

NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

Minutes of the 186th Meeting

Held on June 26, 2006

Pursuant to notice dated June 15, 2006, the Annual Meeting (the 186th meeting) of the New York State Energy Research and Development Authority ("Authority") was convened on June 26, 2006, at 12:30 p.m. in the Authority's New York Office, 485 Seventh Avenue, 10th floor, New York, New York, and by video conference in the Authority's board room at 17 Columbia Circle, Albany, New York, and by video conference in the Authority's board room at 617 Main Street, Suite 105, Buffalo, New York.

The following Members of the Authority were present in New York City, unless otherwise indicated:

Vincent A. DeIorio, Esq., Chair
George F. Akel, Jr. (video conference from Albany)
Jay L. Gottlieb
Thomas J. Madison (video conference from Albany)
Parker D. Mathusa
Frank S. McCullough
Denise M. Sheehan (video conference from Albany)
Elizabeth W. Thorndike, Ph. D.

Members Robert B. Catell, William F. Edwards, William M. Flynn, Esq., and Thomas J. Marusak did not attend.

Also present were Peter R. Smith, President and Chief Executive Officer; Robert G. Callender, Vice President for Programs and Secretary to the Board; Wendy M. Shave, Vice President for Administration and Secretary; Jeffrey J. Pitkin, Treasurer; Roger D. Avent, Esq., General Counsel; Cheryl Earley, Director of Contract Management; and Brian Henderson, Program Director of Energy Efficiency Services; and various other members of the staff of the Authority were in attendance. In addition, Richard Albertin from the New York State Department of Transportation was in attendance.

The Chair called the meeting to order and noted the presence of a quorum. He stated that the

meeting notice and agenda were mailed to the Members and press on June 15, 2006. He directed that a copy of the notice be annexed to the minutes of the meeting.

Before beginning the formal agenda, the Chair congratulated Denise Sheehan who was honored by Audubon New York at their second annual Montezuma Audubon Center Spring Benefit for her outstanding work in the environmental community.

Mr. DeIorio also congratulated George Akel for being reappointed for a new six-year term as a Member of the Authority. In addition to his active participation in general Authority matters, Mr. Akel performs a valuable service in sitting as a member of the Audit and Finance Committee. His insights and advice concerning Authority issues is very much appreciated.

Next, Mr. DeIorio introduced Frank McCullough who was recently appointed Chairman of the New York Power Authority (“NYPA”). Mr. McCullough most recently served as the Vice Chairman of NYPA and has served as a member of its Board since July 1997.

Finally, Mr. DeIorio welcomed Thomas Madison who is attending his first meeting since being appointed Commissioner of the Department of Transportation.

The Chair thanked staff and the Members for their hard work in convincing the New York State Legislature that the system benefits charge (“SBC”) and renewable portfolio standard (“RPS”) funds should not be subject to legislative appropriations.

Mr. DeIorio then called upon Authority President Peter Smith to make a few introductory remarks. Mr. Smith began with an update on recent developments at the West New York Nuclear Service Center (“West Valley”). At the April meeting, the Members authorized the commencement of litigation against the United States and the United States Department of Energy (“DOE”) with respect to clean up responsibilities concerning West Valley clean up. As discussed at that meeting, staff made one last effort to determine whether DOE has an interest in attempting to resolve the issues before filing the complaint.

At a meeting held two weeks ago, the United States Environmental Protection Agency’s (“EPA”) Regional Administrator, Alan Steinberg, presented a new initiative on its view of clean up responsibilities at the site that staff views as a positive development. The proposal includes the following elements: DOE should remove the high-level waste tanks, the process building, and all

other contamination from the north plateau, leaving only the outer portion of the ground water plume. In addition, the south plateau disposal facilities would be managed in place. Significantly, the Regional Administrator indicated that EPA believes that the hazardous waste laws require that the tanks be removed, or “clean closed”.

Mr. Smith reported that he has written to DOE Under Secretary David Garman to say that the Authority views this proposal as a positive development and ask for DOE’s position. He had not received a response to his letter. DOE’s response, or lack thereof, will determine when the suit will be filed.

In another related development, staff has been contacted by the New York State Attorney General’s (“AG”) office. AG staff have indicated that the AG is interested in having New York State become an additional plaintiff in the West Valley litigation. Discussions about this possibility are ongoing.

Next, Mr. Smith explained that during the final days of the New York State legislative session, \$85 million in new program funds were expected to be appropriated for programs administered by the Authority. These funds were earmarked as \$30 million for energy independence research in other energy technologies, such as ethanol, hydrogen, and bio-fuels.; \$25 million for alternative technologies at the World Trade Center re-build project; \$15 million for the International Nanotechnology Photovoltaic Center; and \$15 million for government buildings efficiency initiatives, including the advancement of the use of ethanol as a flexible fuel.

In response to an inquiry from Mr. Mathusa, Mr. Smith indicated that the \$85 million was new money included in the Governor’s budget and was in addition to the Authority’s annual statutory appropriation and the funds obtained through the system benefits charge (“SBC”) program.

In response to an inquiry from Mr. Gottlieb, Mr. Smith indicated that there is only one ethanol station in New York State at this time. The Governor will be sending a letter to all owners of vehicles that have the capability to use flexible fuels, notifying them of this option, since the majority of owners do not know that their vehicles have this capability. Mr. Madison indicated that an announcement describing the Governor’s plans with respect to this and other initiatives for the development of ethanol and other flexible fuels was recently made in Seneca Falls.

Following an inquiry from Dr. Thorndike, Mr. Smith indicated that press releases regarding

the new money were issued on Friday, June 23, 2006. Staff intends to work with the Authority's partners to develop programs using the new money and will provide the Members with regular updates on its progress.

In response to an inquiry from Mr. Gottlieb, Mr. Smith explained that the Governor's energy initiatives are an attempt to reduce New York State's reliance on petroleum. The Governor believes that there is a need for research to help reduce this dependence. The overall goal is to get this information to the public. In keeping with the Governor's goals, the Authority has just issued a joint solicitation with the New York State Department of Agriculture and Markets for ethanol development.

Mr. Mathusa indicated that there are both energy and economic benefits in the Governor's plans. Dr. Thorndike stated that this research ties into the Authority's purpose and mission. Mr. Gottlieb concurred, stating that the Authority should be the leader in validating this research, but should also keep an open mind to benefits beyond economic and energy.

Finally, Mr. Smith reported that Starfire Systems, Inc. ("Starfire Systems") has signed a tenant lease with the developer, the United Group of Companies, Inc. ("United") at the Saratoga Technology + Energy Park ("STEP") and called upon Robert Callender, Vice President for Programs, to provide the Members with greater detail. Mr. Callender reported that over the past few weeks there has been a lot of activity at STEP and at the Luther Forest Technology Campus, which surrounds STEP. United has executed a lease with the anchor tenant Starfire Systems for approximately 26,000 square feet of office, laboratory, and manufacturing space in a new building to be constructed at STEP. United has also entered into letters of intent to build operating facilities for Electrovaya, Inc. ("Electrovaya"); C9 Innovations ("C9"); and the Building Performance Institute ("BPI"). United is also finalizing letters of intent to design operating space for Hudson Valley Community College ("HVCC") and the Center for Economic and Environmental Partnership ("CEEP").

As a result of this activity, United will be breaking ground on a new 101,650 square foot Green Buildings Leadership in Energy and Environmental Design ("LEED") rated building at STEP later this summer. The building will be the new home to Starfire Systems, Electrovaya, C9, BPI, HVCC, and CEEP. To support and finance this new building, United has received term sheets from three lending institutions, and none of the term sheets require any financial assistance, collateral, or guaranty from the Authority.

Over the next few weeks, United will be presenting the Site Plan for this development to the Town of Malta for its consideration. Since the Authority has worked with the Town of Malta on the design and development of STEP for over three years, staff does not expect any issues. United is also working with the Saratoga County Industrial Development Agency (“IDA”) to obtain tax-exempt financing through the IDA.

As a result of finalizing the design and size of this building, the Authority has agreed to some minor modifications to the ground lease between the Authority and United, which the Members had approved at the April 2006 meeting. Specifically, the size of the building was permitted to be increased from 100,000 square feet to 101,650 square feet to meet the needs of the tenants. As a result of the metes and bounds survey for locating the building, the Authority has also agreed to increase the leased acreage from approximately 4 acres to 6.08 acres to accommodate the design of the building and the parking area. The annual ground lease payment of \$21,000 from United to the Authority is not changing with this slight increase in acreage, because the lease price exceeds the value of \$3,450 per acre, which was determined in an independent appraisal conducted for the Authority earlier this year.

Additionally, the Saratoga Economic Development Corporation (“SEDC”) has attracted Advanced Micro Devices (“AMD”) to the Luther Forest Technology Campus adjacent to STEP. On Friday, June 23, 2006, the Governor announced that AMD, a leading global provider of innovative microprocessor solutions for the computing, communications, and consumer electronics markets will be locating a semiconductor manufacturing plant at the Luther Forest Technology Campus. The 1.2 million square foot facility will cost \$3.2 billion to build and is expected to employ over 1,200 high-technology workers. It is expected that AMD will provide significant economic benefits for the Capital Region, as well as New York State. Staff believes AMD will be a good marketing tool to attract companies to STEP.

Finally, with respect to the planning of STEP and the Luther Forest Technology Campus, staff has reported at previous meetings that it has been working closely with SEDC to coordinate construction of roads and infrastructure to ensure that the two parcels are synergistic. To support the road construction of both parks, staff is negotiating an acre for acre land swap with SEDC. Land at the rear of the Authority’s property will be swapped for an equal amount of the SEDC property. The Authority’s property would be used in the construction of a new road that will serve both STEP and the Luther Forest Technology Campus. Under the land swap agreement, SEDC will construct and pay for the road. Staff will be bringing the land swap agreement to the Members for their

review and approval.

Mr. DeIorio then turned to the first agenda item, which was a report from the Program Planning Committee (“PPC”). Parker Mathusa, Chair of the PPC, explained that the PPC met to review and consider the draft integrated Multi-Year Program Plan (“Program Plan”) entitled *Facing Energy Challenges in the 21st Century- A Three-Year Strategic Outlook 2006-2009*.

At the PPC meeting, President Smith, reported on several items. The New York State Legislature’s recent budget proposal to subject the SBC and renewable portfolio standard (“RPS”) funds to annual appropriation was vetoed by Governor Pataki. The Office of the State Comptroller (“OSC”), which has conducted five audits of the Authority in the last five years, gave the Authority what amounted to a “clean bill of health” in regard to its procurement and administrative practices with respect to the SBC program. An audit of the Authority’s administration of the Governor’s Executive Order No. 111, which deals with energy efficiency and renewable resources in state buildings and fleets, is presently ongoing.

New York, along with the entire nation, faces an energy future of tightening supplies, rising prices, and increasing environmental repercussions. Rising energy prices and the potential for energy supply disruptions also challenge New York’s ability to create and retain jobs. Assessing how and when to use energy, while ensuring that energy use is efficient and effective will play an important role in the future. The Program Plan provides an overview of the programs, activities, and strategies that the Authority will use over the next three years to move New York toward a more secure and reliable energy future.

Mr. Smith also reported to the PPC that the current SBC Program, SBC 2, comes to an end on June 30, 2006. The Authority, with respect to SBC is fully prepared to begin implementing programs under the next SBC round, SBC 3, as of July 1, 2006, and is looking forward to offering some new initiatives for New York energy consumers. Authority staff is also preparing for the upcoming second main tier solicitation of RPS. The procurement will take place in the next few months and the goal is to have contracts for attributes in place by late fall 2006.

Mr. Smith concluded his presentation to the PPC by stating that it has been a very productive and exciting year for the Authority and there are no signs of slowing down.

Next, Mr. Mathusa highlighted some of the important aspects of the presentations made by

the Program Directors. This year, the presentations were supplemented by one of the Program Managers or Senior Project Managers from each Program.

Energy Analysis Program Director, Paul DeCotis reported on the development of the draft Program Plan. Mr. DeCotis stated that the Program Plan is changing and evolving and the Authority's programs are building on past successes and making improvements in under-utilized programs. The Program Plan was written by a Strategic Planning Team ("Team") with a higher-level strategic perspective. The draft Program Plan reflects the current direction of the Authority from multiple perspectives, with a greater focus on the customers that the Authority serves rather than a focus on the programs themselves. Mr. DeCotis added that this year the Program Plan has a more strategic approach and, by reference, incorporates the SBC 3 Plan, the Consolidated Edison Company of New York, Inc. System-Wide Demand Reduction Program ("Con Edison SWDR Program") implementation plan, the Consolidated Edison Company of New York, Inc. ("Con Edison") Commercial Gas Pilot, and National Grid Low Income Gas Energy Efficiency Program.

Mr. DeCotis then introduced Program Manager Karl Michael, who explained that one of Energy Analysis' core capabilities is to develop and maintain various computer-based models which are used to estimate the potential effects of a proposed policy or action. Mr. Michael stated that in an electricity sector model, the Authority looks at the effects of a proposed policy or action on: electricity prices; the need for new generation units; and emissions of various pollutants. Thereafter, in a macroeconomic model, the Authority looks at the effects on employment and the gross state product. Mr. Michael concluded by stating that models quantify potential effects of policies that cannot be estimated in any other way and are particularly useful for determining direction and order of magnitude of the effects.

Next, Program Director Brian Henderson reported on the Energy Efficiency Services ("EES") program. Mr. Henderson reported that staff is implementing a sector-based approach which will make its programs more customer-focused. This effort will provide an opportunity for reducing confusion in the marketplace and expanding the penetration of Authority programs in the marketplace. As an example, Mr. Henderson cited the Authority's work in the healthcare sector where the facilities are critical to providing important services to the local community and are large employers critical to the economic health of the community. The Authority has been working with over 200 of these energy intensive healthcare facilities out of over 900 across New York State. One of these institutions is the New York Presbyterian Hospital health care facilities, which consists of 32 hospitals, 6 long-term care facilities, 12 home health care agencies, 3 specialty institutes, and 97

ambulatory care centers. Staff has conducted several projects there, resulting in \$1.5 million in annual energy cost savings accruing from \$7.4 million of capital projects.

Mr. Henderson then introduced Senior Project Manager Lee Smith who reported on the Con Edison SWDR Program initiated through the Public Service Commission's 2005-08 Consolidated Edison Company of New York, Inc. Electric Rate Case Order. The Authority has signed on to develop and implement 150 megawatts ("MW") of demand reductions in Con Edison's service territory through energy efficiency, load management, and distributed generation with a budget of \$112 million. This is one component of a broad-scale effort to meet projected load growth of 535 MW in the Con Edison service territory during the rate case period. Other existing Authority programs in the Con Edison service territory will be enhanced and modified with incentive increases.

Next, Program Director Richard Gerardi reported to the PPC on the Residential Energy Affordability Program ("REAP"). Mr. Gerardi emphasized how his programs have been able to use relatively small amounts of funds to leverage a much larger contribution from the marketplace. He highlighted, as an example, REAP's Heating Oil Buying Program, which uses New York State's purchasing power to purchase oil for the low income sector at a lower retail price and to provide energy efficiency services, such as cleaning and tuning heating systems. Last year, as a result of the collaborative effort with the New York State Office of Temporary and Disability Assistance ("OTDA"), the program expanded to 20 counties and now includes 200 oil vendors. Due to the success of the program, OTDA has recently informed Authority staff of their intention to fully implement the Heating Oil Buying Program Statewide over the next two years.

REAP Program Manager James Reis then discussed a new initiative to consolidate all programs for both low-income and market-rate multi-family buildings into a one-stop shopping and better customer service. The new consolidated program will have two tracks, one for existing buildings and one for new construction. Incentives will be provided to mid-stream participants and energy-efficiency measure incentives will be provided to the low income sector in the form of grants and loans, but market rate buildings will only have access to the loan fund. All incentives will be paid based upon reaching an energy savings target.

The PPC next heard from Vice President for Programs and Director of Economic Development Robert Callender who discussed some of the accomplishments over the past year related to STEP and other marketing and economic development efforts. Since Mr. Callender

reported on some of these activities at the beginning of this meeting, Mr. Mathusa did not repeat that part of the report Mr. Callender gave to the PPC. Mr. Callender reported to the PPC that the Governor announced that a Department of Environmental Conservation (“DEC”) state-of-the-art Alternative Fuel Vehicles Research Laboratory is expected to be built at STEP. The Authority has signed a Memorandum of Understanding with DEC to locate the laboratory at STEP. The Office of General Services has selected Affiliated Engineers, Inc. to design the laboratory and to start work on the 60,000 square foot building. It is expected that the design will be completed in Fall 2006.

With respect to marketing and economic development efforts, Mr. Callender reported to the PPC that staff worked with the New York City Economic Development Corporation and others on New York City’s Energy Policy Task Force (“Task Force”). The Task Force developed a comprehensive energy plan for New York City, which will be released next week.

Project Manager Kelly Tyler then highlighted an example of Authority-utility partnering in regard to Rochester Gas and Electric Corporation’s (“RG&E”) Business Energy- Efficiency Assistance Program. As part of RG&E’s \$12 million program, RG&E is working with the Authority’s Energy Audit Program, Flexible Technical Assistance Program, and New Construction Program. RG&E is marketing this effort on their website. Staff plans to partner and hold informational sessions in RG&E territory to promote this and all other Authority programs. Ms. Tyler stated that staff hopes to replicate the RG&E collaboration with other utilities throughout New York State.

The PPC next received a report from Program Director Gunnar Walmet on the Building and Industry Research and Development Program. Mr. Walmet highlighted the accomplishments and new initiatives in the Combined Heat & Power (“CHP”) Program. Mr. Walmet stated that the Authority’s CHP program is recognized by the US Combined Heat & Power Association, DOE, and the EPA’s CHP Partnership Program, as the best in the United States based upon the achieved results. Currently, there are 40 CHP projects running out of 100 total projects awarded with all of the awarded projects totaling 100 MW.

Mr. Walmet also reported on two innovative technologies-- a synchronous generator project capable of emergency backup in the Con Edison network system and an organic Rankine cycle project that extracts additional power from waste heat from a landfill gas fueled engine. In addition, staff expects to expand the CHP program to emphasize emergency capability. Mr. Walmet informed the PPC that fuel cells will be supported under the RPS customer tier Statewide and a subscription

program to supplement the CHP Subscription Program in Con Edison territory will be offered.

Program Manager Dana Levy then briefed the PPC on the hydrogen program. He stated that hydrogen is a clean energy resource with domestic supplies. Eventually, hydrogen may be produced by hydrolyzing water using electricity from clean energy sources and at off-peak time. This would reduce the nation's reliance on imported oil. The challenge of this program is that it is competing against good battery technology.

Program Manager Janet Joseph, substituting for Energy Resources, Transportation, and Environment Program Director Joseph Visalli, reported that several new technologies were launched in 2005, including an innovative device to reduce drag on tractor trailers. This device, developed by Clarkson University, is being tested on a large scale by Volvo Car Corporation. In addition, other highlights from the Energy Resources, Transportation, and Environment Program include: Mechanical Technology, Inc. introduction of its direct-methanol fuel cell for small electronic devices; Advanced Energy Conversion, LLC, one of the companies located at STEP, is demonstrating a 5 kilowatt inverter capable of utility-interactive and grid-isolated operation; and with the Authority's support, a new product has been introduced by X-Ray Optical Systems, Inc. to measure the sulfur level in fuel at various points in the fuel distribution system. With a new lower sulfur requirement taking effect in October 2006, this product is poised for significant market expansion in the future.

New initiatives include a regional climate change research program which will explore innovative policy, institutional, and technical solutions to help reduce greenhouse gas emission and mitigate potential impacts of climate changes. The environmental program will also provide necessary monitoring data in New York State to assess and evaluate impacts. Staff will also be conducting a program that will help evaluate, assess and mitigate the environmental impacts of alternative energy resources, which is a growing challenge in the Authority's efforts to support wide scale deployment of renewable technologies.

Program Manager Jeffrey Peterson then described the integrated approach to the development and commercialization of renewable and energy-efficiency technologies. The Authority is working with five incubators to focus on renewables, product development research in conjunction with the Research and Development ("R&D") Power Systems group, targeted business consulting and a manufacturing incentive program. Under the manufacturing incentive program, the Authority is supporting four companies that are manufacturing items ranging from solar cells to

energy storage systems. One of the new areas of focus in R&D is the emphasis on supporting the development of the business infrastructure in order to help bring more renewable products to market. Mr. Peterson concluded his presentation by stating that the Authority's first solicitation in this area attracted 26 proposals.

Mr. Mathusa then explained that the resolution before the Members is slightly different than the resolution that was approved by the PPC. In complying with Section 2800 of the Public Authorities Law, as amended by the Public Authorities Accountability Act of 2005, the Authority is required to include in its Section 2800 annual report a discussion on its operations and accomplishments. Since the draft Program Plan contains discussions on both these topics, the revised resolution authorizes the use of excerpts from the Program Plan to be included as part of the Section 2800 report.

The PPC unanimously recommends that the Members adopt the resolution approving the Program Plan.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1109

RESOLVED, that the three-year plan for New York's energy, economic, and environmental future submitted to the Members for consideration at this meeting (2006-09) with such non-substantive, editorial changes and supplementary schedules as the Chair, in his or her discretion, may deem necessary or appropriate, is adopted and approved as the Authority's updated multiyear energy research, development, and demonstration, energy efficiency deployment, and economic development program plan, and

BE IT FURTHER RESOLVED, that, to effectuate the purposes, aims, and goals described in that plan, the Members approve the expenditure in fiscal year 2006-07 of \$171,767,000 for the New York Energy SmartSM program; \$29,160,000 for the renewable portfolio standard program; \$20,475,000 for the energy research, development, and demonstration program; \$57,937,000 for energy efficiency deployment programs; \$730,000 for economic development programs, including the Saratoga Technology + Energy Park; and \$2,025,000 for energy policy and planning; from various funds anticipated to be available and such additional amounts, as may be determined appropriate by the Chair, as may become available and not required for other purposes.

BE IT FURTHER RESOLVED, that the information contained therein is adopted and approved for submission, in whole or in part, pursuant to Section 2800 of the Public Authorities Law.

The Chair said that the next agenda item was a report from the Audit and Finance Committee (“A&FC”). Since Mr. Catell, Chair of the A&FC, was unable to attend the meeting, Mr. Gottlieb, Vice-Chair of the A&FC, chaired the meeting and Mr. DeIorio called on Mr. Gottlieb to discuss the Annual Investment Report and Investment Guidelines, Operative Policy, and Instructions (June 2006) (“Investment Guidelines”). Mr. Gottlieb explained that the A&FC reviewed the Annual Investment Report for the fiscal year ended March 31, 2006, both in open session and in executive session with only the A&FC members and the independent auditors present. The factual details are outlined in the materials sent to the Members. The amount of the Authority’s investments increased as a result of additional SBC funds on hand, while the mix of investments remaining unchanged. Overall, the Authority earned 4.0% this year compared to 2.7% last year. The increase in annual yield was a result of an overall increase in market rates during fiscal year 2005-06. The Annual Investment Report also includes a summary of fees paid by the Authority related to investments. For fiscal year 2005-06, the Authority was billed about \$199,000 by the New York State Department of Taxation and Finance, the Authority’s statutory fiscal agent, an increase of approximately 2% from the previous fiscal year.

The Annual Investment Report was reviewed by the Authority’s independent auditors, who indicated that nothing came to their attention that indicated that the Authority was not in compliance with the Investment Guidelines.

As a result of the recent promulgation of revised investment guidelines by the OSC and other considerations, several changes to the Investment Guidelines for the upcoming fiscal year are recommended. These include: clarifying the Authority’s investment objectives; providing for the Member’s delegation of investment management responsibilities and for the setting of standards of conduct for those responsible for managing the Authority’s investments; modifying the types of investments authorized by eliminating Federal Government Obligations, if the payment of principal and interest is not unconditionally guaranteed by the federal government; providing more detailed policies on diversifying investments and limiting the term of each type of investment; and effecting other editorial and clarifying changes.

The A&FC unanimously recommends that the Members approve the Annual Investment Report and the Investment Guidelines, Operative Policy and Instructions (June 2006).

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1110

RESOLVED, that the "Investment Guidelines, Operative Policy and Instructions (June 2006)," as presented at this meeting, are approved and adopted; and

BE IT FURTHER RESOLVED, that the Authority's "2005-06 Annual Investment Report," for the year ended March 31, 2006, as presented at this meeting, is approved and adopted as the annual investment report of the Authority required by Section 2925(6) of the Public Authorities Law.

Mr. Gottlieb, at Chair DeIorio's request, then discussed the financial statements for the recently completed fiscal year. Mr. Gottlieb explained that Mr. Pitkin presented a summary on the financial statements at the A&FC meeting, presented a summary of the financial statements. The financial statements include two restatements of the comparative results from the last fiscal year which ended March 31, 2005. These restatements do not involve any new information, but only reformats the existing information to conform with accounting rules. The first restatement was previously discussed with the Members at the April 2006 meeting and corrects the recording of program funds advanced to the Authority in 2004. Initially the funds were recorded as deferred revenue, but staff and the independent auditors subsequently determined that this treatment did not conform with applicable governmental accounting standards. Such standards require funds to be recorded as revenue upon receipt unless there are pre-established eligibility requirements which are unmet. Since there were no unmet eligibility requirements associated with these funds, staff agreed with the independent auditors that it was appropriate to restate the prior year's results to reduce deferred revenue by about \$4.6 million, to increase third-party reimbursement revenue by about \$2.1 million, and to increase net assets restricted for program uses by about \$2.5 million.

The second restatement concerns a correction for the recording of investments. In 1999, governmental accounting standards were revised to require the recording of investments at fair value or market value. Over time, as the Authority diversified the length of its investments, changes in market interest rates caused more significant differences. Although differences between market value and the investments' costs are still believed to be short-term in nature, after consulting with the independent auditors, staff determined that it would be appropriate to adopt the requirements of listing investments at market value in order to be in line with the most current accounting practices. The adoption of the current standards resulted in the restatement and reduction of the prior year's recorded value of investments by about \$3.7 million.

There also is a change in the information reported on the Authority's financial statements.

During fiscal year 2005-06, the Authority adopted Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures, which required additional information to be included in Note (3) of the Notes to Basic Financial Statements. Following his presentation to the A&FC, Mr. Pitkin called on the Authority's Controller and Assistant Treasurer, Peter Mahar, to provide the A&FC with a detailed description of significant fluctuations in the balance sheet, including revenues and expenditures in comparison to the prior fiscal year.

Following Mr. Mahar's presentation, the A&FC, met in executive session with the independent auditors, where there was ample and detailed review of the Authority's investments and financial condition. No substantive problems were identified. The independent auditors confirmed compliance with internal controls, financial reporting, and the Investment Guidelines. It was an excellent meeting and the A&FC members were given a full report. The A&FC was pleased with the results of the report in both the cooperation and professionalism of the Authority staff in responding to requests from the independent auditors and the results of the audit. The independent auditors will issue an unqualified opinion on the financial statements.

The A&FC unanimously recommends that the Members approve the financial statements.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1111

RESOLVED, that the Authority's Financial Statements as of March 31, 2006, as presented at this meeting, are adopted and approved as the financial reports required by Sections 1867(1) and 2800 of the Public Authorities Law.

Chair DeLorio then asked Mr. Gottlieb to discuss the appointment of independent auditors for fiscal year 2006-07. Mr. Gottlieb reported that Lumsden & McCormick, LLP ("Lumsden") was competitively selected as the Authority's independent auditors in 2002. Reappointing Lumsden for the 2006-07 fiscal year would constitute the third of three one-year extensions allowed under the contract. The proposed fee for fiscal year 2006-07 will not exceed \$39,580, about \$1,200 over their fiscal year 2005-06 audit fee, and is consistent with the cost-of-living increase allowed by the underlying contract.

Staff have been fully satisfied with the audit services provided by Lumsden and recommend

their reappointment as auditors for the fiscal year ending March 31, 2007. The A&FC members were also impressed with the thoroughness of the independent auditing firm and unanimously recommends their reappointment.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1112

RESOLVED, that the Chair is authorized to retain the firm of Lumsden & McCormick, LLP as independent auditors for the Authority for the fiscal year ending March 31, 2007.

Mr. DeIorio then called upon Mr. Gottlieb to discuss the Annual Bond Sales Report. Mr. Gottlieb explained that the Annual Bond Sales Report is now required to be approved by the Members pursuant to Public Authorities Law Section 2800 and the Authority's Financial Services Firm Guidelines. The report includes information on four refundings totaling approximately \$328 million. The report also includes a detailed list of costs of issuance and the means of repayment for each bond transaction completed, as well as a schedule of bonds outstanding. As of March 31, 2006, the Authority had bonds outstanding in the amount of about \$3.7 billion.

The A&FC unanimously recommends approval of the Annual Bond Sales Report.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1113

RESOLVED, that the Authority's Annual Bond Sales Report for the fiscal year April 1, 2005 through March 31, 2006, and the information contained therein, as presented at this meeting, is adopted and approved for submission pursuant to Section 2800 of the Public Authorities Law.

Mr. DeIorio indicated that the next item considered by the A&FC is the Authority's compensation schedule. Mr. Gottlieb reported that, pursuant to Section 2800 of the Public Authorities Law, the Authority's Annual Report must now include a compensation schedule reporting the name, title, salary, and total compensation for all employees in decision making or managerial positions with salaries in excess of \$100,000, which was provided to the A&FC.

The A&FC unanimously recommends approval of the compensation schedule to be submitted with the Authority's Annual Report as required by Section 2800 of the Public Authorities Law.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1114

RESOLVED, that the Authority's compensation schedule presented at this meeting, is adopted and approved as the compensation schedule to be submitted pursuant to Section 2800 of the Public Authorities Law.

Next, the Chair asked Mr. Gottlieb to update the Members on the Office of the OSC's recent audit activities. Mr. Gottlieb said that on June 5, 2006, the OSC issued a follow-up to its November 2004 audit of the Authority's internal controls over financial operations. The report states that the Authority has fully implemented four of the five recommendations contained in the November 2004 report. The one remaining recommendation, to formally develop, document, and test a disaster recovery plan, is in progress. While computer backup procedures are in place, a formal plan for resumption of computer systems at another site following a partial or total loss of computer system services is still being developed. The Authority has retained a consultant to perform a gap analysis, expected to be completed by the end of this summer, with a formal documentation process, planning, and testing expected to be completed in early 2007.

Additionally, the OSC is currently conducting an audit of the implementation of Executive Order No. 111 pertaining to the setting of energy efficiency standards and New York State agencies purchasing of energy efficient products. Staff is currently working with the OSC to determine the scope of the audit.

Next, the Chair asked Mr. Gottlieb to discuss principles of governance. Mr. Gottlieb stated that on May 17, 2006, the New York State Commission on Public Authority Reform, chaired by Ira Millstein, issued its final report. The Commission's recommendations would have to be implemented through legislation, which has been introduced in the Assembly. Copies of the final report and draft legislation are available for any Members who wish to receive them. Authority staff will continue to monitor and report on further changes to governance principles.

At the April 2006 meeting, the Members were informed that an amendment to the Public Authorities Accountability Act of 2005 (“Act”) requires public authority board members to receive New York State approved training on their legal, fiduciary, financial, and ethical responsibilities. This training is to be completed by March 2007 for existing members and new board members are to complete training within one year of their appointment. New York State approved training is offered by the City University of New York (“CUNY”) School of Professional Studies, structured as full-day sessions covering: board oversight and responsibilities; audit and audit committee responsibilities; budgeting for public authorities; overseeing tax-exempt debt issuance; and understanding authority financial statements.

As requested by the Members, staff is working to try to establish a customized, tailored training program. Staff is consulting with CUNY and a public accounting firm with experience in providing board training and is working on an agenda.

Mr. DeIorio stated that the next item on the A&FC agenda was a report concerning a United States Securities and Exchange Commission (“SEC”) investigation of auction rate securities. The investigation was not directed at Authority bonds. On May 31, 2006, the SEC announced that it had reached a \$13 million settlement agreement with 15 broker-dealer firms, including some who are serving as broker-dealers on Authority bonds. The SEC found that the firms had engaged in a series of practices that favored certain investors over others, favored issuers over investors, and involved manipulation of clearing rates. Mr. Gottlieb concluded this discussion by stating that, under the settlement agreement, each of the 15 broker-dealers was assessed a civil penalty and censured, was ordered to cease and desist from future violations, and is required to take certain major remedial actions on a timetable prescribed by the SEC.

The Chair then asked Mr. Gottlieb to discuss the next agenda item, a report from the Director of Internal Audit Mark Mitchell. Mr. Gottlieb reported that the audit of the Authority’s project database system was completed. The audit did not detect any significant control deficiencies. The audit did identify several opportunities to improve the operating and monitoring of the project database system, which staff is in the process of implementing. These improvements include restricting access for making changes in the system, monitoring users authorized to make changes, monitoring changes in the encumbrance of funds, and improving the process for notifying MIS of personnel changes.

Mr. Mitchell provided the A&FC with the final results of the risk assessment. Mr. Mitchell

has compared the results of the risk assessment against the audit plan that was approved at the April meeting and the approved audit plan addresses the higher risks identified through the risk assessment process, and therefore, does not need to be changed. As a result of reviewing the risk assessment and the underlying documentation, Mr. Mitchell concluded that the Authority has a governance structure and operating environment that are good and that seem to be operating effectively at all levels - the Members, the management team, and the staff level.

Finally, Mr. Gottlieb provided the Members with an update on the audits being conducted by Mr. Mitchell. The audit of contractor overhead rates has been postponed, as new measures to monitor contractor overhead rates have just been implemented. The A&FC was also informed that the first phase of the audit of the Assisted Multifamily Program is underway. A preliminary survey has been conducted to determine the focus and scope of the audit.

The Chair said that the next item concerns the text of the Annual Report and asked Mr. Smith to update the Members on this item. Mr. Smith indicated that the text of the Annual Report has been completed, but staff is still making editorial changes at this time. The Members will be provided with a draft of the Annual Report at the September 2006 meeting

In response to an inquiry from Mr. Gottlieb, Mr. Pitkin indicated that the Authority will still be submitting its other reports and its financial statements as prescribed by the Public Authorities Law.

Next, the Chair asked Mr. Pitkin to discuss the Authority's Annual Report on the Disposition of Real and Personal Property. Mr. Pitkin explained that the Members are requested to adopt a resolution approving an Annual Report on Disposition of Real and Personal Property, as required by Title 5-A of the Public Authorities Law and the Authority's *Guidelines, Operative Policy and Instructions for the Disposal of Real and Personal Property*. The report covers the fiscal year ended March 31, 2006.

The report summarizes the three parcels of real property held by the Authority: the Albany office; the Western New York Nuclear Service Center (West Valley); and STEP; lists execution the ground lease agreement for Site Two at STEP as the only disposition of real property during the fiscal year (the ground lease for Site One at STEP is not included as this was not approved by the Members until after March 31, 2006); indicates that the Authority did not dispose of any personal property with a value in excess of \$15,000 during the fiscal year; and that no explanatory statement

is provided since no real property was disposed of through other than competitive means.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1115

RESOLVED, that the Annual Report on Disposition of Real and Personal Property (June 2006), as presented at this meeting, is adopted and approved as the Annual Report on Disposition of Real and Personal Property required by Section 2800 of the Public Authorities Law.

Mr. DeIorio said that the next agenda item concerns the Authority's Procurement Contract Guidelines, Operative Policy and Instructions (June 2006) ("Procurement Guidelines") and the Annual Procurement Contracts Report. At Mr. DeIorio's request, Mr. Pitkin discussed the Procurement Guidelines. Mr. Pitkin said that Public Authorities Law Section 2879 requires the Members to review and approve annually procurement contracts guidelines and a procurement contracts report. The Procurement Guidelines set forth the Authority's operative policy and procedures to guide staff on the use, award, monitoring, and reporting of contracts. Recently, State Finance Law Section 163 was amended to increase the threshold requiring competitive procurement for New York State agencies from \$15,000 to \$50,000. Staff is recommending that the Members approve an increase in the Authority's competitive procurement threshold from \$15,000 to \$25,000 to maintain accountability and transparency in its procurement process at a monetary threshold that staff believes is appropriate considering the Authority's procurement activities.

Mr. Pitkin then asked Cheryl Earley, Director of Contract Management, to discuss the Annual Procurement Contracts Report. Ms. Earley explained that the Annual Procurement Contracts Report covers the period April 1, 2005, through March 31, 2006, and lists the contracts the Authority initiated or modified with individual values of \$5,000 or more during that period. There were 2,550 contract actions initiated or modified during the period. A total of 2,045 contracts have terms longer than one year. Over 97% of the contract actions were competitively bid and 97% of the dollar amount committed resulted from competitive procurement. The Annual Procurement Contracts Report has been modified to reflect additional information required pursuant to the Public Authorities Accountability Act of 2005, including the number of proposals received for procurement contracts resulting from competitive procurements methods, and a list of contractor addresses. These changes are included in Section 2 and Appendix A of the Annual Procurement Contracts

Report. The Authority is in compliance with the Procurement Guidelines in its contracting.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1116

RESOLVED, that the "Procurement Contract Guidelines, Operative Policy and Instructions, June 2006," as presented at this meeting, are approved and adopted; and

BE IT FURTHER RESOLVED, that the Authority's 2005-06 Annual Procurement Contracts Report, as presented at this meeting, is adopted and approved as the annual report of the Authority required by Section 2879 of the Public Authorities Law.

The Chair said that the next agenda item concerns the Authority's Periodic Procurement Contracts Report. Ms. Earley explained that the Periodic Procurement Contracts Report covers the period beginning April 1, 2006, and ending May 15, 2006. The Periodic Procurement Contracts Report is divided into two sections. The first section includes a list of contracts modified or executed during the period and the second section includes a list of contracts anticipated to be executed or modified and having a proposed period of performance in excess of one year. The first section indicates that the Authority initiated or modified 303 procurement contracts, which include 89 program contract actions, 198 subscription-based program contract actions, 13 personal services contract actions, 1 goods contract actions, and 2 other administrative contract actions. Over 94% of these contract actions were competitively selected, and 96% of the dollar amount committed this period resulted from competitive procurement.

The second section lists an additional 225 procurement contracts pending execution by the Authority where the period of performance by the contractor is expected to exceed one year. These contracts total approximately \$19 million.

Lastly, as required by the Public Authorities Accountability Act of 2005, the report has been modified to add the number of proposals received for procurement contracts resulting from competitive procurements methods, and Appendix A listing the addresses of all Contractors has been added. These changes reflect the requirements established by the Public Authorities Accountability Act of 2005.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the

Members adopted the following resolution.

Resolution No. 1117

RESOLVED, that the Periodic Procurement Contracts Report, dated as of May 15, 2006, covering the period April 1, 2006 through May 15, 2006, as presented at this meeting, including but not limited to the contracts identified therein which have been, or are expected to be, executed and which do have, or are expected to have, a period of performance in excess of one year, is hereby approved in accordance with Public Authorities Law Section 2879(3)(b)(ii).

Next on the agenda was the annual report on the Authority's prompt payment policy, and Mr. DeIorio called on Mr. Pitkin. Mr. Pitkin explained that Section 2880 of the Public Authorities Law and the Authority's implementing regulations require it to prepare an annual report on the implementation of its prompt payment policy. Under the prompt payment policy, the Authority is required to make payment to contractors and vendors within 30 days of the receipt of a valid invoice. If the Authority does not make payment on invoices when due, interest on the late payment must be paid, if the amount of interest exceeds ten dollars. During the past fiscal year, no interest payments were made in connection with the over 15,200 payments that were processed.

Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the Members adopted the following resolution.

Resolution No. 1118

RESOLVED, that the Annual Prompt Payment Policy Report presented to the Members of the Authority at this meeting is adopted and approved as the annual report required by Section 2880 of the Public Authorities Law.

The Chair said that the last item was other business. Beginning with this meeting, one Program Director will be asked to address the Members. This will give the Members an opportunity to hear an overview of the recent activities of individual programs within the Authority.

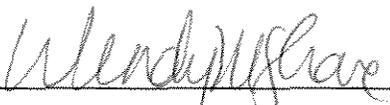
The Chair then asked Brian Henderson, the Energy Efficiency Services Program Director, to address the Members on the Con Edison SWDR Program. Mr. Henderson indicated the Con Edison SWDR Program is a component of the recent Con Edison Electric Rate Case Order ("Order") and the Authority has signed up to develop and implement 150 MW of demand reduction through energy efficiency, load management, and clean distributed generation with \$112 million to be provided by Con Edison. The Con Edison SWDR Program will help maintain electric system

reliability and off-set anticipated load growth in the Con Edison service territory. The Authority has worked closely with a collaborative of interested stakeholders to develop planning documents that provide the overarching direction for the Authority's program.

Following issuance of the Public Service Commission's Order in March 2006 approving the Con Edison SWDR Program implementation plan, the Authority held a "kick-off" event in April 2006 that was attended by over 400 energy service companies, consultants, and commercial and industrial customers. Additional briefing sessions highlighting the Con Edison SWDR Program and promoting the available technical and financial incentives have been held with key New York City and Westchester County associations and with customer groups. Such sessions will continue through the summer. The goal of achieving 150 MW of demand reduction by March 2008 will require significant efforts over a very short time frame. Mr. Henderson concluded by stating that the early marketing is showing signs of increased interest and participation by customers with submission of Con Edison SWDR Program applications.

The Chair then announced that the next meeting would take place in Albany on September 25, 2006. The Members will be given an opportunity to participate in the Technology Exposition that was presented to the members of the PPC at its June meeting. The Technology Exposition will exhibit various technologies that the Authority has supported over the years, including the new Hydrogen Prius.

The Chair then asked if there was any further business. There being no other business, upon motion duly made and seconded, and by unanimous voice vote of the Members, the meeting was adjourned.



Wendy M. Shave
Secretary



New York State Energy Research and Development Authority

Vincent A. DeForio, Esq., *Chairman*

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June 15, 2006

NOTICE AND AGENDA

TO THE MEMBERS OF THE NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY:

PLEASE TAKE NOTICE that the Annual Meeting (the 186th meeting) of the New York State Energy Research and Development Authority will be held in the Authority's New York City Office at 485 Seventh Avenue, 10th Floor, New York, New York, and by video conference in the Authority's Albany Office at 17 Columbia Circle, Albany, New York and by video conference in the Authority's Buffalo Office at 617 Main Street, Suite 105, Buffalo, New York, on Monday, June 26, 2006 commencing at 11:30 a.m. for the following purposes:

1. To receive a report from the Program Planning Committee and to consider and act upon the multi-year program plan for New York's energy, economic, and environmental future: "Facing Challenges in the 21st Century: A Three-Year Strategic Outlook 2006-2009."
2. To receive a report from the Audit and Finance Committee:
 - a. to consider and act upon an Annual Investment Report of the Authority and the "Investment Guidelines, Operative Policy and Instructions (June 2006)";
 - b. to consider and act upon Financial Statements of the Authority for FY 2005-06;
 - c. to consider and act upon the appointment of Lumsden & McCormick, LLP as the Authority's independent auditors for fiscal year 2006-07;
 - d. to consider and act upon an annual bond sale report;
 - e. to consider and act upon a compensation schedule;
 - f. to receive a report on audits by the State Comptroller on internal controls relating to financial disclosures and on the implementation of Executive Order No. 111;
 - g. to receive a report on principles of governance;

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- h. to receive a report concerning auction rate securities; and
 - i. to receive a report from the Director of Internal Audit.
3. To consider and act upon the text of the Annual Report of the Authority for 2005-06.
 4. To consider and act upon the Annual Report on Disposition of Real and Personal Property (June 2006).
 5. To consider and act upon the Annual Report on Procurement Contracts and the "Procurement Contracts Guidelines, Operative Policy and Instructions (June 2006)".
 6. To consider and act upon the periodic contract report.
 7. To consider and act upon a report on the implementation of the Authority's prompt payment policy.
 8. To transact such other business as may properly come before the meeting.

Members of the public may attend the meeting at any of the above locations.



Wendy M. Shave
Secretary to the Board