

PAYMENT IN LIEU OF TAX AGREEMENT

THIS PAYMENT-IN-LIEU-OF-TAX AGREEMENT (the "Agreement"), dated as of October 1, 2007, by and between CENTRAL NEW YORK OIL AND GAS COMPANY, L.L.C., a New York limited liability company with its principal office located Two Brush Creek Blvd., Kansas City MO 64112 (the "Company") and the TIOGA COUNTY INDUSTRIAL DEVELOPMENT AGENCY, a public-benefit corporation duly organized and validly existing under the laws of the State of New York with an office for the transaction of business located at 56 Main Street, Owego, New York 13827 (the "Agency"), collectively, (the "Parties").

WITNESSETH:

WHEREAS, Title 1 of Article 18-A, as amended, of the General Municipal Law of the State of New York (the "Enabling Act") was duly enacted into law as Chapter 1030 of the Laws of 1969 of the State of New York (the "State"); and

WHEREAS, the Enabling Act authorizes the creation of industrial development agencies for the benefit of the several counties, cities, villages and towns in the State and empowers such agencies, among other things, to acquire, construct, reconstruct, lease, improve, maintain, equip and sell land and any building or other improvement, and all real and personal properties deemed necessary in connection therewith, whether or not now in existence or under construction, which shall be suitable for manufacturing, warehousing, research, commercial or industrial facilities, including industrial pollution control facilities, in order to advance job opportunities, health, general prosperity and the economic welfare of the people of the State and to improve their standard of living; and

WHEREAS, the Enabling Act further authorizes each such agency to lease any or all of its facilities on such terms and conditions as it deems advisable, to issue its bonds for the purpose of carrying out any of its corporate purposes; and, as security for the payment of the principal and redemption price of, and interest on, any such bonds so issued and any agreements made in connection therewith, to pledge the revenues and receipts from its facilities or from the lease thereof; and

WHEREAS, pursuant to and in accordance with the provisions of the Enabling Act, Chapter 534 of the Laws of 1971 of the State (collectively, the "Act") created the Agency, which is empowered under the Act to undertake the providing, financing and leasing of the facility described below; and

WHEREAS, the Agency and the Company have agreed to a lease and lease-back transaction, on real property herein after referred to as Parcel I and Parcel II, more particularly described in Schedule A attached hereto, as Schedule A may be amended from time to time in accordance with the terms of this Agreement (collectively "the Premises") to facilitate the following: (A) the

acquisition by the Agency of an interest in the Company's underground natural gas storage facility located in the Town of Owego, Tioga County (the "Existing Facility"), the expansion of the Existing Facility, including the acquisition, construction, and installation of one (1) underground natural gas storage well, a 12,000 HP compressor unit, observation wells and related improvements, the construction of lateral pipelines to connect and integrate with the Company's existing natural gas storage wells in Tioga County (the "Phase II Expansion"), and the construction of an approximately 9.3 mile pipeline to connect to additional interstate natural gas pipelines (the "North Lateral"; the Existing Facility, the Phase II Expansion and the North Lateral are hereinafter collectively referred to as the "Project Facility"); (B) the granting of certain "financial assistance" (within the meaning of Section 854(14) of the Act) to the Company with respect to the foregoing, including potential exemptions from certain sales taxes, transfer gains taxes, mortgage recording taxes and real property taxes (collectively, the "Financial Assistance"); and (C) the lease to the Agency of the Project Facility and lease back to the Company or such other person as may be designated by the Company and agreed upon by the Agency; and

WHEREAS, the Agency will lease the Project Facility, including the Premises, from the Company pursuant to a certain Lease to Agency dated as of October 1, 2007 (the "Lease to Agency"), and the Agency will lease the Project Facility, including the Premises, to the Company pursuant to a certain Leaseback to Company dated as of October 1, 2007 (the "Leaseback Agreement") for a term continuing through December 31, 2019; and

WHEREAS, the Agency is exempt from the payment of taxes and assessments imposed upon real property, and the Company has agreed that, notwithstanding such exemption, the Company will nevertheless make payments to the Agency, to be distributed to the Town of Owego (the "Town"), the Owego-Apalachin Central School District (the "School District") and the County of Tioga (the "County") in lieu of general tax levies on the Premises.

NOW, THEREFORE, in consideration of the covenants herein contained, it is mutually agreed as follows:

1. Pursuant to Section 874 of the General Municipal Law and Section 412-a of the Real Property Tax Law, the Parties understand that, upon acquisition of a leasehold interest in the Premises by the Agency and the filing of an Equalization and Assessment Form RP-412-a (the "Exemption Form") with respect to the Premises, and for so long thereafter as the Agency shall have a leasehold interest in the Premises, the Premises shall be assessed by the various taxing entities having jurisdiction over the Premises, including, without limitation, the Town, the School District and the County, as exempt on their respective assessment rolls prepared subsequent to the acquisition by the Agency of a leasehold interest in the Premises and the filing of the Exemption Form. The Parties understand that the Premises shall not be entitled to such exempt status on any tax roll until the first tax year following the tax status date subsequent to the date upon which the Agency acquires a leasehold interest in the Premises and an Exemption Form is filed. The Company shall be required to pay all taxes and assessments lawfully levied and/or assessed against the Premises, including taxes

SCHEDULE A

LAND DESCRIPTION

	<u>Municipality</u>	<u>Tax Map No.</u>	<u>Description</u>
Parcel I	Town of Owego	161.00-1-25.10	Compressor Station
		152.00-1-15.-7	Widdell #7
		161.00-1-25.1-2	Barnhart #2
		162.00-2-20.1-3	Racht #3
		153.14-1-7.-1	Owen #1
		152.16-1-12.-8	Jones #8
		151.00-2-10.-5	Campbell #5
		162.00-2-6.-4	Fyock #4
		172.00-2-2.-1	Mead #1

Parcel II – shall consist of real property or any interest therein acquired by the Company in the Town of Owego in connection with the construction of the North Lateral, drilling of a new injection/withdrawal well and associated wellhead facilities and meter stations, and installing 6" and 20" diameter field and gathering lines, that is leased by the Company to the Agency from time to time pursuant to Section 2.6 of the Lease to Agency. The parties shall amend this Schedule A as necessary from time to time to include any such additional real property.

and assessments levied for the current tax year and all subsequent years until the Premises is entitled to exempt status on the tax roll. The Agency will cooperate with the Company to obtain and preserve the tax exempt status of the Premises, including the preparation and filing of the Exemption Form.

2. Pursuant to Section 2.6 of the Lease to Agency, the Company may, after the date hereof, grant the Agency a leasehold interest in additional real property or interests therein acquired by the Company in connection with construction of the North Lateral. The parties shall amend the description of Parcel II on Schedule A to include any such additional real property in the definition of the Premises covered by this Agreement. The Agency shall promptly file the Exemption Form with respect to such additional property and will cooperate with the Company to obtain and preserve the tax-exempt status of such additional property.

3. During the period the Agency has a leasehold interest in the Premises, the Company agrees to pay to the Agency, to be distributed to the Town, the County and the School District, the following payments in lieu of taxes.

A. As to Parcel I, the Company agrees to pay an amount equal to the real property taxes that would be payable on Parcel I for each year during the term of this Agreement as if the properties included in Parcel I were subject to real property taxation and were assessed at the following amounts:

<u>Tax Map No.</u>	<u>Description</u>	<u>Assessment</u>
161.00-1-25.10	Compressor Station	\$ 82,000,000
152.00-1-15.7	Widdell #7	150,000
161.00-1-25.1-2	Barnhart #2	150,000
162.00-2-20.1-3	Racht #3	150,000
153.14-1-7.-1	Owen #1	150,000
152.16-1-12:8	Jones #8	150,000
151.00-2-10.-5	Campbell #5	150,000
162.00-2-6.04	Fyock #4	0
172.00-2-2.1	Mead #1	0
		<u>\$ 82,900,000</u>

Commencing with the first taxable status date after completion of the new compressor unit to be installed at the compressor station (Tax Map No. 161.00-1-25.10), the assessment of this property shall be increased by the greater of \$5,000,000 or 50% of the actual cost of the compressor.

The then-current tax rates established by the Town, County and the School District shall be applied to the assessments set forth above during each year of

this Agreement to determine the amount of payment in lieu of tax owed by the Company for Parcel I during the term of this Agreement.

- B. As to Parcel II, the Company agrees to pay the following percentages of real property taxes that would otherwise be levied on Parcel II if the same were subject to real property taxation:

<u>PILOT Year</u>	<u>School Tax Year</u>	<u>Town/County Tax Year (Calendar Year)</u>	<u>Percentage of Tax Due</u>
Year 1	2008-09	2009	0%
Year 2	2009-10	2010	10%
Year 3	2010-11	2011	20%
Year 4	2011-12	2012	30%
Year 5	2012-13	2013	40%
Year 6	2013-14	2014	50%
Year 7	2015-15	2015	60%
Year 8	2015-16	2016	70%
Year 9	2016-17	2017	80%
Year 10	2017-18	2018	90%
Year 11	2018-19	2019	100%

Commencing after Year 11 (2019) and until such time as the Lease to Agency is terminated, the Company shall pay the actual real property taxes that would have been imposed upon the Premises but for the Agency's tax exemption.

4. (a) The assessed values of the properties included in Parcel I may be changed by the Town Assessor from time to time only to reflect any additions to the properties included in Parcel I (provided the new compressor unit described above shall be assessed at the greater of \$5,000,000 or 50% of the actual cost of the compressor) and any demolitions or retirements. The Company shall have the right to challenge any such changes in accordance with normal real property assessment procedures.

(b) If the Town undergoes a Town-wide revaluation or update of all real property on its assessment rolls or decides on implementing a Town-wide revaluation or update to assess properties in the Town at a uniform value less than 100%, the properties included in Parcel I may be included in such revaluation provided, however, the assessments on such properties shall be established by multiplying agreed upon assessed values for the Parcel I properties set forth above by the latest equalization rate for the Town, or 100%, or the new uniform value less than 100%, whichever is less. Except as set forth in this paragraph (b) and in paragraph (a) above, the assessed values of the properties contained in Parcel I shall not be changed, modified or otherwise altered during the term of this Agreement.

(c) The assessed values of the properties included in Parcel II, and any replacements, additions and/or deletions, shall be solely within the discretion of the Town Assessor, any may be challenged by the Company in accordance with normal real property assessment procedures.

5. The Agency shall separately bill the Company for each payment in lieu of tax due hereunder. For the purposes of this Agreement, the term "Timely Payment" shall be defined as payment made within thirty (30) days after receipt by the Company of a written bill demanding payment.

6. Should the Agency cease to hold a leasehold interest in the Premises, this Agreement shall terminate immediately and the Premises shall be returned to the non-exempt portion of the tax roll and be subject to taxation thereafter, including any portion of a tax year not otherwise covered by this Agreement.

7. If any default shall be made in the payment referred to in Paragraph 2, supra, the Company hereby agrees to pay the same to the extent above specified:

A. Without requiring any notice of non-payment or of default to the Company, the Agency, or to any other person;

B. Without proof of demand.

8. The Parties understand that the tax exemption extended to the Agency by Section 874 of the General Municipal Law and Section 412-A of the Real Property Tax Law does not entitle the Agency to an exemption from special assessments and special ad valorem levies such as, but without limitation, charges for metered water and sewer rent. The Company hereby agrees to pay all special assessments and special ad valorem levies lawfully levied and/or assessed against the Premises.

9. Pursuant to Section 858 (15) of the General Municipal Law, the Agency agrees to give the Town, the School District and the County a copy of this Agreement within fifteen (15) days of the execution and delivery hereof, together with a request that a copy thereof be given to the appropriate officer or officers with respect to each taxing jurisdiction responsible for preparing the tax rolls for said jurisdiction, together with a request that said officer or officers submit to the Agency and the appropriate receiver of taxes periodic statements specifying the amount and due date or dates of the payments due to each hereunder. Such periodic statements to be submitted to the Company at approximately the times that tax bills are mailed by such jurisdictions.

10. The Company agrees to pay the amounts due hereunder to each particular taxing jurisdiction in any calendar year to the Agency within the period that such taxing entity allows the

payment of taxes levied in such calendar year without penalty. The Company shall be entitled to receive receipts for such payments.

11. Pursuant to Section 874(5) of the General Municipal Law, if the Company shall fail to make any payment required by this Agreement when due, the Company shall pay the same, together with a late-payment penalty equal to five (5%) percent of the amount due. If the Company shall remain in default beyond the first month after such payment is due, the Company shall thereafter pay a late-payment penalty of one (1%) percent per month for each month, or part thereof, that the payment is delinquent beyond the first month plus interest thereon, to the extent permitted by law, at the greater of (a) one (1%) percent per month, or (b) the rate per annum which would have been payable if such amount were delinquent taxes, until so paid in full.

12. Pursuant to Section 874(6) of the General Municipal Law, if the Company defaults in performing any of its obligations, covenants or agreements under this Agreement and the Agency or any taxing jurisdiction employs attorneys or incurs other expense for the collection of any amounts payable hereunder, or for the enforcement or performance or observation of any obligation, covenant or agreement on the part of the Company herein contained, the Company agrees that it will, on demand therefor, pay to the Agency or such taxing jurisdiction, as the case may be, not only the amounts adjudicated due hereunder, together with the late-payment penalty and interest due thereon, but also reasonable fees and disbursements of such attorneys and all other expenses, costs and disbursements so incurred whether or not an action is commenced.

13. No remedy herein conferred upon or reserved to the Agency or any taxing jurisdiction is intended to be exclusive of any other available remedy or remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now and hereafter existing at law or in equity or by statute. No delay or admission in exercising any such right or power accruing upon a default hereunder shall impair any such right or power or be construed as a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

14. The addresses to which notices, certificates and other communications hereunder shall be delivered are as follows:

IF TO THE AGENCY:

Tioga County Industrial Development Agency
56 Main Street
Owego, New York 13902
Attn: Chairman

Copy to: Thomas, Collison, Meagher & Seiden
1201 Monroe Street
P.O. Box 329
Endicott, New York 13761-0329
Attn: Joseph B. Meagher, Esq.

IF TO THE COMPANY:

Central New York Oil and Gas Company, L.L.C.
Two Brush Creek Boulevard
Kansas City, Missouri 64112
Attn: Mr. William Moler

Copy to: Bond, Schoeneck & King, PLLC
One Lincoln Center
Syracuse, New York 13202-1355
Attn: Paul W. Reichel, Esq.

15. The Town, the County, the School District, the Agency and the Company as used herein shall include their successors and assigns. The terms of this Agreement shall inure to the benefit of, and shall be binding upon, any future owners of the Project Facility and the Company's successors and assigns.

16. This Agreement shall remain in effect until termination or expiration of the Lease to Agency which, by its terms, expires December 31, 2019.

[signature page follows]

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be duly executed the date set forth hereinabove.

CENTRAL NEW YORK OIL AND GAS COMPANY, L.L.C.

By: 

TIOGA COUNTY INDUSTRIAL DEVELOPMENT
AGENCY

By: _____
Aaron Gowan, Chairman

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be duly executed the date set forth hereinabove.

CENTRAL NEW YORK OIL AND GAS COMPANY, L.L.C.

By: _____

TIOGA COUNTY INDUSTRIAL DEVELOPMENT
AGENCY

By:  _____
Aaron Gowan, Chairman

STATE OF Missouri
COUNTY OF Jackson) ss.:

On this 4th day of October, 2007, before me, the undersigned, personally appeared William Moler personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.



HOLLY A. WEST
My Commission Expires
August 15, 2010
Jackson County
Commission #06927415

[Signature]
Notary Public

STATE OF NEW YORK)
COUNTY OF TIOGA) ss.:

On this 4th day of October, 2007, before me, the undersigned, personally appeared AARON GOWAN, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

[Signature]
Notary Public

JOSEPH B. MEAGHER
Notary Public, State of New York
Broome County 02ME4974837
Commission Expires Nov. 26, 20 10