October 15, 2014

MEMORANDUM TO THE TRUSTEES

FROM THE PRESIDENT and CHIEF EXECUTIVE OFFICER

SUBJECT: Extension of Hydropower Contracts with Upstate Investor-Owned Utilities for the Benefit of Rural and Domestic Consumers – Notice of Public Hearing

SUMMARY

The Trustees are requested to approve proposed contract extensions for the sale to Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid"), New York State Electric and Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RGE") (hereinafter referred to collectively as the "Utilities") of a total of 360 MW of firm "peaking" hydropower for a term of up to three years (ending December 31, 2017), with either party having the right to terminate the contract extension after a basic initial term of one year, on thirty (30) days' written notice. The extensions are subject to the public hearing and gubernatorial review process in Public Authorities Law ("PAL") § 1009. Accordingly, the Trustees are further requested to authorize: (1) a public hearing on the final proposed contract extensions; (2) transmittal of the proposed contracts to the Governor and legislative leaders as provided for in PAL § 1009; and (3) if necessary, the execution of the 2014 contract extensions to provide for the sale of the allocations on a short-term, month-to-month basis pending completion of the public hearing process and gubernatorial approval of the 2014 extensions. The proposed contract extensions are attached as Exhibit "A" (National Grid), Exhibit "B" (NYSEG) and Exhibit "C" (RGE), respectively.

BACKGROUND

In accordance with hydropower contracts signed with the Utilities in 1990 ("1990 Hydro Contracts") and subsequent contract extensions, the Utilities have purchased both firm power and firm peaking power from the St. Lawrence/FDR and Niagara Power Projects.

The Utilities have purchased such power at the Authority's cost-based hydropower rate, the benefits of which have been passed on to the Utilities' residential and small farm customers (also referred to as their rural and domestic or "R&D consumers") without markup, through the electric service provided by the Utilities under their retail tariffs.

Since August 31, 2007, the original expiration date of the 1990 Hydro Contracts, the Authority's Trustees have been careful not to approve any long-term contract commitments for the sale of this hydropower in anticipation of enacted legislation providing for the creation of a new hydropower-based economic development program.

Chapter 60 (Part CC) of the Laws of 2011 created the Recharge New York Power Program ("RNY Program"). This law authorized the Authority to use the firm hydropower previously allocated to the Utilities for the RNY Program. *See* PAL § 1005(13-a).

Effective August 1, 2011, the Authority withdrew the firm power allocations from the Utilities in accordance with the withdrawal provisions of the 2010 contract extensions and the new law, and terminated the firm power allocations of 189 MW for National Grid, 167 MW for NYSEG and 99 MW for RGE, but continued to sell the firm peaking power to the Utilities.

Beginning with the 2012 extension of the 1990 Hydro Contracts, the Authority's Trustees approved two-year contract extensions for the peaking hydropower.

DISCUSSION

The proposed 2014 contract extensions would continue the sale of 360 MW of firm peaking hydropower to the Utilities, which consists of 175 MW for National Grid, 150 MW for NYSEG and 35 MW for RGE. These peaking power allocations would continue to allow the Authority to pass on the benefits of the firm peaking power to the Utilities' R&D consumers.

The Authority is currently negotiating the extension terms with the Utilities. It is anticipated that the parties will agree to an extension of the 1990 Hydro Contracts covering the firm peaking power for up to three years, with either party having a right to terminate the extension upon thirty days' notice to the other party after an initial term of one year.

As noted, the proposed 2014 extensions are subject to the public hearing and gubernatorial review process provided for in PAL § 1009. Accordingly, staff further recommends that the Trustees authorize a public hearing on the final proposed contract extensions. In addition, because the 2012 extensions are scheduled to expire on December 31, 2014, staff recommends that it be authorized to execute the 2014 contract extensions providing for the sale of the peaking power allocations on a month-to-month basis pending completion of the public hearing process and gubernatorial approval of the 2014 contract extensions. In the unlikely event that gubernatorial approval is not received, the extensions would expire on the last day of the month following disapproval or the date by which the Governor is required to act on the contracts.

FISCAL INFORMATION

The proposed 2014 contract extensions would provide that the Utilities continue to pay for firm peaking hydropower at the same rates they are currently charged, *i.e.*, the cost-based rates that are currently charged to the Authority's preference customers and determined in accordance with the Authority's rate-setting methodologies and principles. The Trustees approved a preference power rate increase at their November 2011 meeting, which became effective in the December 2011 billing period. The proposed 2014 contract extensions would reflect the new preference power rates. Accordingly, there will be no fiscal impact to the Authority associated with these contract extensions.

RECOMMENDATION

The Manager – Power Contracts recommends that the Trustees: (i) authorize staff to negotiate extensions of the 1990 Hydro Contracts for terms of up to three years, with either party having the right to terminate the contract extension after a basic initial term of one year, on thirty (30) days' written notice; (ii) authorize the Corporate Secretary to convene public hearings on the final negotiated 2014 contract extensions and transmit copies of such extensions to the Governor and legislative leaders pursuant to PAL § 1009; and (iii) authorize staff to execute final negotiated 2014 contract extension which would provide for the sale of firm peaking power on a month-to-month basis, if necessary, pending completion of the public hearing process and gubernatorial approval of the 2014 contract extensions.

For the reasons stated, I recommend the approval of the above-requested action by adoption of the resolution below.

Gil C. Quiniones
President and Chief Executive Officer

R E S O L U T I O N

RESOLVED, That the Corporate Secretary be and hereby is authorized to convene a public hearings on the final proposed contract extensions in accordance with the procedures set forth in Public Authorities Law ("PAL") § 1009; and be it further

RESOLVED, That the Corporate Secretary be, and hereby is, authorized to transmit copies of final proposed contract extensions to the Governor, the Speaker of the Assembly, the Minority Leader of the Assembly, the Chairman of the Assembly Ways and Means Committee, the Temporary President of the Senate, the Minority Leader of the Senate and the Chairman of the Senate Finance Committee pursuant to PAL § 1009; and be it further

RESOLVED, That the Senior Vice President – Economic Development and Energy Efficiency or his designee be, and hereby is, authorized, subject to approval of the form thereof by the Executive Vice President and General Counsel, to negotiate and execute any and all documents necessary or desirable to implement the final proposed 2014 contract extensions with National Grid, New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation providing for the sale of firm peaking power on a month-to-month basis, if necessary, pending gubernatorial approval of the 2014 contract extensions as set forth in the foregoing memorandum of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the Vice Chair the President and Chief Executive Officer, the Chief Operating Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions

and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

2014 Amendment to 1990 Service Agreement

This 2014 Amendment to 1990 Service Agreement, dated this ___ day of _____, 2014 is made between Niagara Mohawk Power Corporation, d/b/a National Grid ("Company") and the Power Authority of the State of New York ("Authority").

WHEREAS, the Company and the Authority are parties to an agreement dated February 22, 1989 under which the Authority has sold certain quantities of hydroelectric power and energy in accordance with Authority Service Tariff ("ST") No. 41 and ST. No. 42 from Authority's Niagara and St. Lawrence Projects to Company for resale to its rural and residential consumers (the "1990 Service Agreement").

WHEREAS, Company and Authority have previously modified and extended the 1990 Service Agreement, most recently by the "2012 Amendment to 1990 Service Agreement" (the "2012 Amendment").

WHEREAS, by letter dated June 29, 2011, Authority withdrew all 189 MW of Firm Hydroelectric Power and Energy allocated under ST No. 41 and terminated service under the 1990 Service Agreement under ST No. 41 with respect to all 189 MW of Firm Hydroelectric Power and Energy, effective August 1, 2011, for use in the Recharge New York Power Program created pursuant to Chapter 60 (Part CC) of the Laws of 2011 (the "Firm Power and Energy Withdrawal/Termination").

WHEREAS, Company and Authority agree to further modify and extend certain terms of the 1990 Service Agreement as follows:

1) As a result of the Authority's Firm Power and Energy Withdrawal/Termination, the amount of Firm Hydroelectric Power and Energy allocated to Company under ST No. 41 is zero (0), and the Firm Peaking Power allocation of 175 MW under ST No. 42 will remain unchanged.

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 November 15, 2011, 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 November 15, 2011, 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 (i) 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.

"In accordance with the terms of the existing transmission service agreement, which by its terms will expire on August 31, 2007, Company will cease taking transmission service from Authority 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".

5) Article J- Cancelation or Reduction. The following sentence is added at the end of Article J:

Company may also cancel or reduce such service during the period from January 1, 2016 through December 31, 2017, for any reason upon thirty (30) days' prior written notice to the Authority.

6) Article K - Restoration of Withdrawn Power and/or Energy is deleted in its entirety.

7) 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 until December 31, 2017, subject to earlier termination by the Authority at any time with respect to any or all of the quantities of power and energy provided hereunder on at least thirty (30) days' prior written notice to Company."

8) 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 Tariff No. 42 if such reductions are necessary due to low flow (i.e. hydrologic) conditions at the Authority's Niagara Project hydroelectric generating station. 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 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."

9) This amendment shall be referred to as the "2014 Amendment to the 1990 Service Agreement".

10) Continuation of service under this 2014 Amendment to the 1990 Service Agreement shall be subject to ultimate approval by the Governor of the State of New York pursuant to Public Authorities Law § 1009. If the Governor disapproves this 2014 Amendment to the 1990 Service Agreement, service will cease on the last day of the month following the month during which the Governor disapproved this 2014 Amendment to the 1990 Service Agreement. If the Governor takes no action within the time frame provided for in Public Authorities Law § 1009, service will cease on the last day of the month following the month during which such timeframe expired.

Except as expressly provided in this 2014 Amendment to the 1990 Service Agreement, the 1990 Service Agreement shall remain unchanged and in full force and effect.

This 2014 Amendment to the 1990 Service Agreement 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 2014 Amendment to the 1990 Service Agreement 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.

Upon approval of the Governor of the State of New York pursuant to Public Authorities Law § 1009, and upon execution by the Chairman of the Authority, this 2014 Amendment to the 1990 Service Agreement shall come into full force and effect, provided however that pending such gubernatorial approval and execution, this 2014 Amendment to the 1990 Service Agreement shall take effect upon the expiration of the 2012 Amendment and continue on a month to month basis.

This 2014 Amendment to the 1990 Service Agreement may be amended or modified by written agreement signed by the Authority and the Company.

AGREED:

Niagara Mohawk Power Corporation, d/b/a National Grid

By: _____

Title: _____

Date: _____

Power Authority of the State of New York

By: _____
Name: John R. Koelmel
Title: Chairman

Date: _____

2014 Amendment to 1990 Hydropower Contract

This 2014 Amendment to 1990 Hydropower Contract, dated this ___ day of _____, 2014 is made between New York State Electric & Gas Corporation ("Company") and the Power Authority of the State of New York ("Authority").

WHEREAS, the Company and the 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").

WHEREAS, Authority, Rochester Gas and Electric Corporation ("RGE") and Company are also parties to a letter agreement dated February 14, 2008 ("February 14, 2008 Letter Agreement") which modified Article D - Regulation of Rates and Charges as it pertained to the calculation of the monthly savings realized by the customers of Company and RGE from the purchase of Authority hydropower.

WHEREAS, Company and Authority have previously modified and extended the 1990 Hydropower Contract, most recently by the "2012 Amendment to 1990 Hydropower Contract" (the "2012 Amendment").

WHEREAS, by letter dated June 29, 2011, Authority withdrew all 167 MW of Firm Hydroelectric Power and Energy allocated under Service Tariff No. 41 and terminated service under the 1990 Hydropower Contract with respect to all 167 MW of Firm Hydroelectric Power and Energy, effective August 1, 2011, for use in the Recharge New York Power Program created pursuant to Chapter 60 (Part CC) of the Laws of 2011 (the "Firm Power and Energy Withdrawal/Termination").

WHEREAS, Company and Authority agree to further modify and extend certain terms of 1990 Hydropower Contract as follows:

1) As a result of the Authority's Firm Power and Energy Withdrawal/Termination, the amount of Firm Hydroelectric Power and Energy allocated to Company under Service Tariff No. 41 is zero (0). The Firm Peaking Power allocation of 150 MW under Service Tariff No. 42 will remain unchanged.

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 November 15, 2011, 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 November 15, 2011, 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 (i) 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.

"In accordance with the terms of the existing transmission service agreement, which by its terms will expire on August 31, 2007, Company will cease taking transmission service from Authority 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". For Company, delete the current reference in its entirety and replace with the following "Dave Kimiecik, Vice President, Energy Supply, New York State Electric & Gas

Corporation, 18 Link Drive, P.O. Box 5224, Binghamton, New York 13902-5224".

5) Article J- Cancelation or Reduction. The following sentence is added at the end of Article J:

> Company may also cancel or reduce such service during the period from January 1, 2016 through December 31, 2017, for any reason upon thirty (30) days' prior written notice to the Authority.

6) Article K - Restoration of Withdrawn Power and/or Energy is deleted in its entirety.

7) 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 until December 31, 2017, subject to earlier termination by the Authority at any time with respect to any or all of the quantities of power and energy provided hereunder on at least thirty (30) days' prior written notice to Company."

8) 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 Tariff No. 42 if such reductions are necessary due to low flow (i.e. hydrologic) conditions at the Authority's Niagara Project hydroelectric generating station. 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 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."

9) This amendment shall be referred to as the "2014 Amendment to the 1990 Hydropower Contract".

10) Continuation of service under this 2014 Amendment to the 1990 Hydropower Contract shall be subject to ultimate approval by the Governor of the State of New York pursuant to Public Authorities Law § 1009. If the Governor disapproves this 2014 Amendment to the 1990 Hydropower Contract, service will cease on the last day of the month following the month during which the Governor disapproved this 2014 Amendment to the 1990 Hydropower Contract. If the Governor takes no action within the time frame provided for in Public Authorities Law § 1009, service will cease on the last day of the month

following the month during which such timeframe expired.

Except as expressly provided in this 2014 Amendment to the 1990 Hydropower Contract, the 1990 Hydropower Contract as modified by the February 14, 2008 Letter Agreement shall remain unchanged and in full force and effect.

This 2014 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 2014 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.

Upon approval of the Governor of the State of New York pursuant to Public Authorities Law § 1009, and upon execution by the Chairman of the Authority, this 2014 Amendment to the 1990 Hydropower Contract shall come into full force and effect, provided however that pending such gubernatorial approval and execution this 2014 Amendment to the 1990 Hydropower Contract shall take effect upon the expiration of the 2012 Amendment and continue on a month to month basis.

This 2014 Amendment to the 1990 Hydropower Contract may be amended or modified by written agreement signed by the Authority and the Company.

AGREED:

New York State Electric & Gas Corporation

By: _____
Name: Joseph J. Syta
Title: Vice President, Controller and Treasurer
Date: _____

By: _____
Name: Mark S. Lynch
Title: President
Date: _____

Power Authority of the State of New York

ACCEPTED:

By: _____
Name: John R. Koelmel
Title: Chairman

Date: _____

Exhibit C

2014 Amendment to 1990 Hydropower Contract

This 2014 Amendment to 1990 Hydropower Contract, dated this ___ day of _____, 2014 is made between Rochester Gas and Electric Corporation ("Company") and the Power Authority of the State of New York ("Authority").

WHEREAS, the Company and the 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").

WHEREAS, Authority, New York State Electric & Gas Corporation ("NYSEG") and Company are also parties to a letter agreement dated February 14, 2008 ("February 14, 2008 Letter Agreement") which modified Article D - Regulation of Rates and Charges as it pertained to the calculation of the monthly savings realized by the customers of Company and NYSEG from the purchase of Authority hydropower.

WHEREAS, Company and Authority have previously modified and extended the 1990 Hydropower Contract, most recently by the "2012 Amendment to 1990 Hydropower Contract" (the "2012 Amendment").

WHEREAS, by letter dated June 29, 2011, Authority withdrew all 99 MW of Firm Hydroelectric Power and Energy allocated under Service Tariff No. 41 and terminated service under the 1990 Hydropower Contract with respect to all 99 MW of Firm Hydroelectric Power and Energy, effective August 1, 2011, for use in the Recharge New York Power Program created pursuant to Chapter 60 (Part CC) of the Laws of 2011 (the "Firm Power and Energy Withdrawal/Termination").

WHEREAS, Company and Authority agree to further modify and extend certain terms of 1990 Hydropower Contract as follows:

1) As a result of the Authority's Firm Power and Energy Withdrawal/Termination, the amount of Firm Hydroelectric Power and Energy allocated to Company under Service Tariff No. 41 is zero (0). The Firm Peaking Power allocation of 35 MW under Service Tariff No. 42 will remain unchanged.

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 November 15, 2011, 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 November 15, 2011, 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 (i) 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.

"In accordance with the terms of the existing transmission service agreement, which by its terms will expire on August 31, 2007, Company will cease taking transmission service from Authority 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". For Company, delete the current reference in its entirety and replace with the following "Dave Kimiecik, Vice President, Energy Supply, New York State Electric & Gas

Corporation, 18 Link Drive, P.O. Box 5224, Binghamton, New York 13902-5224".

5) Article J- Cancelation or Reduction. The following sentence is added at the end of Article J:

> Company may also cancel or reduce such service during the period from January 1, 2016 through December 31, 2017, for any reason upon thirty (30) days' prior written notice to the Authority.

6) Article K - Restoration of Withdrawn Power and/or Energy is deleted in its entirety.

7) 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 until December 31, 2017, subject to earlier termination by the Authority at any time with respect to any or all of the quantities of power and energy provided hereunder on at least thirty (30) days' prior written notice to Company."

8) 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 Tariff No. 42 if such reductions are necessary due to low flow (i.e. hydrologic) conditions at the Authority's Niagara Project hydroelectric generating station. 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 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."

9) This amendment shall be referred to as the "2014 Amendment to the 1990 Hydropower Contract".

10) Continuation of service under this 2014 Amendment to the 1990 Hydropower Contract shall be subject to ultimate approval by the Governor of the State of New York pursuant to Public Authorities Law § 1009. If the Governor disapproves this 2014 Amendment to the 1990 Hydropower Contract, service will cease on the last day of the month following the month during which the Governor disapproved this 2014 Amendment to the 1990 Hydropower Contract. If the Governor takes no action within the time frame provided for in Public Authorities Law § 1009, service will cease on the last day of the month following the month during which such timeframe expired.

Except as expressly provided in this 2014 Amendment to the 1990 Hydropower Contract, the 1990 Hydropower Contract as modified by the February 14, 2008 Letter Agreement shall remain unchanged and in full force and effect.

This 2014 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 2014 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.

Upon approval of the Governor of the State of New York pursuant to Public Authorities Law § 1009, and upon execution by the Chairman of the Authority, this 2014 Amendment to the 1990 Hydropower Contract shall come into full force and effect, provided however that pending such gubernatorial approval and execution this 2014 Amendment to the 1990 Hydropower Contract shall take effect upon the expiration of the 2012 Amendment and continue on a month to month basis.

This 2014 Amendment to the 1990 Hydropower Contract may be amended or modified by written agreement signed by the Authority and the Company.

AGREED:

Rochester Gas and Electric Corporation

By: _____
Name: Joseph J. Syta
Title: Vice President, Controller and Treasurer
Date: _____

By: _____
Name: Mark S. Lynch
Title: President
Date: _____

Power Authority of the State of New York

ACCEPTED:

By: _____
Name: John R. Koelmel
Title: Chairman

Date: _____