

Options Purchase”), (iii) a Put Options Purchase in combination with the sale of call options Hedge Instruments (“Zero Cost Collar”), (iv) transactions involving the purchase or sale, including short sales, of Hedge Instruments, or (v) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar and/or other derivative or cash transactions, including, but not limited to, structured notes, caps and collars, appropriate for the Anticipatory Hedges. Anticipatory Hedges may be executed on-exchange (“On-Exchange Trades”) with brokers through the opening of futures and/or options positions traded on the Chicago Board of Trade (“CBOT”), the opening of over-the-counter positions with one or more counterparties (“Off-Exchange Trades”), or a combination of On-Exchange Trades and Off-Exchange Trades. Applicants state that they will determine the optimal structure of each Anticipatory Hedge transaction at the time of execution and that they may decide to lock in interest rates and/or limit its exposure to interest rate increases.

3. Accounting Standards

Applicants state they will comply with Statement of Financial Accounting Standards (“SFAS”) 133 (“Accounting for Derivative Instruments and Hedging Activities”), SFAS 138 (“Accounting for Certain Derivative Instruments and Certain Hedging Activities”) or any other standards relating to accounting for derivative transactions as are adopted and implemented by the Financial Accounting Standards Board (“FASB”). The Hedge Instruments and Anticipatory Hedges will qualify for hedge accounting treatment under the current FASB standards in effect and as determined at the date the Hedge Instruments or Anticipatory Hedges are entered into.

G. Direct Stock Purchase and Dividend Reinvestment Plan, Incentive Compensation Plans and Other Employee Benefit Plans

Applicants propose that KeySpan, from time to time during the Authorization Period, issue and/or acquire in open market transactions, or by some other method which complies with applicable law and Commission interpretations then in effect, up to thirteen million shares of KeySpan common stock under KeySpan’s current or any future direct stock purchase and dividend reinvestment plan, certain incentive compensation plans and certain other employee benefit plans. Applicants request that any shares of common stock acquired by KeySpan on

the open market during the Authorization Period under rule 42 that were originally issued under this 13 million issuable shares limitation shall no longer count against the 13 million issuable shares limitation until the shares are reissued.

H. Payment of Dividends out of Capital or Unearned Surplus by Nonutility Subsidiaries

Applicants request authority for the Nonutility Subsidiaries to pay dividends from time to time, out of capital and unearned surplus (including revaluation reserve), to the extent permitted under applicable corporate law. Applicants state that, without further approval of the Commission, no Nonutility Subsidiary will declare or pay any dividend out of capital or unearned surplus if that Nonutility Subsidiary derives any material part of its revenues from sales of goods, services, electricity or natural gas to any of the Utility Subsidiaries or if at the time of the declaration or payment such Nonutility Subsidiary has negative retained earnings.

I. Development and Administrative Activities

Applicants request authority for KeySpan and the Subsidiaries to engage in preliminary development activities (“Development Activities”) and administrative and management activities (“Administrative Activities”) in connection with future investments in exempt wholesale generators (“EWGs”), foreign utility companies (“FUCOs”), as those terms are defined in sections 32 and 33 of the Act, and in subsidiaries permitted under rule 58 (“Rule 58 Subsidiaries”). Applicants state that Development Activities will be limited to due diligence and design review; market studies; preliminary engineering; site inspection; preparation of bid proposals, including in connection, posting of bid bonds; application for required permits and/or regulatory approvals; acquisition of site options and options on other necessary rights; negotiation and execution of contractual commitments with owners of existing facilities, equipment vendors, construction firms, power purchasers, thermal “hosts,” fuel suppliers and other project contractors; negotiation of financing commitments with lenders and other third-party investors; and any other preliminary activities as may be required in connection with the purchase, acquisition or construction of facilities or the securities of other companies.

Applicants further request authority to form new subsidiary companies

organized for the sole purpose of engaging in Development Activities. Development Activities will be designed to eventually result in a permitted nonutility investment.

Applicants propose that to the extent a Subsidiary for which amounts were expended for Development Activities and Administrative Activities becomes an EWG, FUCO, or Rule 58 Subsidiary, the amount expended will cease to be Development Activities or Administrative Activities and then be considered as part of the “aggregate investment” allowed by Commission order and/or the applicable provisions under the Act. In the case of Rule 58 Subsidiaries, the aggregate investment will then count against the limitation on such aggregate investment under rule 58. In the case of EWGs and FUCOs, the aggregate investment will then be transferred from the investment limitation for Development Activities or Administrative Activities and instead count against the limitation on EWG and FUCO aggregate investment requested below. Applicants propose that, should the Development Activities or Administrative Activities fail to lead to a permitted nonutility investment, the expenditures will not be counted against the “aggregate investment” allowed by Commission order and/or the applicable provisions under the Act with respect to EWG, FUCO, or Rule 58 Subsidiaries. Additionally, in the event that the Development Activities or Administrative Activities fail to lead to a permitted nonutility investment, any new subsidiaries formed for the purposes of engaging in Development Activities or Administrative Activities shall be dissolved as soon as reasonably practicable.

J. Financing Subsidiaries

KeySpan and the Subsidiaries request authorization to organize and/or acquire the equity securities of one or more additional corporations, trusts, partnerships or other entities organized to serve the purpose of facilitating financings (“Financing Subsidiaries”). Applicants state that the formation and acquisition of a limited use subsidiary may allow KeySpan and the Subsidiaries to secure more favorable financing terms, at lower costs than may otherwise be available. In addition, Applicants state that the interposition of a Financing Subsidiary can serve to isolate the risks associated with debt securities issuances thereby providing further benefit to the KeySpan system.

Specifically, Financing Subsidiaries may be organized to issue to third parties, long-term debt, short-term debt, preferred securities (including but not