

“Transaction”). KECP and KEFL are indirect, wholly-owned nonutility subsidiaries of KeySpan Corporation (“KeySpan”), a registered holding company under the Act.

KeySpan registered as a holding company under the Act on November 8, 2000, as a result of KeySpan’s acquisition of Eastern Enterprises (now known as KeySpan New England, LLC (“KNE LLC”), which was authorized by the Commission by an order issued on November 7, 2000 (Holding Company Act Rel. No. 27271), as corrected by the order issued on December 1, 2000 (collectively, the “Merger Order”).<sup>1</sup> In addition, on November 8, 2000, the Commission issued an order (Holding Company Act Rel. No. 27272), as corrected by the order issued on December 1, 2000 (collectively, the “Financing Order”), authorizing a program of external financings, credit support arrangements and related proposals for KeySpan and its subsidiaries.

KeySpan is a diversified public-utility registered holding company. KeySpan directly or indirectly owns seven public-utility companies in the northeastern United States.<sup>2</sup> In addition, since October 2000, KECP, an Alberta, Canada general partnership, and KEFL, an Alberta, Canada corporation

(formerly known as Gulf Midstream Services Partnership and GMS Facilities Limited, respectively), have been indirect, wholly-owned subsidiaries of KeySpan. In the Merger Order, the Commission approved KeySpan’s retention of KECP and KEFL, finding that these entities are engaged in “gas-related activities” within the meaning of the Gas-Related Activities Act of 1990.

Together, KECP and KEFL own facilities located in Alberta and Saskatchewan through which they operate one of the largest natural gas midstream businesses in Canada, consisting of natural gas gathering and processing as well as natural gas liquids (“NGL”) processing, transportation, storage and marketing. KECP markets natural gas products, including natural gas liquids, from numerous producers, to customers in the United States and Canada. KECP owns interests in 13 natural gas processing plants, along with associated raw gas gathering facilities, and is the operator of 11 of those plants. It also owns interests in NGL fractionation and storage facilities and an NGL pipeline. KEFL owns interests in NGL fractionation and storage facilities. KECP and KEFL together provide gas gathering and processing services to approximately 160 producers.

KEFL also currently owns 40.6% of the issued and outstanding shares of Rimbe Co.,<sup>3</sup> and operates the facilities owned by Rimbe Co. Rimbe Co. is an Alberta, Canada corporation with a total of 9 shareholders, of which KEFL is the largest.<sup>4</sup> Rimbe Co. owns the Rimbe Pipe Line, a 110 kilometer NGL pipeline, and the Rimbe Edmonton Terminal, which consists of propane treating, storage, rail loading and truck loading/offloading facilities.

In connection with its business, KECP is a party to two agreements with ConocoPhillips Canada Resources Corp. (“ConocoPhillips Resources”): a Buy-Sell Agreement dated December 1, 1998, as amended (the “Buy-Sell Agreement”), and a Natural Gas Liquids Purchase and Sale Agreement also dated

December 1, 1998, as amended (the “Purchase and Sale Agreement” and together with the Buy-Sell Agreement, the “NGL Agreements”). Pursuant to the Buy-Sell Agreement, KECP purchases raw natural gas from ConocoPhillips Resources at the inlet points to certain gas processing facilities owned by KECP, processes the gas on behalf of ConocoPhillips Resources and resells the processed gas and certain gas products (exclusive of certain NGLs which are retained by KECP) to ConocoPhillips Resources at the outlet points of the relevant facilities. Under the Purchase and Sale Agreement, ConocoPhillips Resources sells NGLs to KECP at the outlet points of certain natural gas processing facilities, some of which are not owned by KECP and at which KECP does not provide processing services for ConocoPhillips Resources.

KECP and ConocoPhillips Resources have recently agreed to enter into an Amending Agreement which will revise certain price terms of each of the NGL Agreements. Consideration for KECP’s entry into such Amending Agreement is, among other things, the entry into by KECP and ConocoPhillips Canada Limited (“ConocoPhillips”) a February 6, 2003 Letter Purchase Agreement, amended April 1, 2003, by which ConocoPhillips will transfer 2,610 shares of Rimbe Co. (representing 5.2% of issued and outstanding shares) currently held by ConocoPhillips (the “Rimbe Shares”) to KECP subject to certain conditions described below.

KECP and ConocoPhillips have agreed that the cash value of the consideration for the Amending Agreement associated with the transfer of the Rimbe Shares is \$2.25 million Canadian. The proposed transfer of the Rimbe Shares to KECP is subject to the preferential rights of the other Rimbe Co. shareholders to purchase the shares (“Right of First Refusal”) at the same aggregate price of \$2.25 million Canadian. KEFL, as a current shareholder of Rimbe Co., has and could exercise a Right of First Refusal.

ConocoPhillips’ transfer of the Rimbe Shares to KECP is conditioned upon (i) the failure of other Rimbe Co. shareholders to exercise their Rights of First Refusal and (ii) receipt of the approval by the Commission sought in this Application.

#### *The Proposed Transaction*

Applicants now seek authorization for either (a) the acquisition by KECP of the

<sup>1</sup> On May 29, 2002, the Commission issued an order approving KeySpan and Eastern Enterprises’ application in File No. 70–9995 (Holding Co. Act Rel. No. 27532) for a reorganization of Eastern from a Massachusetts business trust to a Massachusetts limited liability company (“Conversion Order”). Pursuant to the Conversion Order, on May 31, 2002, Eastern and KNE LLC, a newly formed Massachusetts limited liability company subsidiary of KeySpan, executed an agreement and plan of merger, with KNE LLC as the surviving entity and successor-by-merger to Eastern Enterprises.

<sup>2</sup> The Brooklyn Union Gas Company, d/b/a KeySpan Energy Delivery New York, distributes natural gas at retail to residential, commercial and industrial customers in the New York City Boroughs of Brooklyn, Staten Island and Queens; KeySpan Gas East Corporation, d/b/a KeySpan Energy Delivery LI, distributes natural gas at retail to customers in New York State located in the counties of Nassau and Suffolk on Long Island and the Rockaway Peninsula in Queens County; KeySpan Generation LLC owns and operates electric generation capacity located on Long Island that is sold at wholesale to the Long Island Power Authority; Boston Gas Company, d/b/a KeySpan Energy Delivery New England, distributes natural gas to customers located in Boston and other cities and towns in eastern and central Massachusetts; Essex Gas Company, d/b/a KeySpan Energy Delivery New England, distributes natural gas to customers in eastern Massachusetts; Colonial Gas Company, d/b/a KeySpan Energy Delivery New England, distributes natural gas to customers located in northeastern Massachusetts and on Cape Cod; and EnergyNorth Natural Gas, Inc., d/b/a KeySpan Energy Delivery New England, distributes natural gas to customers located in southern and central New Hampshire and the City of Berlin located in northern New Hampshire. KeySpan, through its subsidiaries, also engages in energy related nonutility activities.

<sup>3</sup> KEFL acquired these shares in 1998, prior to KeySpan’s registration as a holding company. KEFL’s ownership interest in Rimbe Co. is an interest in “natural gas liquids transportation facilities,” i.e., the Rimbe Pipe Line, Rimbe Co.’s primary asset.

<sup>4</sup> KEFL currently owns 20,303 shares (40.6%) of Rimbe Co. The other shareholders and their shareholdings are: EnerPro Midstream Inc.—17,766 shares (35.5%); Shell Canada Limited—4,320 shares (8.6%); ConocoPhillips Canada Limited—2,610 shares (5.2%); Husky Oil Operations Ltd.—2,312 shares (4.6%); Imperial Oil Limited—1,287 shares (2.6%); BP Canada Energy Resources Company—1,194 shares (2.4%); Murphy Oil Company Ltd.—135 shares (0.35%); and The Great West Life Assurance Co.—73 shares (0.15%).

<sup>5</sup> ConocoPhillips is an existing Rimbe Co. shareholder and an affiliate of ConocoPhillips Resources. See note 4, *supra*.