

II. OVERVIEW OF THE KEYSpan PROCESS FOR IDENTIFYING AND MEETING CUSTOMER REQUIREMENTS

The principal objective of KeySpan's gas management process is the creation and utilization of a portfolio of gas supply, interstate pipeline transportation, underground storage and supplemental resources to meet daily and seasonal firm demand requirements in the most cost-effective manner while maintaining reliability. KeySpan's process of planning for and meeting customer load requirements on a daily basis involves the coordination of a number of activities including demand forecasting, long-term resource planning, gas supply management and gas distribution. The majority of these activities are centralized within the Regulatory Strategy and Relations Department, which includes the Company's Forecasting and Gas Supply Planning and Customer Choice groups. Regulatory Strategy and Relations coordinates closely with the Gas Control Department, which is responsible for gas deliveries across the KeySpan distribution system in New England. Both of these departments operate from the Company's Waltham, Massachusetts facility.

Among the responsibilities of Regulatory Strategy and Relations are to project the resource requirements of the KeySpan system and to assemble a least-cost portfolio of reliable resources to meet those requirements. The projection of resource requirements requires two steps: (1) the preparation of forecasts of long-term trends in customer requirements under normal weather conditions; and, (2) the preparation of forecasts of customer requirements under defined (design day and design year) weather conditions. Assembling the least-

cost portfolio is also a two-step process involving: (1) the procurement of a sufficient and appropriate portfolio of resources to meet the design sendout requirements resulting from the demand forecasting process; and, (2) the economic dispatch of those volumes given available resources. The Company's resource portfolio provides a range of flexibility in making these determinations in the course of the day-to-day management of the portfolio.

KeySpan's forecasting and gas supply planning activities are complemented by a centralized dispatch and control center. The daily process of obtaining sufficient resources to meet predicted customer needs requires a high level of coordination between Regulatory Strategy and Relations and Gas Control. Each day, Gas Control provides Energy Supply with projected sendout requirements that are developed based on the results of the demand forecasting process. Regulatory Strategy and Relations determines the availability, reliability and pricing information necessary to satisfy the predicted customer loads taking into account both currently available projections of weather and prices as well as the possibility of design-forward conditions for the remainder of the heating season (design-forward planning). Regulatory strategy and Relations and Gas Control then establish a daily "Game Plan" that matches available resources with sendout requirements for the KeySpan system. The Game Plan is designed to balance the demand requirements of the system for the current gas day with scheduled supply volumes and also projects a three-day supply/demand balance.

EnergyNorth customers receive significant benefits as a result of the coordinated and centralized gas management process because resource planning and purchasing decisions are made from an overall system perspective to meet customer requirements. Given the diversity and flexibility of the resource portfolio, this decision-making framework allows EnergyNorth's resources to be utilized on the basis of efficiency rather than mere availability.