL INFORMATION

“The Authority currently pays its lease obligations from the Operating Fund. By recouping fixed rent of \$36.75 per square foot including electric throughout the term of the proposed sublease renewal, the Authority will offset most of the liability associated with this portion of the leasehold. Further, the Authority will pay brokerage commissions of approximately \$50,000.00 from the Operating Fund for the securing of this transaction.

February 24, 1999

RECOMMENDATION

“The Director - Corporate Support Services, the Director - Real Estate and the Vice President - Procurement and Real Estate recommend that the Trustees approve entering into a lease amendment with Fortis Benefits Insurance Co. for a nine year and one month extension in the Paramount Building on terms substantially in accordance with the foregoing and Exhibit ‘8-A’.

“The Executive Vice President, Secretary and General Counsel, the Executive Vice President - Corporate Services and Human Resources, the Executive Vice President – Project Operations, and I concur in the recommendation.”

Mr. Hoff added that the proposed transaction is advantageous and reflects the current New York City office rental market situation. Trustee McCullough inquired whether, following execution of the proposed sublease amendment, the Authority would recoup the cost per square foot of the premises under the master lease with the Paramount Building. Mr. Hoff responded in the negative, explaining that although the sublease will substantially decrease the Authority’s out-of-pocket payments, the full cost of the premises will not be recovered.

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

RESOLVED, That the President and Chief Operating Officer, the Executive Vice President - Corporate Services and Human Resources or the Vice President - Procurement and Real Estate be, and hereby is, authorized to enter into a sublease amendment for office space in the Paramount Building with Fortis Benefits Insurance Co. on substantially the terms set forth in the attached memorandum of the President and subject to approval of the sublease amendment by the Executive Vice President, Secretary and General Counsel or his designee; and be it further

RESOLVED, That the Executive Vice President -Corporate Services and Human Resources, the Vice President - Procurement and Real Estate or the Director - Real Estate be, and hereby is, authorized on behalf of the Authority to execute any and all other agreements, papers, or instruments which may be deemed necessary or desirable to carry out the foregoing, subject to approval of the form thereof by the Executive Vice President, Secretary and General Counsel or his designee.

BASIC LEASE TERMS

Authority to Fortis Benefits Insurance Co.

Premises:	Approximately 9,471 square feet on the 20th floor of the Paramount Building at 1633 Broadway, New York, New York, 10019.
Additional Premises:	Fortis shall have an option to sublease an additional 1,500 to 2,000 square feet of contiguous space effective under the same terms and conditions on a date between the 3rd and 5th anniversaries of the renewal term. The Authority shall be responsible for the cost of demising the expansion space and Fortis shall be solely responsible for any additional tenant improvements to the expansion space.
Fixed Rent:	Fixed rent for the entire renewal term will be \$34.00 per square foot or \$322,014.00 annually. Fortis will pay an additional \$2.75 per square foot or \$26,045.25 annually for electricity during the renewal term.
Renewal Option:	There will be no renewal option.
Operating Escalation:	Pro-rata share of increases in operating expenses over a base year of 1995, consistent with the original sublease.
Real Estate Tax Escalation:	Pro-rata share of increases in real estate taxes over a base year of July 1, 1994 through June 30, 1995, consistent with the original sublease.
Tenant Improvement Allowance:	There will be no tenant improvement allowance.
Brokerage Commissions:	The Authority will be responsible for brokerage commissions associated with this transaction.

February 24, 1999

9. Next Meeting

“The Regular meeting of the Trustees will be held on **Tuesday, March 30, 1999**, at the **New York Office at 11:00 a.m.**, unless otherwise designated by the Chairman with the concurrence of the Trustees.”

February 24, 1999

Closing

Upon motion made and seconded, the meeting was closed at 12:20 p.m.

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