

PROGRAM PLANNING COMMITTEE
OF THE
NEW YORK STATE
ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

Minutes of the 64th Meeting
Held on September 17, 2007

Pursuant to a Notice and Agenda dated September 10, 2007, a copy of which is annexed hereto, the 64th meeting of the Program Planning Committee of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY was convened at 10:30 a.m. on Monday, September 17, 2007, at the Authority's Board Room at 17 Columbia Circle, Albany, New York, and by video conference in the Authority's New York City office at 485 7th Avenue, 10th Floor, New York, New York.

The following members of the Committee were present:

Vincent A. DeIorio, Esq., ex officio
Parker D. Mathusa, Committee Chair
Elizabeth W. Thorndike, Ph. D.

Also in attendance were Paul D. Tonko, President and Chief Executive Officer; Robert G. Callender, Vice President for Programs; Jeffrey J. Pitkin, Treasurer; Hal Brodie, General Counsel and Acting Secretary to the Board; Mitchell Khosrova, Associate Counsel and Secretary to the Program Planning Committee; and various members of the Authority staff.

Committee Chair Mathusa called the meeting to order, noted the presence of a quorum, and stated that a Notice of the meeting was mailed to the Members and the press on September 10, 2007. He noted that this is the first Program Planning Committee ("PPC") meeting to be webcast. In the future, all of the Authority's committee and Board meetings will be webcasted. This will give the public access to watch the meetings through the internet from any location. This further enhances this Authority's desire to conduct its business in an open and transparent manner and complies with the Governor's policies regarding open government.

Chair Mathusa then introduced Paul D. Tonko who gave a brief overview. Mr. Tonko stated that this is a time of great opportunity and challenge for the Authority. The new administration in Albany has placed great focus on energy, and the energy agenda has become front and center in public discourse. Many other public and private entities now wish to participate in energy efficiency and renewable energy programs. NYSERDA will have the delicate task of encouraging this participation while maintaining the role as the nation's premier energy efficiency and renewable energy organization.

Mr. Tonko continued, stating that the Public Service Commission ("PSC") has commenced a proceeding to determine how to meet the Governor's objective of reducing electricity demand by

15% below the forecasted level by 2015. The result of this proceeding is likely to be increased funding for energy efficiency and increased participation by utilities and other entities in the implementation of these programs. NYSERDA staff is participating extensively in this and other proceedings before the PSC.

Mr. Tonko noted that the spending plan being presented at this meeting reflects the commencement of two new significant programmatic initiatives for the Authority- the Regional Greenhouse Gas Initiative (“RGGI”) and the Clean Air Interstate Rule (“CAIR”). Both of these are environmental cap and trade programs created by the New York State Department of Environmental Conservation (“DEC”); one for carbon dioxide and the other for nitrogen oxides and sulfur oxides. The Authority’s role in both programs will be to sell emission allowances and use the proceeds for energy efficiency and renewable energy programs.

Mr. Tonko stated that, while it’s a little difficult to predict how much these sales of allowances will generate, NYSERDA staff has made an educated guess in the budget of about \$30 million in additional revenue for RGGI and \$5 million in additional revenue for CAIR during the next fiscal year.

Mr. Tonko further reported that one great success to be presented at this meeting has been the agreement to locate DEC’s alternative fuel vehicle research lab at the Saratoga Technology + Energy Park (“STEP”). This facility will house a state-of-the-art lab focusing on all types of alternative fuels for multiple classes of vehicles. STEP can now truly become a national center for research and development. DEC Commissioner Pete Grannis previously signed the Cooperative Agreement that is being presented for consideration at this meeting. It is anticipated that construction will commence in Summer 2008. The DEC and NYSERDA are coordinating on the design of the building and the related property improvements.

After this summary, Chair Mathusa discussed the first agenda item concerning the approval of the minutes of 63rd meeting of the Committee held on June 11, 2007. Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes of 63rd meeting of the Committee were approved.

Treasurer Jeff Pitkin next reported on the resolution approving revisions to the Authority’s Budget for Fiscal Year (“FY”) 2007-08. Overall, the total budgeted expenditures are reduced by approximately \$14 million, from \$409 million to \$395 million.

Mr. Pitkin explained that the State appropriation revenue decreased \$27.3 million due to several factors. The FY2006-07 State Budget included a \$30 million appropriation for energy/environmental projects to be administered by NYSERDA for various transportation energy efficiency programs. The original Budget approved by the Members included \$29.4 million to be received and expended during FY2007-08. Based on current information, the expenditures are revised to \$5.4 million with the balance of the appropriation anticipated to be expended over the two subsequent fiscal years. In addition, revenue was increased by \$4.4

million to account for reimbursement of expenditures funded through the \$23 million in State appropriations provided in the FY2006-07 State Budget for two cellulosic ethanol pilot facilities. Finally, a \$7.8 million appropriation provided for NYSERDA's administration to support an international nanotechnology photovoltaic center at STEP is not anticipated to move forward, and therefore has been eliminated from the Budget.

He also noted that third party reimbursement revenues increased \$6.2 million, including: \$734,000 for a grant for STEP infrastructure costs originally budgeted in FY 2006-07; \$5 million for program funds to be received from Con Edison for a gas efficiency program (\$14 million for one-year program ending September 2008); and \$500,000 for funds expected to be received from New York Power Authority ("NYPA") for the cellulosic ethanol facilities (a total of \$2.1 million is being provided by NYPA in addition to the \$23 million State appropriation, of which \$500,000 is expected to be expended during FY 2007-08). The Con Edison Rate Settlement funding was increased by approximately \$21.1 million due to a restructured payment schedule resulting from a PSC Order. Moreover, rentals from leases increased \$1 million to reflect funding to be received under a lease agreement with Entergy for the outfall structure at the Indian Point 2 Nuclear Generating Station, based upon the 10-year renewal of the lease executed in April. Interest income increased \$5.4 million based upon higher balances available for investment and higher yields anticipated on investments.

Furthermore, fees and other income decreased \$420,000 as the infrastructure hookup fee anticipated for the DEC alternative vehicle test lab facility is not anticipated to be received until FY 2008-09. Salaries and benefits increased \$591,000 due to increased staffing levels, based on overall increased program funding provided. Overall staffing levels are budgeted at 257 positions, an increase of 16 positions from the original budget. The 16 additional positions include 11 program positions and 5 administrative positions. Other operating costs increased \$118,000 reflecting a reclassification of equipment costs and also increased costs for a planned expansion of office facilities.

Mr. Pitkin reported that the Authority moved into its 54,000 square foot main offices in 2002. As a result of staffing increases due to growth in program funding, little room remains for additional staffing. There is also the potential for further staffing additions in order to meet expanded responsibilities under the Governor's 15 by 15 initiative.

As a result, staff is currently negotiating a lease for approximately 10,000 square feet of office space in the office building across the street from NYSERDA's main office. It is anticipated that a relatively short term lease is needed for this space to provide flexibility to readdress staffing and facility needs. The annual lease cost for the facility is estimated at approximately \$150,000, and \$53,000 has been included in the fiscal year 2007-08 budget to reflect the anticipated commencement of this lease.

Mr. Pitkin confirmed that depreciation increased \$44,000 due to increases in capital asset additions and Program expenditures decreased \$16.2 million primarily due to changes in the timing of anticipated program expenditures.

The New York State Assessments increased \$913,000, to reflect a payment expected to be made to the State based upon language in the enacted State Budget, similar to payments made in the prior 3 years. This payment was not included in the original budget approved by the Members as there were not sufficient unrestricted revenues available to make this payment, but based upon the revised revenues there now are sufficient funds available to make this payment.

Capital asset additions increased \$1.7 million, primarily due to STEP infrastructure costs which were originally budgeted in FY 2006-07, but are now expected to be incurred during the current year. In addition, an additional \$250,000 is budgeted for information technology system upgrades, \$65,000 for an expansion of parking lot facilities at the Authority's main offices; \$125,000 for replacing telecommunications systems; and \$85,000 for equipment and furniture associated with the office expansion.

Mr. Pitkin then discussed the 7% limitation placed on administrative expenses for the System Benefits Charge ("SBC")-funded programs. The revised Budget includes administrative expenses for the SBC funded programs, representing about 8.2% of funding. Included in these costs are additional expenses recorded to reflect post-employment health insurance benefits in accordance with a new accounting standard (Governmental Accounting Standards Board Statement No. 45) adopted during the year which increased program administrative expenses by an amount equivalent to .8% of SBC funding.

There was much discussion of this particular item resulting from the fact that the SBC3 funding does not reflect this new cost. There was unanimous consensus by the Committee members recommending that NYSERDA present an application to the PSC to modify the current Operating Plan for SBC3 to appropriately increase the administrative fee to, at least, cover this additional cost.

Lastly, the end of year balance of unrestricted net assets is \$3.6 million, representing approximately .9% of the budget expenditures. It was noted that the \$3.6 million amount is consistent with historical reserve fund dollar amounts as a percentage of the overall budget.

Based on all the reports and discussions regarding the Plan as presented, upon motion duly made and seconded, and by unanimous voice vote, the Committee recommended that the full Board adopt the Resolution approving the Plan and the associated fiscal expenditures. A copy of said resolution is attached hereto as Exhibit A.

Mr. Pitkin next reported on NYSERDA's State Appropriation Request which is submitted annually to the Division of the Budget and sets forth the Authority's requests for state appropriations. For FY 2008-09, NYSERDA is requesting appropriations totaling \$32.9 million,

a net increase of \$1.5 million from the FY 2007-08 State Budget. No change is requested for funding the Research and Development program. The appropriation request for the West Valley bond debt service is reduced by \$895,000 due to maturing bond series. The funding for the Energy Analysis (policy and planning) program, which is funded by an assessment on gas and electric sales under Section 18-a of the Public Service Law, is requested to increase by \$2.4 million. The increase is comprised of \$1.1 million for additional staffing necessary to update the State Energy Plan (last updated in 2002) and to provide full funding for the program (the FY 2007-08 Budget appropriation funding was about \$460,000 less than the program's expenditures). The requested increase also includes \$1.3 million for non-recurring costs to update the State Energy Plan, including \$1 million for consultant support costs for various technical analyses anticipated to support the update and \$300,000 to cover outreach and plan production costs.

The State Appropriation Request also includes requests to re-appropriate amounts included in the State FY2007-08 Budget but not fully expended through March 31, 2008.

The Preliminary Spending Plan for FY2008-09 includes all revenues and expenses by program area. Overall, the Plan includes expenses of approximately \$454.6 million, as compared to the Revised Budget for FY 2007-08 of \$394.5 million. The increase is primarily due to the addition of about \$36 million in expenditures from funds which may be available from the auctioning of allowances under the RGGI and CAIR programs. Also, an additional \$19 million in expenditures for the Renewable Portfolio Standard program is included due to planned increases in assessments collected to fund the program based upon the PSC Order.

The CAIR and RGGI programs continue to make progress in nearing implementation. The DEC recently adopted regulations for CAIR and the initial sale of allowances is anticipated in the Spring of 2008. Staff estimates that the sale of allowances may generate proceeds of about \$5 to \$10 million, and \$5 million has been included in the Preliminary Spending Plan. In the case of RGGI, staff continues to work with the states involved in the regional compact and expect that a regional auction can commence in late 2008; if not, it is possible that the Authority would proceed on a New York State auction. Staff estimates that the auction of allowances may generate about \$60 to \$120 million in proceeds; the Preliminary Spending Plan is based on the lower estimate and assumes that two quarterly auctions will be completed generating \$30 million in revenue.

The programs to be funded from RGGI and CAIR proceeds will be detailed to the PPC at the January meeting and will be included in the Multiyear Program Plan to be presented to the PPC at the June 2008 meeting. For now, the Preliminary Spending Plan includes 19 additional staff, reflecting administrative costs and staff equivalent to the current rate experienced under the SBC funded programs.

The Preliminary Spending Plan projects the balance of unrestricted net assets at the end of the fiscal year will be approximately \$4.5 million, or about 1% of budgeted expenditures. Staff

believes that this amount is both fiscally prudent and reasonable.

After discussion, Mr. Tonko noted that the drafting of a revised Energy Plan must include a collaborative process to include all the appropriate entities and that an Executive Order or legislative act would be required.

Chair Mathusa recommended that staff visit the University of Rochester to further monitor the good work being conducted on the laser fusion project that was started in 1982 and confirm that the project is still consistent with NYSERDA's mission statement. Additionally, it was agreed that the \$51 million deficit in the budget table would contain a footnote explaining that this amount results from the facts that expenditures occurred prior to receipt of the revenues for the fiscal year.

Dr. Thorndike praised the Authority's efforts by noting that, as indicated in the pie chart contained in the budget, 88% of all funds collected is expended as energy programs costs with another 2% being expended on the West Valley project.

Based on all the reports and discussions regarding the State Appropriation Request and Spending Plan as presented, upon motion duly made and seconded, and by unanimous voice vote, the Committee recommended that the full Board adopt the Resolution State Appropriation Request. A copy of said resolution is attached hereto as Exhibit B.

Next, Vice President Bob Callender reported on the development at STEP and the resolution regarding the Cooperative Agreement between the New York State Department of Environmental Conservation and NYSERDA for the purpose of constructing, operating and maintaining DEC's alternative fuel vehicle research lab at STEP.

Mr. Callender reported that NYSERDA competitively selected a new development team led by the United Group to develop, construct, finance, and manage a 105,000 square foot LEED- rated manufacturing, lab, and office building at STEP, with Starfire Systems as its anchor tenant. As a result of this market-driven, public-private partnership, NYSERDA successfully negotiated and executed a ground lease with the United Group for this development and the NYSERDA Board approved this ground lease at the April 2006 Board Meeting.

The United Group is constructing this first new building in accordance with the terms of the aforementioned ground lease. United also expects to have the building open in this fall, and all of the space in the building is fully leased to clean energy technology companies.

In an effort to continue the build-out of STEP, NYSERDA has been working with the DEC to locate the DEC's alternative fuel vehicle research lab at STEP. The lab will serve the combined needs of the DEC and NYSERDA as both agencies work to formulate and implement policies and programs to protect the environment, improve air quality, conserve energy, diversify transportation energy and advance technologies to support the Governor's 15 x 15 initiative.

Specifically, the Lab's initial focus will be on all motorized vehicles including trucks, buses, cars, and non-road mobile sources. The facility will contain test platforms for advanced and emerging technologies, such as propulsion systems, other greenhouse gas reduction candidate technologies, and alternative fuels. Special emphasis will be on test systems to quantify all emissions from diesel buses and trucks, leading to control and retrofit technology advancements. It is anticipated that the facility will be also made available for public-private collaborative partnership projects and educational programs for research grants, technology development, and technician training applicable to emerging technologies such as alternative fuel concepts. The DEC, Hudson Valley Community College ("HVCC") and NYSERDA are currently negotiating a memorandum of understanding that will allow students in HVCC's automotive training program access to the Lab.

The Cooperative Agreement has been signed by Commissioner Grannis. Under the terms of the Agreement, NYSERDA will lease approximately 7 acres at STEP to the DEC for a 49-year term. Because STEP is state-owned land, and the DEC is a state agency, the Cooperative Agreement provides that DEC will not pay annual base rent to NYSERDA. DEC will secure the required funds to construct, operate, and manage this proposed 72,000 square foot state-of-the-art, LEED-rated facility.

Separately, the DEC will pay NYSERDA a one-time infrastructure hook-up fee of approximately \$432,000 and a pro rata share of NYSERDA's costs associated with maintaining the common areas of STEP outside the Lab. DEC will be responsible for paying for all sewer, water, electric, gas, telecommunications, and any other service or services provided to the facility. These arrangements are consistent with the payments that the United Group is making to NYSERDA.

Under the terms of the Cooperative Agreement, the DEC will also work closely with NYSERDA in the design, development, construction, and management of the Lab and the DEC and NYSERDA will ensure that the Lab will be designed in accordance with the requirements of the STEP Master Plan.

In addition to this, HVCC has announced that it will construct a new 35,000 sq. ft education and training center at STEP for its workforce development and education activities to further support the deployment of clean energy technologies across the State.

Based on all the reports and discussions regarding the Cooperative Agreement as presented, upon motion duly made and seconded, and by unanimous voice vote, the Committee recommended that the full Board adopt the Resolution approving the Cooperative Agreement. A copy of said resolution is attached hereto as Exhibit C.

Chair Mathusa asked if there was any other business before the Committee. There being none, upon motion duly made and seconded, and by unanimous voice vote of the Members, the 64th

meeting of the Program Planning Committee was adjourned.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mitchell Khosrova".

Mitchell Khosrova
Secretary to the Program Planning Committee