

each Subsidiary a fee for each Guarantee provided on its behalf that is not greater than the cost, if any, of obtaining the liquidity necessary to perform the Guarantee for the period of time the Guarantee remains outstanding. Any Guarantees or other credit support arrangements outstanding at the end of the Authorization Period will continue until expiration or termination in accordance with their terms.

Applicants request that KeySpan's guarantee authority include the ability to guarantee debt. Applicants state that the debt guaranteed will comply with the Financing Parameters or be exempt. To the extent that a Guarantee issued is of a security issued under the authority granted in this Application, Applicants request that the issuance will count only against the applicable limitation related to the underlying obligation in order to avoid a double count.

Applicants also request authorization for the Nonutility Subsidiaries to enter into Guarantees, Performance Guarantees, obtain letters of credit, enter into expense agreements and otherwise provide credit support with respect to other Nonutility Subsidiaries, in an aggregate principal amount not to exceed the Guarantee Financing Limit. The Nonutility Subsidiary providing any credit support may charge its associate company a fee for each Guarantee provided on its behalf that is not greater than the cost, if any, of obtaining the liquidity necessary to perform the Guarantee for the period of time the Guarantee remains outstanding.

Applicants state that certain of the Guarantees referred to above may be in support of the obligations of Subsidiaries which are not capable of exact quantification because they are subject to varying quantification. In these cases, KeySpan will determine the exposure under these Guarantee for purposes of measuring compliance with the Guarantee Financing Limit by appropriate means including estimation of exposure based on loss experience or projected potential payment amounts. Applicants state that estimates will be made in accordance with GAAP and that these estimations will be reevaluated periodically.

D. Refunding, Replacing, Repurchasing or Refinancing Outstanding Securities

Applicants request authorization to refund, repurchase (through open market purchases, tender offers, or private transactions), replace or refinance (together, "Refinancing") their respective debt or equity securities outstanding during the Authorization Period through the issuance of similar or any other types of securities

authorized in this Application.

Applicants state that in no case, will Refinancing cause any applicable financing limit to be exceeded.

Applicants request that the amount of a Refinancing that is equal to the then existing outstanding aggregate principal amount of securities to be refinanced not be counted against the securities' applicable financing limit. Only securities issued to finance the additional costs associated with the Refinancing will be counted against the applicable financing limit. The securities issued in the Refinancing may be issued to finance costs incurred due to redemption premiums, costs of acquisition or retirement of the securities, costs of issuance, or other similar costs including the costs expended to acquire securities on the open market under rule 42 and the subsequent costs to reissue the securities. Applicants state that any Refinancing of securities outstanding during the Authorization Period will be undertaken through the issuance of similar or any other securities of the types authorized in this Application and will be subject to the Financing Parameters.

E. Issuing Debt Securities in Foreign Jurisdictions

Applicants state that KeySpan engages in business operations outside of the United States, including Canada and Ireland. In connection with this business, and potential expansion outside of the United States, Applicants request authorization to make sales of KeySpan's long-term and short-term debt securities, of the type authorized in this Application, in foreign countries. Applicants state that opportunities in foreign jurisdictions may arise that allow KeySpan to enter into financing transactions at costs lower than that otherwise may be available within the United States. Applicants state that these issuances will not exceed an aggregate of \$500 million at any time outstanding during the Authorization Period ("Foreign Issue Limit"). Applicants state that consideration for foreign securities sales may be in foreign currency. In addition, foreign securities sales shall be subject to the Financing Parameters, the Long-Term Financing Limit and Short-Term Financing Limit, as the case may be, based on its value in U.S. Dollars as calculated in accordance with the currency exchange rate for the currency used as reported at the time of the sale.

F. Financing Risk Management Devices

1. Interest Rate Risk

Applicants request authority to enter into, perform, purchase, and sell financial instruments intended to reduce or manage the volatility of interest rates, including but not limited to interest rate swaps, caps, floors, collars and forward agreements. Applicants state that hedges may also include issuance of structured notes (*i.e.*, a debt instrument in which the principal and/or interest payments are indirectly linked to the value of an underlying asset or index), or transactions involving the purchase or sale, including short sales, of U.S. Treasury or U.S. governmental agency obligations or LIBOR based swap instruments ("Hedge Instruments"). Applicants state that the transactions would be for fixed periods and stated notional amounts. Applicants state that they would employ interest rate derivatives as a means of prudently managing the risk associated with any of its outstanding debt issued under this authorization or an applicable exemption by, in effect, synthetically (i) converting variable rate debt to fixed rate debt, (ii) converting fixed rate debt to variable rate debt, and (iii) limiting the impact of changes in interest rates resulting from variable rate debt. Applicants assert that in no case will the notional principal amount of any interest rate swap exceed the face value of the underlying debt instrument and related interest rate exposure. Applicants state that transactions will be entered into for a fixed or determinable period and that they will not engage in speculative transactions. Applicants state that they will only enter into agreements with counterparties ("Approved Counterparties") whose senior debt ratings, as published by a national recognized rating agency, are greater than or equal to "BBB-," or an equivalent rating.

2. Anticipatory Hedges

In addition, Applicants request authorization to enter into interest rate hedging transactions with respect to anticipated debt offerings ("Anticipatory Hedges"), subject to certain limitations and restrictions. Applicants state that Anticipatory Hedges would only be entered into with Approved Counterparties, and would be utilized to fix and/or limit the interest rate risk associated with any new issuance through (i) a forward sale of exchange-traded Hedge Instruments ("Forward Sale"), (ii) the purchase of put options on Hedge Instruments ("Put