

Power Authority of the State of New York  
10 Columbus Circle, New York, New York 10019

Application for Electric Service

WHEREAS, New York State Electric & Gas Corporation (hereinafter called "Company") had been purchasing firm hydroelectric power and energy from the Power Authority of the State of New York (hereinafter called "Authority") under St. Lawrence Contract S-7 effective November 1958, and is purchasing firm and peaking hydroelectric power and energy under Niagara Contract NS-11 effective February 1961, and

WHEREAS, by the terms of Contracts S-7 and NS-11, the benefits of such purchases have passed to the rural and domestic customers of the Company, and

WHEREAS, the loss, partial or otherwise, of such purchases would cause economic loss to Company's rural and domestic customers, and

WHEREAS, it is the intent of Authority, for the term of this Contract, to maintain the same levels of firm and peaking hydroelectric power and energy in Company's electric service territory as provided in Contracts S-7 and NS-11, to the extent consistent with preference requirements, binding administrative orders or judicial rulings, as provided herein, and subject to

applicable statutory approval requirements.

NOW, THEREFORE, Company hereby applies to Authority for electric service in the following amount(s) under the following categories of service subject to modification in accordance with the provisions of Sections I and J hereof:

220 megawatts of firm hydroelectric power and associated energy pursuant to Service Tariff No. 41 - Firm Hydroelectric Power Service

150 megawatts of firm peaking hydroelectric power and associated energy pursuant to Service Tariff No. 42 - Firm Peaking Hydroelectric Power Service

Such kilowatt-hours of interruptible hydroelectric energy as may be made available by Authority to Company pursuant to Service Tariff No. 43 - Interruptible Hydroelectric Energy Service

These categories of power and energy shall be hereinafter referred to collectively as "hydroelectric power and energy." Hydroelectric power and energy shall be as measured at Authority's generating station switchyards and shall be made available by Authority and accepted by Company at existing

points of delivery and at such other points and voltages as may be agreed upon by Authority and Company.

The provisions of Authority's Rules and Regulations for Power Service (Part 454 of Chapter X of Title 21 of the Official Compilation of Codes, Rules and Regulations of the State of New York) (hereinafter called "Rules"), Service Tariff No. 41 Firm Hydroelectric Power Service, Service Tariff No. 42 Firm Peaking Hydroelectric Power Service and Service Tariff No. 43 Interruptible Hydroelectric Energy Service as now in effect and/or such superseding tariffs or other applicable tariffs as Authority may later promulgate pursuant to Section C hereunder, all as such Rules and Service Tariffs may be later amended from time to time by Authority, are hereby incorporated into this Contract with the same force and effect as if herein set forth at length. In the event of any inconsistencies, conflicts or differences between the provisions of the Service Tariffs and the Rules, the provisions of the Service Tariffs shall govern. In the event of any inconsistencies, conflicts or differences between the provisions of the Application for Electric Service and either the Service Tariffs or Rules, the provisions of the Application for Electric Service shall govern.

A. Applicable Laws and Licenses

The terms and provisions of the Niagara Redevelopment Act

(Title 16 United States Code Sections 836,836a), the Niagara (Project No. 2216) and St. Lawrence/FDR (Project No. 2000) licenses all as may be amended and the Power Authority Act (Title 1 of Article 5 of the New York Public Authorities Law) are all incorporated into this document by reference and made a part hereof as if set forth herein at length.

B. Indemnification

Company shall indemnify Authority, its Trustees, officers, employees and agents for costs, damages and/or compensation (monetary or otherwise including compensation in kind by provision of power and/or energy) actually required to be paid or provided by such indemnitees to other parties pursuant to a final court determination (or confirmation of a regulatory determination), which is not subject to further administrative or judicial appeal or review, that the allocation and sale of hydroelectric power and energy hereunder, or some portion thereof, should have been allocated and sold to such other parties, provided that any claim for indemnification hereunder shall be submitted in writing to the Company within six months after any such court determination. Company and Authority agree to support and defend the allocations provided pursuant to

this Agreement. Insofar as Company agrees to resell the hydroelectric power and energy purchased under this Application to its rural and domestic customers without profit as more specifically indicated in Paragraph D below, Authority recognizes that Company acts on behalf of its rural and domestic customers so that such customers may realize the savings derived from the purchase of such hydroelectric power and energy. Authority shall not object to the participation by Company fully in the defense of actions, proceedings, claims and demands involving Authority sales of hydroelectric power and energy and Authority shall endeavor to keep Company fully advised as to all developments therein, including all settlement offers and other material transactions in connection with such defense.

C. Other Classes of Power and Energy

In the event that Authority at any time determines that a class or classes of power and energy other than that sold under Service Tariff Nos. 41, 42 and 43 is available for sale to Company or that additional power and/or energy under these Service Tariffs is available for sale to Company, Company may purchase such power and energy, in such amounts and subject to such terms and conditions as shall then be agreed upon between Authority and Company.

D. Regulation of Rates and Charges

Company understands and agrees that the Power Authority Act provides that the rates, services and practices of purchasing, transmitting and distributing companies, in respect to power generated by Authority projects, shall be governed by the provisions and principles established in the contracts negotiated by Authority and such companies pursuant to the Power Authority Act and not by regulations of the New York Public Service Commission (PSC) or by general principles of Public Service Law regulating rates, services and practices.

Company agrees that in reselling hydroelectric power and energy that it will do so without profit (i.e. there will be no markup on the resale price charged by Company of that component of the resale price that represents the price paid by Company for such power and energy). Company agrees that the benefits (savings) derived from the purchase of hydroelectric power and energy from the Authority shall inure to the benefit of its rural and domestic customers.

Company's monthly (or bi-monthly as applicable) electric bills to rural and domestic customers shall contain a statement indicating the estimated total monthly savings in dollars realized by the individual customer for the

particular billing period as a result of the purchase of hydroelectric power and energy by Company from Authority. The following methodology shall be used to estimate the stated savings to Company's rural and domestic customers. The methodology may be revised from time-to-time on mutual agreement of the parties.

The monthly savings rate shall equal the sum of capacity plus energy savings, stated on a dollar per kilowatthour basis.

The capacity savings rate shall be equal to the difference between (a) Company's avoided cost of generation capacity per kilowatthour (ACGC) for the applicable year as stated in the PSC Order, issued February 23, 1987, in Case 28962 (the Order), and (b) the monthly capacity charges to Company for Authority hydroelectric power plus the related transmission charges to Company by Authority pursuant to paragraph F below divided by the kilowatthours of hydroelectric energy purchased by Company under Service Tariff Nos. 41 and 42.

The energy savings rate shall be equal to the difference between (a) Company's avoided cost of energy per kilowatthour (ACE) for the applicable year as set forth in the Order and (b) the monthly energy charges to Company for

all Authority hydroelectric energy purchased.

The monthly savings realized by the individual customer shall be equal to the monthly savings rate times the individual customer's kilowatthours usage for the particular billing period.

E. Rates

Company agrees to pay for hydroelectric power and energy sold to Company hereunder at rates developed by Authority in accordance with the principles set forth in the March 5, 1986 Settlement Agreement (Appendix A to this Agreement) settling Auer v. Dyson, No. 81-124 (Sup. Ct. Oswego Co.), Auer v. Power Authority, Index No. 11999-84 (Sup. Ct. N.Y. Co.) and Delaware County Electric Cooperative, Inc. v. Power Authority, 82 Civ. 7256 (S.D. N.Y.), as may be amended and Company shall not object to the principles set forth in such Settlement Agreement.

F. Transmission

Company will compensate Authority for making delivery of power and energy pursuant to this Contract by paying to Authority transmission charges in an amount to be determined by Authority to be necessary to defray the cost

of such delivery, including compensation for losses.  
Authority's loss factors or any revisions thereof initiated  
by Company or by Authority will be determined by Authority  
in consultation with Company.

G. Notification

All correspondence regarding this agreement shall be  
directed to or mailed to the following:

For Authority:

Manager-Power Contracts  
New York Power Authority  
10 Columbus Circle  
New York, NY 10019

For Company:

Senior Vice President  
Electric Operations and Engineering  
New York State Electric & Gas Corporation  
4500 Vestal Parkway East  
Binghamton, NY 13903

Except for emergencies, any notice which under the terms of  
this contract must or may be given or made by the parties

hereto within a specified period of time shall be in writing and shall be given by certified or registered mail, return receipt requested, or by delivery of the same to the addresses set forth above. Either party may change the addressee and/or address for correspondence sent to it by giving written notice in accordance with the foregoing.

H. Previous Contracts

To the extent any term or provision of any previous contracts and/or communications between the parties hereto, either oral or written, with reference to the subject matter of this Contract is inconsistent or in conflict with any term or provision of this Contract, the term or provision of this Contract shall govern.

I. Withdrawals of Power and/or Energy

Effective with the commencement of service hereunder, an amount or amounts of the power and/or energy provided under Service Tariffs Nos. 41 and 42 will be subject to withdrawal by Authority for sale to customers entitled to preference and priority pursuant to the Niagara Redevelopment Act (NRA) and the licenses for the Niagara and St. Lawrence Projects, but only to the extent that amounts required to be sold as preference power pursuant to

the NRA and/or the Niagara and St. Lawrence licenses exceed the amount of power then being sold as such preference power. Each withdrawal shall be shared by all Companies receiving service under such service tariffs in proportion to their contract demands in effect for the particular service tariffs at the time notice of withdrawal is given.

J. Cancellation or Reduction

Service hereunder may be cancelled or reduced by Company for any reason upon one (1) year's prior written notice to Authority. Company may also cancel such service upon ninety (90) days' prior written notice to Authority in the event that (1) the charge for service is increased or (2) the terms, conditions, or rules governing the service are materially modified without the agreement of Company thereto, unless Authority eliminates such increased charge or modification within ninety (90) days.

Effective with the commencement of service hereunder, in addition to any withdrawals of power and energy by Authority pursuant to Section I hereof, Authority may cancel service hereunder or reduce the quantities of power and associated energy allocated to Company (1) if, and only to the extent, such cancellation or reduction is determined to be required to comply with any unstayed ruling, order or

decision relating to the hydroelectric power and energy allocated under this Contract by any regulatory or judicial body having jurisdiction in the premises or by virtue of the expiration of the Authority's existing license for the St. Lawrence Power Project, or (2) as provided in Section 454.7 of the Rules.

K. Restoration of Withdrawn Power and/or Energy

ALCOA, Reynolds Metals Company and General Motors Corporation (Industries) are industries with large operations in Massena that purchase firm hydropower from the Authority. In the event that one or more of the Industries terminates service with respect to all or a portion of its firm hydropower allocation, as of the effective date of such termination Authority shall make the first 25,000 kilowatts of such surrendered power (the "Threshold Amount") available on a permanent basis for direct allocation to businesses for use in the service territories of Company and Niagara Mohawk Power Corporation (NMPC) in Franklin, Clinton and St. Lawrence Counties (the Counties), any such allocations to be made in accordance with Part 460 of Authority's Rules and Regulations.

If at any time all or a portion of the Threshold Amount is

not directly allocated to businesses in the Counties, such power will be made available on an interim basis to Company and NMPC for resale without profit to customers served under their retail industrial service classification(s). The amounts will be apportioned between those companies on the basis of their then current contract demands under Service Tariff No. 41. Such interim allocations shall be subject to withdrawal on sixty (60) days written notice to Company and NMPC for reallocation by Authority to businesses in the Counties as described above.

Any amounts of surrendered power in excess of the Threshold Amount (but not more than the "Withdrawn Amounts" defined below) shall become subject to direct allocation to businesses within the service areas of Company, NMPC and Rochester Gas and Electric Corporation (RG&E), any such allocation to be made in accordance with Part 460 of the Authority's Rules and Regulations and under terms and conditions to be established by Authority. Pending the direct allocation and sale of surrendered power in excess of the Threshold Amount to businesses, the power will be sold by Authority on an interim basis to those three companies for resale without profit to customers served under their retail electric industrial service classifications. Power in excess of the Threshold Amount will be apportioned to the service territories of Company,

NMPC and RG&E on the basis of their individual contributions to the Withdrawn Amounts. The power sold to those companies on such an interim basis shall be subject to withdrawal on sixty (60) days written notice from Authority for industrial economic development purposes as provided above.

The amount of power, exclusive of the Threshold Amount, to be made available to Company on an interim basis for resale to the industrial service class(es) shall to the extent it is available, equal the Withdrawn Amounts, defined as (1) the cumulative amount of hydroelectric power that had been provided to Company hereunder and pursuant to the terms of Service Tariff No. 41 and subsequently withdrawn by Authority pursuant to the provisions of Sections I and/or J hereof for reallocation external to Company's service territory, and/or (2) 10,000 kilowatts of peaking hydroelectric power to the extent such power has been allocated for use by Authority external to Company's service territory to meet federal preference requirements after the effective date of this Contract as set forth in Section N hereof, and/or (3) the amount withdrawn from Municipal Distribution Agencies in Company's service territory, if any.

For surrendered power provided by Authority, Company will

pay the rates that otherwise would have been paid by the Industry surrendering such power plus any applicable Authority transmission charges in accordance with Section F hereof.

With respect to businesses in Company's service territory to which Authority directly allocates surrendered power as described above, Company agrees that it will provide delivery service under an agreement to be developed with terms and conditions similar to those contained in the agreement between Authority and Company dealing with Economic Development Power Delivery Service.

L. Term of Service

Service under this Contract shall commence at 12:01 A.M. on January 1, 1990 and shall continue unless cancelled as provided for in the "Withdrawals of Power and/or Energy" or the "Cancellation or Reduction" provisions above until the expiration of the Authority's existing license for the Niagara Power Project.

M. Availability of Energy - Firm and Firm Peaking Hydroelectric Power Service

Notwithstanding any modifications to the provisions of

Service Tariff No. 41, Authority shall normally provide energy under that service tariff to Company at Company's average monthly system load factor based on the corresponding month for the previous three years.

Notwithstanding the provisions of Service Tariff No. 42, Authority shall normally supply energy under that service tariff at 12.5 percent monthly load factor with no more than five kilowatthours per kilowatt of peaking power allocated to be supplied in any single calendar day unless otherwise agreed to by the parties.

In the event that hydraulic conditions at Authority's hydroelectric generating stations require the Authority to reduce the amount of energy provided to Company under Service Tariff Nos. 41 and 42 to an amount below normal levels, reductions shall be applied to all companies served under Service Tariff Nos. 41 and 42 in proportion to their relative allocations of firm power and firm peaking power, respectively. Authority will endeavor to schedule deliveries to Company to minimize the impact of such reductions. Company's remedy in the event of such reductions shall be limited to that provided in Section 454.6(d) of the Rules.

N. Acceptance

Upon approval of the Governor pursuant to Section 1009 of the Power Authority Act and upon acceptance by Authority, this Application for Electric Service, the provisions of which shall survive for the term hereof, together with the Service Tariffs and Rules both as they may be amended shall constitute the contract between the parties for electric service hereunder, effective as of the date of such acceptance by Authority.

NEW YORK STATE ELECTRIC & GAS CORPORATION

BY Wells P. Allen (Chairman and CFO)  
Authorized Officer (Title)

Date January 14, 1988

(Attest)

BY Doreen R. Dix  
ASSISTANT SECRETARY

Accepted:

POWER AUTHORITY OF THE  
STATE OF NEW YORK  
By [Signature]  
Chairman

Date 2/22/89

(Attest)

By [Signature]

ACKNOWLEDGEMENTS

STATE OF NEW YORK  
SS:  
COUNTY OF NEW YORK

On this 22nd day of February, 1989, before me personally came Richard M. Flynn and Ann Wagner-Findeisen, to me known, who each being by me duly sworn, did severally depose and say that they reside in New York City, N.Y. and Cranford, N.J., and that they are, respectively, Chairman and Corporate Secretary of Power Authority of the State of New York, a corporation described in and which executed the above instrument; that they know the seal of Power Authority of the State of New York aforesaid; that one of the seals affixed to said instrument is such seal; that it was so affixed by order of the Trustees of Power Authority of the State of New York, and that they signed their names thereto by like order.

VERNADINE E. QUAN-SOON  
Notary Public, State of New York  
No. 31-4806491  
Qualified in New York County  
Commission Expires March 30, 1990



Notary Public, State of New York  
No. 31-4806491  
Qualified in New York County  
Commission Expires March 30, 1990

STATE OF NEW YORK

COUNTY OF Broome

On this 14th day of January, 1988, before me personally came Wells P. Allen, Jr., to me known, who being sworn, did depose and say that he resides in Binghamton, New York, and that he is Chairman and CEO (Title) described in and which executed the foregoing instrument; and that he signed the foregoing instrument.



Notary Public Tioga County  
My Commission Expires 6/30/88

PATRICIA A. ORZELL  
Notary Public, State of New York  
No. 4601146  
Residing in Tioga County  
My commission expires 6/30/88

SERVICE TARIFF NO. 41

FIRM HYDROELECTRIC POWER SERVICE

EFFECTIVE: January 1, 1990

APPLICABLE:

To utility companies in New York State for general power service to rural and domestic consumers.

CHARACTER OF SERVICE:

Alternating current, sixty hertz, three-phase.

MONTHLY RATE:

Capacity Charge: \$1.00/Per Kilowatt of Billing Demand

Energy Charge:

Rate Year	Base Energy Rates
May 1, 1989-April 30, 1990	2.62 mills per kilowatt hour
May 1, 1990-April 30, 1991	2.96 mills per kilowatt hour
May 1, 1991-April 30, 1992	3.34 mills per kilowatt hour

The charges set forth herein shall be subject to adjustment in accordance with a flow adjustment computation (FAC) and an adjustment of rates provision both as described below under Common Provisions C and D, respectively. The adjustment of rates provision stipulates that the Authority shall review the phased-in energy rates prior to the beginning of the May 1, 1990 - April 30, 1991 rate year.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Charge and the Contract Demand.

**CONTRACT DEMAND:**

The maximum kilowatts contracted for in the Application for Electric Service.

**BILLING DEMAND:**

The Billing Demand shall be the Contract Demand.

**SPECIAL PROVISIONS:**

A) Amount of Energy

Energy shall normally be provided to Company at Company's average monthly system load factor based on the corresponding month of the previous three years. In the event it is necessary to reduce the amount of energy provided below such amount due to hydraulic conditions at Authority's hydroelectric generating stations, reductions shall be applied to all companies served under this Service Tariff in proportion to their relative allocations of firm power. Company's remedy in such event shall be limited to such remedy as provided in Section 454.6 (d) of the Authority Rules and Regulations (Chapter X of the Official Compilation of Codes, Rules and Regulations of the State of New York). Authority may require Company to take energy in general accordance with Company's daily load curve requirements.

B) Payment

Bills computed under this Service Tariff are due and payable by electronic wire transfer at a bank to be designated by Authority in accordance with Authority's Rules and Regulations for Power Service (Part 454.6 of Title 21 of the New York Codes Rules and Regulation). In the event that there is a dispute on any items of a bill rendered by Authority, Company shall pay such bill and adjustments, if necessary, including interest payments to Company at the rate prescribed in Section 2501 of the Unconsolidated Laws on those adjustments resolved in Company's favor, will be made thereafter.

SERVICE TARIFF NO. 42

FIRM PEAKING HYDROELECTRIC POWER SERVICE

EFFECTIVE: January 1, 1990

APPLICABLE:

To utility companies in New York State for general power service to rural and domestic consumers.

CHARACTER OF SERVICE:

Alternating current, sixty hertz, three-phase.

MONTHLY RATE:

Capacity Charge: \$1.00/Per Kilowatt of Billing Demand

Energy Charge:

Rate Year	Base Energy Rates
May 1, 1989-April 30, 1990	2.62 mills per kilowatt hour
May 1, 1990-April 30, 1991	2.96 mills per kilowatt hour
May 1, 1991-April 30, 1992	3.34 mills per kilowatt hour

The charges set forth herein shall be subject to adjustment in accordance with a flow adjustment computation (FAC) and an adjustment of rates provision both as described below under Common Provisions C and D, respectively. The adjustment of rates provision stipulates that the Authority shall review phased-in energy rates prior to the beginning of the May 1, 1990 - April 30, 1991 rate year.

MINIMUM MONTHLY CHARGE:

The product of the Capacity Charge and the Contract Demand.

**CONTRACT DEMAND:**

The maximum kilowatts contracted for in the Application for Electric Service.

**BILLING DEMAND:**

The Billing Demand shall be the Contract Demand.

**SPECIAL PROVISIONS:**

**A) Availability of Energy**

Authority shall in its discretion provide Peaking Energy to Company at up to 12.5 percent monthly load factor with no more than five kilowatt-hours per kilowatt of Contract Demand supplied in any single calendar day, unless otherwise agreed upon by the parties. In the event Peaking Energy is supplied at less than 12.5 percent load factor, Company may supply to Authority's pumping power and energy in amounts which after adjustment for losses associated with use of the Authority's peaking facilities will increase the supply of firm energy hereunder to 12.5 percent monthly load factor.

In the event that Company desires energy in excess of 12.5 percent monthly load factor, Company may, with the consent of Authority, supply to Authority pumping power and energy in such amounts as Authority determines it can accept.

Upon request by Company, Authority may purchase pumping power and energy on behalf of Customer and at Customer's expense.

The ratio of firm energy produced to pumping energy supplied shall be taken as 0.90, both as measured at Authority's Generating Station Switchyards.

**B) Payment**

Bills computed under this Service Tariff are due and payable by electronic wire transfer at a bank to be designated by Authority in accordance with Authority's Rules and Regulations for Power Service (Part 454.6 of

Title 21 of the New York Codes Rules and Regulations). In the event that there is a dispute on any items of a bill rendered by Authority, Company shall pay such bill and adjustments, if necessary, including interest payments to Company at the rate prescribed in Section 2501 of the Unconsolidated Laws on those adjustments resolved in Company's favor, will be made thereafter.

**SERVICE TARIFF NO. 43**

**INTERRUPTIBLE HYDROELECTRIC ENERGY SERVICE**

**EFFECTIVE: January 1, 1990**

**APPLICABLE:**

To utility companies in New York State for general power service to rural and domestic consumers.

**CHARACTER OF SERVICE:**

Alternating current, sixty hertz, three-phase.

**MONTHLY RATE:**

**Energy Charge:**

<b>Rate Year</b>	<b>Base Energy Rates</b>
May 1, 1989-April 30, 1990	2.62 mills per kilowatt hour
May 1, 1990-April 30, 1991	2.96 mills per kilowatt hour
May 1, 1991-April 30, 1992	3.34 mills per kilowatt hour

The charges set forth herein shall be subject to adjustment in accordance with a flow adjustment computation (FAC) and an adjustment of rates provision both as described below under Common Provisions C and D, respectively. The adjustment of rates provision stipulates that the Authority shall review the phased-in energy rates prior to the beginning of the May 1, 1990 - April 30, 1991 rate year.

**MINIMUM MONTHLY CHARGE:**

None.

**CONTRACT DEMAND:**

None.

**BILLING DEMAND:**

None. Customer shall be billed for energy only.

**SPECIAL PROVISIONS:**

A) Energy Availability

Energy will be provided on an as-available basis with no guarantee as to amount, minimum or otherwise. It is at the Authority's sole discretion to offer interruptible energy pursuant to this Service Tariff; such energy shall be allocated in the same proportion as firm power provided under Service Tariff No. 41. Interruptible energy may be interrupted for any reason and without prior notice. Authority shall not be responsible for providing an alternate source of energy in lieu of the interrupted service.

B) Payment

Bills computed under this Service Tariff are due and payable by electronic wire transfer at a bank to be designated by Authority in accordance with Authority's Rules and Regulations for Power Service (Part 454.6 of Title 21 of the New York Codes Rules and Regulation). In the event that there is a dispute on any items of a bill rendered by Authority, Company shall pay such bill and adjustments, if necessary, including interest payments to Company at the rate prescribed in Section 2501 of the Unconsolidated Laws on those adjustments resolved in Company's favor, will be made thereafter.

PROVISIONS COMMON TO SERVICE TARIFFS 41, 42, and 43

A) BILLING ADJUSTMENTS:

i. FOR TRANSFORMER LOSSES:

If delivery is made at transmission voltage but metered on the low side of Company's substation, the meter readings will be adjusted by an amount based on the manufacturer's actual test report for such transformer or for a transformer of similar age and type, or in the absence of such test reports, by two percent to compensate for transformer losses.

ii. FOR TRANSMISSION LOSSES:

Rates in these service tariffs apply at Authority's generating station switchyards. Where power and energy are delivered and metered elsewhere, appropriate adjustments of meter readings will be made to compensate for transmission losses back to generation station switchyards.

B) POWER FACTOR ADJUSTMENTS:

Both Authority and Company shall supply or absorb reactive power as may be desirable, insofar as in their judgment they are able to do so without adverse effects. Authority will supply reactive power as required to assure adequate voltage at the point of delivery. Authority will not be obligated to supply reactive power at the point of receipt in Company's system, but it may do so at extra charge, if requested.

C) FLOW ADJUSTMENT COMPUTATION (FAC):

The charges hereunder are subject to a credit or surcharge pursuant to an FAC in any rate year following a calendar year for which the Hydroelectric Project Rate Stabilization Reserve (RSR) is greater than \$+25 million or less than \$-25 million, respectively. The RSR will be used to ensure rate stability and cost recovery.

The level of the RSR will be determined and any credit or surcharge for the succeeding rate year will be calculated

after the prior calendar year's costs and generation levels are known. Any credit or surcharge will be applied on a uniform basis to the monthly billing statements rendered pursuant to these service tariffs during the succeeding rate year.

The FAC would be inapplicable in any rate year succeeding a calendar year at the end of which the RSR is within the \$+25 million to \$-25 million range. If at the end of any calendar year the RSR is determined to exceed \$+25 million, such excess amount will be credited pro rata to Company during the succeeding rate year pursuant to the FAC. If the RSR at the end of any calendar year is determined to be less than \$-25 million, the difference below \$-25 million will be surcharged pro rata to Company during the succeeding rate year pursuant to the FAC.

D) ADJUSTMENT OF RATES

The rates for power and/or energy contained in these Service Tariffs may be revised by Authority from time to time upon written notice to Company. In addition to written notice to Company, Authority will give notice of any rate modifications in accordance with its rules governing administrative procedures.

Prior to the beginning of the 1990 rate year the authority shall review the phased-in energy rates set forth in ST 41,42 and 43. To the extent that the tariff rates produce revenues in excess of those produced by actual cost based rates, such tariff rates shall be subject to adjustment so that such rates shall produce revenues not in excess of those that would be produced by actual cost based rates.