

limited to trust preferred securities), equity-linked securities, and/or other securities that are authorized or exempt and then transfer the proceeds to KeySpan or the Subsidiaries. Applicants request authorization for KeySpan and, to the extent not exempt under rule 52, Subsidiaries to issue debentures and other evidence of indebtedness ("Financing Debt") to any Financing Subsidiary to evidence the transfer of financing proceeds by a Financing Subsidiary to its parent company. The principal amount, maturity and interest rate on any Financing Debt will be designed to parallel the amount, maturity and interest or distribution rate on the securities issued by a Financing Subsidiary in respect of which the Financing Debt is issued. Each of the Subsidiaries also requests authorization to enter into an expense agreement with its respective Financing Subsidiary, under which it would agree to pay all expenses of the Financing Subsidiary. Applicants state that any affiliate transactions entered into by a Financing Subsidiary in connection with an expense agreement, or otherwise, would be conducted at fair market value without regard to cost, and therefore, Applicants request an exemption under section 13(b) from the at cost standards of rules 90 and 91 for KeySpan and the Subsidiaries to enter into these transactions.

The amount of securities issued by any Financing Subsidiary to third parties will be included in the applicable overall external financing limitation, authorized for the immediate parent company of such Financing Subsidiary. However, to avoid double counting, the amount of Financing Debt issued by a parent company to its Financing Subsidiary will not be counted against the applicable external financing limitation. Applicants request that securities issued by any Financing Subsidiary to third parties be exempt under rule 52 (and therefore reportable on Form U-6B-2) only if the securities, if issued directly by the parent company of such the Financing Subsidiary, would be exempt under rule 52. Applicants propose that KeySpan or a Subsidiary may, if required, guarantee or enter into support or expense agreements in respect of the obligations of Financing Subsidiaries.

#### VI. EWG/FUCO Investment Authority

Applicants request authorization for KeySpan to increase its "aggregate investment", as that term is defined in rule 53, in EWG and FUCOs to \$3.0 billion ("EWG/FUCO Limit") outstanding at any one time during the Authorization Period. Applicants state

that the EWG/FUCO Limit represents approximately 528% of KeySpan's average consolidated retained earnings for the four quarters ended June 30, 2003.

At March 31, 2003, applicants state that the consolidated amount of KeySpan's current aggregate investment in existing EWGs and FUCOs was as follows:

Entity≤	Investment (\$ millions)
KeySpan-Ravenswood LLC (EWG) .....	8 \$776.6
Phoenix Natural Gas Limited and Finsa Energeticos (FUCOs) .....	58.9
KeySpan-Glenwood Energy Center LLC (EWG) .....	95.3
KeySpan-Port Jefferson Energy Center LLC (EWG) ...	104.1
Total .....	\$1,034

Applicants state that this total amount, represents approximately 182% of KeySpan's average consolidated retained earnings, as defined in rule 53, of \$586.3<sup>8</sup> million for the four quarters ending at June 30, 2003.

By order dated December 6, 2002, (HCAR No. 27612), Applicants were authorized to make investments in an aggregate amount of up to \$2.2 billion in EWGs and FUCOs. Applicants state that \$2.2 billion represented approximately 440% of KeySpan's average consolidated retained earnings for the four quarters ended September 30, 2002. Applicants now request authority for KeySpan and the Subsidiaries, directly or indirectly, to invest up to \$3.0 billion in EWGs and FUCOs during the Authorization Period.

#### VII. Intermediate Subsidiaries

Applicants propose that KeySpan create and/or acquire, directly or indirectly, the securities of one or more Intermediate Subsidiaries including corporations, trusts, partnerships, limited liability companies or other entities. Applicants state that Intermediate Subsidiaries will be organized exclusively for the purpose of acquiring and holding the securities of, or financing or facilitating KeySpan's investments in, other direct or indirect nonutility investments. Applicants also request authority for Intermediate Subsidiaries to engage in Development Activities and Administrative Activities.

Applicants state that an Intermediate Subsidiary may be organized, among

other things, (i) To facilitate the making of bids or proposals to develop or acquire an interest in any EWG, FUCO, exempt telecommunications company ("ETC"), or other Nonutility which, upon acquisition, would qualify as a Rule 58 Subsidiary; (ii) to facilitate closing on the purchase or financing of an acquired company; (iii) to effect an adjustment in the respective ownership interests in a business held by the KeySpan system and non-affiliated investors; (iv) to facilitate the sale of ownership interests in one or more acquired Rule 58 Subsidiary, ETC, EWG or FUCO; (v) to comply with applicable laws of foreign jurisdictions limiting or otherwise relating to the ownership of domestic companies by foreign nationals; (vi) to limit KeySpan's exposure to U.S. and foreign taxes; (vii) to further insulate KeySpan and the Utility Subsidiaries from operational or other business risks that may be associated with investments in nonutility companies; or (viii) for other lawful business purposes.

Applicants state that investments in Intermediate Subsidiaries may take the form of any combination of the following: (i) Purchases of capital shares, partnership interests, member interests in limited liability companies, trust certificates or other forms of voting or non-voting equity interests; (ii) capital contributions; (iii) open account advances without interest; (iv) loans; and (v) Guarantees issued, provided or arranged in respect of, the securities or other obligations of any Intermediate Subsidiaries.

Applicants state that funds for any direct or indirect investment in any Intermediate Subsidiary will be derived from KeySpan's available funds. No additional financing authority is sought under this heading. Applicants request that to the extent that KeySpan provides funds directly or indirectly to an Intermediate Subsidiary which are used for the purpose of making an investment in any EWG, FUCO, or a Rule 58 Subsidiary, and to the extent these funds are not expenditures in Development Activities, the amount of the funds will be included in KeySpan's "aggregate investment" in EWGs, FUCOs and Rule 58 Subsidiaries.<sup>9</sup>

<sup>9</sup> Applicants request that if the Intermediate Subsidiary is merely a conduit, the aggregate investment will not "double count" both the conduit investment and the investment in the EWG, FUCO, Rule 58 subsidiary or other approved investment.

<sup>8</sup> Applicants state that this amount represents existing investment in KeySpan Ravenswood.