ATTACHMENT 5

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December 27, 2006

VIA HAND DELIVERY

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SECRETARY
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FEDERAL ENERGY
REGULATORY COMMISSION

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1 - A
Washington, DC 20426

Re: Niagara Mohawk Power Corporation
Docket No. ER07-___-000
Amendment of Agreement Designated as Service Agreement No. 340, New York Independent System Operator, Inc., FERC Electric Tariff, Original Volume No. 1

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the regulations of the Federal Energy Regulatory Commission ("Commission" or "FERC"), 18 C.F.R. §§ 35.11, 35.13, Niagara Mohawk Power Corporation ("Niagara Mohawk") submits for filing an original and five copies of the First Revised Tri-Lakes Agreement (also referred to herein as the "Revised Tri-Lakes Agreement"), which has been designated as First Revised Service Agreement No. 340 under the New York Independent System Operator, Inc's ("NYISO") FERC Electric Tariff, Original Volume No. 1.

Two extra copies of this filing are enclosed. Please stamp these extra copies with the date and time filed and return them to the messenger. Please contact the undersigned if you have any questions regarding this matter.

I. BACKGROUND

Niagara Mohawk currently is engaged in the construction of upgrades to portions of its transmission system located in the Tri-Lakes region of upstate New York. Niagara Mohawk uses this part of its transmission system to deliver power to the Village of Lake Placid ("Placid") and the Village of Tupper Lake ("Tupper"; Placid and Tupper collectively, the "Villages"), both of which purchase their wholesale requirements from the New York Power Authority ("NYPA"), as well as to Niagara Mohawk's own retail customers in the area. Load growth in the Tri-Lakes region has made transmission system reinforcement crucial even as the location of much of that region within New York's Adirondack Park has made planning and construction a challenge.

By order issued April 15, 2005 in Docket Nos. ER05-572-000 and EL05-84-000 (the "April 2005 Order"),[1] the Commission accepted for filing an agreement among Niagara Mohawk, NYPA, Placid, and Tupper that provided for the construction of certain upgrades to Niagara Mohawk's transmission system in the Tri-Lakes region and for the recovery of the costs of such upgrades from the parties (the "Tri-Lakes Agreement"). In the April 2005 Order, the Commission preliminarily determined, among other matters, that the Tri-Lakes Agreement should be designated under the NYISO Open Access Transmission Tariff ("OATT").[2] The NYISO subsequently made a filing with the Commission stating its concurrence with the Commission's preliminary determination and specifying how the Tri-Lakes Agreement should be designated. On June 15, 2005, Niagara Mohawk, in accordance with the April 2005 Order and the instructions provided by the NYISO, re-filed the Tri-Lakes Agreement as Service Agreement No. 340 under the NYISO OATT. Niagara Mohawk's June 15, 2005 compliance filing was accepted by the Commission in a letter order issued July 15, 2005.

Under the terms of the Tri-Lakes Agreement, the agreed-upon upgrades were to be built and operated by Niagara Mohawk but owned by NYPA until 2012, when Niagara Mohawk was to assume ownership. Subsequent to the filing of the Tri-Lakes Agreement and the Commission's final acceptance of it, Niagara Mohawk and NYPA came to recognize that the ownership structure reflected in the Agreement could prove problematic in light of restrictions imposed on land transferability within the Adirondack Park. It also became apparent that modest route changes in the line portion of the upgrades might be required. At the same time, Niagara Mohawk and NYPA realized that the Tri-Lakes Agreement did not fully resolve a number of issues, such as risk of loss and construction oversight, that affect their mutual rights and obligations. To address these matters, the parties negotiated certain amendments to the Tri-Lakes as outlined below.

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1 *Niagara Mohawk Power Corp.*, 111 FERC ¶ 61,048 (2005).

2 The April 2005 Order also addressed a separate agreement respecting the conversion of service from a grandfathered transmission services agreement between Niagara Mohawk and NYPA to service under the NYISO OATT. The present filing does not bear on that agreement.

II. PROPOSED CHANGES

As noted above, the amendments to the Tri-Lakes Agreement fall into three categories: (1) amendments to reflect a revised ownership structure; (2) amendments to account for route changes; and (3) amendments to address issues not fully addressed in the original Agreement. In addition, the amendments include non-substantive editorial revisions such as the implementation of uniform acronyms and the elimination of now-moot references to regulation by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, which was repealed in 2005.

Category 1: The parties have agreed to revise the ownership structure of the upgrades to provide, in certain instances, for Niagara Mohawk to acquire interests (generally easements) in the real property on which NYPA-owned transmission equipment will be installed. Under the original Tri-Lakes Agreement, NYPA was to own both the equipment and the underlying real property interests. This change in ownership structure dictates a number of related amendments affecting such matters as mutual rights of use, the terms of conveyances, acquisition of property, title, and the like.

Category 2: The parties have agreed to change the route chosen to interconnect an existing radial transmission line in the Tri-Lakes region with the rest of the Niagara Mohawk system. The new link will interconnect with that system at Stark, rather than at Newton Falls, as was originally contemplated. In addition, the revised agreement makes provision for the fact that several hundred transmission poles likely to be affected by the upgrades are owned in part by Verizon. The amendments also contemplate the possible relocation of poles, subject, of course, to permitting.

Category 3: The amendments clarify several issues that are not addressed fully or at all in the original Tri-Lakes Agreement. The amendments specify in much greater detail the provisions governing risk of loss during the construction of facilities and the operation by Niagara Mohawk of NYPA-owned facilities (that is, prior to the transfer of facilities to Niagara Mohawk effective January 1, 2012) while addressing cost responsibility for extending into the 2006-07 heating season a backup generation program at Tupper. The amendments describe with particularity NYPA's rights to oversee and monitor Niagara Mohawk's construction of upgrades, including rights to inspect construction sites and documents and to approve final construction drawings and specifications. The amendments also establish mutual obligations between Niagara Mohawk and NYPA with respect to billing and payment, audits, and records retention.

All other provisions of the Tri-Lakes Agreement, including the scale and type of facilities to be constructed and allocation of cost responsibility, remain fundamentally unchanged. It bears emphasis that the amendments affect only the mutual rights and responsibilities of Niagara Mohawk and NYPA, and do not alter those of the Villages.

III. EFFECTIVE DATE

Pursuant to Section 35.11 of the Commission's regulations, Niagara Mohawk respectfully requests that the Commission permit the Revised Tri-Lakes Agreement to become effective as of October 19, 2006. That was the date on which the NPYA Trustees authorized the execution of the Revised Tri-Lakes Agreement. Good cause exists to grant the requested effective date, because it will facilitate the expeditious completion of the upgrades described in Section I, above, which are critical to preserving the reliability of the transmission system in the Tri-Lakes region.

IV. SERVICE

Copies of this filing have been served upon NYPA, Placid, Tupper, and the NYISO, and all entities on the service list for Docket Nos. ER05-572 and EL05-84.

V. COMMUNICATIONS

All communications regarding this filing should be addressed to the following individuals:

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VI. DOCUMENTS SUBMITTED

In addition to this transmittal letter, the following documents are submitted with this filing:

Attachment A	The Revised Tri-Lakes Agreement, provided in a format that conforms with the Commission's Order No. 614.[3]
Attachment B	A document showing, in "black-line" format, the amendments to the Tri-Lakes Agreement described above.

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3 *Designation of Electric Rate Schedule Sheets*, Order No. 614, 65 Fed. Reg. 18221 (Apr. 7, 2000), FERC Stats. and Regs., Regs. Preambles ¶ 31,096 (2000).

VII. CONCLUSION

For the foregoing reasons, Niagara Mohawk respectfully requests that the Commission accept for filing the attached Revised Tri-Lakes Agreement, which has been designated as First Revised Service Agreement No. 340 under the NYISO OATT in conformance with Order No. 614, effective as of October 19, 2006.

Sincerely,

William B. Glew, Jr. BRM

William B. Glew, Jr.
Attorney for Niagara Mohawk Power Corporation

Enclosures

ATTACHMENT A

REVISED TRI-LAKES AGREEMENT

DATED OCTOBER 24, 2006

BETWEEN

NIAGARA MOHAWK POWER CORPORATION

POWER AUTHORITY OF THE STATE OF NEW YORK

VILLAGE OF LAKE PLACID, NEW YORK

AND

VILLAGE OF TUPPER LAKE, NEW YORK

REVISED AGREEMENT

This REVISED AGREEMENT was originally entered into on the 15th day of September, 2004 ("the Execution Date"), by and between the Power Authority of the State of New York (the "Power Authority"), a "corporate municipal instrumentality" with its principal place of business at 30 South Pearl Street, Albany, New York 12207; Niagara Mohawk Power Corporation, a National Grid Company ("Niagara Mohawk"), with its principal place of business at 300 Erie Boulevard West, Syracuse, New York 13202; the Village of Lake Placid, New York ("Lake Placid"), with offices at the Town Hall, 301 Main Street, Lake Placid, New York 12946; and the Village of Tupper Lake, New York ("Tupper Lake"), with offices at the Town Hall, 53 Park Street, Tupper Lake, New York 12986 (collectively, the "Parties"). As of the 24th day of October, 2006, the Parties agreed to certain revisions that affect only the rights and responsibilities of Niagara Mohawk and the Power Authority vis-à-vis each other and that are incorporated in this REVISED AGREEMENT.

WHEREAS, the Power Authority has agreed to provide for the full electric requirements of Lake Placid and Tupper Lake (the "Villages"); and

WHEREAS, there is insufficient generation and transmission capacity to provide reliable electric service to the Villages and surrounding region (the "Tri-Lakes Region") in the cold winter months; and

WHEREAS, this problem, which is a function of the severity of winter weather and the amount of load in the area, is expected to become worse as peak demands in the Tri-Lakes Region continue to grow; and

WHEREAS, the Parties agree that a reasonable solution must address both the short term service problem for the next two winters and the issue of long-term electric system reliability for the Tri-Lakes Region; and

WHEREAS, the Parties desire to work together to effectuate such short term and long term solutions and have set forth below their respective roles and responsibilities to achieve such objectives;

NOW THEREFORE, in exchange for the covenants and promises contained herein and intending to be legally bound thereby, the Parties stipulate and agree as follows:

A. Short Term Solutions

1. Niagara Mohawk and the Villages each agree that over the next two winter periods following adoption of this Agreement, they will keep their system loads and supply in balance in order to minimize the risks of a voltage collapse or of load shedding. The Power Authority agrees to assist the Villages in fulfilling their commitments under this Paragraph A.1.

2. The Parties further agree that to the extent the Power Authority projects that Lake Placid's winter peak load will exceed 42 MW or that Tupper Lake's winter peak load will exceed 24 MW over the next two winter periods, the Power Authority and the Villages will be responsible for meeting the excess demand with additional generation, demand reductions, or some combination of the two. If action is required under this paragraph, the Power Authority further agrees that it will bear such costs (with the assistance of the Villages as described in paragraph B.17 herein) and that it will over the next two years use available unencumbered moneys from the Petroleum Overcharge Restitution Fund to partially cover such costs.

3. The Power Authority agrees to perform at its own expense energy audits of the Villages and their customers as well as of those of Niagara Mohawk customers in the area with which the Authority has an existing energy efficiency relationship. These audits will identify all short term and long term projects which will be beneficial to reducing the load within the region. Niagara Mohawk agrees that it will identify other loads in the region which can be audited immediately by NYSERDA for potential load reduction.

4. The Power Authority agrees to examine potential sites for placement of fuel cells in the Villages, including the wastewater treatment facility in Lake Placid. The Power Authority also agrees to commit $3 million to the implementation of fuel cell and on-site generation projects in the Villages. Such on-site generation opportunities may include bio-mass and other initiatives, which will further economic development opportunities within the Villages. The Villages agree to cooperate fully with these efforts.

5. As part of the short-term plan, Lake Placid agrees to install 5 MVAR of capacitor banks on or before December 1, 2004. In addition, the Power Authority agrees, with the full cooperation of Tupper Lake, to install 3 MW of distributed generation at Tupper Lake's substation. If such generation is placed into operation, Niagara Mohawk agrees that it will reimburse Tupper Lake for one-half of the cost of the fuel consumed by such generators over the next two years. In the event Niagara Mohawk determines, in consultation with the Power Authority and Tupper Lake, that delays in constructing the Tupper Lake SVC and/or initial operational problems make it necessary and appropriate for such distributed generators to be placed into operation during the 2006-07 winter period, all costs required to install and operate such generators shall be treated as cost increases associated with the SVCs (as defined below) in accordance with paragraph B.7.

6. To effectuate the short term solutions discussed above, the Parties agree they will meet regularly with each other and with the New York State Department of Public Service and that they will jointly adopt a service reliability plan for the upcoming winter by November 15, 2004. The Parties further agree that they will

review such adopted plan and make such adjustments as may be necessary to meet load requirements for the 2005-06 winter period by October 1, 2005.

B. Long Term Solutions

1. The Parties agree that the following upgrades shall be constructed along with necessary relocation of existing facilities as described herein (the "Project"): (a) one 46 kV Static Var Compensator ("SVC") at Tupper Lake with a projected in-service date of 2006 and one 115 kV SVC at Lake Colby with a projected in-service date of 2006 (collectively, the "SVCs"); (b) a new 46 kV line from Stark to Piercefield with a projected in-service date of 2008 (the "New Line"); and (c) the relocation of telephone and electric distribution facilities made necessary by the construction of the New Line.

2. Niagara Mohawk agrees that it will be responsible for the design, engineering, procurement, construction, installation, testing, and overall project management for the Project, subject to oversight by the Power Authority. If requested by Niagara Mohawk, the Power Authority will undertake the procurement of goods and services for the construction of the New Line. Ownership of the Project and responsibility for obtaining ownership interests will be governed by the following protocol:

a. The Power Authority agrees that it will own and finance and hold legal title to the SVCs and all electric lines, poles, and other fixtures and equipment associated with the New Line (such lines, poles, etc., together the "New Line Equipment") prior to January 1, 2012 (the "Transfer Date") provided that the Power Authority shall take title to the SVCs and the New Line Equipment (or each SVC and the New Line individually) upon (i) the satisfaction of all conditions required for acceptance, which conditions shall be mutually agreed upon for each facility by the Power Authority and Niagara Mohawk and (ii) a determination that the SVCs and the New Line Equipment (or each SVC and the New Line individually) are free and clear of all liens, claims and encumbrances ("Liens"). The Power Authority shall retain such ownership interests until the Transfer Date.

b. Upon the Transfer Date, and subject to the last sentence of paragraph B.4.c. concerning the ownership of certain distribution poles, the Power Authority shall convey all its ownership interests in the SVCs and the New Line Equipment to Niagara Mohawk, free and clear of all Liens except for such Liens placed on the SVCs or the New Line Equipment that (i) arise from Niagara Mohawk's operation, maintenance or repair of the SVCs or the New Line Equipment, or (ii) that were filed by or on behalf of

Niagara Mohawk. Documentation of such conveyance shall be in a form acceptable to both Parties.

3. Niagara Mohawk agrees that, prior to the Transfer Date, it will make reasonable efforts to acquire, and will subsequently own and hold legal title to, all real property interests that are necessary for the construction, installation, testing, and operation of the SVCs and the New Line. If requested to do so by Niagara Mohawk, the Power Authority agrees to assist Niagara Mohawk, including through mapping, surveying, and title review, and testifying, in any eminent domain proceeding that may be necessary to obtain such interests. Should any real property interests be contaminated by hazardous materials or not be attainable in or after eminent domain proceedings as provided above, the parties will work cooperatively to address the real property concern.

4. Further rights and obligations of Niagara Mohawk and the Power Authority are as follows:

   a. The Power Authority further agrees that it will be responsible for obtaining any governmental permits or approvals required for the siting or construction of the New Line, and Niagara Mohawk agrees that it will be responsible for obtaining any governmental permits or approvals required for the siting or construction of the SVCs. In the event an amendment to a permit or approval is required, responsibility for obtaining such amendment shall be borne by the Party initially responsible for obtaining the original permit or approval unless the purpose of the amendment is to add a Party to the permit or approval. Each Party shall have the right to participate, informally or as a co-applicant, in obtaining permits or approvals that the other Party is responsible for obtaining. The Parties agree to serve as co-applicants for permits or approvals and to include third parties as co-applicants where necessary and appropriate. It is the expectation of the Parties that such permits and approvals shall initially be issued to the Power Authority as the owner of the SVCs and the New Line Equipment. In permits and approvals issued to the Power Authority, the Power Authority shall endeavor to obtain express provisions authorizing their transfer to Niagara Mohawk. To the extent reasonably possible, the form and content of these permits or approvals shall be acceptable to both the Power Authority and Niagara Mohawk. The Power Authority shall endeavor to obtain, and Niagara Mohawk will assist in obtaining, permits or approvals in the name of Niagara Mohawk if such permits do not have express provisions authorizing their transfer to Niagara Mohawk, or are required to be in the name of Niagara Mohawk to ensure timely completion of the

Project. All references in this Revised Agreement to permits and/or approvals shall be deemed to include amendments.

b. Niagara Mohawk grants the Power Authority a temporary contract right allowing the Power Authority, without cost, to connect its SVCs and the New Line Equipment to Niagara Mohawk's equipment and to place the SVCs and the New Line Equipment upon the real property in which Niagara Mohawk owns or acquires a fee, easement, or similar interest until the Transfer Date. The Power Authority grants Niagara Mohawk an irrevocable contract right allowing Niagara Mohawk, without cost, to connect its distribution lines and equipment with the New Line Equipment. If, in order to effect such connection, Niagara Mohawk is required to relocate any distribution lines and/or equipment, the costs of such relocation shall be added to and included in the Total Project Cost.

c. If installation of the New Line Equipment requires distribution poles jointly owned by Niagara Mohawk and Verizon to be relocated to certain Power Authority poles as pole attachments, the following shall apply. First, the Power Authority agrees to negotiate a separate attachment agreement with Verizon acceptable to Niagara Mohawk. Second, any such cost of relocation shall be added to and included in Total Project Cost. Third, Niagara Mohawk shall negotiate a separate agreement with Verizon with respect to their respective ownership rights in the approximately 294 distribution poles as of the Transfer Date. On the Transfer Date, the Power Authority shall relinquish its ownership interest in such poles according to the terms of such separate agreement between Niagara Mohawk and Verizon.

d. Niagara Mohawk will obtain title insurance and an abstract of title for the real property interests necessary for construction and operation of the SVCs and the New Line in form and content satisfactory to Niagara Mohawk. The Power Authority will obtain a title insurance policy insuring its property interests in the Project, and agrees that it will not look to Niagara Mohawk as guarantor of its property rights. Niagara Mohawk also will obtain such environmental reports, surveys, appraisals, and other information as it deems necessary ("Site Investigation Documents") prior to obtaining title to the real property interests necessary for the SVCs and/or the New Line. Each Party, upon request by the other Party, shall provide copies of any Site Investigation Documents it may possess.

5. The current cost estimate for the Project is $ 29.1 million (the "Estimated Project Cost").[1] A breakdown of the costs of the various components of the Project is set forth in Exhibit A. The Power Authority agrees that it will reimburse Niagara Mohawk for all Project-related costs, including applicable overheads, incurred by Niagara Mohawk from the date of this Agreement until the Transfer Date. Such costs shall include all costs associated with the licensing, permitting, design, engineering, procurement, installation, construction, testing, and overall management of the Project. On the Transfer Date Niagara Mohawk agrees to pay the Power Authority an amount equal to the Net Project Costs as defined in paragraph B.6 below. Nothing in this Agreement shall limit Niagara Mohawk's right to recover the Net Project Cost in rates charged to all of its wholesale and retail customers, provided however that nothing in this Agreement shall be construed to limit in any way either Niagara Mohawk's rights with respect to the recovery of all or any part of such costs from its retail customers or the authority of the New York State Public Service Commission ("the PSC") to approve or establish tariff provisions providing for the recovery of all or any part of such costs from retail customers in New York State.

6. The Net Project Cost shall equal the Total Project Cost as defined herein less the Project Credits, which is the portion of the Project Cost borne by Tupper Lake (capped at $ 3.2 million in 2004 dollars) and Lake Placid (capped at $ 6.5 million in 2004 dollars). The Power Authority shall credit the full $ 9.7 million amount of the Project Credits to the Project as of the Execution Date of this Agreement and shall recover such amounts from the Villages as provided in Paragraph B.9 of this Agreement. The Project Credits shall be the first funds expended on the Project and the Power Authority shall not begin financing any part of the Net Project Cost until the Project Credits have been fully expended. Until such time as the Project Credits are fully expended by the Power Authority, the Project Credits shall be increased monthly by an amount determined by multiplying the difference between the unused Project Credits at the beginning of each month and the portion of the Total Project Costs funded from the Project Credits during such month by one-twelfth ($1/12^{th}$) of the rate of inflation as measured by the United States Gross Domestic Product Deflator prepared by the Bureau of Economic Analysis of the United States Department of Commerce for the most recent twelve month period for which such information is available.

The Total Project Cost shall equal the sum of:

[1] Estimated Project Cost is an estimate of the total first costs of project licensing, permitting, design, engineering, procurement, construction, installation, testing and overall project management prior to the placing of the New Line in service, and does not include any financing costs incurred by the Power Authority or any operation and maintenance costs incurred by Niagara Mohawk.

a. all costs initially incurred by Niagara Mohawk and reimbursed by the Power Authority, as set forth in paragraphs B.5 and B.7, but excepting those costs excluded from the Total Project Cost by paragraphs B.7 B.10, and B.18; and

b. all costs actually incurred by the Power Authority with respect to the Project, including but not limited to, licensing, permitting, design, land acquisition, construction, insurance and all accumulated compounded financing costs incurred by the Power Authority in connection with the Project prior to the Transfer Date, but excepting those costs excluded from the Total Project Cost by paragraphs B.7 and B.18. The Power Authority's actual costs shall include the Power Authority's opportunity cost of capital on all funds actually expended by the Power Authority which are eligible for inclusion in the Total Project Costs, provided however that the Power Authority's opportunity cost of capital with respect to any portion of the Total Project Cost funded by the Project Credits shall not be included in the Total Project Cost; and

c. any cost increases eligible for inclusion in Total Project Costs, as provided in paragraph B.7; any insurance costs, as provided in paragraph B.18.b(ii); or any Excess Costs as defined in paragraph B.18.c.

7. One-half of any increase in the cost of the New Line above the $ 15.8 million estimate shown on Exhibit A shall be included in the Total Project Cost. The Power Authority shall be responsible for carrying the portion of any such increases in the cost of the New Line that are includable in the Total Project Cost until the transfer of the Project to Niagara Mohawk in January 1, 2012, whereupon Niagara Mohawk will reimburse the Power Authority for such costs, inclusive of any carrying costs associated therewith as specified in paragraph B.6 of this Agreement. The remaining portion of any cost increases associated with the New Line shall not be included in the Total Project Cost, but shall be absorbed by the Power Authority and shall not be charged to Lake Placid or Tupper Lake. Niagara Mohawk shall be solely responsible for any cost increases associated with the SVCs and such amounts shall be included in the Total Project Cost. Subject to the last sentence of Paragraph B.5 of this Agreement, nothing contained in this Agreement shall limit Niagara Mohawk's ability to recover any cost increases assigned to it under this Agreement, including without limitation all applicable overheads, in its rates for retail or wholesale services.

8. In recognition of the facts that (a) the New Line and the SVCs will be initially owned by the Power Authority , and (b) Niagara Mohawk will be liable for applicable sales taxes pursuant to its agreement(s) with its

vendor(s), the Parties agree to work to structure the various transactions and procurements required for the Project to minimize, consistent with the law and the parties' respective policies and procedures, the state and local sales taxes included in the overall Project cost.

9. The respective contributions of each of the Villages to the Project Credits shall be amortized by the Power Authority over a period of twenty (20) years and collected by the Power Authority as a monthly surcharge on each Village's Power Authority wholesale power bill or by separate bill, as appropriate. The monthly payments, which shall begin upon the receipt of the final major licenses and permits for the Project, shall be set to be sufficient to reimburse the Power Authority for the principal amount of each Village's portion of the Project Credits as set forth in Paragraph B.6 (as increased prior to expenditure as set forth in paragraph B.6) plus all accumulated compounded financing costs incurred by the Power Authority (including the Power Authority's opportunity cost of capital in the case of internal financing) with respect to such amounts.

10. At all times before and after the Transfer Date, Niagara Mohawk shall be solely responsible for the operation, maintenance and repair of the Project, provided, however that nothing contained in this Agreement shall limit either: (a) Niagara Mohawk's right to recover the costs of operating, maintaining, and repairing the Project, inclusive of applicable overheads, in its rates for retail or wholesale service; or (b) Niagara Mohawk's right to turn over operational control of the facilities constituting the Project to the New York Independent System Operator, Inc. ("NYISO").

11. Tupper Lake and Lake Placid agree that they will be solely responsible for any and all costs of reconfiguring their respective systems to accommodate the Project, which amounts shall not be included in the Total Project Cost. Nothing contained in this Agreement shall limit the Villages' right to recover such costs, inclusive of all applicable overheads, from their customers.

12. At all times before and after the Transfer Date, electricity delivered by NYISO in whole or in part from or through the Facilities to serve load in Niagara Mohawk's Transmission District or for export from the New York Control Area shall be subject to Niagara Mohawk's retail or wholesale TSC under NYISO's Open Access Transmission Tariff ("OATT") to the full extent authorized by the NYISO OATT. Niagara Mohawk shall not be required to make any payment to the Power Authority in connection with any such withdrawal to serve load or export other than the NYPA Transmission Adjustment Charge established in the NYISO OATT.

13. Nothing in this Agreement shall absolve the Power Authority of its responsibility to pay the rates established in RS 204 and/or the NYISO

OATT, as applicable, for service to its municipal customers, which amounts shall not be included in the Total Project Cost.

14. The Power Authority, Niagara Mohawk, Lake Placid and Tupper Lake agree to work cooperatively with respect to their licensing, permitting and land acquisition activities associated with the construction of the Project.

15. This Agreement shall be not become effective unless the New York State Department of Public Service ("DPS") files comments in support thereof with the Federal Energy Regulatory Commission ("FERC").

16. The Parties agree to terminate the portion of Niagara Mohawk's current "grandfathered" wheeling agreement with the Power Authority under RS 204 as it relates to the delivery of Power Authority power to Tupper Lake and Lake Placid and to convert such deliveries to the NYISO OATT in accordance with an agreement for such conversion to be negotiated by the Parties. The Power Authority will also consent to the termination of its grandfathered wheeling agreement with the Villages to the NYISO OATT. The Villages will not be required to share any associated savings with either Niagara Mohawk or the Power Authority, except as provided in paragraph B.17 below.

17. The Parties agree to develop and implement a targeted demand-side management program promptly, using the resources of the Power Authority and NYSERDA and in consultation with the Empire State Development Corporation, in order to minimize problems while the agreed-upon system upgrades are made and to ensure that electricity is used efficiently in the region over the long term. Lake Placid and Tupper Lake each agree to apply up to 40% of the savings they receive through August 31, 2007 on account of the conversion of grandfathered wheeling agreements under paragraph B.16 above to the cost of demand-side management, generation and energy efficiency projects undertaken within their respective service areas as provided in paragraph A.2 herein.

18. Risk of loss shall be governed by the following:

    a. i. Subject to the limitation set forth in subparagraph b.i below, Niagara Mohawk shall be responsible for all costs of Project repair and replacement incurred prior to the Transfer Date that are classifiable as expense.

    ii. Subject to the limitations set forth in subparagraphs b.i and b.ii, below, Niagara Mohawk shall be responsible for all costs of Project repair and replacement incurred prior to the Transfer Date that are classifiable as capital.

iii. For the purposes of this Paragraph B.18, the only cost classifications applicable to repairs or replacement are expense and capital. Cost classifications shall be determined in accordance with National Grid's accounting standards in effect at the time of the failure or damage resulting in repair or replacement.

b. i. Niagara Mohawk shall assure that any contractor that is responsible for constructing a component of the Project shall be responsible for the risk of loss prior to final acceptance of the facilities it is constructing. Niagara Mohawk shall not be responsible to the Power Authority for costs of Project repair or replacement incurred prior to final acceptance, regardless of whether such costs are classified as expense or capital. The preceding sentence shall not apply if Niagara Mohawk fails to comply with the obligation set forth in the first sentence of this subparagraph i. or where Niagara Mohawk undertakes to construct a component of the Project in lieu of hiring a contractor for that purpose.

ii. From final acceptance of the facilities until the Transfer Date, the Power Authority shall maintain a property insurance policy that provides coverage for damage to the portions of the Project owned by the Power Authority, but not including the New Line. Such insurance policy shall be subject to a deductible not to exceed $1 million per occurrence. The cost of such policy is includable in Total Project Cost in accordance with Paragraph B.6 of this Agreement. Any modification to the property insurance coverage provided for by this subparagraph, including but not limited to modification of the deductible or the possible extension of coverage to the New Line portion of the Project, shall be subject to prior approval by Niagara Mohawk, which approval shall not be unreasonably withheld or delayed.

iii. As used in subparagraphs (i) and (ii) above, a facility shall be finally accepted upon the satisfaction of all conditions required for acceptance, which conditions shall be mutually agreed upon for each facility by the Power Authority and Niagara Mohawk

c. Once the aggregate costs for which Niagara Mohawk is liable under subparagraph a., above (net of any offsets under subparagraphs b.i and b.ii) reach $1 million, Niagara Mohawk shall have the right, but not the obligation, to receive reimbursement from the Power Authority for any costs in excess of that amount ("Excess Costs"). Any Excess Costs billed to and paid by the Power Authority shall be included in Total Project Cost, as

specified in paragraph B.6, and shall be subject to a carrying charge from the date payment is made to Niagara Mohawk.

d. Costs billed and paid under Paragraphs B.18.a.i. and B.18.a.ii. and any carrying charges thereon shall not be included when sharing or allocating cost increases under Paragraph B.7.

e. The Power Authority and Niagara Mohawk agree to cooperate fully in pursuing available claims under the Power Authority's insurance coverage, under any warranties, or otherwise. Any recoveries received by either Party, net of costs and expenses (including attorneys' fees) shall be applied to offset the Total Project Cost.

f. After the Transfer Date, Niagara Mohawk shall bear the full risk of loss with respect to the Project.

g. Nothing in this Agreement shall limit the right of Niagara Mohawk or the Power Authority to recover in rates charged to retail or wholesale customers the costs allocated in accordance with this Paragraph B.18.

C. Other Matters

1. Absent the written agreement of all the Parties, the standard of review for changes to this Agreement proposed by a Party shall be the "public interest" standard of review set forth in United Gas Pipeline Co. v. Mobile Gas Services Corp., 350 U.S. 322 (1956), and Federal Power Commission v. Sierra Pacific Power Co., 350 U.S. 345 (1956) (the "Mobile Sierra" doctrine).

2. The Parties agree to take all reasonable action to support this Agreement and its implementation and to cooperate in any proceedings before NYISO, the PSC, FERC, SEC or any other regulatory or siting agency or authority to support the licensing, construction, operation, and cost recovery provided for herein.

3. The Parties agree that they have all participated in the drafting of this Agreement and, therefore, no rule of construction should apply that would interpret this document more favorably to any Party.

4. The rights conferred and obligations imposed on any Party by this Agreement shall inure to the benefit of or be binding on that Party's successors in interest or assignees as if each such successor or assignee was itself a Party.

5. This Agreement is made upon the express understanding between the Parties that it constitutes a negotiated settlement and no person or Party shall be deemed to have approved, accepted, agreed to or otherwise consented to any ratemaking or tariff principle or methodology underlying or supposed to underlie any of the provisions herein. This Agreement shall not be deemed to have established a "settled practice", as that term is used in Public Service Commission of New York v. FERC, 642 F.2d 1335 (D.C. Cir. 1980), cert. denied, 454 U.S. 879 (1981), nor shall it be deemed in any respect to constitute an admission by any Party with respect to any allegation or contention. FERC's acceptance or approval of this Agreement shall also not constitute approval of, or precedent regarding, any principle or issue.

6. The discussions that have produced this Agreement were conducted on the explicit understanding, pursuant to Rule 602 (e) of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (e) (2006), that neither this Agreement, nor any comment on this Agreement in any regulatory or siting proceeding, shall be admissible in evidence against any Party, except in a proceeding to enforce the provisions of this Agreement, and on the further explicit understanding that any discussions among the Parties with respect to this Agreement prior to the execution and filing thereof shall not be subject to discovery or admissible in evidence.

7. The Parties' obligations under this Agreement are expressly conditioned upon the approval or acceptance for filing by FERC of this Agreement without modification or condition. In the event that FERC fails to grant any required approval or acceptance in its entirety and without modification or condition, the Parties agree to attempt in good faith to negotiate an amendment or amendments to address any modification or condition imposed by the FERC, provided that any Party may terminate this Agreement by providing written notice to the other Parties within fifteen (15) days of the issuance of any order imposing such modification or condition, whereupon this Agreement shall be deemed withdrawn and shall not constitute any part of the record in any proceedings or be used for any other purpose, and each of its provisions shall be deemed null and void.

8. Niagara Mohawk shall have no obligation under this Agreement to proceed with construction of the New Line unless and until all siting approvals required for the New Line have been obtained. Niagara Mohawk shall have no obligation under this Agreement to proceed with construction of any SVC unless and until all siting approvals required for such SVC have been obtained.

9. The Parties' obligations under this Agreement are further conditioned upon:

a. the adoption by the Trustees of the Power Authority of a resolution approving this Agreement as the lawful and binding obligation of the Power Authority and ratifying the execution of this Agreement by the Power Authority's representative; and

b. the adoption by the Village Board of each of the Villages of a resolution approving this Agreement as the lawful and binding obligation of their respective Villages and ratifying the execution of this Agreement by the Mayors of their respective Villages.

In the event that the Trustees of the Power Authority or either of the Village Boards fails to approve and ratify this Agreement in its entirety and without condition as provided herein within sixty (60) days of the Execution Date, this Agreement shall be deemed withdrawn and shall not constitute any part of the record in any proceedings or be used for any other purpose, and each of its provisions shall be null and void.

10. Invoicing and Payment.

a. Invoicing and payment under this Agreement shall be governed by Section 2880 of the New York Public Authorities Law ("Prompt Payment") and its regulations contained in 21 Part 463, New York Codes, Rules and Regulations. As provided in the prompt payment law, after Niagara Mohawk provides a "proper invoice" in support of its charges, the Power Authority is obligated to remit payment within 30 days (excluding legal holidays) of receipt of such invoice. The Power Authority is only required to make prompt payment for that portion of the invoice for which proper documentation has been submitted. The Power Authority shall notify Niagara Mohawk of the reasons for withholding payment for the remaining items for which documentation is insufficient. The requirements of a "proper invoice" are set forth in subsection b., below.

b. The Parties agree that each invoice submitted for an SVC or New Line Total Project Cost item(s) shall contain the information and shall be accompanied by appropriate documentation substantiating contractor and/or subcontractor invoices, Niagara Mohawk's direct labor charges (including any indirect charges such as fringe benefits and overhead), all direct and indirect land acquisition costs, and any other expenses and charges submitted as Total Project Cost items.

c. Niagara Mohawk shall submit its invoices to Power Authority monthly. Each invoice shall separately track the costs and charges for the SVCs and the New Line, including change orders and percentage of work complete. The invoices will also clearly reflect the relationship between budget and current monthly and cumulative expenditures.

11. Audit. Until no less than two years after the Transfer Date, each Party shall keep complete and accurate records, data and other documentation as may be necessary to verify that its charges or invoices are Project-related costs. Each Party shall have the right, at its own expense, upon reasonable notice and at reasonable times, to examine the books and records of the other Party to verify any statement, charge, payment, or computation made under this Agreement. The examining Party shall take all reasonably necessary precautions to prevent the disclosure of information that is proprietary or otherwise confidential and that is made available for examination under this provision. All invoices and billings shall be conclusively presumed final and accurate unless objected to in writing, with adequate explanation and/or documentation, within two years from the date of any invoice. The Party owing payment as a result of a Party's objection and substantiation of any inaccuracy shall pay or reimburse all retroactive adjustments in full within thirty (30) days of notice and substantiation of such inaccuracy.

12. Project Oversight by the Power Authority.

    a. The Power Authority shall have the right to observe the performance of engineering and construction work. During such observations, Power Authority's agents and representatives shall follow Niagara Mohawk's safety protocols. Project observations by the Power Authority agents and representatives shall be scheduled in advance through Niagara Mohawk's Project Manager or his designee.

    b. The Power Authority shall have the right to review and comment on functional specifications/strategy papers ("Specifications") for the SVCs and the New Line before such Specifications are released for translation into final engineering drawings. Upon receipt of Specifications, the Power Authority will have ten (10) business days to provide written comments to Niagara Mohawk. If the Power Authority does not make written comments to Niagara Mohawk during this ten (10) business day period, the Power Authority shall be deemed to have waived its right to provide comments. If the Power Authority and Niagara Mohawk cannot agree on the content of Specifications, either Party may invoke the dispute resolution provisions of Paragraph C.15.

    c. The Power Authority shall have the right to review and comment on final construction drawings/specifications ("Line Construction Documents") for the New Line. Upon receipt of final Line Construction Documents for the New Line, the Power Authority will have ten (10) business days to provide written comments to

Niagara Mohawk. If the Power Authority does not make written comments to Niagara Mohawk during this ten (10) business day period, the Power Authority shall be deemed to have waived its right to provide comments. If the Power Authority and Niagara Mohawk cannot agree on the content of final Line Construction Documents, either Party may invoke the dispute resolution provisions of Paragraph C.15.

d. Upon the Power Authority's request Niagara Mohawk will provide copies of SVC construction documents to the Power Authority during the course of the SVC construction. However, since the SVC project is a "turn key project" where design/drawings are completed in phases, the Power Authority's comments must be made to Niagara Mohawk within five (5) business days of receipt of the design/drawings. Because the SVC schedule is of utmost importance, it is understood that Niagara Mohawk may issue construction drawings in the field in parallel with any drawings that are requested by the Power Authority.

e. Niagara Mohawk shall provide the Power Authority with a monthly report on the progress of the Project, including information on schedule, costs and variances from budget. Such monthly report shall be in sufficient detail to verify the validity of each charge on the monthly invoice and shall include adequate information on each work task so that the Power Authority is fully aware of construction progress and can verify the validity of each charge on the monthly invoice. The monthly report shall be sent with each monthly invoice.

f. (1) Niagara Mohawk and the Power Authority shall work together to develop a mutually agreeable testing and acceptance protocol ("Protocol") for the SVCs and the New Line. Each facility shall, at a minimum, be required to meet the operability parameters set forth in the functional specifications and the performance warranties provided by equipment vendors.

(2) After completion of construction of each facility, Niagara Mohawk shall perform testing in accordance with the Protocol and shall provide the Power Authority with all written testing results and related documentation. Niagara Mohawk shall promptly identify any deviation(s) from agreed acceptance standards, as well as Niagara Mohawk's proposed corrective actions. Upon receipt of such material and information, the Power Authority will have ten (10) business days to provide written comments to Niagara Mohawk. If the Power Authority does not make written comments to Niagara Mohawk during this ten (10) business day period, the

Power Authority shall be deemed to have waived its right to provide comments. If the Power Authority and Niagara Mohawk cannot agree on the content of corrective actions, either Party may invoke the dispute resolution provisions of Paragraph C.15.

g. Niagara Mohawk will provide a set of final as-built construction drawings/specifications for the SVC and New Line after construction has been finally completed on each such facility of the Project. Such drawings/specifications shall be stamped by the engineer of record. Construction shall be deemed to be completed after successful testing as specified in accordance with the Protocol.

13. Records Retention. Niagara Mohawk and the Power Authority agree to retain all records, reports and other documentation that are directly related to the design, construction, maintenance, and operation of the Project and that a prudent owner or operator would wish to have available in maintaining and operating the Project for the remainder of its useful life ("Engineering Records"). The Power Authority agrees to turn over to Niagara Mohawk all Engineering Records in its possession upon the transfer to Niagara Mohawk of the Power Authority's interests in the Project. Notwithstanding the foregoing, the Power Authority reserves the right to retain any records that may be required to satisfy internal or external audit requirements.

14. Each of the Parties shall be solely responsible for the performance of the obligations assigned to it under this Agreement, and nothing in this Agreement shall be construed to require any Party to cure any breach of this Agreement by any other Party or as making any Party liable for any breach of this Agreement by any other Party. This Agreement does not, and shall not be construed to, confer third party beneficiary status on any person or entity not a Party to this Agreement.

15. Dispute Resolution

a. Negotiation. When a dispute arises related to the implementation of this Agreement and negotiations between the regularly responsible persons have reached an impasse, any Party may give the other Parties notice of the dispute. In the event that notice is given, the Parties shall attempt to resolve the dispute by negotiation between executives who have authority to settle the controversy and who are at a higher level of management than the persons with direct responsibility for the matter. Within 10 days after delivery of the notice, the receiving Party shall submit to the other Parties a written response. Thereafter, the executives shall confer in person or by telephone promptly to attempt

to resolve the dispute. All reasonable requests for information by one Party to another Party will be honored.

b. Mediation. If the dispute has not been resolved by negations within 20 days of the disputing Party's notice, or if the Parties have failed to confer within 30 days after delivery of the notice, the Parties shall endeavor to settle the dispute by mediation pursuant to Rule 604 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.604 (2006), ("Rule 604") and the CPR Mediation Procedure in effect on the date of this Agreement. Unless otherwise agreed, the parties will select a mediator from the CPR Panel of Distinguished Neutrals.

c. All negotiations and proceedings pursuant to subparagraphs a and b above are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence and any additional confidentiality protections provided by Rule 606 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.606 (2006), and other applicable law.

d. Arbitration. If the dispute has not been resolved by mediation as provided herein within 90 days of the initiation of such procedure, any party to such dispute may submit that dispute to FERC for resolution. In the event that FERC issues a final order declining to adjudicate that dispute or in the absence of any such request to FERC, such dispute shall be settled by binding arbitration in accordance with Rule 605 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.605 (2006), ("Rule 605") and the CPR Rules for Non-Administered Arbitration in effect on the date of this Agreement, by a sole arbitrator selected from the CPR Panel, except that if the amount in controversy exceeds $1 million, any Party to that dispute may opt for an arbitration by three independent and impartial arbitrators, none of whom shall be appointed by any Party. The arbitration shall be governed by Rule 605 and the Federal Arbitration Act, 9 U.S.C. §§ 1-16, to the exclusion of state laws inconsistent therewith, and judgment upon the award may be entered by any court having jurisdiction thereof. The arbitrators are not empowered to award damages excluded by this Agreement.

e. Nothing contained herein shall be construed as requiring mediation or arbitration in circumstances prohibited by Rule 604.

16. No Party shall be liable for incidental, indirect, special, punitive, multiple or consequential damages (including attorney fees or litigation costs) arising out of the performance or non performance of its obligations under this Agreement, including breach of contract, tort (including negligence and misrepresentation), statute, operation of law, or any other theory of

recovery, including but not limited to claims against the Parties by customers or any person or entity not a Party to this Agreement.

17. This Agreement constitutes a full settlement of the matters addressed herein and supersedes any and all prior representations, agreements, instruments and understandings between the Parties, whether written or oral, relating to the matters addressed herein. There are no other oral understandings, terms or conditions of this Agreement, and none of the participants has relied upon any such representation, express or implied in making or entering into this Agreement.

18. The Parties request the FERC to grant such waivers of its regulations as may be necessary to effectuate all of the provisions of this Agreement. Any number of counterparts of this Agreement may be executed, and each shall have the same force and effect as an original instrument, as if all of the Parties had signed a single instrument.

THIS PAGE IS FOLLOWED BY SIGNATURE PAGES FOR EACH OF THE PARTIES

Accepted by:

NIAGARA MOHAWK POWER CORPORATION,
A National Grid Company

By: _____
Herbert Schrayshuen
Title: Vice President

Accepted by:

POWER AUTHORITY OF THE STATE OF NEW YORK

By: _____

Thomas J. Kelly

Title: Executive Vice President
and General Counsel

Accepted by:

THE VILLAGE OF LAKE PLACID

By: _____

Title: Mayor

Accepted by:

THE VILLAGE OF TUPPER LAKE

By: Michael Desmarais

Title: Mayor

Exhibit A

Upfront Project Cost Estimates for National Grid (With NMPC A&G Removed from Overheads)
(2004, $M)

Project Element	In-Service Year	Licensing and Permitting Costs	Direct Costs	Overheads [2]	Total Cost
46 kV SVC @ Tupper Lake	2006	$0.3	$3.5	$.5	$4.3
115 kV SVC @ Lake Colby	2006	$0.5	$7.3	$1.1	$8.9
Overhead 46 kV Line from Newton Falls - Piercefield [1]	2008	$1.0	$12.9	$1.9	$15.8
Totals		$1.8	$23.8	$3.5	$29.1

1 - Includes related substation and regulator. The Newton Falls-Piercefield routing is represented because it is the more conservative routing (from a cost standpoint). The Stark-Piercefield route still remains viable if certain land swaps etc. can occur. Final selection of best routing will be made that will optimize overall schedule, cost and operation benefits.

2 - Niagara Mohawk Overheads

Above costs exclude any costs for addressing the short term solution.

Above cost estimates have been updated from October 2002 original estimates. Cost increases attributed to:
- Inflationary price escalations.
- Using 477 ACSR conductor in lieu of 336 ACSR originally used for 46 kV line.
- Added breaker, EMS, and relay protection previously not included.

ATTACHMENT B

REVISED AGREEMENT

This REVISED AGREEMENT ~~is~~was originally entered into on ~~this~~the 15th day of September, 2004 ("the Execution Date") , by and between the Power Authority of the State of New York (the "Power Authority"), a "corporate municipal instrumentality" with its principal place of business at 30 South Pearl Street, Albany, New York 12207; Niagara Mohawk Power Corporation, a National Grid Company ("Niagara Mohawk"), with its principal place of business at 300 Erie Boulevard West, Syracuse, New York 13202; the Village of Lake Placid, New York ("Lake Placid"), with offices at the Town Hall, 301 Main Street, Lake Placid, New York 12946; and the Village of Tupper Lake, New York ("Tupper Lake"), with offices at the Town Hall, 53 Park Street, Tupper Lake, New York 12986 (collectively, the "Parties") ~~and states the following:~~. As of the 24th day of October, 2006, the Parties agreed to certain revisions that affect only the rights and responsibilities of Niagara Mohawk and the Power Authority vis-à-vis each other and that are incorporated in this REVISED AGREEMENT.

WHEREAS, the Power Authority has agreed to provide for the full electric requirements of Lake Placid and Tupper Lake (the "Villages"); and

WHEREAS, there is insufficient generation and transmission capacity to provide reliable electric service to the Villages and surrounding region (the "Tri-Lakes Region") in the cold winter months; and

WHEREAS, this problem, which is a function of the severity of winter weather and the amount of load in the area, is expected to become worse as peak demands in the Tri-Lakes Region continue to grow; and

WHEREAS, the Parties agree that a reasonable solution must address both the short term service problem for the next two winters and the issue of long-term electric system reliability for the Tri-Lakes Region; and

WHEREAS, the Parties desire to work together to effectuate such short term and long term solutions and have set forth below their respective roles and responsibilities to achieve such objectives;

NOW THEREFORE, in exchange for the covenants and promises contained herein and intending to be legally bound thereby, the Parties stipulate and agree as follows:

A. Short Term Solutions

1. ~~NMPC~~Niagara Mohawk and the Villages each agree that over the next two winter periods following adoption of this Agreement, they will keep their system loads and supply in balance in order to minimize the risks of a voltage collapse or

of load shedding. The Power Authority agrees to assist the Villages in fulfilling their commitments under this Paragraph A.1.

2. The Parties further agree that to the extent the Power Authority projects that Lake Placid's winter peak load will exceed 42 MW or that Tupper Lake's winter peak load will exceed 24 MW over the next two winter periods, the Power Authority and the Villages will be responsible for meeting the excess demand with additional generation, demand reductions, or some combination of the two. If action is required under this paragraph, the Power Authority further agrees that it will bear such costs (with the assistance of the Villages as described in paragraph B.~~15~~17 herein) and that it will over the next two years use available unencumbered moneys from the Petroleum Overcharge Restitution Fund to partially cover such costs.

3. The Power Authority agrees to perform at its own expense energy audits of the Villages and their customers as well as of those of Niagara Mohawk customers in the area with which the Authority has an existing energy efficiency relationship. These audits will identify all short term and long term projects which will be beneficial to reducing the load within the region. Niagara Mohawk agrees that it will identify other loads in the region which can be audited immediately by NYSERDA for potential load reduction.

4. The Power Authority agrees to examine potential sites for placement of fuel cells in the Villages, including the wastewater treatment facility in Lake Placid. The Power Authority also agrees to commit $ 3 million to the implementation of fuel cell and on -site generation projects in the Villages. Such on-site generation opportunities may include bio-mass and other initiatives, which will further economic development opportunities within the Villages. The Villages agree to cooperate fully with these efforts.

5. As part of the short-term plan, Lake Placid agrees to install 5 MVAR of capacitor banks on or before December 1, 2004. In addition, the Power Authority agrees, with the full cooperation of Tupper Lake, to install 3 MW of distributed generation at Tupper Lake's substation. If such generation is placed into operation, Niagara Mohawk agrees that it will reimburse Tupper Lake for one-half of the cost of the fuel consumed by such generators over the next two years. In the event Niagara Mohawk determines, in consultation with the Power Authority and Tupper Lake, that delays in constructing the Tupper Lake SVC and/or initial operational problems make it necessary and appropriate for such distributed generators to be placed into operation during the 2006-07 winter period, all costs required to install and operate such generators shall be treated as cost increases associated with the SVCs (as defined below) in accordance with paragraph B.7.

6. To effectuate the short term solutions discussed above, the Parties agree they will meet regularly with each other and with the New York State Department of Public Service and that they will jointly adopt a service reliability plan for the

upcoming winter by November 15, 2004. The Parties further agree that they will review such adopted plan and make such adjustments as may be necessary to meet load requirements for the 2005-06 winter period by October 1, 2005.

B. Long Term Solutions

1. The Parties agree that the following upgrades shall be constructed along with necessary relocation of existing facilities as described herein (the "Project"): (a) one 46 kV Static Var Compensator ("SVC") at Tupper Lake with a projected in-service date of 2006 and one 115 kV SVC at Lake Colby with a projected in-service date of 2006 (collectively, the "SVCs"); ~~and~~ (b) a new 46 kV line from ~~Newton Falls~~Stark to Piercefield with a projected in-service date of 2008 (the "New Line"); and (c) the relocation of telephone and electric distribution facilities made necessary by the construction of the New Line.

2. ~~2.~~ Niagara Mohawk agrees that it will be responsible for the design, engineering, procurement, construction, installation, testing, and overall project management for the Project, subject to oversight by the Power Authority~~, and the Power Authority agrees that it will own and finance the Project prior to the Transfer Date as set forth below~~. If requested by Niagara Mohawk, the Power Authority will undertake the procurement of goods and services for the construction of the New Line. Ownership of the Project and responsibility for obtaining ownership interests will be governed by the following protocol:

3.

a. The Power Authority agrees that it will own and finance and hold legal title to the SVCs and all electric lines, poles, and other fixtures and equipment associated with the New Line (such lines, poles, etc., together the "New Line Equipment") prior to January 1, 2012 (the "Transfer Date") provided that the Power Authority shall take title to the SVCs and the New Line Equipment (or each SVC and the New Line individually) upon (i) the satisfaction of all conditions required for acceptance, which conditions shall be mutually agreed upon for each facility by the Power Authority and Niagara Mohawk and (ii) a determination that the SVCs and the New Line Equipment (or each SVC and the New Line individually) are free and clear of all liens, claims and encumbrances ("Liens"). The Power Authority shall retain such ownership interests until the Transfer Date.

b. Upon the Transfer Date, and subject to the last sentence of paragraph B.4.c. concerning the ownership of certain distribution poles, the Power Authority shall convey all its ownership interests in the SVCs and the New Line Equipment to Niagara Mohawk, free and clear of all Liens except for such Liens placed on the

SVCs or the New Line Equipment that (i) arise from Niagara Mohawk's operation, maintenance or repair of the SVCs or the New Line Equipment, or (ii) that were filed by or on behalf of Niagara Mohawk. Documentation of such conveyance shall be in a form acceptable to both Parties.

3. Niagara Mohawk agrees that, prior to the Transfer Date, it will make reasonable efforts to acquire, and will subsequently own and hold legal title to, all real property interests that are necessary for the construction, installation, testing, and operation of the SVCs and the New Line. If requested to do so by Niagara Mohawk, the Power Authority agrees to assist Niagara Mohawk, including through mapping, surveying, and title review, and testifying, in any eminent domain proceeding that may be necessary to obtain such interests. Should any real property interests be contaminated by hazardous materials or not be attainable in or after eminent domain proceedings as provided above, the parties will work cooperatively to address the real property concern.

4. Further rights and obligations of Niagara Mohawk and the Power Authority are as follows:

a. The Power Authority further agrees that it will be ~~the applicant~~responsible for obtaining any governmental permits or approvals required for the siting or construction of the New Line, and Niagara Mohawk agrees that it ~~shall be the applicant for~~will be responsible for obtaining any governmental permits or approvals required for the siting or construction of the SVCs. ~~All~~In the event an amendment to a permit or approval is required, responsibility for obtaining such amendment shall be borne by the Party initially responsible for obtaining the original permit or approval unless the purpose of the amendment is to add a Party to the permit or approval. Each Party shall have the right to participate, informally or as a co-applicant, in obtaining permits or approvals that the other Party is responsible for obtaining. The Parties agree to serve as co-applicants for permits or approvals and to include third parties as co-applicants where necessary and appropriate. It is the expectation of the Parties that such permits and approvals shall initially be issued to ~~NYPA~~the Power Authority as the owner of the ~~Project, but shall contain~~SVCs and the New Line Equipment. In permits and approvals issued to the Power Authority, the Power Authority shall endeavor to obtain express provisions authorizing their transfer to Niagara Mohawk ~~and shall be in~~. To the extent reasonably possible, the form and content of these permits or approvals shall be acceptable to both the Power Authority and Niagara Mohawk. The Power Authority shall endeavor to obtain, and Niagara Mohawk will assist in obtaining, permits or approvals

in the name of Niagara Mohawk if such permits do not have express provisions authorizing their transfer to Niagara Mohawk, or are required to be in the name of Niagara Mohawk to ensure timely completion of the Project. All references in this Revised Agreement to permits and/or approvals shall be deemed to include amendments.

b. Niagara Mohawk grants the Power Authority a temporary contract right allowing the Power Authority, without cost, to connect its SVCs and the New Line Equipment to Niagara Mohawk's equipment and to place the SVCs and the New Line Equipment upon the real property in which Niagara Mohawk owns or acquires a fee, easement, or similar interest until the Transfer Date. The Power Authority grants Niagara Mohawk an irrevocable contract right allowing Niagara Mohawk, without cost, to connect its distribution lines and equipment with the New Line Equipment. If, in order to effect such connection, Niagara Mohawk is required to relocate any distribution lines and/or equipment, the costs of such relocation shall be added to and included in the Total Project Cost.

c. If installation of the New Line Equipment requires distribution poles jointly owned by Niagara Mohawk and Verizon to be relocated to certain Power Authority poles as pole attachments, the following shall apply. First, the Power Authority agrees to negotiate a separate attachment agreement with Verizon acceptable to Niagara Mohawk. Second, any such cost of relocation shall be added to and included in Total Project Cost. Third, Niagara Mohawk shall negotiate a separate agreement with Verizon with respect to their respective ownership rights in the approximately 294 distribution poles as of the Transfer Date. On the Transfer Date, the Power Authority shall relinquish its ownership interest in such poles according to the terms of such separate agreement between Niagara Mohawk and Verizon.

~~If requested to do so by Niagara Mohawk, the Power Authority also agrees that it will acquire good and marketable title to any real or personal property required for the Project, with the unrestricted right to sell or assign such property to Niagara Mohawk, which ownership and assignment rights shall be in form and content acceptable to Niagara Mohawk. The Parties agree that the Power Authority will hold legal title to any and all real and personal property constituting the Project until the Transfer Date, at which time NYPA shall convey legal title to such real and personal property to Niagara Mohawk.~~

d. Niagara Mohawk will obtain title insurance and an abstract of title for the real property interests necessary for construction and operation of the SVCs and the New Line in form and content satisfactory to Niagara Mohawk. The Power Authority will obtain

a title insurance policy insuring its property interests in the Project, and agrees that it will not look to Niagara Mohawk as guarantor of its property rights. Niagara Mohawk also will obtain such environmental reports, surveys, appraisals, and other information as it deems necessary ("Site Investigation Documents") prior to obtaining title to the real property interests necessary for the SVCs and/or the New Line. Each Party, upon request by the other Party, shall provide copies of any Site Investigation Documents it may possess.

4.5. The current cost estimate for the Project is $ 29.1 million (the "Estimated Project Cost").[1] A breakdown of the costs of the various components of the Project is set forth in Exhibit A. The Power Authority agrees that it will reimburse Niagara Mohawk for ~~100% of~~ all Project-related costs, including applicable overheads, incurred by Niagara Mohawk from the date of this Agreement until ~~January 1, 2012 (~~the "Transfer Date"~~)~~. Such costs shall include all costs associated with the licensing, permitting, design, engineering, procurement, installation, construction, testing, and overall management of the Project. On the Transfer Date Niagara Mohawk agrees to pay the Power Authority an amount equal to the Net Project Costs as defined in paragraph B.~~5~~6 below. Nothing in this Agreement shall limit Niagara Mohawk's right to recover the Net Project Cost in rates charged to all of its wholesale and retail customers, provided however that nothing in this Agreement shall be construed to limit in any way either ~~NMPC~~Niagara Mohawk's rights with respect to the recovery of all or any part of such costs from its retail customers or the authority of the New York State Public Service Commission ("the PSC") to approve or establish tariff provisions providing for the recovery of all or any part of such costs from retail customers in New York State.

~~5.~~ 6. The Net Project Cost shall equal the Total Project Cost as defined herein less the Project Credits, which is the portion of the Project Cost borne by Tupper Lake (capped at $ 3.2 million in 2004 dollars) and Lake Placid (capped at $ 6.5 million in 2004 dollars). ~~NYPA~~The Power Authority shall credit the full $ 9.7 million amount of the Project Credits to the Project as of the Execution Date of this Agreement and shall recover such amounts from the Villages as provided in Paragraph B.~~7~~9 of this Agreement. The Project Credits shall be the first funds expended on the Project and the Power Authority shall not begin financing any part of the Net Project Cost until the Project Credits have been fully expended. Until such time as the Project Credits are fully expended by the Power Authority, the Project Credits shall be increased monthly by an amount determined by multiplying the difference between the unused Project

[1] Estimated Project Cost is an estimate of the total first costs of project licensing, permitting, design, engineering, procurement, construction, installation, testing and overall project management prior to the placing of the New Line in service, and does not include any financing costs incurred by the Power Authority or any operation and maintenance costs incurred by Niagara Mohawk.

Credits at the beginning of each month and the portion of the Total Project Costs funded from the Project Credits during such month by one-twelfth ($1/12^{th}$) of the rate of inflation as measured by the United States Gross Domestic Product Deflator prepared by the Bureau of Economic Analysis of the United States Department of Commerce for the most recent twelve month period for which such information is available.

The Total Project Cost shall equal the sum of:

a. all costs initially incurred by Niagara Mohawk and reimbursed by the Power Authority, as set forth in paragraphs B.45 and B.~~6~~7, but excepting those costs excluded from the Total Project Cost by paragraphs B.~~6~~7 B.~~8~~10, and B.~~16~~18; and

b. all costs actually incurred by the Power Authority with respect to the Project, including but not limited to, licensing, permitting, design, land acquisition, construction, insurance and all accumulated compounded financing costs incurred by the Power Authority in connection with the Project prior to the Transfer Date, but excepting those costs excluded from the Total Project Cost by paragraphs B.~~6~~7 and B.~~16~~18. The Power Authority's actual costs shall include the Power Authority's opportunity cost of capital on all funds actually expended by the Power Authority which are eligible for inclusion in the Total Project Costs, provided however that the Power Authority's opportunity cost of capital with respect to any portion of the Total Project Cost funded by the Project Credits shall not be included in the Total Project Cost; and

c. any cost increases eligible for inclusion in Total Project Costs, as provided in paragraph B.~~6 below~~7; any insurance costs, as provided in paragraph B.18.b(ii); or any Excess Costs as defined in paragraph B.18.c.

~~6.~~7. One-half of any increase in the cost of the New Line above the $ 15.8 million estimate shown on Exhibit A shall be included in the Total Project Cost. The Power Authority shall be responsible for carrying the portion of any such increases in the cost of the New Line that are includable in the Total Project Cost until the transfer of the Project to Niagara Mohawk in January 1, 2012, whereupon Niagara Mohawk will reimburse the Power Authority for such costs, inclusive of any carrying costs associated therewith as specified in paragraph B.~~5~~6 of this Agreement. The remaining portion of any cost increases associated with the New Line shall not be included in the Total Project Cost, but shall be absorbed by the Power Authority and shall not be charged to Lake Placid or Tupper Lake. Niagara Mohawk shall be solely responsible for any cost increases associated with the SVCs and such amounts shall be included in the Total Project Cost. Subject to the last sentence of Paragraph B.45 of this Agreement, nothing contained

in this Agreement shall limit Niagara Mohawk's ability to recover any cost increases assigned to it under this Agreement, including without limitation all applicable overheads, in its rates for retail or wholesale services.

8. In recognition of the facts that (a) the New Line and the SVCs will be initially owned by the Power Authority , and (b) Niagara Mohawk will be liable for applicable sales taxes pursuant to its agreement(s) with its vendor(s), the Parties agree to work to structure the various transactions and procurements required for the Project to minimize, consistent with the law and the parties' respective policies and procedures, the state and local sales taxes included in the overall Project cost.

~~7.~~ 9. The respective contributions of each of the Villages to the Project Credits shall be amortized by the Power Authority over a period of twenty (20) years and collected by the Power Authority as a monthly surcharge on each Village's Power Authority wholesale power bill or by separate bill, as appropriate. The monthly payments, which shall begin upon the receipt of the final major licenses and permits for the Project, shall be set to be sufficient to reimburse the Power Authority for the principal amount of each Village's portion of the Project Credits as set forth in Paragraph B.~~5~~6 (as increased prior to expenditure as set forth in paragraph B.~~5~~6) plus all accumulated compounded financing costs incurred by the Power Authority (including the Power Authority's opportunity cost of capital in the case of internal financing) with respect to such amounts.

~~8.~~ 10. At all times before and after the Transfer Date, Niagara Mohawk shall be solely responsible for the operation, maintenance and repair of the Project, provided, however that nothing contained in this Agreement shall limit either: (a) Niagara Mohawk's right to recover the costs of operating, maintaining, and repairing the Project, inclusive of applicable overheads, in its rates for retail or wholesale service; or (b) Niagara Mohawk's right to turn over operational control of the facilities constituting the Project to the New York Independent System Operator, Inc. ("NYISO").

~~9.~~ 11. Tupper Lake and Lake Placid agree that they will be solely responsible for any and all costs of reconfiguring their respective systems to accommodate the Project, which amounts shall not be included in the Total Project Cost. Nothing contained in this Agreement shall limit the Villages' right to recover such costs, inclusive of all applicable overheads, from their customers.

~~10.~~ 12. At all times before and after the Transfer Date, electricity delivered by NYISO in whole or in part from or through the Facilities to serve load in ~~NMPC~~Niagara Mohawk's Transmission District or for export from the New York Control Area shall be subject to ~~NMPC~~Niagara Mohawk's retail or wholesale TSC under NYISO's Open Access Transmission Tariff

("OATT") to the full extent authorized by the NYISO OATT. ~~NMPC~~Niagara Mohawk shall not be required to make any payment to ~~NYPA~~the Power Authority in connection with any such withdrawal to serve load or export other than the NYPA Transmission Adjustment Charge established in the NYISO OATT.

~~11.~~13. Nothing in this Agreement shall absolve the Power Authority of its responsibility to pay the rates established in RS 204 and/or the NYISO OATT, as applicable, for service to its municipal customers, which amounts shall not be included in the Total Project Cost.

~~12.~~14. The Power Authority, Niagara Mohawk, Lake Placid and Tupper Lake agree to work cooperatively with respect to their licensing, permitting and land acquisition activities associated with the construction of the Project.

~~13.~~15. This Agreement shall be not become effective unless the New York State Department of Public Service ("DPS") files comments in support thereof with the Federal Energy Regulatory Commission ("FERC"). ~~To the extent that Niagara Mohawk requires any authorization or approval from the Securities and Exchange Commission ("SEC") in order to acquire the Project or any part thereof, Niagara Mohawk shall have no obligation to acquire such facilities unless DPS files comments in support thereof with SEC.~~

~~14.~~16. The Parties agree to terminate the portion of ~~NMPC~~Niagara Mohawk's current "grandfathered" wheeling agreement with the Power Authority under RS 204 as it relates to the delivery of Power Authority power to Tupper Lake and Lake Placid and to convert such deliveries to the NYISO OATT in accordance with an agreement for such conversion to be negotiated by the Parties. The Power Authority will also consent to the termination of its grandfathered wheeling agreement with the Villages to the NYISO OATT. The Villages will not be required to share any associated savings with either Niagara Mohawk or the Power Authority, except as provided in paragraph B.~~15~~17 below.

~~15.~~17. The Parties agree to develop and implement a targeted demand-side management program promptly, using the resources of the Power Authority and NYSERDA and in consultation with the Empire State Development Corporation, in order to minimize problems while the agreed-upon system upgrades are made and to ensure that electricity is used efficiently in the region over the long term. Lake Placid and Tupper Lake each agree to apply up to 40% of the savings they receive through August 31, 2007 on account of the conversion of grandfathered wheeling agreements under paragraph B.~~14~~16 above to the cost of demand-side management, generation and energy efficiency projects undertaken within their respective service areas as provided in paragraph A.2 herein.

18. Risk of loss shall be governed by the following:

a. i. Subject to the limitation set forth in subparagraph b.i below, Niagara Mohawk shall be responsible for all costs of Project repair and replacement incurred prior to the Transfer Date that are classifiable as expense.

ii. Subject to the limitations set forth in subparagraphs b.i and b.ii. below, Niagara Mohawk shall be responsible for all costs of Project repair and replacement incurred prior to the Transfer Date that are classifiable as capital.

iii. For the purposes of this Paragraph B.18, the only cost classifications applicable to repairs or replacement are expense and capital. Cost classifications shall be determined in accordance with National Grid's accounting standards in effect at the time of the failure or damage resulting in repair or replacement.

~~16.~~ ~~In the event of catastrophic failure or damage to~~b. i. Niagara Mohawk shall assure that any contractor that is responsible for constructing a component of the Project ~~prior to the Transfer Date, the Power Authority shall bear~~shall be responsible for the risk of ~~such loss, provided however that Niagara Mohawk shall reimburse the Power Authority for such loss up to the deductible under the Power Authority's applicable insurance policy, which deductible shall not exceed $ 1 million or such other amount as the Power Authority and Niagara Mohawk may agree in writing. No such loss or reimbursement amounts shall be included in the Total Project Cost.~~loss prior to final acceptance of the facilities it is constructing. Niagara Mohawk shall not be responsible to the Power Authority for costs of Project repair or replacement incurred prior to final acceptance, regardless of whether such costs are classified as expense or capital. The preceding sentence shall not apply if Niagara Mohawk fails to comply with the obligation set forth in the first sentence of this subparagraph i. or where Niagara Mohawk undertakes to construct a component of the Project in lieu of hiring a contractor for that purpose.

ii. From final acceptance of the facilities until the Transfer Date, the Power Authority shall maintain a property insurance policy that provides coverage for damage to the portions of the Project owned by the Power Authority, but not including the New Line. Such insurance policy shall be subject to a deductible not to exceed $1 million per occurrence. The cost of such policy is includable in Total Project Cost in accordance with Paragraph B.6 of this

Agreement. Any modification to the property insurance coverage provided for by this subparagraph, including but not limited to modification of the deductible or the possible extension of coverage to the New Line portion of the Project, shall be subject to prior approval by Niagara Mohawk, which approval shall not be unreasonably withheld or delayed.

iii. As used in subparagraphs (i) and (ii) above, a facility shall be finally accepted upon the satisfaction of all conditions required for acceptance, which conditions shall be mutually agreed upon for each facility by the Power Authority and Niagara Mohawk

c. Once the aggregate costs for which Niagara Mohawk is liable under subparagraph a., above (net of any offsets under subparagraphs b.i and b.ii) reach $1 million, Niagara Mohawk shall have the right, but not the obligation, to receive reimbursement from the Power Authority for any costs in excess of that amount ("Excess Costs"). Any Excess Costs billed to and paid by the Power Authority shall be included in Total Project Cost, as specified in paragraph B.6, and shall be subject to a carrying charge from the date payment is made to Niagara Mohawk.

d. Costs billed and paid under Paragraphs B.18.a.i. and B.18.a.ii. and any carrying charges thereon shall not be included when sharing or allocating cost increases under Paragraph B.7.

e. The Power Authority and Niagara Mohawk agree to cooperate fully in pursuing available claims under the Power Authority's insurance coverage, under any warranties, or otherwise. Any recoveries received by either Party, net of costs and expenses (including attorneys' fees) shall be applied to offset the Total Project Cost.

f. After the Transfer Date, Niagara Mohawk shall bear the full risk of loss with respect to the Project.

g. Nothing in this Agreement shall limit the right of Niagara Mohawk or the Power Authority to recover ~~such loss or reimbursement amounts~~ in rates charged to retail or wholesale customers~~,~~ the costs allocated in accordance with this Paragraph B.18.

C. Other Matters

1. Absent the written agreement of all the Parties, the standard of review for changes to this Agreement proposed by a Party shall be the "public interest" standard of review set forth in United Gas Pipeline Co. v. Mobile Gas Services Corp., 350 U.S. 322 (1956), and Federal Power

Commission v. Sierra Pacific Power Co., 350 U.S. 345 (1956) (the "Mobile Sierra" doctrine).

2. The Parties agree to take all reasonable action to support this Agreement and its implementation and to cooperate in any proceedings before NYISO, the PSC, FERC, SEC or any other regulatory or siting agency or authority to support the licensing, construction, operation, and cost recovery provided for herein.

3. The Parties agree that they have all participated in the drafting of this Agreement and, therefore, no rule of construction should apply that would interpret this document more favorably to any Party.

4. The rights conferred and obligations imposed on any Party by this Agreement shall inure to the benefit of or be binding on that Party's successors in interest or assignees as if each such successor or assignee was itself a Party.

5. This Agreement is made upon the express understanding between the Parties that it constitutes a negotiated settlement and no person or Party shall be deemed to have approved, accepted, agreed to or otherwise consented to any ratemaking or tariff principle or methodology underlying or supposed to underlie any of the provisions herein. This Agreement shall not be deemed to have established a "settled practice", as that term is used in Public Service Commission of New York v. FERC, 642 F.2d 1335 (D.C. Cir. 1980), cert. denied, 454 U.S. 879 (1981), nor shall it be deemed in any respect to constitute an admission by any Party with respect to any allegation or contention. FERC's acceptance or approval of this Agreement shall also not constitute approval of, or precedent regarding, any principle or issue.

6. The discussions that have produced this Agreement were conducted on the explicit understanding, pursuant to Rule 602 (e) of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (e) (~~2004~~2006), that neither this Agreement, nor any comment on this Agreement in any regulatory or siting proceeding, shall be admissible in evidence against any Party, except in a proceeding to enforce the provisions of this Agreement, and on the further explicit understanding that any discussions among the Parties with respect to this Agreement prior to the execution and filing thereof shall not be subject to discovery or admissible in evidence.

7. The Parties' obligations under this Agreement are expressly conditioned upon the approval or acceptance for filing by FERC of this Agreement without modification or condition ~~and authorization by the SEC for Niagara Mohawk to acquire the Project in accordance with the~~

~~terms of this Agreement, which SEC authorization shall be requested by Niagara Mohawk once the scope of the Project has been finalized in all material respects.~~. In the event that FERC fails to grant any required approval or acceptance in its entirety and without modification or condition ~~or the SEC fails to grant any required authorization in its entirety and without~~, the Parties agree to attempt in good faith to negotiate an amendment or amendments to address any modification or condition imposed by the FERC, provided that any Party may terminate this Agreement by providing written notice to the other Parties within fifteen (15) days of the issuance of any order imposing such modification or condition, whereupon this Agreement shall be deemed withdrawn and shall not constitute any part of the record in any proceedings or be used for any other purpose, and each of its provisions shall be deemed null and void.

8. Niagara Mohawk shall have no obligation under this Agreement to proceed with construction of the New Line unless and until all siting approvals required for the New Line have been obtained. Niagara Mohawk shall have no obligation under this Agreement to proceed with construction of any SVC unless and until all siting approvals required for such SVC have been obtained.

9. The Parties' obligations under this Agreement are further conditioned upon:

   a. the adoption by the Trustees of the Power Authority of a resolution approving this Agreement as the lawful and binding obligation of the Power Authority and ratifying the execution of this Agreement by the Power Authority's representative; and

   b. the adoption by the Village Board of each of the Villages of a resolution approving this Agreement as the lawful and binding obligation of their respective Villages and ratifying the execution of this Agreement by the Mayors of their respective Villages.

   In the event that the Trustees of the Power Authority or either of the Village Boards fails to approve and ratify this Agreement in its entirety and without condition as provided herein within sixty (60) days of the Execution Date, this Agreement shall be deemed withdrawn and shall not constitute any part of the record in any proceedings or be used for any other purpose, and each of its provisions shall be null and void.

10. Invoicing and Payment.

   a. Invoicing and payment under this Agreement shall be governed by Section 2880 of the New York Public Authorities Law ("Prompt

Payment") and its regulations contained in 21 Part 463, New York Codes, Rules and Regulations. As provided in the prompt payment law, after Niagara Mohawk provides a "proper invoice" in support of its charges, the Power Authority is obligated to remit payment within 30 days (excluding legal holidays) of receipt of such invoice. The Power Authority is only required to make prompt payment for that portion of the invoice for which proper documentation has been submitted. The Power Authority shall notify Niagara Mohawk of the reasons for withholding payment for the remaining items for which documentation is insufficient. The requirements of a "proper invoice" are set forth in subsection b., below.

b. The Parties agree that each invoice submitted for an SVC or New Line Total Project Cost item(s) shall contain the information and shall be accompanied by appropriate documentation substantiating contractor and/or subcontractor invoices, Niagara Mohawk's direct labor charges (including any indirect charges such as fringe benefits and overhead), all direct and indirect land acquisition costs, and any other expenses and charges submitted as Total Project Cost items.

c. Niagara Mohawk shall submit its invoices to Power Authority monthly. Each invoice shall separately track the costs and charges for the SVCs and the New Line, including change orders and percentage of work complete. The invoices will also clearly reflect the relationship between budget and current monthly and cumulative expenditures.

11. Audit. Until no less than two years after the Transfer Date, each Party shall keep complete and accurate records, data and other documentation as may be necessary to verify that its charges or invoices are Project-related costs. Each Party shall have the right, at its own expense, upon reasonable notice and at reasonable times, to examine the books and records of the other Party to verify any statement, charge, payment, or computation made under this Agreement. The examining Party shall take all reasonably necessary precautions to prevent the disclosure of information that is proprietary or otherwise confidential and that is made available for examination under this provision. All invoices and billings shall be conclusively presumed final and accurate unless objected to in writing, with adequate explanation and/or documentation, within two years from the date of any invoice. The Party owing payment as a result of a Party's objection and substantiation of any inaccuracy shall pay or reimburse all retroactive adjustments in full within thirty (30) days of notice and substantiation of such inaccuracy.

12. Project Oversight by the Power Authority.

a. The Power Authority shall have the right to observe the performance of engineering and construction work. During such

observations, Power Authority's agents and representatives shall follow Niagara Mohawk's safety protocols. Project observations by the Power Authority agents and representatives shall be scheduled in advance through Niagara Mohawk's Project Manager or his designee.

b. The Power Authority shall have the right to review and comment on functional specifications/strategy papers ("Specifications") for the SVCs and the New Line before such Specifications are released for translation into final engineering drawings. Upon receipt of Specifications, the Power Authority will have ten (10) business days to provide written comments to Niagara Mohawk. If the Power Authority does not make written comments to Niagara Mohawk during this ten (10) business day period, the Power Authority shall be deemed to have waived its right to provide comments. If the Power Authority and Niagara Mohawk cannot agree on the content of Specifications, either Party may invoke the dispute resolution provisions of Paragraph C.15.

c. The Power Authority shall have the right to review and comment on final construction drawings/specifications ("Line Construction Documents") for the New Line. Upon receipt of final Line Construction Documents for the New Line, the Power Authority will have ten (10) business days to provide written comments to Niagara Mohawk. If the Power Authority does not make written comments to Niagara Mohawk during this ten (10) business day period, the Power Authority shall be deemed to have waived its right to provide comments. If the Power Authority and Niagara Mohawk cannot agree on the content of final Line Construction Documents, either Party may invoke the dispute resolution provisions of Paragraph C.15.

d. Upon the Power Authority's request Niagara Mohawk will provide copies of SVC construction documents to the Power Authority during the course of the SVC construction. However, since the SVC project is a "turn key project" where design/drawings are completed in phases, the Power Authority's comments must be made to Niagara Mohawk within five (5) business days of receipt of the design/drawings. Because the SVC schedule is of utmost importance, it is understood that Niagara Mohawk may issue construction drawings in the field in parallel with any drawings that are requested by the Power Authority.

e. Niagara Mohawk shall provide the Power Authority with a monthly report on the progress of the Project, including information on schedule, costs and variances from budget. Such

monthly report shall be in sufficient detail to verify the validity of each charge on the monthly invoice and shall include adequate information on each work task so that the Power Authority is fully aware of construction progress and can verify the validity of each charge on the monthly invoice. The monthly report shall be sent with each monthly invoice.

f. (1) Niagara Mohawk and the Power Authority shall work together to develop a mutually agreeable testing and acceptance protocol ("Protocol") for the SVCs and the New Line. Each facility shall, at a minimum, be required to meet the operability parameters set forth in the functional specifications and the performance warranties provided by equipment vendors.

(2) After completion of construction of each facility, Niagara Mohawk shall perform testing in accordance with the Protocol and shall provide the Power Authority with all written testing results and related documentation. Niagara Mohawk shall promptly identify any deviation(s) from agreed acceptance standards, as well as Niagara Mohawk's proposed corrective actions. Upon receipt of such material and information, the Power Authority will have ten (10) business days to provide written comments to Niagara Mohawk. If the Power Authority does not make written comments to Niagara Mohawk during this ten (10) business day period, the Power Authority shall be deemed to have waived its right to provide comments. If the Power Authority and Niagara Mohawk cannot agree on the content of corrective actions, either Party may invoke the dispute resolution provisions of Paragraph C.15.

g. Niagara Mohawk will provide a set of final as-built construction drawings/specifications for the SVC and New Line after construction has been finally completed on each such facility of the Project. Such drawings/specifications shall be stamped by the engineer of record. Construction shall be deemed to be completed after successful testing as specified in accordance with the Protocol.

13. Records Retention. Niagara Mohawk and the Power Authority agree to retain all records, reports and other documentation that are directly related to the design, construction, maintenance, and operation of the Project and that a prudent owner or operator would wish to have available in maintaining and operating the Project for the remainder of its useful life ("Engineering Records"). The Power Authority agrees to turn over to Niagara Mohawk all Engineering Records in its possession upon the transfer to Niagara Mohawk of the Power Authority's interests in the Project. Notwithstanding the foregoing, the Power Authority reserves the

right to retain any records that may be required to satisfy internal or external audit requirements.

~~10.~~ 14. Each of the Parties shall be solely responsible for the performance of the obligations assigned to it under this Agreement, and nothing in this Agreement shall be construed to require any Party to cure any breach of this Agreement by any other Party or as making any Party liable for any breach of this Agreement by any other Party. This Agreement does not, and shall not be construed to, confer third party beneficiary status on any person or entity not a Party to this Agreement.

~~11.~~ 15. Dispute Resolution

a. Negotiation. When a dispute arises related to the implementation of this Agreement and negotiations between the regularly responsible persons have reached an impasse, any Party may give the other Parties notice of the dispute. In the event that notice is given, the Parties shall attempt to resolve the dispute by negotiation between executives who have authority to settle the controversy and who are at a higher level of management than the persons with direct responsibility for the matter. Within 10 days after delivery of the notice, the receiving Party shall submit to the other Parties a written response. Thereafter, the executives shall confer in person or by telephone promptly to attempt to resolve the dispute. All reasonable requests for information by one Party to another Party will be honored.

b. Mediation. If the dispute has not been resolved by negations within 20 days of the disputing Party's notice, or if the Parties have failed to confer within 30 days after delivery of the notice, the Parties shall endeavor to settle the dispute by mediation pursuant to Rule 604 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.604 (~~2004~~2006), ("Rule 604") and the CPR Mediation Procedure in effect on the date of this Agreement. Unless otherwise agreed, the parties will select a mediator from the CPR Panel of Distinguished Neutrals.

c. All negotiations and proceedings pursuant to subparagraphs a and b above are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence and any additional confidentiality protections provided by Rule 606 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.606 (~~2004~~2006), and other applicable law.

d. Arbitration. If the dispute has not been resolved by mediation as provided herein within 90 days of the initiation of such procedure, any party to such dispute may submit that dispute to FERC for resolution. In the event that FERC issues a final order declining to adjudicate that

dispute or in the absence of any such request to FERC, such dispute shall be settled by binding arbitration in accordance with Rule 605 of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.605 (~~2004~~2006), ("Rule 605") and the CPR Rules for Non-Administered Arbitration in effect on the date of this Agreement, by a sole arbitrator selected from the CPR Panel, except that if the amount in controversy exceeds $1 million, any Party to that dispute may opt for an arbitration by three independent and impartial arbitrators, none of whom shall be appointed by any Party. The arbitration shall be governed by Rule 605 and the Federal Arbitration Act, 9 U.S.C. §§ 1-16, to the exclusion of state laws inconsistent therewith, and judgment upon the award may be entered by any court having jurisdiction thereof. The arbitrators are not empowered to award damages excluded by this Agreement.

e. Nothing contained herein shall be construed as requiring mediation or arbitration in circumstances prohibited by Rule 604.

~~12.~~16. No Party shall be liable for incidental, indirect, special, punitive, multiple or consequential damages (including attorney fees or litigation costs) arising out of the performance or non performance of its obligations under this Agreement, including breach of contract, tort (including negligence and misrepresentation), statute, operation of law, or any other theory of recovery, including but not limited to claims against the Parties by customers or any person or entity not a Party to this Agreement.

~~13.~~17. This Agreement constitutes a full settlement of the matters addressed herein and supersedes any and all prior representations, agreements, instruments and understandings between the Parties, whether written or oral, relating to the matters addressed herein. There are no other oral understandings, terms or conditions of this Agreement, and none of the participants has relied upon any such representation, express or implied in making or entering into this Agreement.

~~14.~~18. The Parties request the FERC to grant such waivers of its regulations as may be necessary to effectuate all of the provisions of this Agreement. Any number of counterparts of this Agreement may be executed, and each shall have the same force and effect as an original instrument, as if all of the Parties had signed a single instrument.

THIS PAGE IS FOLLOWED BY SIGNATURE PAGES FOR EACH OF THE PARTIES

Accepted by:

NIAGARA MOHAWK POWER CORPORATION,
A National Grid Company

By: _____
Herbert Schrayshuen
Title: Vice President

Accepted by:

~~THE~~ POWER AUTHORITY OF THE STATE OF NEW YORK

By: _____

~~David E. Blabey~~
Thomas J. Kelly

Title: Executive Vice President
~~Secretary~~ and General Counsel

Accepted by:

THE VILLAGE OF LAKE PLACID

By: _____

Title: Mayor

Accepted by:

THE VILLAGE OF TUPPER LAKE

By: _____

Title: Mayor

Exhibit A

Upfront Project Cost Estimates for National Grid (With NMPC A&G Removed from Overheads)
(2004, $M)

Project Element	In-Service Year	Licensing and Permitting Costs	Direct Costs	Overheads [2]	Total Cost
46 kV SVC @ Tupper Lake	2006	$0.3	$3.5	$.5	$4.3
115 kV SVC @ Lake Colby	2006	$0.5	$7.3	$1.1	$8.9
Overhead 46 kV Line from Newton Falls - Piercefield [1]	2008	$1.0	$12.9	$1.9	$15.8
Totals		$1.8	$23.8	$3.5	$29.1

1 - Includes related substation and regulator. The Newton Falls-Piercefield routing is represented because it is the more conservative routing (from a cost standpoint). The Stark-Piercefield route still remains viable if certain land swaps etc. can occur. Final selection of best routing will be made that will optimize overall schedule, cost and operation benefits.

2 - Niagara Mohawk Overheads

Above costs exclude any costs for addressing the short term solution.

Above cost estimates have been updated from October 2002 original estimates. Cost increases attributed to:
- Inflationary price escalations.
- Using 477 ACSR conductor in lieu of 336 ACSR originally used for 46 kV line.
- Added breaker, EMS, and relay protection previously not included.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties described in that document as receiving service, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 27th day of December, 2006.

Bradley R. Miliauskas

Bradley R. Miliauskas