Amendment to 1990 Hydropower Contract

New York State Electric & Gas Corporation ("Company") and the New York Power Authority ("Authority") are parties to an agreement dated February 22, 1989 under which the Authority sells certain quantities of hydroelectric power and energy from Authority's Niagara and St. Lawrence Projects to Company for resale to its rural and residential consumers (the "1990 Hydropower Contract").

Company and Authority agree to modify certain terms of 1990 Hydropower Contract as follows:

1) The amount of Firm Hydroelectric Power and Energy allocated to Company under Service Tariff No. 41 will be reduced from 203 MW to 167 MW. The Firm Peaking Power allocation will remain unchanged at 150 MW.

2) Article E – Rates. The current text is deleted in its entirety and is replaced with the following text.

   "The rates charged by the Authority under this Agreement shall be established in accordance with this Article.

   The Authority shall charge and Company shall pay the preference power rates adopted by the Authority on April 24, 2007, as such rates may be revised from time to time. Company waives any and all objections, suits, appeals or other challenges to the preference power rates adopted by the Authority on April 24, 2007, except as otherwise provided for below.

   Company waives any challenges to any of the following methodologies and principles used by the Authority to set future preference power rates, numbers (ii) through (vii) as set forth in the "January 2003 Report on Hydroelectric Production Rates" as modified by the April 2003 "Staff Analysis of Public Comments and Recommendations":

   (i) The principles set forth in the March 5, 1986 Settlement 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.) (the "*Auer* Settlement").

   (ii) Recovery of capital costs using Trended Original Cost and Original Cost methodologies.

   (iii) Treatment of sales to third parties, including the New York Independent System Operator.

   (iv) Allocation of Indirect Overheads.

(v) Melding of costs of the Niagara Power Project and St. Lawrence-FDR Power Project for ratemaking.

(vi) Post-employment benefits other than pensions (*i.e.*, retiree health benefits).

(vii) Rate Stabilization Reserve (RSR) methodology.

In the event the Authority ceases to employ any of the methodologies and principles enumerated above, the Company shall have the right to take any position whatsoever with respect to such methodology or principle, but shall not have the right to challenge any of the remaining methodologies and principles that continue to be employed by the Authority.'

3) Article F – Transmission. The current text is deleted in its entirety and is replaced with the following text.

The Company will cease taking and paying for transmission service from Authority after August 31, 2007 and will instead take transmission service under the New York Independent System Operator's ("NYISO") Open Access Transmission Tariff. Company agrees to settle any outstanding transmission charges that may apply prior to September 1, 2007 including any subsequent NYISO true up settlements."

4) Article G – Notification. In the contact address for Authority replace "10 Columbus Circle, New York, NY 10019" with 123 Main Street, White Plains, NY 10601". In the contact address for Company, first and second lines, replace "Senior Vice President Electric System Operations and Engineering" with, "Dave Kimiecik, Vice President, Energy Supply". On lines four and five, replace " 4500 Vestal Parkway, Binghamton, New York, 13903" with "18 Link Drive, P.O. Box 5224, Binghamton, New York 13902-5224".

5) Article L – Term of Service, is revised to read as follows:

"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 June 30, 2008, subject to earlier termination by the Authority on at least thirty (30) days' prior written notice to Company".

6) Article M – Availability of Energy – Firm and Firm Peaking Hydroelectric Power Service. In the third paragraph, line 1, starting with the words "In the event that . . " through ". . . minimize the impact of such reductions." on line 10, replace with the following:

"The Authority will have the right to reduce on a pro rata basis the amount of energy provided to Company under Service Tariffs Nos. 41 and 42 if such reductions are necessary due to low flow (i.e. hydrologic) conditions at the Authority's Niagara and St. Lawrence-FDR hydroelectric generating stations. In the event that hydrologic conditions require the Authority to reduce the

amount of energy provided to Company, reductions as a percentage of the otherwise required energy deliveries will be the same for all firm Niagara and St. Lawrence-FDR Project customers. The Authority shall be under no obligation to deliver and will not deliver any such curtailed energy to Company in later billing periods. The offer of Energy for delivery shall fulfill Authority's obligations for purposes of this Provision whether or not the Energy is taken by Company. The Authority shall provide reasonable notice to Company of any condition or activities that could result, or have resulted, in low flow conditions consistent with the notice provided to other similarly affected customers."

7) This amendment shall be referred to as the "2007 Amendment to the 1990 Hydropower Contract".

8) Continuation of service under this 2007 Amendment to the 1990 Hydropower Contract shall be subject to ultimate approval by the Governor of the State of New York pursuant to Section 1009 of the Power Authority Act. If the Governor does not approve this amendment, service will cease on the last day of the month following said disapproval.

Except as expressly provided in this 2007 Amendment to the 1990 Hydropower Contract, the 1990 Hydropower Contract shall remain unchanged and in full force and effect.

This 2007 Amendment to the 1990 Hydropower Contract shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts and to be performed in such state, without regard to conflict of laws principles.

This 2007 Amendment to the 1990 Hydropower Contract may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signature thereto and hereto were upon the same instrument.

If the foregoing changes are acceptable to your organization, please so indicate by executing both copies of this amendment and returning one copy to us.

AGREED:

Power Authority of the State of New York

By: _____

Roger B. Kelley
President and Chief Executive Officer

Date: August 29, 2007

New York State Electric &Gas Corporation

By: _____

David J. Kimiecik
Vice President – Energy Supply

Date: 8/23/07