STATE OF CONNECTICUT
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF CONNECTICUT

AND

MIDDLETOWN POWER LLC

TRADING AGREEMENT AND
ORDER NO. 8215A
MODIFICATION NO. 2

TRADING AGREEMENT AND ORDER MODIFICATION

In the matter of a Trading Agreement and Order between the Commissioner of Environmental Protection ("Commissioner") and Middletown Power LLC ("MP").

WHEREAS, the Commissioner and MP, having agreed to the terms and conditions set forth in Trading Agreement and Order No. 8215A issued on April 30, 2003, and a Modification thereto issued on September 16, 2004, do now, by mutual agreement, modify Trading Agreement and Order No. 8215A as follows:

1. Delete the date September 30, 2004, and substitute therefor May 1, 2009, in paragraphs A.9., C.1., C.2., C.3.a., C.3.a. footnote 3, C.3.b., C.3.c., C.3.d., C.3.e., C.3.f., and C.6.

2. Delete paragraph A.6. and substitute the following therefor:

   Pursuant to Section 22a-174-22(j) of the Regulations, MP intends both to acquire and generate approved DERCs until May 1, 2009 for boiler 4 at the facility. Approved DERCs are defined for purposes of this Trading Agreement and Order as those for which the Commissioner has provided written authority for use in compliance with Section 22a-174-22 of the Regulations.

3. Delete paragraph A.10. in its entirety.

4. Delete paragraph B.1. and substitute the following therefor:

   Comply with Section 22a-174-22(d)(1) of the Regulations through use of Budget Discrete Emission Reduction Credit ("BDERC") and DERC trading.

5. Delete paragraph C.6.b. and substitute the following therefor:

   During the non-ozone season:

During the period from October 1 through April 30, inclusive, each year until May 1, 2009, the boiler shall, in addition to meeting the 24-hour emission limit in Table 22-1 of Section 22a-174-22 of the Regulations, meet a non-ozone season emission limit of 0.15 lb/MMBtu. Prior to October 1, 2006, October 1, 2007, and October 1, 2008, MP shall estimate and acquire the amount of non-ozone season DERCs or allowances needed to comply with Section 22a-174-22(e)(3) of the Regulations as follows:

Estimated DERCs (tons) = [Estimated fuel use in MMBtu from October 1 through April 30 x (lower of the estimated seasonal average NOx emission rate or the proportioned 24-hour allowable emission limit in lb/MMBtu during October 1 through April 30 – (0.95 x 0.15 lb/MMBtu))] ÷ 2000 pounds/ton.

No later than May 31 of 2007, 2008, and 2009, in addition to the DERCs retired pursuant to paragraph C.6.a. of this Trading Agreement and Order, MP shall calculate and permanently retire DERCs used in the preceding non-ozone season as follows:

Actual DERCs (tons) = [Actual fuel use in MMBtu from October 1 through April 30 x (lower of the actual seasonal average NOx emission rate or the proportioned 24-hour allowable emission limit in lb/MMBtu during October 1 through April 30 – (0.95 x 0.15 lb/MMBtu))] ÷ 2000 pounds/ton.

6. Delete paragraph C.10. and substitute the following therefor:

Annual Emission Statement and Non-Ozone Season Emission Statement. No later than March 1 for the previous calendar year and July 30 (for the October through April time period only starting in 2003) of every year after issuance of this Trading Agreement and Order, MP shall provide to the Commissioner, a record of each sale or other transfer, and use of any and all of the DERCs approved within and subsequent to issuance of this Trading Agreement and Order until all such DERCs have been used or are no longer in MP's possession. MP shall also include actual NOx emissions from the boiler and the amount of all DERCs used (including serial numbers (if assigned) and approved DERCs generated and/or purchased from other facilities), generated and/or approved for the previous calendar year and October through April time period. These reports shall be on a form prescribed by the Commissioner and shall be in monthly increments, and by ozone and non-ozone seasons.

7. Delete paragraph C.12. and substitute the following therefor:

DERC Shortfall. At a minimum, DERCs required shall be adjusted upwards by

100% if DERCs are not in MP's possession for use prior to the first day of each month or applicable season. However, nothing in this Trading Agreement and Order shall affect the Commissioner's authority to institute any proceeding or take any other action to require additional upward adjustment, based on the gravity of any alleged noncompliance or violation of law. MP shall permanently retire the quantity of emissions caused by the exceedance plus a 100% premium within sixty (60) days of MP's discovery of the DERC shortfall. MP shall certify and report any such DERC retirement to the Commissioner in accordance with paragraph C.31. of this Trading Agreement and Order.

8. Delete paragraph C.14. and substitute the following therefor:

Extension. No later than May 1, 2009, with respect to the boiler, MP shall comply with the requirements of Sections 22a-174-22(d)(1) and 22a-174-22(d)(2)(A) of the Regulations. There is no assurance that the Commissioner will grant a written extension of this Trading Agreement and Order.

9. Delete paragraph C.15. and substitute the following therefor:

Future Compliance Report. On or before September 1, 2008, MP shall submit a report in writing to the Commissioner, as directed in paragraph C.32. of this Trading Agreement and Order, indicating how the facility shall comply with section 22a-174-22 of the Regulations with respect to the boiler on and after May 1, 2009.

10. Delete paragraph C.18. and substitute the following therefor:

Definitions. As used in this Trading Agreement and Order, "Approved DERCs" are those for which the Commissioner has provided written authorization for use in compliance with Section 22a-174-22 of the Regulations; "Commissioner" means the Commissioner or a representative of the Commissioner; "Non-ozone season" means the period from October 1 through April 30 in any given calendar year; "Ozone season" means the period May 1 through September 30 in any given calendar year.

11. Delete paragraph C.19. and substitute the following therefor:

Dates. The date of "issuance" of this Trading Agreement and Order is the date the Trading Agreement and Order is deposited in the U.S. mail or personally delivered, whichever is earlier. The date of submission to the Commissioner of any document required by this Trading Agreement and Order shall be the date

MP hereby consents to the entry of this modification to the Trading Agreement and Order without further notice.

Middletown Power LLC

Signature: Daniel W. Bergeron

Type Name: Daniel W. Bergeron

Type Title: Plant Manager

Date: June 13, 2006

Issued as a modification of an Order of the Commissioner of Environmental Protection.

Gina McCarthy
Commissioner

7/10/06
Date

MAILED CERTIFIED MAIL,
RETURN RECEIPT REQUESTED

Certified Document No.