

Grant of Future Rights

1. Generating Facility Sites. Effective upon the Closing and for a period of 99 years thereafter, Parent shall (and to the extent necessary to effectuate the same, cause the Transferee Subsidiaries to) grant to Authority the right (the "Right"), subject to the rights of Parent and the Transferee Subsidiaries addressed in paragraph 4 herein, to lease or purchase or to allow its designee to lease or purchase appropriately sized and sited parcels at any of the then existing Generating Facility Sites including parcels of land included among those required to be transferred to GENCO at Closing pursuant to Section 2.1 of the Generation Purchase Right Agreement (and, subject to the provisions of paragraph 2 herein, to acquire unlimited access to Generating Facility Sites as well as appropriate easements), as reasonably determined by Authority's consulting engineer and confirmed by a mutually agreeable independent consulting engineer for the purpose of constructing new electric generating facilities to be owned by Authority or its designee; provided, however, neither Authority nor its designee shall have the right to lease or purchase any parcels if such lease or purchase materially interferes with either the physical operation of any Generating Facilities or the GENCO's environmental compliance. The parties shall attempt to identify a site at a location that will minimize any payments that may be required from Authority or its designees under paragraph 2. Parent and the Transferee Subsidiaries will not unreasonably limit or restrict Authority's ability to investigate and identify such parcels.

2. Interference Compensation. If Authority's construction or operation of new generating units at Generating Facility Sites or its use of the Shoreham Site materially interferes with either the physical operation of the Generating Facilities or with Parent's (or the Transferee Subsidiary's, as the case may be) environmental compliance, Authority shall ensure that Parent or such Transferee Subsidiary will be compensated for the adverse impact on Parent or such Transferee Subsidiary of such interference.

3. Fair Market Value. The lease or purchase price for the parcels referred to in paragraph 1 will include the fair market value at the time of lease or purchase as determined by an independent real estate appraiser jointly selected by the Parties. The appraisal methodology will be determined and agreed upon by Parent and Authority prior to the Closing Date, provided that such appraisal methodology shall take into account any decreased value of such parcels resulting from the requirements of paragraph 2.

4. Right of First Refusal. Notwithstanding Authority's rights under paragraph 1 herein, Parent and the Transferee Subsidiaries will have the right to sell or lease Generating Facility Sites, other than parcels of land included among those required to be transferred to GENCO at Closing pursuant to Section 2.1 of the Generation Purchase Right Agreement until the expiration of the term of the Purchase Right (as therein defined), to third parties where: (i) Authority has not already exercised its right to purchase such sites; and (ii) where such sale or lease would not interfere with Authority's rights under a then existing lease. However, Parent's or such Transferee Subsidiary's right to sell or lease a parcel at a Generating Facility Site to a third party (for purposes of this paragraph 4 referred to as the "property") shall be subject to Authority's right of first refusal to purchase or lease such property as hereafter provided. The terms of any such third party sale or lease shall have been negotiated by Parent or such Transferee Subsidiary in good faith pursuant to a bonafide written offer and shall not include terms and conditions that would make it impractical or difficult for Authority to exercise its right of first refusal.

(b) Parent or such Transferee Subsidiary may sell or lease the property to a third party only after providing Authority written notice (the "Transfer Notice") of its intent to sell or lease such property. The Transfer Notice shall include an offer to Authority to purchase or lease the property (as the case may be) at a price equal to the Offered Price. For purposes of this paragraph 4, "Offered Price" shall be the price offered by the third party for the property, and accepted by Parent or such Transferee Subsidiary, including

any non-cash or like-kind offer, which Authority shall have the right to match by paying an equivalent amount in cash or bonds.

(c) If Authority does not accept the offer provided in the Transfer Notice at the Offered Price of the property (for purposes of this paragraph 4 referred to as the "Transfer Price") within sixty (60) days, or one hundred and twenty (120) days if the Transfer Price is greater than or equal to One Million Dollars (\$1,000,000), after receipt of the Transfer Notice, Parent or such Transferee Subsidiary may proceed to sell or lease such property to the third party pursuant to a bonafide written offer or agreement at a price no less than the Transfer Price; provided, however, if such transfer is not consummated within nine (9) months after Authority's receipt of the Transfer Notice, that transfer shall again become subject to the provisions of this paragraph 4, to provide a new Transfer Notice to Authority.

5. Shoreham Site. Authority will acquire at the Closing Date for fair market value, an appropriately sized parcel, as reasonably determined by Authority's consulting engineer and confirmed by a mutually agreeable independent consulting engineer, at the Shoreham Site (as defined in Appendix A attached hereto) to serve as the terminus for an undersound cable (nominal rating approximately 600 MW) and the site for up to approximately 600 MW of new gas fired combined cycle generating facilities and be granted unlimited access to the site as well as Appropriate Shoreham Easements.

"Appropriate Shoreham Easements" means general access easements and utility easements, as well as easements determined by LIPA or its designees to be needed from time to time to construct, maintain and operate the facilities described in this Section 5 and related facilities (the "LIPA Facilities") in an economic manner, including easements for:

- natural gas pipelines
- fuel oil pipelines
- electric transmission facilities and rights of way
- electric distribution facilities and rights of way for station service
- communication facilities
- construction laydown, staging and parking
- environmental monitoring equipment
- environmental buffer (which will be defined through mutual agreement):

The locations of such easements to be reasonably and mutually agreed upon.

Parent or an Affiliate thereof, as the case may be, will retain all right, title and interest in, to or of the combustion turbine and diesel peaking units located on this site, and will be granted unlimited access to such facilities. Should the parties agree that there would be significant economic savings to Authority by locating a portion of the cable terminus site or the combined cycle generating facility site on land on the Shoreham Site beyond the fenced in area, then Parent and/or an Affiliate thereof will sell at fair market value a portion of the land within the Shoreham Site Additional Area (as defined in Appendix A attached hereto) that is thereby required. Parent and/or such Affiliate will not unreasonably withhold its or their agreement. Authority's actual use of the property acquired pursuant hereto shall not be limited to a terminus for an underground cable or a site for a new gas fired combined cycle generating facility, and if so used, such cable and generating facilities shall not be limited to 600MW.

Authority will be responsible for any and all transmission reinforcements reasonably required to accommodate either of the foregoing, as contemplated in Section 4.3 of the Power Supply Agreement.

6. Method of Exercise of the Right. The Right may be exercised only by giving of written notice to Parent. Notice must be accompanied by: (1) certification by the Chairman or Executive Director of Authority that the exercise of the Right has been affirmatively approved by the vote of a majority of all members of the entire Authority Board of Trustees; and (2) a

copy of the related resolutions of the Authority Board of Trustees certificated as true and correct by the Chairman or Executive Director of Authority.

7. Procedure. In the case of any sale and purchase of any Property pursuant to Authority's exercise of the Right, the form and content of the legal descriptions thereof and conveyancing documentation with respect thereto shall be determined by representatives of Parent or Transferee Subsidiary, as the case may be, subject to the consent of the Authority, and shall be consistent with the documentation by which title was acquired, local custom with respect to documenting transfer of property and grantor's acts.

8. Local Transportation Charge. Effective upon the Closing interruptible gas transportation to the existing generation units will be continued on the same basis as is currently provided. Parent will also provide an interruptible gas transportation rate on the distribution system included in the Transferred Assets and any extensions thereof to new generation (regardless of who owns it) above a mutually agreeable MW threshold, of 19 cents/dekatherm adjusted only for any system capital improvements specifically required which will be charged on a cost-based, return on rate base basis, using Parent's cost of capital for its gas system. This pricing will be continued for 11.5 years after the acquisition is completed.

9. Business Combinations. Effective upon the Closing and for a period of 99 years thereafter, Parent will not (and to the extent necessary to effectuate the same, prevent its Subsidiaries from) increase any fee, rate or charge to the Authority on the basis of any business combination involving the Parent or any of its Subsidiaries.

10. Owernship of/Access to Common Plant. Parent will own common plant (as provided in Schedules A and B) and will charge Authority for its beneficial use through the Management Services Agreement, the Power Supply Agreement and the Energy Management Agreement. The allocation of costs related to common plant between gas, generation and transmission and distribution will be mutually agreeable to all parties. Such charges to Authority will be determined in the same manner as common plant is charged to gas customers by Parent's regulated gas business; charges to rate payers will not increase as a result of the BUG/LILCO merger or any future merger or business combination by Parent, or Authority's acquisition of the Company.

The Authority and Parent will mutually agree upon the appropriate allocation of real property (as provided in Schedules A and B) and will select personal property (e.g., billing/customer service hardware and software) that Authority shall have access to or control of as owner of the T&D System. After the Effective Time and for 99 years, Parent will give Authority the perpetual right to enter into leases for such assets or sub-contract for such services which it may assign to a subsequent management services contractor. Terms of each such lease will be fair market value as determined by independent appraisers.

11. Tax Exempt Securities. Parent shall not, nor shall Parent permit any Subsidiary to take any action that would likely jeopardize the qualification of outstanding revenue bonds which qualify on the date of the Closing under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 03(b)(5) of the Internal Revenue Code of 1954, as amended, prior to the Tax Reform Act of 1986.

12. Access to Properties. Effective upon the Closing and for a period of 99 years thereafter, the Authority and its consultants and agents shall have a right of unrestricted access to the Allocated Common Facilities as more fully described in Section 3.1(F) of the Management Services Agreement. The Authority and its consultants and designees shall have a dedicated on-site office space also as described more fully in Section 3.1(F).

During the term of the Management Services Agreement, Parent, or as appropriate, Parent's Subsidiaries may enter upon Authority's transmission

and distribution system to perform its duties thereunder, all as more fully described in Section 3.1(C) of the Management Services Agreement.

13. Easements. In connection with the acquisition by Authority of any right, title or interest to any property as contemplated herein, Authority shall grant Parent an irrevocable and perpetual easement for the maintenance and access of and to any Transferred Assets located on or under adjoining property of Seller, provided if Parent's use of such easement materially interferes with either the physical operation of any generating facilities or with Authority's environmental compliance, Parent shall compensate Buyer for the adverse impact on Authority of such interference.

14. Customer Billing & Services System. If, at any time after the effective time of the Closing, Parent shall sell, lease or otherwise market its Customer Billing/Customer Services ("CBS") system, currently under development with James Martin & Co. and others, then Parent shall distribute 66-2/3% of its net revenues resulting from such sale or marketing to Authority. Prior to the Closing, expenses and costs for the development of CBS shall be borne by ratepayers to the extent consistent with existing New York State Public Service Commission ("NYSPPSC") law and regulations. After the Closing, such expenses and costs shall be reflected in annual budgets to the extent agreed by Authority and Manager.

15. Non-Competition, Sale to Third Parties. Effective upon the Closing and for a period of 99 years thereafter, Parent shall not (and to the extent necessary to effectuate the same, shall cause its Subsidiaries not to) compete with Authority, directly or indirectly, as a provider of transmission or distribution service on Long Island; provided, however, that Parent may provide non-retail delivery of power on LILCO's property to serve its existing common plant and generating facilities. To the extent that Parent sells capacity or energy in the territory serviced by LILCO after the Closing, such capacity or energy is to be delivered through Authority's transmission and distribution system.

Parent further agrees that it will not oppose any tariffs, access charges or fees for the use of Authority's transmission and distribution system, whether or not such tariffs, access charges or fees are established by or on behalf of Authority; provided, however, that such tariffs, access charges or fees shall be non-discriminatory between Parent and other affected parties.

16. Synergy Savings. Parent and BUG agree that Authority will share in the projected ten-year synergy savings attributable to the BUG/LILCO combination. Authority's share of synergy savings will be based upon the amount of the projected savings allocated by the NYSPSC to LILCO electric rate payers up to a maximum of 2% of LILCO's projected ten-year average annual electric revenues. Eight/tenths of the aggregate projected ten-year savings so allocated by the NYSPSC will be used to reduce the budgeted cost amounts under the Management Services Agreement, the Power Supply Agreement and the Energy Management Agreement, as appropriate, in the following percentages in each of the first eight years.

<u>Year</u>	<u>Percentage</u>
1	2.44%
2	7.20
3	9.68
4	12.18
5	14.64
6	16.93
7	18.08
8	18.85
	<u>100.00%</u>

Based upon the anticipated synergy savings announced by LILCO and BUG and assuming allocation by the NYSPSC of such savings to LILCO electric ratepayers equal to 2% of LILCO's average annual electric revenues, the Authority's share

of the synergy savings pursuant to the schedule above will result in aggregate net savings (including consideration of carrying costs) to the Authority's electric ratepayers of approximately \$413 million over the eight years following the closing.

17. NOx and SOx Emission Credits. Parent shall apply all NOx, SOx and other air emission credits owned by the Transferee Subsidiaries for the continued operation of the Generating Facilities at cost, if any, without markup. Effective as of the Closing Date, 67% of the net proceeds of any sale or other disposition of emission credits which are excess to the needs of the operation of the Generating Facilities shall be credited to the annual charges to the Authority under the Agreements and the balance shall be for Parent's account. Parent shall provide Authority with notice of its intention to sell or otherwise dispose of emission credits in order to allow Authority sufficient time to submit a bid for such credits if it so chooses.

18. Omnipoint. Effective as of the Closing Date, 66-2/3% of all lease rentals and attachment fees received by Company after the Closing Date from the Omnipoint agreements, the MCI metro agreements and from other similarly structured and financed telecommunications agreements entered into prior to the Effective Time will be payable to Authority and the balance shall be for Parent's account. In addition, to the extent that less than 66-2/3% of all such lease rentals and attachment fees received by Company prior to the Closing Date were allocated or credited by Company to electric ratepayers, Company shall pay to Authority the difference between 66-2/3% of such amounts and the amount allocated or credited to electric ratepayers.

19. Tax Cases. Parent and the Transferee Subsidiaries shall not, from and after the Closing Date, commence or prosecute any tax case challenging any property tax relating to the Generating Facilities, except for claims in respect of assessments (other than generally applicable assessments and other than when such assessment is in conjunction with a property addition), which may be pursued fully by Parent, including, without limitation, any property tax assessment on the Generating Facilities or Generating Facility Sites, but only if the assessment on any such challenged facilities is increased not in an appropriate proportion to the increase in value related to taxable capital additions affixed to the tax parcel between the last two tax status dates. If the tax attributable to the assessment on the Generating Facilities or Generating Facility Sites is not included in the costs paid by Authority or its Affiliates (e.g., gas facility located on Generating Facility Site) then Parent or the Transferee Subsidiaries, in its or their sole discretion, may pursue tax challenges on such assessments. This provision shall expire upon the termination of the Power Supply Agreement.

In the event the Parent or Transferee Subsidiaries challenge any tax assessments on the Generating Facilities, any tax refunds received by Parent or such Transferee Subsidiary shall be shared 25%/75% between Parent or such Transferee Subsidiary and Authority, respectively. Parent or the Transferee Subsidiaries shall be responsible for all preparatory efforts and litigation-related costs pertaining to any such challenge. This provision shall expire upon the termination of the Power Supply Agreement, except that Authority will continue to share 75% of tax refunds received after such termination to the extent that such refunds relate to property taxes for which Authority has reimbursed Parent or the Transferee Subsidiaries.

APPENDIX A - SHOREHAM SITE AND SHOREHAM SITE ADDITIONAL AREA

Shoreham Site is described as attached.

Shoreham Site Additional Area is shown on the attached survey map as the lined area outside but contiguous to the Shoreham Site. The placing of the lined area is approximate, to be further defined by GENCO, and is not intended to include any property not owned by GENCO, Guarantor or its affiliates.