STATE OF CONNECTICUT
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF CONNECTICUT

AND

PSEG POWER CONNECTICUT LLC

TRADING AGREEMENT AND
ORDER NO. 8253
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 PSEG Power Connecticut LLC ("PSEG").

WHEREAS, the Commissioner and PSEG, having agreed to the terms and conditions set forth in Trading Agreement and Order No. 8253 signed by the Commissioner on April 22, 2003, and Trading Agreement and Order 8253 Modification 1 issued September 15, 2004 do now, by mutual agreement, modify said Trading Agreement and Order No. 8253 as follows:

1. Delete the date May 1, 2005, and substitute therefor May 1, 2009, in paragraphs A.4. and C.1.

2. Delete paragraph C.2 and C.2.a and substitute the following therefore:

   DERC use. Before the first day of each non-ozone season, PSEG shall have in its possession sufficient approved DERCs for the boiler based on the following:

   a. 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 lbs/MMBtu. Prior to October 1, 2006, 2007 and 2008, PSEG shall estimate and acquire the amount of DERCs or allowances required for such non-ozone season 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 lbs/MMBtu during October 1 through April 30) – (0.95 x 0.15 lbs/MMBtu)] ÷ 2000 pounds/ton.

No later than May 31, 2007, 2008 and 2009, when the boiler has a non-ozone seasonal average actual NOx emission rate exceeding .15 lbs/MMBtu, PSEG shall calculate and permanently retire the amount of 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 lbs/MMBtu during October 1 through April 30) – (0.95 x 0.15 lbs/MMBtu)] ÷ 2000 pounds/ton.

3. Delete paragraph C.6. and substitute the following therefore:

Allowance Use. Pursuant to Section 22a-174-22(d)(3) of the Regulations, PSEG may use NOx allowances, until May 1, 2009, for the peaking units pursuant to Section 22a-174-22(j) of the Regulations to achieve all or a portion of the reductions required by Section 22a-174-22 of the Regulations. Any allowance used for compliance with Section 22a-174-22(e) of the Regulations shall be subject to all restrictions and/or requirements applicable to DERCs contained in this Trading Agreement and Order;

a. In order for PSEG to use NOx allowances, PSEG shall create a general account or use an existing compliance account or overdraft account in EPA's NOx Allowance Tracking System ("NATS"); and

b. Each allowance used for compliance with Section 22a-174-22 of the Regulations shall be equivalent to one discrete emission reduction credit. Allowances shall be considered used for compliance with Section 22a-174-22 of the Regulations when they are transferred from the facility's NOx general account in the NATS or the facility's NOx compliance account in the NATS to the CT State NOx Retirement Account (Account ID CT0000000300 in the NATS).

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

DERC Shortfall. At a minimum, DERCs required shall be adjusted upwards by 100% if DERCs are not in PSEG'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. PSEG shall permanently retire the quantity of DERCs equivalent to the excess emissions plus a 100% premium within sixty (60) days of PSEG's discovery of the DERC shortfall. PSEG shall certify and report any such DERC retirement to the Commissioner in accordance with paragraph C.26. of this Trading Agreement and Order.

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

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

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

Future Compliance Report. On or before September 1, 2008, PSEG shall submit a report in writing to the Commissioner, as directed in paragraph C.27. 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.

7. Delete the word "individual" and substitute therefore the word "Section" in paragraph C.26.

8. Delete the name "Ms. Wendy Jacobs" in paragraph C.27.

All other terms and conditions of Trading Agreement and Order No. 8253 and issued by the Commissioner acting under Chapter 446c, Sections 22a-6, 22a-171, 22a-174, 22a-176, and 22a-177 of the Connecticut General Statutes shall remain in effect.

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

PSEG POWER CONNECTICUT LLC

Signature: Robert T. Parnell

Type Name: Robert T. Parnell

Type Title: Director of Asset Operations

Date: August 2, 2006

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

Amey Marrella
for Gina McCarthy
Commissioner

Sept. 7, 2006
Date

MAILED CERTIFIED MAIL,
RETURN RECEIPT REQUESTED

Certified Document No. 7001 2510 0000 6250 4274