STATE OF CONNECTICUT
DEPARTMENT OF ENVIRONMENTAL PROTECTION

STATE OF CONNECTICUT

AND

PSEG POWER CONNECTICUT LLC

TRADING AGREEMENT AND
ORDER NO. 8244
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. 8244 signed by the Commissioner on April 22, 2003, and Trading Agreement and Order 8244 Modification 1 issued March 21, 2005 do now, by mutual agreement, modify said Trading Agreement and Order No. 8244 as follows:

1. Delete paragraph A.7. and substitute the following therefor:

   Reserved.

2. Delete the date May 1, 2005, and substitute therefor May 1, 2009, in paragraphs C.3. and C.4.

3. Delete paragraph C.3.a.and substitute the following therefor:

   Have in its possession sufficient approved DERCs for the current day for the peaking unit based on the following calculations;

   (i) At all times:

   Estimated DERCs (in tons) use = [((FLER in lbs/MMBtu) – (0.95 x NOx allowable rate in lbs/MMBtu)) x (estimated fuel use in MMBtu)] ÷ 2000 pounds/ton

No later than the twentieth day of each month, PSEG shall calculate and permanently retire DERCs used in the preceding calendar month, as follows:

Actual DERCs (in tons) = [((FLER in lbs/MMBtu) – (0.95 x NOx allowable rate in lbs/MMBtu)) x (actual fuel use in MMBtu)] ÷ 2000 pounds/ton

Where:

- NOx allowable rate = NOx RACT rate in lbs/MMBtu shown in Table 1 of this Trading Agreement and Order.
- FLER = full load emission rate in lbs/MMBtu as shown in Table 1 of this Trading Agreement and Order.
- Discount (0.95) = 5% design margin applied to the allowable limit rate.

ii) <u>During the ozone season only</u>:

No later than December 31st each year, PSEG shall acquire and permanently retire seven ozone season DERCs for every actual ton of excess NOx emitted from the peaking unit during the previous ozone season based upon the actual emissions for each day that Connecticut one hour ozone levels were forecasted to be "moderate to unhealthful", "unhealthful", or "very unhealthful", until such time that the EPA revokes the 1-hour standard. Upon such revocation, PSEG shall calculate and permanently retire seven ozone season DERCs for every actual ton of excess NOx emitted from the peaking unit during such ozone season based upon the actual emissions for each day that Connecticut eight hour ozone levels were forecasted to be "unhealthy for sensitive groups", "unhealthy", or "very unhealthy".

Where:

Actual ton of excess NOx emitted = [((FLER in lbs/MMBtu) – (0.95 x NOx allowable rate in lbs/MMBtu)) x (actual fuel use in MMBtu)] ÷ 2000 pounds/ton

The total actual tons of excess NOx emitted from the peaking unit during forecasted ozone exceedance days shall be multiplied by seven and then rounded to the next greater whole ton, to determine the number of DERCs to be permanently retired. This requirement is in addition to the PSEG's requirement to estimate excess emissions and subsequent permanent retirement of a sufficient number of approved DERCs in accordance with paragraph C.3.a. of this Trading Agreement and Order.

4. Delete paragraph C.3.b. and substitute the following therefor:

During the non-ozone season: Until May 1, 2009, from October 1 through April 30, inclusive, each year, the peaking unit 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, 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:

Before the first day of each non-ozone season, PSEG shall estimate and acquire DERCs required for such non-ozone season for the peaking unit as follows:

Estimated DERCs (tons) use = [Estimated fuel use in MMBtu from October 1 through April 30 x (NOx allowable rate in lbs/MMBtu – (0.95 x 0.15 lb/MMBtu))] ÷ 2000 lbs/ton

No later than May 31 of 2007, 2008 and 2009, in addition to the DERCs retired pursuant to paragraph C.2.a. of this Trading Agreement and Order, PSEG shall calculate and permanently retire DERCs used in the preceding non-ozone season as follows:

Actual DERCs (tons) used = [Actual fuel use in MMBtu from October 1 through April 30 x (NOx allowable emission rate in lbs/MMBtu – (0.95 x 0.15 lb/MMBtu))] ÷ 2000 lbs/ton

5. Delete paragraph C.3.c. 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.30. of this Trading Agreement and Order.

6. Delete paragraph C.3.d. and substitute the following therefor:

Reserved.

7. Delete paragraph C.3.f. and substitute the following therefor:

(i) Annual DERC Report. No later than March 1 of every year after issuance of this Trading Agreement and Order, PSEG shall submit in writing to the Commissioner, a record of each sale or other transfer of DERCs for the previous calendar year. PSEG shall also include actual NOx emissions from the peaking unit and the amount of all DERCs used (including serial numbers (if assigned) and DERCs purchased from other facilities). These reports shall be on forms prescribed by the Commissioner and shall be in monthly increments, and by ozone and non ozone seasons.

(ii) For the Non-ozone season: No later than July 30 of every year after issuance of this Trading Agreement and Order, PSEG shall submit in writing to the Commissioner the non-ozone season fuel consumption and amount of all DERCs used (including serial numbers (if assigned) and approved DERCs purchased from other facilities) for the peaking unit during the October through April time period in the previous calendar year. These reports shall be on a form prescribed by the Commissioner.

8. Delete paragraph C.3.j. and substitute the following therefor:

Pursuant to Section 22a-174-22(d)(3) of the Regulations, PSEG may use NOx allowances, until May 1, 2009, for the peaking unit 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.

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

FLER Exceedance. Noncompliance with an established FLER shall subject PSEG to make restitution by matching the quantity of emissions ("true up") caused by the exceedance plus a 100% premium. The true up in tons of DERCs shall be equal to the FLER exceedance in lbs/MMBtu, multiplied by the total heat input

during the period of noncompliance divided by 2000 lbs/ton. If the period of noncompliance is not known, the time period from the completion of the last/previous Commissioner witnessed emission test through the date the FLER compliance is achieved as approved by the Commissioner shall be used. 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 DERCs calculated in accordance with the above plus a 100% premium within sixty (60) days of PSEG's discovery of the FLER exceedance. PSEG shall report any FLER exceedance to the Commissioner in accordance with paragraph C.24. of this Trading Agreement and Order.

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

Extension. No later than May 1, 2009, with respect to the peaking unit, 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.

11. Delete paragraph C.11. 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.

12. Delete paragraph C.12. 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 such document is received by the Commissioner. The date of any notice by the Commissioner under this Trading Agreement and Order, including but not limited to notice of approval or disapproval of any document or other action, shall be the date such notice is deposited in the U.S. mail or is personally delivered, whichever is earlier. Except as otherwise specified in this Trading Agreement and Order, the

word "day" as used in this Trading Agreement and Order means calendar day. Any document or action which is required by this Trading Agreement and Order to be submitted or performed by a date which falls on a Saturday, Sunday or a Connecticut or federal holiday shall be submitted or performed by the next day which is not a Saturday, Sunday or Connecticut or federal holiday.

13. Delete the word "individual" and substitute therefore the word "Section" in paragraph C.24.

14. Delete the name "Ms. Wendy Jacobs" in paragraph C.25.

15. Include a new paragraph C.26. as follows:

Future Compliance Report. On or before September 1, 2008, PSEG shall submit a report in writing to the Commissioner, as directed in paragraph C.25. of this Trading Agreement and Order, indicating how the facility shall comply with Section 22a-174-22 of the Regulations with respect to the peaking unit on and after May 1, 2009.

All other terms and conditions of Trading Agreement and Order No. 8244 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.

Amy Marella
for Gina McCarthy
Commissioner

September 7, 2006
Date

MAILED CERTIFIED MAIL,
RETURN RECEIPT REQUESTED

Certified Document No. 7001 2510 0000 6250 4748