

**SERVICE AGREEMENT
BETWEEN
IBERDROLA ENERGY PROJECTS, INC.
AND
NEW YORK STATE ELECTRIC & GAS CORPORATION
SERVICE AGREEMENT**

This Service Agreement is made and entered into this as of this 1st day of September, 2011, by and between **IBERDROLA ENERGY PROJECTS, INC.** (“Service Company”) and **NEW YORK STATE ELECTRIC & GAS CORPORATION** (“Client Company”).

WITNESSETH

WHEREAS, the Service Company was organized as a wholly-owned subsidiary company of Iberdrola, S.A. (“Iberdrola, S.A.”); and

WHEREAS, Client Company is an affiliate of Service Company; and

WHEREAS, Service Company and Client Company have entered into this Service Agreement whereby Service Company agrees to provide and Client Company agrees to accept and pay for various services as provided herein at cost and below market, which require Service Company to fairly and equitably charge direct fully-loaded costs for which it renders services to Client Company.

NOW THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties to this Service Agreement covenant and agree as follows:

ARTICLE I - SERVICES

Section 1.1 Service Company shall furnish to Client Company upon the terms and conditions hereinafter set forth, the specific services described in Appendix A, hereto. Service Company shall also provide Client Company with such special services, so long as such special services do not materially add to those services described in Appendix A hereto, as may be requested by Client Company and that Service Company concludes it is able to perform. In supplying such services, Service Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 1.2 Client Company shall take from Service Company such of the services described in Appendix A, and such additional general or special services, as limited by subsection 1.1 hereof, as are requested from time to time by Client Company and that Service Company concludes it is able to perform.

Section 1.3 The cost of the services described herein or contemplated to be performed hereunder shall be directly assigned by activity, project, program, internal order or other appropriate basis. Client Company shall have the right from time to time to amend or alter any activity, project, program or internal order provided that (i) any such amendment or alteration that results in a material change in the scope of the services to be performed or equipment to be provided is agreed to by Service Company, (ii) the cost for the services covered by the activity, project, program or internal order shall include any expense incurred by Service Company as a direct result of such amendment or alteration of the activity, project, program or internal order, and (iii) no amendment or alteration of an activity, project, program or internal order shall release Client Company from liability for all costs already incurred by or contracted for by Service Company pursuant to the activity, project, program or internal order, regardless of whether the services associated with such costs have been completed.

Section 1.4 Service Company shall use its best efforts to maintain a staff trained and experienced in the services described in Appendices A.

ARTICLE II – COMPENSATION

Section 2.1 As compensation for the services to be rendered hereunder, Client Company shall pay to Service Company all costs that reasonably can be identified and related to particular services performed by Service Company for or on its behalf. The methods for directly assigning or for allocating Service Company costs to Client Company, as well as to other associate companies, are set forth in Section 2.2.

Section 2.2 It is the intent of this Service Agreement that charges for services shall be the fully-loaded costs and shall not include any profit margin. The method of assignment of cost shall be subject to review by the Service Company annually, or more frequently if appropriate; provided that, in each instance, all services rendered hereunder shall be at actual cost thereof. The Service Company shall review with the Client Company any proposed material change in the method of assignment of costs hereunder and the parties must agree to any such changes before they are implemented.

Section 2.3 Service Company shall render a monthly report to Client Company that shall reflect the information necessary to identify the costs charged for that month in accordance with the Uniform System of Accounts for Mutual and Subsidiary Service Companies. Client Company shall remit to Service Company all charges billed to it within 30 days of receipt of the monthly report. Any amounts not paid by the due date will be subject to a late charge of .5 % per month until the remittance is received.

Section 2.4 It is the intent of this Service Agreement that the payment for services rendered by Service Company to Client Company under this Service Agreement shall cover the directly assigned costs, to the extent related to the provision of the services, including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general

expenses, rents, maintenance of structures and equipment, depreciation and amortization, and compensation for use of capital as permitted by applicable laws and regulations.

Section 2.5 Service Company and Client Company agree that the amount of compensation to be paid by Client Company hereunder is subject to the review and determination of the regulatory commission of the appropriate jurisdiction.

ARTICLE III- TERM

This Service Agreement shall become effective as of the date first written above, subject only to the receipt of any required regulatory approvals from any State regulatory commission with jurisdiction over Client Company, and shall continue in force until terminated by Service Company or Client Company, upon not less than 90 days prior written notice to the other party. This Service Agreement shall also be subject to termination or modification at any time, without notice, if and to the extent performance under this Service Agreement may conflict with any rule, regulation or order of the Federal Energy Regulatory Commission ("FERC") or any State regulatory commission with jurisdiction over Service Company adopted before or after the date of this Service Agreement.

ARTICLE IV – MISCELLANEOUS

Section 4.1 All accounts and records of Service Company shall be kept in accordance with applicable rules and regulations promulgated by the FERC, in particular, the Uniform System of Accounts for Centralized Service Companies in effect from and after the date hereof.

Section 4.2 Service Company shall permit Client Company access to its accounts and records including the basis and computation of fully-loaded costs.

Section 4.3 Service Company shall at all times keep confidential all information disclosed to it by Client Company in the performance of this Service Agreement regardless of whether it was stated to be confidential or not, except where required by law.

Section 4.4 If one Party (the "Pursuing Party") gives notice to the other Party (the "Defending Party") that there exists between them a dispute or difference arising out of or in connection with this Service Agreement (a "Dispute") the Parties agree to use reasonable endeavors to negotiate the resolution of the Dispute. If they are unable to resolve the Dispute within twenty-one days from the original notice, both Parties shall refer the Dispute to its Board with a view to the Dispute being resolved by agreement between the directors of the Boards of the Pursuing Party and the Defending Party. If the Director's are unable to resolve the Dispute within twenty-one days from the date of referral, provided that Service Company and Client Company are both at that time members of the IBERDROLA Group, then both Parties shall refer the Dispute to an executive director as nominated by a chief executive of IBERDROLA.

IN WITNESS WHEREOF, the parties hereto have caused this Service Agreement to be executed as of the date and year first above written.

IBERDROLA ENERGY PROJECTS, INC.

BY: _____

Name:

Title: _____

BY: _____

Name:

Title: Director

The undersigned requests all services described in Appendix A and listed in the Internal Order Summary from Iberdrola Energy Projects, Inc. Services will begin September 1, 2011.

NEW YORK STATE ELECTRIC & GAS
CORPORATION

BY: _____

Name: Mark Lynch

Title: President

BY: _____

Name: Joseph J. Syta

Title: Vice President, Controller &
Treasurer

Appendix A

Description of Services

A description of each of the services performed by Service Company (i.e., Iberdrola Energy Projects), which may be modified from time to time, includes, but is not limited, to the following:

- **Assist in the management and delivery of New York State Electric & Gas Corporation processes**

These processes include, but are not limited to, the quality management system, operational safety procedures and standards.

- **System Studies**

- System Study Scope
- Base case development
- Needs assessment
- Alternative assessment
- Recommendation report
- Steady state analysis
- Short-circuit analysis
- Stability analysis
- Reporting & Documentation
- Dispatch Sensitivity Study
- Cost allocation documentation
- Outage Planning
- Other studies as necessary in support of final design and construction

- **Scheduling**

Preparing and maintaining the Program Schedule identifying as necessary Client Company, Contractor's, and any external organization tasks (including subcontractors). The schedule will include capital projects in the Contractor's work scope and may include projects performed by Client Company outside of the work scope. The schedule will be maintained current and reviewed with Client Company and other pertinent organizations, at a minimum, on a weekly basis. The schedule will be optimized as necessary to reflect completion of each project by its due date. The schedule reports will be converted to MS Project for distribution to Client Company.

▪ **Environmental Assessment**

Iberdrola Energy Projects shall perform, direct and oversee the performance of desk top and ground based environmental assessments, studies or assessments for all permitting activities along with the necessary documentation. Iberdrola Energy Projects will obtain and incorporate any required wetlands, vernal pool, historical, sound attenuation or similar studies.

Environmental Assessment work includes the following:

- Locate and map wetlands, vernal pools and other sensitive (protected) natural resources
- Wetland delineation and functions and values assessments
- Historic and pre-historic field surveys, architectural surveys, noise and visual assessments
- Rare, threatened & endangered species surveys
- GIS field work support, map development, application figures
- Coordinate with other Client Company personnel or it's contractors in support of obtaining permits
- Technical environmental project management
- Property transfer environmental screens and assessments
- Acquisition of local permits (site review, conditional use, building permits)
- Acquisition of DEC, Army Corps and other State and federal permits
- Any other environmental related study required

▪ **Permitting and Regulatory**

Iberdrola Energy Projects shall coordinate all legal, technical, environmental, real estate, administrative and other support required to develop the applications and supporting materials, submit and successfully complete all permitting and regulatory approvals including but not limited to the Public Utilities Commission/ Public Service Commission, State Department of Environmental Conservation, the Army Corp of Engineers, and the local communities affected by the Project.

Iberdrola Energy Projects shall coordinate with Client Company and develop a comprehensive environmental and regulatory compliance program. The program will clearly define permit and regulatory requirements, provide an administrative process to track compliance activities, lay out a plan for field monitoring and state the protocol for correcting any non-compliance issues.

▪ **Mapping Services**

As requested, Iberdrola Energy Projects shall provide customized, secure and confidential mapping services either directly or through an approved subcontractor.

The mapping will incorporate numerous layers of data appropriate for the project, both public and privately gathered, into a single database. Data sources include demographics, municipal boundaries, tax maps, zoning, special features, public buildings, schools, hospitals, environmental areas, LiDAR surveys, aerial surveys, aerial photography and Client Company's specific data. Customized colored maps shall be available in paper or electronic format delivered on demand to Client Company.

▪ **Property acquisition**

As requested Iberdrola Energy Projects shall perform, direct and oversee Real Estate activities including:

- Identify all required new Real Estate parcels
- Provide an estimate of land acquisition costs and schedule
- Develop accurate lists of landowners and tax map information along the proposed corridor.
- Research and review existing ROW deeds for Client Company properties along the proposed route for any restrictions or special conditions affecting the project.
- Create and maintain an abutters list.
- Create file of source deeds for properties to be acquired.
- Arrange for “rights of entry” to support environmental assessments
- Negotiate options for property acquisition (substations and transmission line right-of-way).
- Coordinate the land acquisition and transfer process
- Perform all appropriate activities to close on the purchase of all required parcels for the project.
- Create electronic copies of all existing Client Company ROW microfiche deeds.
- Electronically link all property records to appropriate transmission and substation documents

▪ **Specifications and electrical study works**

Iberdrola Energy Projects shall perform specifications, conceptual drawings and electrical study works required for the proposed transmission line and substation expansions, modifications or new projects, and determine and resolve impacts on existing systems and substation equipment, integrating existing Client Company standards and specifications as appropriate and developing new standards and specifications, in conjunction with Client Company, where required.

▪ **Procurement Service**

Iberdrola Energy Projects shall provide the Client Company with options for acquiring the labor, equipment, material, and any remaining professional services, along

with a comprehensive analysis of those options, and a recommendation of which options is optimum given a comprehensive analysis of total cost, acquisition costs, internal and external resource requirements, schedule impacts, cost management, and risk. Some forms to consider but are not limited to: (a) Engineering Procurement and Construction (EPC) packages (b) Design, Bid, Build, c) design, procurement and all associated logistics needs to third parties, (d) purchasing the material and controlling and managing all associated logistics with internal resources, and (e) various combinations of the above.

Iberdrola Energy Projects shall prepare Request for Information (RFIs and RFPs) and certain contract documents utilizing the Client Company's standard contracts for professional services required to accomplish this work incorporating relevant standards, including utilization of qualified Bidders, bid evaluations, safety, design, environmental, the utilization of Small Business Concerns In accordance with section 19.702(a) (1) and (2) of the Federal Acquisition Regulation, and others as necessary. Iberdrola Energy Projects shall participate in the bid evaluation process. It is expected that certain contracts will be held by Iberdrola Energy Projects and certain contracts will be held by the Client Company.

Iberdrola Energy Projects will provide other services related to the Client Company's SAP Enterprise Requirements Planning system. The final scope of services will be determined based on the chosen contracting strategies for the Project.

- **Safety program plans**

Iberdrola Energy Projects shall develop a project-specific Safety Plan in accordance with Client Company's safety program and requirements. The Safety Plan shall emphasize pre-construction planning and contractor accountability for a safe work environment, free from hazards and incidents.

- **Community relations plans**

Government and Community Relations / Public Outreach

As requested by Client Company, Iberdrola Energy Projects shall direct and oversee the required landowner, public, community and government relations services in accordance with Client Company's corporate strategy and messaging and in coordination with Client Company including:

Government Relations: Effectively execute the government relations strategy that explains the needs for the system enhancements to the transmission system and paves the way for broad support from government officials and regulatory agencies.

Municipal Briefings: Effectively execute the municipal briefing strategy which includes alerting key municipal officials of the program and ensuring an understanding of its impact to the municipality before any official proceeding begins and during the various proceedings.

Municipal Ordinances: Work with the local Code Enforcement Officer to understand the provisions of the land use ordinance and its application. Coordinate the legal ordinance aspects with the municipal officials.

Community Relations: Coordinate opportunities to address key stakeholder groups such as chambers of commerce, Kiwanis, Rotary, environmental organizations, etc.

Media Relations: Implement the media relations strategy and revise as appropriate.

Program Website and Toll Free Line: If required, maintain an up to date program website and maintain and staff a toll free call in number and respond to inquiries within 3 business hours.

Media Services: Provide graphic design services, as needed, which may include project specific branding, large format posters, banners, brochures, website design support, and PowerPoint presentations.

Visually improve PowerPoint presentations, Excel spreadsheets, charts, graphs and other presentation materials by implementing a consistent format, color schemes and graphic elements.

Output program documents as PDFs for easy transfer through email and web posting.

Develop relationships with outside vendors to produce quality printed materials for the program.

Collaborate with Mapping Services to implement mapping layouts consistent with branding standards.

Provide audio visual and technology support for press conferences and partnering meetings, provide webcam recommendations, digital camera recommendations and purchasing support, project archiving set up and support, and streaming video support.

Provide design and logistical support in preparation for public events.

- **Construction Planning and supervision**

Iberdrola Energy Projects shall establish, direct and oversee the construction sequence for all components of the projects for various purposes, unless otherwise assigned to

Client Company's mobile construction workforce for execution, including but not limited to:

- Constructability Review
- RFP creation as set forth herein
- Procurement schedule set forth herein
- Outage planning as required by the ISO and Client Company
- Budgeting set forth herein
- Estimating as set forth herein

Iberdrola Energy Projects must consider all applicable factors for a safe, efficient, and cost effective approach including such issues as outage coordination, specific outage restrictions, resource availability and constraints, potential weather impacts, construction access, temporary facilities, and any other construction, electrical, and system aspects.

For those items that involve construction preparation or the supply of equipment or systems,

- Establish schedule for design, specification development and ordering times for long lead items as part of construction preparation.
- Develop the master procurement schedule as part of construction preparation
- Construction Management and Oversight
- Technical evaluation of the execution works in accordance with Client Company's requirements

Iberdrola Energy Projects shall provide Client Company with options for entering into contracts for construction, a comprehensive analysis of those options, and a recommendation of which option is optimum given a comprehensive analysis of total cost, acquisition cost, internal and external resource requirements schedule impacts, cost management, and risk. Nothing in this document should imply that Client Company has chosen a preferred method of procurement and construction contracting so all viable alternatives that meet the goals of the project should be considered.

Iberdrola Energy Projects activities may include developing a written comprehensive construction contractor prequalification and selection process that considers financial wherewithal and stability, safety record, field capabilities, capacity, bonding levels, relevant experience, and other factors. Iberdrola Energy Projects will establish criteria for prequalification and selection of contractors in accordance with Client Company's parameters.

The Client Company envisions that any construction contractors that may be engaged in the future to construct the projects will be entities that are separate and distinct from that of the construction management team.

Iberdrola Energy Projects will provide construction oversight for the planned transmission and substation improvements including outage planning, testing and

commissioning coordination, regulatory compliance, safety, and quality management. The final scope of services required will be determined based on the chosen contracting strategies for the projects.

Iberdrola Energy Projects will work with Client Company's operations and maintenance personnel to help coordinate any system disruptions, and ensure proper training for any new systems.

- **Project commissioning plans**

Iberdrola Energy Projects will develop all preparatory work required for inspection, testing and witnessing and commissioning of the works

- **Project close-out plans**

Iberdrola Energy Projects will develop a project-specific closeout plan for planning and closing out the Projects. This plan will address training, transfer procedures, documentation, punch lists, sign-offs, record completion and archiving, disbursing resources, conducting a lessons learned session, and Final Acceptance.

- **Schedule Management**

Iberdrola Energy Projects shall develop and manage the master schedule for the projects.

The program master schedule is primarily a planning, communication, and tracking tool for the project team members. As a dynamic tool, the schedule reflects the project goals and embodies the different project activities necessary to achieve these goals along with their interfaces with the activities of the other project participants. The schedule methodology shall facilitate a platform to implement an earned value system.

The schedule will be updated at least weekly and more frequently for material changes to reflect the accomplishments, deviations, changes, revised time estimates and/or changes in project scope or plan for the execution of the work. The percent complete will also be determined on at least a monthly basis. .

The project schedule will permit the monitoring of progress for each activity so that the overall project objectives can be completed on schedule. Iberdrola Energy Projects will report no less than weekly to Client Company on the critical milestone schedule.

Periodic monitoring of the schedule shall be performed to determine the status of each scheduled project and activity. An extract from the overall project schedule (a 90 day look ahead schedule) will be reviewed in detail at project team meetings.

The computerized schedule will be capable of being sorted into different categories of activities.

Critical path items that are reported to have negative schedule float shall require corrective action.

Iberdrola Energy Projects shall determine major schedule milestones in order to:

- Determine major team members' needs, responsibilities and detailed scheduling of team members' work.
- Establish timing of major approvals whether within the team or by the government or local community.
- Establish early start and finish dates and links for major activities.
- Determine which team members have monitoring and recovery responsibilities as the project proceeds.

Iberdrola Energy Projects shall continuously review progress relative to the master schedule and confirm compliance or enactment of recovery procedures through all phases of the program.

▪ **Cost Management**

Iberdrola Energy Projects shall:

- Forecast, manage and control costs and scope changes in accordance with project goals including meeting the project estimate and the annual project budgets.
- Provide regular management updates and progress reports as required.
- Provide annual budgets broken down by function and month, updated quarterly.
- Provide ongoing project cost tracking and analysis.
- Manage the project in accordance with Client Company's needs and constraints regarding overall project budget and spending curves as the budget develops.
- Coordinate the budget with the overall program to ensure requirements have sufficient funding.

- Develop a Work Breakdown Structure to integrate into Client Company's accounting system and program budgeting and cost control processes.
- Develop accounting procedures satisfactory to Client Company that provide full documentation of Client Company's costs, allows sufficient time for review, approval, disbursements, and record keeping, and supports as needed.

Based upon Client Company's requirements and program needs determine monthly cash flow requirements and projections for the duration of the project, including planned cash flow versus actual cash flow and projected value of plant energized.

▪ **Estimating**

Iberdrola Energy Projects shall compile or direct and oversee the development of definitive cost estimating to a level of accuracy required to support the various regulatory filings, ISO requirements, and Client Company's finance and budgeting requirements as set forth herein. Initial comparative cost estimates that have been used in the regulatory or system operating arena should be reviewed and evaluated. It is assumed that estimates will be updated the life cycle of the project. All estimates shall include the basis of estimate (estimating methodology) and associated assumptions.

▪ **Risk Management**

Iberdrola Energy Projects shall establish a risk management process and work with Client Company to identify, assess, prioritize, and manage the risks associated with Program. A risk management plan will be presented for Client Company's approval.

▪ **Quality Management Plan**

Iberdrola Energy Projects shall, with other team members and Client Company, develop a quality management plan and guidelines to allow quality topics to be freely discussed, developed, and implemented throughout the duration of the program.

▪ **Performance Compliance**

Iberdrola Energy Projects shall develop a performance reporting scorecard and monitor, report, and pursue full resolution and correction of any performance falling short of it performance metrics.

Iberdrola Energy Projects shall develop a Program reporting scorecard and monitor, report, and pursue full resolution and correction of any performance falling short of the Program's performance metrics.

▪ **Project Information Systems and Documentation**

Iberdrola Energy Projects shall establish a documentation program and provide, manage and utilize a project information system that will provide suitable document management control, knowledge transfer, and archiving in a collaborative, secure and accessible environment. All project related data, drawings, and information must be in a format compatible with Client Company's format so information can flow seamlessly between the project team, Client Company's personnel and filing systems.

Iberdrola Energy Projects may propose a project information system that is acceptable to Client Company. The application should permit project participants to communicate, collaborate, and cooperate in an electronic environment. Access to the system is by means of a web-browser, without requiring the purchase or installation of substantive software or hardware. The system is a repository for all relevant correspondence, documentation, drawings, reports and cost data etc.

Subcontractors participating in this project are required to utilize the project information system. Client Company shall retain ownership of all data and documents associated with the project including anything entered into the system.

Iberdrola Energy Projects shall establish, maintain, and manage documentation requirements, documentation, and procedures in accordance with Client Company's Records Retention Policy including but not limited to:

- Monthly, written progress reports to communicate project progress to team members and Client Company's management. These reports will include an Executive Summary along with a concise explanation of: areas of concern (with planned mitigation or corrective action); summary of activities (completed and planned).
- Periodic Progress Reports to Client Company's program sponsors that describe key events, changes and performance relative to schedule, budget, cash flow and quality.
- Meeting minutes including substantive decisions, scope changes, and action items assigned to team members and required action item completion dates. Iberdrola Energy Projects shall monitor the compliance and completion of assigned responsibilities.
- Procedures for the effective coordination and distribution of project information among team members, regulatory agencies, and other

individuals or municipalities who may have need for such program management information.

- All system and equipment related documents such as drawings, standards, field operating procedures, maintenance plans, Nx-9's, instruction books, and commissioning reports.

Iberdrola Energy Projects shall confirm that the developing designs are compatible with the program, master schedule, master budget and quality management plan and monitor design submittals.

Iberdrola Energy Projects shall relay and coordinate Requests for Information (RFIs) among the team members and expedite responses.

Iberdrola Energy Projects shall conduct progress reviews with team members to confirm compliance with the master schedule, budget and quality management program.

▪ **Transition Plan**

Effective and efficient transition of projects from project close out to operations and maintenance. This includes knowledge transfer from the project management team to Client Company's operations and maintenance organization.