



Board of Hudson River-Black River Regulating District
350 Northern Boulevard, Albany, New York 12204 Phone (518) 465-3491
FAX (518) 432-2485

Dated as of July 1, 2003

Erie Boulevard Hydropower, L.P.
440 Ninth Avenue, 5th Floor
New York, New York 10001

Re: Hudson River Black River Regulating District
Stillwater Reservoir

Gentlemen:

Reference is made to that certain reservoir operating agreement (the "**Reservoir Operating Agreement**") between Erie Boulevard Hydropower, L.P. ("**Erie**") and the Hudson River-Black River Regulating District (the "**District**") dated of even date herewith. Capitalized terms used herein but not defined shall have the meaning set forth in the Reservoir Operating Agreement.

To the extent permitted by the Act and any applicable state or federal law, taking into account the District's public purposes, the District and Erie shall use their best efforts to cooperate in the operation of the Stillwater Reservoir ("**Stillwater**") for the District's public purposes as provided under the Act, which includes, but is not limited to, regulating the flow of streams when required by the public welfare, including the public health and safety, and to maximize Erie's hydroelectric energy generation at the hydroelectric energy generation plants and facilities owned by Erie as of the date hereof and located downstream of Stillwater, as such facilities are modified from time to time (the "**Stillwater Facilities**"). Said cooperation by the District and Erie may include, without limitation:

(i) Scheduling and causing Authorized Representatives to attend regular meetings and/or conference calls between the parties to use their best efforts to plan and coordinate short-term (up to seven (7) day) operation of Stillwater for the District's public purposes as provided under the Act and to maximize Erie's hydroelectric energy generation by the Stillwater Facilities;

(ii) Scheduling releases from Stillwater for the District's public purposes as provided under the Act and to account for energy market conditions and maintenance of the Stillwater Facilities, thereby maximizing hydroelectric energy generation by the Stillwater Facilities;

(iii) Discussing changes to the District operation plans or procedures affecting Stillwater prior to implementation of such changes with an intent to operate Stillwater for the District's public purposes as provided under the Act and to maximize Erie's hydroelectric energy generation by the Stillwater Facilities;

(iv) Mutually determining if additional stream flow gauges are appropriate or necessary at Stillwater and, if so, cooperating in the acquisition and the installation thereof, including, equitable pro-ration of costs thereof between the parties hereto;

(v) Working jointly to coordinate, collect and share snow survey information on an immediate basis in an effort to increase accuracy and reduce the cost of said collection;

(vi) Utilizing full storage capacity at Stillwater (100% storage capacity for Stillwater is defined as pond at the top of flashboards, USGS elevation of 1670.30') for the District's public purposes as provided under the Act and to maximize Erie's hydroelectric energy generation by the Stillwater Facilities;

(vii) Scheduling releases from Stillwater for the District's public purposes as provided under the Act and to minimize the amount of water spilled at the Stillwater Facilities;

(viii) Utilizing the historic operating guide curve for the District's public purposes as provided under the Act and to maximize Erie's hydroelectric energy generation by the Stillwater Facilities;

(ix) Working cooperatively with Erie on a study to reevaluate the historic operating guide curve at Stillwater; and

(x) In the event that the hydro generating facility at Stillwater is unable to generate energy due to water flow, and qualified personnel from the District are unavailable on-site within a reasonable amount of time to open gates in response thereto, allowing an Authorized Representative of Erie, under the supervision (by telephone or otherwise) of the District's chief engineer or his designee, to enter upon and open discharge gate(s) at Stillwater in order to maintain minimum flow at High Falls and pond levels on the Beaver River.

The District and Erie agree that this Letter Agreement solely represents a good faith effort to set forth covenants of cooperation with respect to the operation of Stillwater and the Stillwater Facilities and, except as otherwise provided herein, does not, in any way, subject the District to any liability, responsibility or obligation with respect to the District's operation of Stillwater.

Any dispute arising between the parties hereto as a result of this Letter Agreement shall be subject to the dispute resolution procedures set forth in Article VI of the Reservoir Operating Agreement (the “**Dispute Resolution Procedures**”). Notwithstanding any other term or condition set forth herein, except for an action for specific performance or an adjustment of the water fee in accordance with Section 5.2 of the Reservoir Operating Agreement (“**Adjustment of the Water Fee**”), the District shall, in no event, be liable to any Person, including, but not limited to Erie, or any other Person, for any and all claims, actions, demands, penalties, fines, liabilities, settlements, damages, costs or expenses (including, without limitation, attorneys’ fees, consultant fees, investigations and laboratory fees, court costs and litigation expenses of whatever kind or nature known or unknown, contingent or otherwise) arising out of or in any way related to this Letter Agreement and the transaction contemplated hereby, including, but not limited to, any claims actions, demands, penalties, fines, liabilities, settlements, damages, costs or expenses (including, without limitation, attorneys’ fees, consultant fees, investigations and laboratory fees, court costs and litigation expenses of whatever kind or nature known or unknown, contingent or otherwise) arising out of any change in the operation of Stillwater as a result hereof.

Erie and the District agree that the sole remedy under this Letter Agreement against either party hereto shall be (i) a determination of an Event of Non-Cooperation by Erie or a determination of an Event of Non-Cooperation by the District, as the case may be, or (ii) an action to compel specific performance. For the purposes of this Letter Agreement an “**Event of Non-Cooperation by the District**” as defined in the Regulatory Operating Agreement shall include any instance of failure by the District to cooperate with Erie under this Letter Agreement as determined in accordance with the Dispute Resolution Procedures and such instance of failure results in a reduction of hydroelectric energy generation at any one (1) Stillwater Facility with a loss of revenues at said Stillwater Facility in an amount of \$25,000 or more and an “**Event of Non-Cooperation by Erie**” as defined in the Regulatory Operating Agreement shall include any instance of failure by Erie to cooperate with the District under this Letter Agreement as determined in accordance with the Dispute Resolution Procedures. Said non-cooperation by the District or Erie shall be limited to the District’s or Erie’s, as the case may be, failure to observe, and perform the terms, conditions and covenants of this Letter Agreement.

As set forth in Section 5.2 of the Reservoir Operating Agreement, Erie is entitled to an Adjustment of the Water Fee at any time during the term of the Reservoir Operating Agreement upon the occurrence, within any three (3) year period, of three (3) separate and consecutive determinations of an Event of Non-Cooperation by the District under this Letter Agreement or the Reservoir Operating Agreement; provided that no Event of Non-Cooperation by Erie shall have been determined to have occurred during the same calendar year period as the respective Event of Non-Cooperation by the District.

For example, if, by 2012, a determination of an Event of Non-Cooperation by the District has been made in 2004, twice in 2006, 2007, and twice in 2011, then Erie shall be entitled to an Adjustment of the Water Fee after the third determination of an Event of Non-Cooperation by the District in 2006 and, again, since there are already two (2) separate and consecutive determinations of an Event of Non-Cooperation by the District in 2011, in 2013, if there is a determination of an Event of Non-Cooperation by the District in 2013.

In addition, using the above referenced scenario, although there are three (3) separate and consecutive determinations of an Event of Non-Cooperation by the District in the period 2007-2011, Erie is not entitled to an Adjustment of the Water Fee in 2011 because the three (3) separate and consecutive determinations of an Event of Non-Cooperation by the District did not occur within any three (3) year period. Furthermore, although there are three (3) separate and consecutive determinations of an Event of Non-Cooperation by the District with a three (3) year period from 2006-2007, Erie is also not entitled to an Adjustment of the Water Fee in 2007 because the two (2) determinations of an Event of Non-Cooperation by the District in 2006 have already been "used" to effect the first Adjustment in the Water Fee in 2006.

Finally, using the same scenario above, if there had been a determination of an Event of Non-Cooperation by Erie in 2005, then Erie would have been entitled to an Adjustment of Water Fee after the third (3) separate and consecutive determination of an Event of Non-Cooperation by the District in 2007 - not 2006 - as the determination of an Event of Non-Cooperation by Erie in 2005 bars "use" of the determination of an Event of Non-Cooperation by the District in 2004 as said determination is no longer a consecutive determination with those made in 2006.

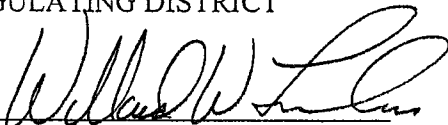
This Letter Agreement shall be governed by and interpreted in accordance with the internal laws of the State of New York without regard to conflicts of laws principles. Without limiting the terms and conditions of this Letter Agreement, including but not limited to, those terms and conditions regarding the Dispute Resolution Procedures, the parties hereby consent and agree that the Supreme Court in Albany County, New York shall have jurisdiction to hear and determine any claims and disputes between or among the parties hereto. Each of the parties hereto submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and waives any objection based upon lack of personal jurisdiction, improper venue or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court.

This Letter Agreement shall terminate upon the early termination or expiration of the Reservoir Operating Agreement.

If you agree with the terms and conditions set forth herein, please acknowledge such agreement by executing the signature block below.

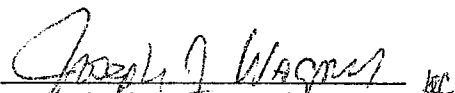
Very truly yours,

HUDSON RIVER BLACK RIVER
REGULATING DISTRICT

By: 
Authorized Representative

Agreed to this 1st day
of July, 2003

ERIE BOULEVARD HYDROPOWER, L.P.
By its General Partner
ORION POWER NEW YORK G.P., INC.

By: 
Authorized Representative